Kazakhstan

Country Economic Update
Spring 2018

The Quest for a New Growth Model: The Urgency of Economic Transformation

WORLD BANK GROUP

Macroeconomics, Trade & Investment
Global Practice

KAZAKHSTAN

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Abbreviations and acronyms

EMDEs	Emerging market and developing economies
FDI	Foreign direct investment
FX	Foreign currency
ICP	International Comparisons Program
MID	Ministry for Investments and Development of Kazakhstan
NBK	National Bank of Kazakhstan
NPLs	Nonperforming loans
PPP	Purchasing power parity
PPPs	Public-private partnerships
SOEs	State-owned enterprises

Cover photo credit: Shutterstock.com: Horses at mountain meadows, Assy plateau, near Almaty, Kazakhstan.

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Foreword

This edition of the Country Economic Update (CEU) for Kazakhstan is part of a semi-annual series designed to monitor socio-economic developments in the country. It presents a concise analysis of economic and social developments, as well as a progress report on structural reform implementation, during the last six to twelve months. This edition includes a special focus section highlighting findings of recent World Bank Group studies, focusing on (i) Increasing the Impact of FDI for Economic Growth and Upgrading - National Investment Attraction and Retention Strategy of the Republic of Kazakhstan (June 2017); and (ii) Attracting Investment to the Economy through the Development of Policy and Institutional Mechanisms for PPP and Identification of Viable PPP Projects (June 2016).

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Overview

A recovery in the oil sector boosted recent economic performance.

Real GDP growth accelerated from an annual average of slightly above 1 percent in 2015–16 to about 4 percent in 2017; this momentum carried through to the first quarter of 2018 when GDP expanded by an estimated 4.1 percent. The improvement in economic performance was mainly the result of an improved performance by the oil sector, as oil output was boosted from oil fields not included in OPEC-led cuts. Together with more favorable terms of trade, this generated positive spillover effects to the nonoil manufacturing and services sectors. On the demand side, an improvement in net exports was a key contributor to the higher rate of GDP growth. This resulted in an improvement in the current account balance and more fiscal revenue flowing to the Oil Fund. Consequently, the tenge continued strengthening in real terms. Meanwhile, domestic demand remained subdued, leading to a moderation in inflation.

The oil boost has strengthened macroeconomic outlook, but downside risks to the current growth model remain.

Our real GDP growth forecast for 2018 has been revised upward, from 2.6 percent (in our previous Fall 2017 CEU issue) to 3.7 percent, owing to better-than-expected oil prices and output. Over the medium term, the real GDP growth rate is expected to hover around 3 percent, as the contribution of the oil sector to economic growth declines relative to 2017–18 (when a structural shift in oil output occurred). With oil prices projected to reach US$65/bbl on average in 2018–20, the current account balance is also projected to improve, from deficits in 2015–17 to surpluses in 2018–20. The fiscal position will improve gradually in the wake of fiscal consolidation efforts. Downside risks to the outlook include a potential weakening of the external environment (driven by mounting geopolitical tensions), a worsening of problems in the banking sector, and a government's inability to implement needed structural reforms. There is also an upside risk stemming from higher oil prices, especially in the short term, due to a recently announced renewal of US sanctions on Iran.

The authorities should show a greater commitment to transitioning to a new growth model.

The successful implementation of structural reforms will be required to deliver more sustainable and inclusive economic growth going forward. Ongoing structural and institutional reforms[1] should aim to transform the current oil-driven and state-run growth model—by reducing the role of the state in the economy—to one that facilitates 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 focus on improving the efficiency of public administration, reducing fiscal risks, and open competitive spaces for the private sector to act. Prudent fiscal and monetary policies would support economic and price stability and encourage investment in the nonoil economy. Attracting and retaining more export-oriented and efficiency-seeking investment would be critical for economic transformation.

[1] Such reforms include those under the 100 Concrete Steps program and the Strategic Development Plan 2025 (adopted in early 2018), aiming to upgrade the current growth model and elevate the GDP growth rate to 5.5 percent on average.

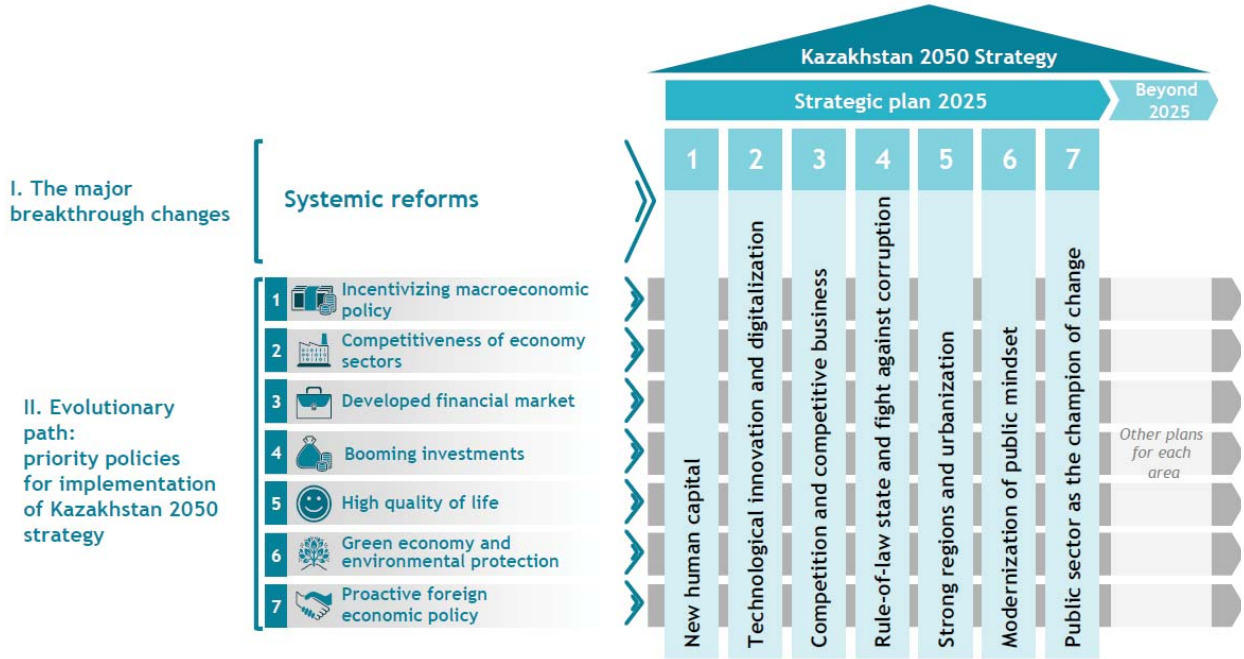
A. Recent Socio-Economic Developments

Recent strategic initiatives

The government has identified priority reforms for a new growth model.

The authorities adopted the Strategic Development Plan 2025 (Strategy 2025) in early 2018.[2] The strategy provides a framework for the implementation of the previously-announced Modernization 3.0 initiative aimed at fostering better economic and social development outcomes. Strategy 2025 is designed to transition the economy towards a new growth model by focusing on improving workforce skills and capabilities, upgrading technology and digitalization, supporting fair competition, ensuring the rule of law for all, strengthening regional development and urbanization, shifting public attitudes and perceptions, and improving public sector effectiveness. These seven systemic reforms (targeted through 2025) set the foundation for the implementation of the seven evolutionary paths contained in the Kazakhstan 2050 Strategy (Diagram 1). Once implemented, these reforms will put the country on a path of economic transformation towards more sustainable and inclusive national development.

Diagram 1. Strategy 2025's core systemic reforms support the seven evolutionary paths of the Kazakhstan 2050 Strategy



Source: Kazakhstan Strategic Development Plan 2025.

New social and environmental initiatives have been announced.

Following the adoption of Strategy 2025, President Nursultan Nazarbayev announced a new complementary program, Five Social Initiatives, targeting the improvement of social and environmental conditions. The initiatives are: (i) a new "7-20-25" mortgage program for families in need of housing;[3] (ii) a reduction of the tax burden on low-income earners by (potentially) introducing a progressive personal income tax scheme; (iii) improvements to

[2] Presidential Decree #636 On Approval of Strategic Plan for Development of the Republic of Kazakhstan Until 2025, February 15, 2018.

[3] The key parameters of this program include a nominal interest rate capped at 7 percent, a down payment of up to 20 percent of the total loan amount, and loan maturities of up to 25 years.

the accessibility and quality of higher education; (iv) an expansion of microcredit financing to the self-employed and access to finance for small business development; and (v) the extension of a gas pipeline to the north of the country, including Astana, the capital, to expand gasification in the regions. Through the Five Social Initiatives program, the authorities are demonstrating their commitment to an inclusive and more environmentally-friendly growth model. The authorities should be careful with fiscal risks and other potential adverse effects on the weak banking sector that can be generated by this initiative.[4]

Growth and inflation

Economic growth accelerated on the back of higher oil production and exports.

Kazakhstan's economy has experienced a significant boost from the oil sector in the last 18 months, driven mainly by the coming on stream of an off-shore oil field, Kashagan, in the fourth quarter of 2016. Because the Kashagan field was exempt from an OPEC-led production cut agreement, oil production rose strongly. Combined with more favorable terms of trade, the oil sector generated positive spillover effects on the nonoil manufacturing and services sectors, especially trade. As a result, annual real GDP growth recovered from around 1 percent in 2015–16 to an estimated 4 percent in 2017 (Table 1). This growth continued into the first quarter of 2018 as Kazakhstan, unlike other OPEC countries, continued benefiting from oil price and output increases (from Kashagan, in particular). On the demand side, a significant improvement in the contribution of net exports (mainly driven by an increase in oil exports to the European Union and exports of metals to China) drove GDP growth while domestic demand remained subdued, despite government's programs to stimulate private-sector growth (Figure 1).

Table 1. Real GDP Growth by Demand, 2013–17
(In percent)

	2013	2014	2015	2016	2017e
Real GDP growth	**6.0**	**4.2**	**1.2**	**1.1**	**4.0**
Domestic demand	8.2	4.5	3.0	1.7	1.9
Private consumption	10.7	1.4	1.8	1.2	1.5
Government consumption	1.7	9.8	2.4	2.3	2.1
Gross capital formation	6.7	8.6	5.5	2.5	2.4
Net exports					
Exports of goods and services	2.7	-2.5	-4.1	-4.5	2.2
Imports of goods and services	7.8	-4.0	-0.1	-2.0	-4.5

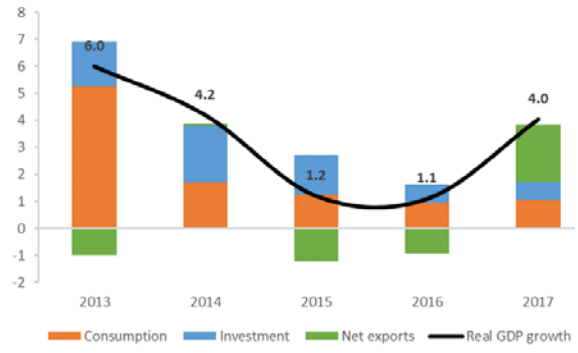
Source: World Bank staff calculations based on official data published by the authorities.
Note: e=estimate.

[4] Although a direct fiscal cost of the Five Social Initiatives program is estimated at just KZT 25.1 billion (US$76 million) in the 2018 supplemental budget, contingent liabilities from the gas pipeline construction alone may exceed several billions of U.S. dollars in the coming years. The state-owned oil & gas company KazMunayGas will be in charge of the gasification project to be financed mainly by international financial organizations. Even if this financing is not backed up by an explicit state guarantee, it will be representing a significant implicit fiscal cost for the government. The government estimated the first phase of the project to cost KZT 267.3 billion (more than US$ 800 million) and the other three phases will add more than KZT 100 billion (extra US$300 million). In addition to the inter-city gas pipeline network to be constructed by KazMunayGas, municipalities will have to raise funds to build an intra-city gas pipeline infrastructure, to link households to the main network. There are still no cost estimates available for the intra-city gasification.

Headline inflation moderated as external pressures faded.

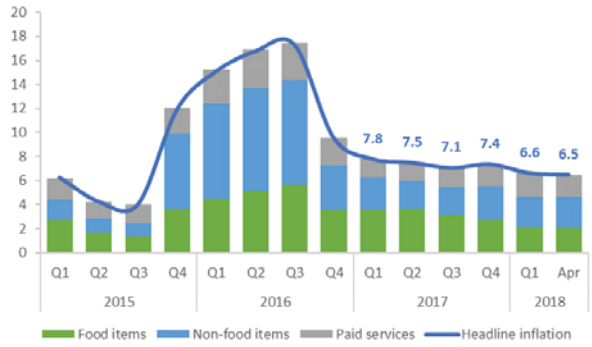
The annual inflation rate declined from 7.4 percent in 2017 to 6.6 percent in the first quarter of 2018 and 6.5 percent in April 2018 as external pressures faded—in the form of a pass-through from tenge depreciation—while domestic demand remained weak (Figure 2). Lower inflation allowed the authorities to implement some monetary easing in early 2018 (as described below). The slowdown in consumer price inflation mainly owed to lower food price inflation, which slowed from an average of 8.6 percent in 2017 to 5.6 percent in the first quarter of 2018, as a result of a higher supply of staples like sugar and flour. However, non-food price inflation remained elevated (8 percent year on year), and prices for paid services rose even more, driven by higher fuel prices that led to utility and transport tariff adjustments in early 2018.

Figure 1. Net exports—driven by oil—was the main contributor to higher growth in 2017
(In percent)



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

Figure 2. Consumer price inflation moderated owing to lower food price inflation
(In percent)



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

External sector

The external balance improved due to more favorable terms of trade.

Buoyed by more favorable terms of trade, the current account deficit narrowed substantially, halving from US$8.9 billion (6.5 percent of GDP) in 2016 to US$5.4 billion (3.4 percent of GDP) in 2017 (Table 2). Preliminary data for the first quarter of 2018 suggest that the current account improved further, nearing to almost a zero balance. The improvement in the current account balance drove a strengthening of the tenge by about 10 percent in real terms against the U.S. dollar in 2017. On the financing side, lower inflows of foreign direct investment (FDI) and foreign borrowing by SOEs (as part of portfolio investment) were mostly offset by short-term capital outflows. On the latter, the National Bank of Kazakhstan (NBK) reported an increase in assets held by residents abroad. As a result, gross international reserves of the NBK and the government (in the Oil Fund) declined by US$4.5 billion (2.8 percent of GDP) in 2017. While the NBK continued converting part of its foreign exchange (FX) reserves into gold, the government continued tapping the Oil Fund to finance the fiscal deficit (as described below).

Table 2. Balance of Payments and Official Reserves, 2015–18
(In US$ billions)

	2015	2016	2017	2017 Q1	2018 Q1
Current account balance	**-5.1**	**-8.9**	**-5.4**	**-1.4**	**-0.1**
Merchandise trade	12.7	9.2	17.4	4.3	6.1
Exports f.o.b.	46.5	37.3	49.3	11.0	13.8
Of which: Oil and gas	31.1	22.3	30.5	6.1	..
Imports f.o.b.	33.8	28.1	31.8	6.7	7.8
Services	-5.1	-4.8	-4.4	-0.9	-1.1
Primary income	-11.1	-12.9	-17.9	-4.7	-5.0
Of which: Income of direct investors	-8.6	-10.9	-15.6	-4.1	-4.4
Secondary income	-1.6	-0.4	-0.5	-0.1	-0.0
Capital and financial account balance /1/2	**-5.4**	**6.4**	**0.8**	**2.4**	**0.1**
Direct investment	3.1	13.3	3.8	1.9	2.6
Portfolio investment /1	-3.9	-2.9	2.5	0.3	-0.9
Medium- and long-term investment	4.1	4.2	0.4	0.1	-0.1
Short-term investment	-3.8	-8.1	-3.7	0.9	-1.3
Errors and omissions	-5.0	-0.1	-2.3	-0.8	-0.2
Overall external balance	**-10.6**	**-2.4**	**-4.5**	**1.0**	**0.0**
Change in FX assets in the Oil Fund	-9.8	-2.2	-2.9	1.5	0.9
Change in FX reserves at the NBK	-0.8	-0.3	-1.6	-0.6	-0.9
Memorandum items:					
Stock of total official reserves	**91.3**	**90.9**	**89.1**	**92.5**	**89.9**
Stock of FX assets in the Oil Fund	63.4	61.2	58.3	62.8	59.3
Stock of FX reserves at the NBK	20.3	20.1	18.2	19.1	17.5
Gold reserves	7.6	9.6	12.5	10.7	13.2
Terms of trade (2014=100) /3	78.9	77.9	82.9	82.9	91.1
Nominal GDP	184.4	137.3	159.4	32.3	35.9

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

Unresolved poor asset quality remains a critical issue in the banking sector.

Official data grossly underestimate the stock of nonperforming loans (NPLs), which the IMF estimates at 40 percent of all loans system-wide.[5] In 2017, the government allocated KZT 2.1 trillion (4 percent of GDP) to address NPLs at the largest systemically-important banks, and the NBK additionally allocated KZT 500 billion (1 percent of GDP) to bail out five medium-sized banks owned by politically-influential individuals.[6] Financial sector concentration increased substantially following the takeover of Kazkommertsbank by Halyk Bank as part of the NPL resolution process; the merged financial institution now controls one-third of banking system assets (Table 3). The authorities should act more decisively to accelerate the resolution of NPLs, curtail related-party lending, and strength central bank supervision to avoid further problems.

[5] IMF 2017 Article IV Consultation, Staff Report, May 2017.
[6] Bank RBK was the main recipient of NBK support as problem loans surpassed a critical threshold. The other four banks that received support were Tsesnabank, Bank CenterCredit, ATFBank, and Eurasian Bank.

Table 3. Key Exposure Indicators of Top-15 Commercial Banks
(In percent of total)

Top 15 commercial banks by assets /1	Share of system assets	Share of system lending	Share of problem loans /2	Share of NPLs past 90 days
Halyk Bank of Kazakhstan	34.9	32.0	9.6	8.3
and Kazkommertsbank /3			39.4	35.4
Tsesnabank	9.0	13.2	6.2	4.3
Sberbank of Russia	7.4	8.6	10.9	6.6
ForteBank	6.6	4.4	15.8	7.4
Kaspi Bank	6.4	7.6	14.2	7.9
Bank CenterCredit	6.0	7.7	19.1	7.1
ATFBank	5.5	6.2	25.3	11.5
Eurasian Bank	4.2	4.7	24.3	8.9
Citibank Kazakhstan	2.7	0.7	n.a.	n.a.
Bank RBK	2.3	1.7	46.3	17.4
Nurbank	1.8	1.7	15.9	6.0
Altyn Bank	1.8	1.0	1.4	0.4
Alfa-bank	1.8	1.5	13.4	6.8
Bank of Astana	1.5	1.4	31.4	6.6
Qazaq Banki /4	1.5	1.4	22.3	4.4

Source: World Bank staff calculations based on official data published by the authorities.
Note: Data as of April 1, 2018. 1/ Excluding state-run (noncommercial) Housing Construction Savings Bank of Kazakhstan; 2/ Loans with overdue payments (principal and/or interest); 3/ Kazkommertsbank is subject to a merger with Halyk Bank following its acquisition in July 2017; 4/ On April 28, 2018, the NBK temporarily withdrew a banking license from Qazaq Banki (until July 27, 2018).

Bank insolvency and associated risk-aversion continued to act as a drag on credit growth.

Since the banking crisis of 2007, banks continue to follow cautious lending practices, reflecting the high level of NPLs accumulated during the downward phase of the business cycle. NBK liquidity provisions and multiple, large government credit programs have been ineffective in stimulating credit growth. Using bailouts and regulatory forbearance to resolve the banking crises has allowed weak banks to continue operating, resulting in a widespread moral hazard and additional contingent fiscal liabilities. In early April 2018, the NBK announced plans to allocate an additional KZT 200 billion (US$600 million) from the Unified Pension Fund to boost bank lending.[7] Following a slight recovery during August-November of 2017, credit growth came to a standstill at end-2017 and remained stagnant through to the first quarter of 2018. The de-dollarization trend continued in 2017 and the first quarter of 2018, with foreign currency loans declining from 32 percent of total loans at the beginning of 2017 to 25 percent by end-March 2018, driven by real appreciation of the tenge.

Social indicators

Real wages continued to fall.

Despite the higher economic growth rate and improved consumer confidence, household income remained under pressure in 2017 as the labor market struggled to recover and domestic demand remained relatively weak. Real wages and salaries declined by 2.1 percent year on year in 2017. Although real wages rose in two regions—by 1.2 percent in Aktobe oblast and 0.6 percent in Kostanay oblast—these gains were more than offset by falling real

[7] Presumably, most of these funds will be channeled to support smaller-scale ailing banks. The authorities have identified the following three small-scale banks that are in trouble: Bank of Astana, Qazaq Banki, and Eximbank Kazakhstan.

wages in the rest of the country, including Astana (by 1.1 percent) and Almaty (by 1.5 percent). The first quarter of 2018 showed some improvements (an overall increase of 2 percent year on year), but these gains are not enough to compensate losses incurred during 2015–17. The official unemployment rate remained unchanged at 4.9 percent in 2017.

The poverty rate remained relatively high.

Despite falling slightly from its 2016 peak, the poverty rate remains high. Using the $5.5/day international poverty line (Box 1) the poverty rate rose from 5.6 percent in 2013 to 7.9 percent in 2016; it is estimated to have declined to 6.9 percent in 2017. The incidence of poverty increased in all regions of Kazakhstan between 2014 and 2015, the last year for which household survey data are available. Poverty rates in the most vulnerable southern regions more than doubled during this period, jumping from 5.2 percent to 13.9 percent in Kyzylorda oblast and from 5 percent to 12.5 percent in Jambyl oblast.

Box 1. A Recent Adjustment to International Poverty Lines

As part of its mandate, the World Bank regularly produces internationally comparable estimates of poverty. In the fall of 2017, the World Bank updated all such estimates to a new set of poverty lines and, at the same time, began applying new purchasing power parity (PPP) conversion factors for each country.

The most common official poverty approaches in the region consider local patterns of income or consumption and are often more appropriate for country-specific analysis. However, despite their many advantages, national official poverty measures are not comparable with the approaches used in other economies, in part because they are uniquely tailored to a specific country context. Comparisons across countries require a harmonized approach, such as that conducted by the World Bank. The World Bank also uses a stand-alone approach to measure internationally comparable poverty rates to account for differences in the cost of living between economies. The World Bank leads the International Comparisons Program (ICP), a global effort to measure differences in the goods and services a unit of one economy's currency can purchase in another economy. The ICP exercise was most recently completed in 2011, which led to important updates to previous PPP measures.

Changes to PPP require updates to the international poverty line. As in previous rounds, for the most recent revision in 2011 the new line was estimated using the national poverty lines of the poorest economies. The result was a line set at $1.90/day. This new global line is not the same as taking the previous line and adjusting for inflation. However, in most economies (including Kazakhstan) it is quite close. In addition to the international poverty line, the World Bank has introduced income-class poverty lines, which facilitate comparisons between economies at similar stages of development. The lines are defined at $3.2/day for lower-middle-income economies and $5.5/day for upper-middle-income economies (including Kazakhstan). In the past, regional poverty lines were used to compare poverty rates and trends within regions. The World Bank will no longer use these; it is important to note that the new income-class poverty lines are not comparable to the old regional poverty lines.

Patterns of poverty reduction using the previous poverty line of $1.25/day 2005 PPP and the new international poverty line of $1.90/day 2011 PPP result in similar trends: rapidly declining poverty between 2001 and 2005 and to poverty rates indistinguishable from zero after that. Despite a similar trend, the poverty rates for the extreme poverty line differ between the old and the new methods. However, for all relevant lines, updating to the new approach yields the same overall poverty trends in Kazakhstan.

Source: World Bank.

B. Macroeconomic Policies and Structural Reforms

Assessment of fiscal and debt policies

The government started implementing its fiscal consolidation strategy.

To reduce budget reliance on oil revenue and improve fiscal sustainability the government has phased out the fiscal stimulus of 2014–17, lowering public spending to about 20 percent of GDP from 2018 onwards (Table 4). Consequently, and in accordance with a new Oil Fund Rule, annual oil revenue consumption in the form of annual guaranteed transfers is to be cut from KZT 2.6 trillion (the equivalent of US$8 billion or 4.5 percent of GDP) in 2018 to KZT 2 trillion (US$6 billion or 3 percent of GDP) by 2020.[8] These measures will drive an improvement in the overall fiscal balance and narrow the nonoil deficit to a more sustainable level (to be cut to 7 percent of GDP by 2020).

Table 4. General Government Fiscal Accounts, 2015–20
(In percent of GDP)

	2015	2016	2017	2018	2019	2020
				Projections		
Total revenue and grants	**18.6**	**19.7**	**21.2**	**21.6**	**22.2**	**21.8**
Oil revenue	4.0	4.5	6.2	6.8	7.2	6.8
Oil Fund gross revenue /1	2.3	3.0	4.5	5.2	5.2	4.9
Customs duty on oil exports	1.7	1.5	1.7	1.5	2.0	1.9
Nonoil revenue	14.6	15.2	15.0	14.9	15.0	15.0
State Budget revenue /2	10.8	12.2	11.9	11.9	12.0	12.0
Other extra-budgetary funds' revenue /3	3.7	3.0	3.1	3.0	3.0	3.0
Expenditure and net lending	**24.7**	**24.1**	**25.9**	**20.4**	**19.8**	**19.7**
State Budget spending, excluding Oil Fund flows	14.9	15.3	16.6	14.9	15.5	16.1
Oil Fund consumption	8.6	6.8	8.5	4.5	3.7	3.0
Other extra-budgetary funds' spending /3	1.1	1.9	0.8	1.0	0.6	0.6
Overall fiscal balance	**-6.1**	**-4.4**	**-4.7**	**1.3**	**2.3**	**2.1**
State Budget deficit /2	-2.4	-1.7	-2.9	-1.5	-1.6	-2.2
Oil Fund fiscal savings, net	-6.3	-3.8	-4.0	0.7	1.5	1.9
Other extra-budgetary funds' balance /3	2.6	1.1	2.3	2.0	2.4	2.4
Nonoil deficit of the Consolidated Budget /4	**-12.7**	**-10.0**	**-13.1**	**-7.5**	**-7.3**	**-7.0**
One-off expenditure /5	1.8	-	4.0	-	-	-
Nonoil deficit, excluding one-off expenditure	**-10.9**	**-10.0**	**-9.1**	**-7.5**	**-7.3**	**-7.0**
Memorandum items:						
Stock of net financial assets	12.5	25.0	16.0	13.8	13.0	12.1
Stock of FX assets in the Oil Fund	34.4	44.6	36.6	33.5	32.7	32.5
Stock of total government debt /6	21.9	19.6	20.5	19.6	19.7	20.4

Source: World Bank staff calculations based on data published by the authorities.
Note: Some sums may not add up due to rounding; 1/ Including 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.

[8] Presidential Decree #385 On the Concept of Formation and Use of the National Fund of the Republic of Kazakhstan, December 8, 2016.

More efforts are required on the nonoil revenue side.

It addition to the fiscal adjustment, the strengthening of global oil prices will stabilize the stock of government's net financial assets (i.e. fiscal savings in the Oil Fund net of total government debt; see memorandum items in Table 4). To strengthen the credibility of the fiscal consolidation strategy the government will need to counterbalance the spending adjustment with additional measures to raise nonoil revenue, by eliminating inefficient tax expenditures and benefits and further improving tax administration.[9] So far, the government budget for 2018–20 contains no concrete measures for raising nonoil revenue (as a share of GDP).

Government debt is modest, but the government should address rising contingent liabilities.

The recently adopted supplemental budget for 2018 led to a widening of the projected State Budget deficit to 1.5 percent of GDP (from initially-planned 1 percent of GDP).[10] Nevertheless, government debt, including explicit state guarantees, is expected to remain stable at about 20 percent of GDP. Although outstanding government debt is modest by global standards, fiscal risks from SOEs are significant and may raise further, stemming from the planned gasification project (as discussed above; see footnote 4), as well as government's plans to build a forth refinery in the country (presumably, also to be executed by SOEs). The public-sector debt to GDP ratio is about 47 percent, almost half of which is SOE debt. While refinancing risks are modest, substantial currency depreciation in recent years has highlighted Kazakhstan's exposure to FX debt and the consequent need to improve debt management capacity. To address the SOE debt issue, the government has developed and adopted new rules for limiting FX debt accumulation by key SOE holding companies.[11]

Assessment of monetary policy

Monetary easing has resumed, but the NBK will remain cautious.

Following its downward adjustment to the policy rate in August 2017 (to 10.25 percent), the NBK maintained a neutral stance for the rest of the year, owing to a weakening tenge, temporarily rising inflation and inflationary expectations, and shocks in the fuel market. However, as inflationary pressures subsided, the NBK opted for a more aggressive approach in early 2018, lowering the policy rate by 50 basis points in January, 25 basis points in March, and 25 basis points in April, to stand at 9.25 percent (Figure 3). The NBK is likely to continue monetary easing in response to slowing inflation, albeit cautiously, as the volatility of price levels and inflation expectations would pose major risks to actual inflation. The authorities' new inflation targets are 5-7 percent in 2018, 4-6 percent in 2019, and 3-4 percent in 2020 onwards (down from the previous target range of 6-8 percent).

The tenge remains sensitive to external factors.

Following a marked depreciation in the third quarter of 2017 (amid rising devaluation expectations), the tenge appreciated during much of the fourth quarter reflecting favorable dynamics in the oil market. According to official statistics, the NBK sold US$500 million between August and October, while

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

[10] According to the 2018 supplemental budget, the additional borrowed funds will be allocated for the implementation of the Modernization 3.0 program (KZT 293 billion), the Five Social Initiatives (KZT 25.1 billion), and other budget obligations (KZT 98.9 billion).

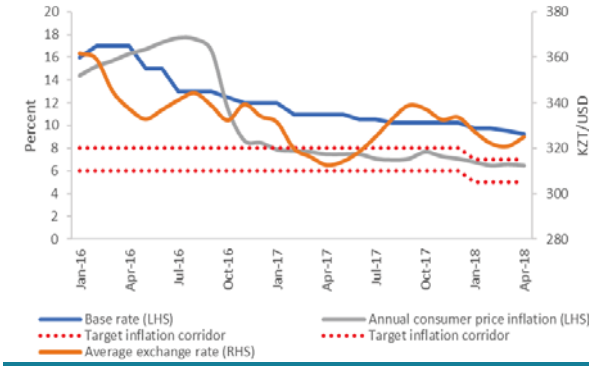
[11] Order of the Minister of National Economy #157 On Approval of Rules for Defining Limits for External Debt of the State-owned Enterprise Sector and List of SOEs Subject for Setting the Debt Limits, April 18, 2018.

the second half of the announced amount of US$1 billion has not been utilized. Since the interest rate transmission channel remains ineffective in influencing the exchange rate (owing mainly to low capital mobility and the fractured dollarized banking sector), the nominal exchange rate is heavily influenced by the trade balance, particularly the price of oil, the currency fluctuations of Kazakhstan's major trade partners, and inflation. Furthermore, exchange rate dynamics asymmetrically influence inflation—consumer price inflation is sensitive to currency depreciation, but not to appreciation—which may force the NBK to actively intervene in response to external shocks.

Countercyclical policies are struggling to boost the real economy.

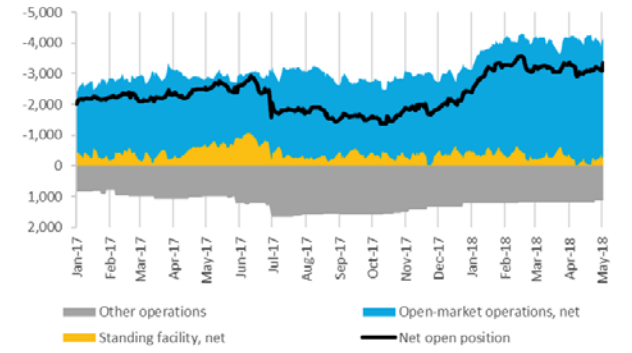
Although yields on NBK notes have been falling, the NBK has continued to withdraw excess liquidity from the banking system using open market operations (Figure 4). Importantly, however, the NBK has been unable to spur banks to provide more loans rather than accumulating liquidity. As a result, the volume of bank loans fell in the fourth quarter of 2017, wiping out the growth observed in the third quarter and resulting in flat year-on-year growth at end-2017 and in the first quarter of 2018. The NBK's attempts to support financial sustainability through its injections—together with the increase in public spending—have raised liquidity and resulted in a further stagnation of bank lending.

Figure 3. Monetary easing continued as inflationary pressures subsided
(In percent; KZT/USD)



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

Figure 4. The NBK continued withdrawing liquidity through open-market operations
(In KZT billions)



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

Ongoing structural reforms

Civil service reforms are progressing well but they are yet to show results.

Kazakhstan continues to reform its government apparatus as part of the implementation of its 100 Concrete Steps institutional development program. The authorities introduced additional transparency measures in civil service recruitment and rotation and launched a career path model to promote meritocracy and professionalism in the civil service. A performance-based remuneration system, which aims to make the civil service competitive with the private sector, is being piloted in four government agencies in 2018, with a full government rollout planned for 2019. Transforming the civil service requires not only a technically-competent cadre with good judgment and effective leadership but also an institutional structure that encourages civil servants to reach their full potential. Line ministries' mid-level staff are overloaded by daily correspondence and urgent directives from the center

with very tight deadlines, leaving little space for developing analytical and policymaking capacity in the ministries. Low salaries also undermine the attractiveness of a civil service career.

Fiscal decentralization measures target citizen engagement.

The government deepened fiscal decentralization reforms in 2017 by increasing the independence of local self-governance bodies.[12] New legislation on local self-governance introduced mandatory participation of citizens in the management of local budgets and communal property, an important step towards stronger citizen engagement. The authorities have also obliged the leadership of central and local executive bodies to deliver annual reports to the public (with mandatory online transmission) and opportunities for the public to ask questions. These measures will require a sustained, long-term effort to be operationalized within the state apparatus and build a truly active citizenry.

A process of judicial modernization is underway.

The Supreme Court announced a new Judicial Modernization Concept for 2018–20 that aims to strengthen public trust in the judicial system, increase the quality of court decisions, and improve the system's efficiency and transparency. The judicial modernization process goes hand in hand with reforms in prosecution—a special Coordination Council is exploring a series of new measures to humanize the criminal justice system. The Ministry of Justice continued its push to transfer its key justice services (bailiffs, property valuation, and registration) to a self-regulated private sector with the aim of increasing quality and cost-efficiency.

Kazakhstan is building a feedback mechanism to improve the business environment nationwide.

The authorities are working to improve the business environment in all regions of the country. The recent Subnational Doing Business assessment helped the government to obtain feedback from the business community and fine-tune the design of business regulatory reforms. The inaugural Subnational Doing Business report, which covered eight regional centers, showed that uniform national laws are applied differently in different locations and that delays and procedures are also determined by the level of coordination between government agencies and other bodies (such as utility operators). The next report will include the rest of Kazakhstan's regions to facilitate the closing of reform implementation gaps further.

C. Economic Outlook and Risks

Global economic prospects

Global economic growth is expected to peak in 2018.

Following a stronger-than-expected performance in 2017, global growth is projected to accelerate to 3.2 percent in 2018, supported mainly by robust growth in major advanced economies and commodity-importing emerging market and developing economies (EMDEs); economic growth will continue to recover in commodity-exporting EMDEs. Fiscal stimulus in the United States is expected to provide a near-term lift to economic activity, but gains could be muted as the economy is already operating at close to its full capacity. Average GDP growth in Kazakhstan's main trading partners is

[12] Settlements with a population of more than 2,000 people are now entitled to an autonomous budget and communal property, as well as to collecting and retaining 13 types of tax and non-tax revenues for local budgets.

estimated to have peaked at 3.2 percent in 2017 and is projected to slow to 2.6 percent in 2018 (as activity decelerates in China and the euro area). Growth in China is expected to remain robust but to continue to slow amid policy tightening and deleveraging pressures. China's rate of real GDP growth will slow to 6.5 percent in 2018 (from a stronger-than-expected rate of 6.9 percent in 2017). Economic growth in the euro area is projected at 2.3 percent in 2018, with investment and export growth easing following substantial gains in 2017. The Russian Federation is forecast to experience stable growth, with real GDP expanding by about 1.8 percent annually in 2018–20.

Risks to global trade are rising, and financial conditions have begun to tighten.

While global merchandise trade growth picked up significantly in 2017, rising by 4.6 percent, it is expected to moderate in 2018 as the recovery in global investment and manufacturing activity matures. On the policy front, the risk of escalating trade protectionism increased following tariff announcements by China and the United States. The impact of these measures will depend on their ultimate scope; however, a rise in trade policy uncertainty could itself weigh on confidence, financial market sentiment, and eventually on global trade activity. After a prolonged period of low and stable long-term yields, rising inflation expectations and prospects of further hikes in U.S. policy interest rates have put upward pressure on yields in the United States and led to a slowdown in capital inflows to EMDEs. With the expected normalization of monetary policy in the United States and the euro area, external financial conditions are projected to tighten further in 2018. Disorderly financial market developments remain a risk and could be triggered by a reassessment of inflation risks and monetary policy expectations in advanced economies, a sudden correction in asset valuation, or financial stress in EMDEs.

Oil prices are expected to rise, but downside risks remain.

Commodity prices strengthened in the first quarter of 2018. According to the April 2018 issue of the World Bank's Commodity Markets Outlook, both demand and supply factors supported broad-based price increases. Accelerating global growth lifted demand for commodities, while some commodities faced supply constraints. For oil, concerns about mounting geopolitical risks also drove prices higher. Crude oil prices are expected to average $65/bbl in 2018 (up from $53/bbl in 2017) and remain at $65/bbl in 2019–20—an upward revision from the October 2017 forecast. Looking ahead, policy actions currently under discussion—such as additional tariffs, production cuts, and sanctions—present risks to the short-term outlook. There is also an upside risk stemming from higher oil prices, especially in the short term, due to a recently announced renewal of US sanctions on Iran.

Kazakhstan's baseline scenario, risks and challenges

The oil sector will continue to drive economic growth.

Our real GDP growth estimate for 2018 has been revised upward to 3.7 percent (from 2.6 percent in the Fall 2017 CEU), mainly owing to higher-than-expected oil prices and output. If oil prices continue increasing due to the anti-Iran sanctions, the 2018 growth outcome may be higher than in the baseline scenario. As oil output growth stabilizes from 2019 onward, real GDP growth is expected to moderate to an average annual rate of 3 percent (Table 5). Growth in the non-tradable services sector will be supported by stronger domestic demand as real incomes start to recover. Moreover, planned investment in oil output expansion projects will drive an increase in

construction activity. Assuming that there are no external shocks and that the authorities continue their inflation-targeting regime, consumer price inflation will stabilize at around 6 percent in the medium term.

More favorable terms of trade will lead to better economic and poverty outcomes.

With average oil prices projected to increase from US$52.8/bbl in 2017 to US$65/bbl in 2018–20, the current account balance is forecast to improve, switching from deficits in 2015–17 to surpluses in 2018–20. The fiscal position will also improve gradually in the wake of fiscal consolidation efforts. As the overall fiscal balance improves, the government should not derail its efforts to reduce the nonoil deficit in support of economic transformation. The government is planning to cut the nonoil fiscal deficit from over 13 percent of GDP in 2017 to 7 percent by 2020. As the economy continues to grow, labor income—the primary driver of poverty reduction in Kazakhstan—is forecast to return to positive real growth. As a result, the poverty rate is projected to decline to 5 percent by 2020.

Table 5. Baseline Scenario: Selected Macro-Fiscal Indicators, 2015–20
(In percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020
				Projections		
Real GDP growth	1.2	1.1	4.0	3.7	3.3	2.8
Oil sector	-4.5	2.3	7.4	3.7	2.7	0.0
Nonoil economy	3.7	0.9	3.8	3.8	3.6	3.5
Consumer price inflation, period average	6.6	14.6	7.4	6.2	5.5	5.8
Current account balance (percent of GDP)	-2.8	-6.5	-3.4	1.4	1.2	0.8
Overall fiscal balance (percent of GDP)	-6.1	-4.4	-4.7	1.3	2.3	2.1
Nonoil fiscal balance (percent of GDP)	-12.7	-10.0	-13.1	-7.5	-7.3	-7.0
Net financial assets (percent of GDP)	12.5	25.0	16.0	13.8	13.0	12.1
Poverty rate ($5.5 per day at PPP terms)	7.8	7.9	6.9	6.2	5.6	5.0

Source: World Bank staff calculations and estimates.

The medium-term outlook has downside risks.

Both external and domestic factors present risks to Kazakhstan's medium-term economic outlook. The economy's vulnerability to external shocks remains the primary challenge to achieving stable and sustainable development. External demand from China and Russia, Kazakhstan's main trading partners, as well as global oil demand and prices 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. The potential worsening of problems in the banking sector is also a concern.

Upside risks from higher oil prices may lead to certain challenges for the new growth model.

While the recovery in global oil prices would have a welcoming effect for Kazakhstan in terms of enhancing the economy's buffers and supporting growth, it may also reduce the perceived urgency for transitioning to the new growth model, including the strong need of continuing the macro-fiscal adjustment (by reducing the nonoil deficit over the medium term) and pressing ahead with structural reforms. More generally, a return to any procyclical macro-fiscal policies during the upswing (due to an insufficient fiscal consolidation) risks developing a Dutch-Disease type of episode that could reduce economy's competitiveness and lower opportunities for diversification away from oil and other non-tradeable goods and services

with dynamics positively correlated to oil price movements. The authorities should not miss the current window of opportunity to adjust the macro-fiscal framework, clean up the banking sector, and deepen structural reforms. To transit to a new growth model and facilitate a sizeable expansion of the tradable nonoil sector's role in the economy, the government must demonstrate significant improvements to the rule of law, the quality of human capital, and the investment climate. The latter is discussed in more detail in the next section, which focuses on Kazakhstan's strategy for attracting domestic and foreign investment.

D. Focus Section: The Strategy for Investment Attraction and Retention[13]

Kazakhstan is an attractive investment destination for a host of foreign direct investment (FDI) projects seeking to access the country's rich natural resource base. Kazakhstan's real challenge, however, is to attract more export-oriented, efficiency-seeking FDI. This highly mobile type of investment seeks to compete in international markets and global value chains by benefiting from factors that make Kazakhstan a competitive investment location. Efficiency-seeking investments provide a composite bundle of capital stock, know-how, and technology that enables an economy to upgrade and diversify its production capabilities to achieve economic diversification. While this kind of investment has the greatest potential to facilitate economic diversification and play a transformative role in Kazakhstan's economic development, it is also the most challenging to attract. This type of investment is highly mobile and requires a clearly articulated value proposition. It will not be 'pulled' into the country in the same way as resource-seeking FDI. Attracting and retaining efficiency-seeking FDI will require the strengthening of both Kazakhstan's international competitiveness and its investment climate.

Kazakhstan's inflows of FDI are below the average for transition economies.

Kazakhstan has launched its new investment strategy[14] at a time when the world economy was still recovering from the global financial crisis. Although global FDI flows fell by 16 percent in 2017—as global economic growth remained weak and world trade volumes posted sluggish gains[15]—economic activity is projected to increase in 2018, particularly in emerging markets and developing economies.[16] Despite the positive economic outlook, however, new geopolitical realities and rising tensions also have implications for global economic growth. Economic uncertainties aside, the changing global pattern of FDI presents challenges as well as opportunities to Kazakhstan. Similar to some of its immediate neighbors and competitors, Kazakhstan's FDI performance shows signs of a recovery since 2016 (Figure 5).

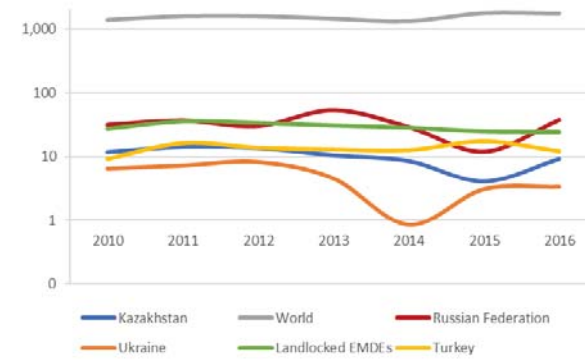
The share of efficiency-seeking FDI in Kazakhstan remains low.

In general, efficiency-seeking FDI is the most suitable type of FDI for diversification (Box 2). As Kazakhstan's economy is strongly reliant on resource-oriented FDI in the extractive industries (oil and gas, mining, metallurgy, and associated service industries), it is exposed to substantial risk due to its lack of economic diversification. The composition of FDI flows into Kazakhstan has not changed much over the last decade (Figure 6). The bulk of FDI (between one-half and three-quarters) goes to the extractive sectors, including related services such as geological prospecting and exploration.

[13] A World Bank private sector development team led by Harald Jedlicka and Yeraly Beksultan and comprising Robert Hejzak, Jana Krajcovicova, Anuar Buranbayev, Adina Mamrayeva, and Aisulu Mailybayeva, helped the Ministry for Investments and Development with the framing of a new National Investment Strategy, which was adopted in August 2017.
[14] Government Resolution #498 On Approval of the National Investment Strategy, August 22, 2017.
[15] UNCTAD Global Investment Trends Monitor, January 2018.
[16] World Bank Global Economic Prospects, January 2018.

Between 19 and 40 percent goes to market-seeking sectors such as the financial, insurance and retail sectors. Between 2 and 24 percent goes to efficiency-seeking sectors, in particular to metal manufacturing. Basic metal industries have traditionally accounted for the bulk of FDI in efficiency-seeking sectors in Kazakhstan.

Figure 5. FDI inflows globally and regionally are still recovering from the global crisis
(In US$ billions)



Source: World Bank staff calculations based on data published by the UNCTADstat (2018).

Figure 6. Investors are mainly motivated by natural resource-seeking FDI in Kazakhstan
(Relative share of total)

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

Existing investors typically do not reinvest in the country.

Reinvested earnings constitute an unusually low share of gross FDI inflows in Kazakhstan. In transition countries in general, reinvested earnings typically account for between one-quarter and one-third of inward FDI. Although several factors may be at work, low ratios of reinvested earnings imply high repatriation of profits and suggest lower retention of funds for productive expansion purposes. The lower contribution of reinvested earnings may signal challenges in retaining existing foreign investors, undermining their ability to continue or expand operations in the country.

Box 2. The Importance of Differentiating Among Different Types of FDI for Diversification

While FDI is essential for economic growth, not all FDI is the same. Different types of investments have different investor motivations and are characterized by distinct benefits, opportunities, and challenges. One way to differentiate FDI is by investors' motivations using the following framework established by John Dunning, a British economist:

- **Natural resource-seeking investment:** Motivated by investor interest in accessing and exploiting natural resources (such as mining, oil and gas, and so on).
- **Market-seeking investment:** Motivated by investor interest in serving domestic or regional markets (such as non-tradable services, retail, and so on).
- **Efficiency-seeking investment**: Motivated by an investor seeking to benefit from factors that enable it to compete in international markets (such as manufacturing, IT services, and so on).
- **Strategic asset-seeking investment:** Motivated by investor interest in acquiring strategic assets (brands, human capital, distribution networks, and so on) that will enable a firm to compete in a given market. This kind of investment often takes place through mergers and acquisitions. This type of FDI is the most relevant for Kazakhstan regarding inward FDI.

Source: World Bank.

The public-sector share in the economy remains high.

In an economy like Kazakhstan, which is heavily reliant on the extractive sectors, it is not surprising that SOEs play such a significant role. However, it is surprising just how pervasive SOEs are in all sectors of Kazakhstan's economy, including in critical services (such as electricity) and in products and services that have traditionally supported a broad range of diverse suppliers at all enterprise levels. The assets of the more than 750 national and municipal corporatized SOEs in operation are valued at 30–40 percent of GDP and the share of the quasi-public sector in GVA is about 19 percent.[17] The government is implementing a massive privatization program to reduce the public sector's share in the economy.[18] A total of 892 SOEs—including 378 assets of national holdings and companies (of which 65 are large state-controlled companies in the oil and gas, transport, and nuclear sectors worth US$10 billion)—are to be sold between 2016 and 2020.[19] This plan will see a reduction in assets of the SOE sector to 15 percent of GDP and the transfer of about 5 percent of companies owned by local governments to the private sector. The extent to which private ownership of major assets attracts efficiency-seeking FDI into the Kazakhstan economy will be one of the principal measures of success of the large-scale privatization.

The government has prioritized reforms to increase the attractiveness of the country for all types of investment.

Kazakhstan's new investment strategy leverages three different and interlinked approaches: (i) attracting new types of FDI, particularly efficiency-seeking FDI; (ii) increasing the benefits of existing FDI, mainly increasing reinvestment; and (iii) maximizing the economic impact of privatization by involving foreign investors. Specifically, the government will focus on implementing actions under three main pillars: (i) investment climate reform; (ii) investment promotion and positioning in international markets; and (iii) privatization and public-private partnerships (PPPs). Each pillar will be led by the respective lead agency, namely the Ministry for Investments and Development (MID), Kazakh Invest, and Samruk-Kazyna, respectively (Diagram 2).

Diagram 2. Three main pillars of Kazakhstan's investment strategy

Reform pillar	Goal	Lead agency
Investment climate reforms	Implement a series of fundamental investment climate reforms to strengthen Kazakhstan's investment competitiveness	Ministry for Investments and Development
Investment promotion and positioning in international markets	Improve the efficiency and effectiveness of the country's investment promotion efforts, as well as its positioning in international markets	Kazakh Invest
Privatization and public-private partnerships	Effectively leverage its privatization and public-private partnership programs for the attraction of strategic investment	Samruk-Kazyna

Source: Government of Kazakhstan.

[17] World Bank. 2018. "Kazakhstan Systematic Country Diagnostic: A New Growth Model for Building a Secure Middle Class." World Bank, Washington, DC.
[18] Government Resolution #1141 On Selected Issues on Privatization for 2016–2020, December 30, 2015.
[19] For more information, see the Kazakhstan privatization website: http://privatization.gosreestr.kz/en.

I. Investment climate reforms

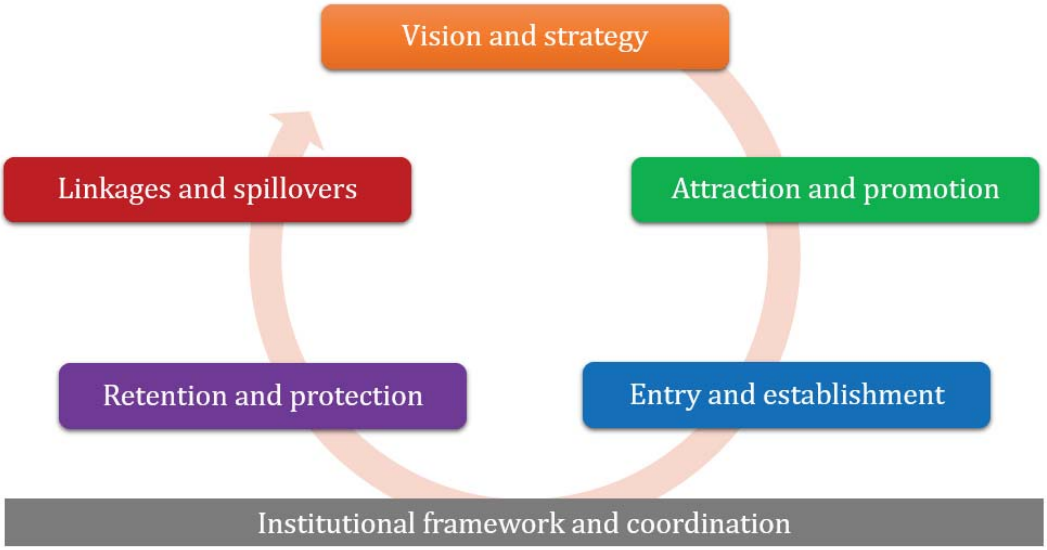
Strengthening Kazakhstan's investment climate to boost investment.

Creating an investment climate that is conducive to the attraction and retention of investment is at the core of the new strategy and will contribute to an economically vibrant, industrialized and knowledge-based Kazakhstan. The government will focus on improving all major areas of an effective policy framework for investment, including policies, laws and regulations, and institutions and mechanisms aimed to ensure their proper implementation. The government will establish an appropriate environment for all investment, particularly efficiency-seeking investment, that is export-oriented and the most efficient form of investment.

Enhancing institutional framework and coordination would be key to success.

For the benefits of efficiency-seeking FDI to materialize, alignment of the investment policy framework with the specific requirements of this type of FDI is required along the various stages of the investment lifecycle. FDI is not a one-time transaction between the host government and a foreign firm. It entails an ongoing relationship with many stakeholders at different stages of a foreign investor's lifecycle in the country (Diagram 3). The FDI lifecycle begins with setting the economy's investment vision and priorities; continues with policies for investment attraction, entry and establishment; supports retention through adequate levels of protection; and ends with the development of sustained linkages with the local economy.

Diagram 3. Investment lifecycle framework



Source: World Bank.

II. Investment promotion and positioning in international markets

Enhancing Kazakhstan's investment promotion efforts.

By definition, efficiency-seeking investors—which are at the core of investment attraction and retention efforts under this strategy—have a choice of locations. They can choose between many competing economies. Unlike resource- and market-seeking investors which are "pulled" into Kazakhstan for its natural endowments or markets, efficiency-seeking FDI must be "persuaded" into considering the country as a location proposition. Kazakhstan must be strongly proactive in its approach to successfully attract

and retain such investors. The attraction of efficiency-seeking FDI will require a concentrated effort to articulate Kazakhstan's competitive advantages for export-oriented investment. It will also require highly-targeted investment promotion efforts led by a world-class investment promotion agency, and it will also require renewed and strengthened efforts to unlock more reinvestments from Kazakhstan's existing base of investors.

Positioning in international markets.

Efficiency-seeking FDI is, by definition, export-oriented and an appealing value proposition because it requires easy access to target export markets. Trade policy is, therefore, an essential pillar for an efficiency-seeking FDI strategy model. Aligning trade policy and export strategy with the requirements of efficiency-seeking investment will be required to increase and diversify exports to existing export markets (including China, Russia, and Western economies), but also to expand to new markets, such as the Middle East (mainly for foodstuff and agriculture). Determining specific export markets for particular products will also be important in articulating and improving Kazakhstan's value proposition for FDI. The government have established a specialized technical unit on trade policy, the Center for Trade Policy Development, but more coordination is needed with the MID to assess and foster synergies between trade and investment policy agendas and to present reports and reform proposals to the high-level council.

III. Privatization and public-private partnerships

Leveraging FDI for privatization and PPPs.

Leveraging FDI for privatization and PPPs holds significant potential for Kazakhstan's economic diversification agenda. FDI has the potential to generate benefits beyond the objective of increasing the role of the private sector in the national economy. As the experiences of many economies show, the privatization of state assets to strategic foreign investors in both competitive industries and regulated markets can unleash additional greenfield FDI above and beyond the original entry of the strategic foreign investor. Similarly, PPPs, if successfully executed, can provide a much-needed financial boost to strategic projects, such as in transport, power, municipal services, and social infrastructure. Furthermore, boosting telecommunications interconnectivity will be a central precondition of efficiency-seeking FDI in Kazakhstan's services sectors.

Leveraging PPPs for investment attraction.

PPPs can provide new opportunities for private participation in Kazakhstan's economy, including opportunities for FDI in sectors where SOEs are still dominant. Kazakhstan stands to benefit from a financial boost from PPPs to develop projects in sectors that are key enablers for attracting more efficiency seeking investment. Priority sectors for PPPs (including those involving foreign investors) will be transport, power, municipal services, and social infrastructure, among others. The government has implemented several reforms to facilitate PPPs, including establishing a PPP Center in July 2008 and adopting a new PPP Law that provides a legal framework for cooperation between the state and business entities in the delivery of PPP projects.[20] The ongoing implementation of a big ring-road PPP project in Almaty will serve as a litmus test to effectiveness of the current PPP framework.

[20] Law #379-V On Public-Private Partnerships, October 31, 2015.

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

	2014	2015	2016	2017	2018	2019	2020
					Projections		
National Income and Prices	(In percent, unless otherwise indicated)						
Nominal GDP (billion tenge)	39,676	40,884	46,971	51,967	58,087	62,429	67,108
Nominal GDP per capita (US$)	12,807	10,511	7,715	8,837	9,782	10,388	10,978
Real GDP growth	4.2	1.2	1.1	4.0	3.7	3.3	2.8
Private consumption growth	1.4	1.8	1.2	1.5	1.7	2.0	2.2
Gross investment (percent of GDP)	25.8	27.9	27.8	27.1	25.1	25.7	26.3
Consumer price inflation, year-end	7.4	13.6	8.5	7.1	5.3	5.6	6.0
Consumer price inflation, average	6.7	6.6	14.6	7.4	6.2	5.5	5.8
GDP deflator	5.8	1.9	13.6	6.3	7.8	4.0	4.6
Real exchange rate change (KZT/US$)	-10.8	-13.9	-26.7	10.4	5.0	3.9	3.6
External Accounts	(In current US$ billions, unless otherwise indicated)						
Merchandise exports, *of which:*	80.3	46.5	37.3	49.3	61.5	63.0	63.8
Oil and gas exports	53.6	26.8	19.4	26.4	35.8	36.3	36.1
Merchandise imports	44.1	33.8	28.1	31.8	33.3	34.7	36.2
Current account balance	6.1	-5.1	-8.9	-5.4	2.5	2.3	1.7
as percent of GDP	2.8	-2.8	-6.5	-3.4	1.4	1.2	0.8
Foreign direct investment, net	4.6	3.1	13.3	3.8	4.0	4.8	4.8
Total official international reserves	102.4	91.3	90.9	89.1	93.0	96.9	101.6
Total external debt	157.6	153.4	163.7	170.0	157.5	161.7	165.5
excluding intra-company loans	78.0	57.3	59.4	64.7	68.6	70.5	72.1
as percent of GDP	35.2	31.1	43.2	40.6	38.4	36.7	35.1
General Government Fiscal Accounts	(In percent of GDP, unless otherwise indicated)						
Revenue	24.5	18.6	19.7	21.2	21.6	22.2	21.8
Expenditure and net lending	23.0	24.7	24.1	25.9	20.4	19.8	19.7
Overall balance	1.5	-6.1	-4.4	-4.7	1.3	2.3	2.1
Consolidated Budget nonoil deficit	-11.0	-12.7	-10.0	-13.1	-7.5	-7.3	-7.0
Net financial assets, stock	18.6	12.5	25.0	16.0	13.8	13.0	12.1
Monetary Accounts	(In percent, unless otherwise indicated)						
Base money growth	10.5	34.3	15.1	-1.7	9.0	7.7	7.0
Real growth of credit to the economy	-3.3	-13.2	-11.2	-5.8	0.1	1.9	1.8
Policy rate, year-end	..	16.0	12.0	10.3	..	..	..
Social Indicators	(In 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	1.3	1.2	1.1
Poverty rate, international US$5.5/day	6.2	7.8	7.9	6.9	6.2	5.6	5.0
Poverty rate, national	2.8	2.7	2.6	2.6	..	..	..
Inequality – Gini coefficient	27.8	27.8	27.8	28.7	..	..	..
Official unemployment rate	5.0	5.1	5.0	4.9	..	..	..
Life expectancy at birth (years)	71.6	72.0	72.3	72.9	..	..	..

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

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