The World Bank in Kazakhstan

Country Snapshot

An overview of the World Bank's work in Kazakhstan

October 2019

KAZAKHSTAN	2018
Population, million	18.2
GDP, current US$ billion	181.2
GDP per capita, current US$	9,966
School Enrollment, primary (% gross) (2016)	109
Life Expectancy at birth, years (2016)	72.3

At a Glance

- Over the past decade, Kazakhstan has made strong policy strides and responsibly absorbed large natural resource–based earnings by implementing a rules-driven fiscal framework. However, diversification remains a challenge for a country with the ninth-largest oil reserves in the world, as hydrocarbon output constituted 21 percent of GDP and about 70 percent of exports in 2018.

- Real GDP grew by 4.1 percent in the first half of 2019, reflecting robust expansions in household and business spending. Poverty is estimated to have fallen to 8.4 percent. Economic growth will slow further in 2020, reflecting the impact of stagnant oil production and sluggish demand in Kazakhstan's main trading partners, as well as the diminishing effect of the fiscal stimulus on domestic demand.

- The economy's vulnerability to external shocks remains a major source of risk to medium-term growth and poverty reduction. Economic prospects are also under threat from domestic shocks and the limited progress on reforms to expand the economy's productive potential. It is imperative that the Government apply renewed vigor to advancing structural reforms to boost productivity and attract much-needed foreign investment in the non-oil economy.

Country Context

Kazakhstan has a land area equal to that of Western Europe but one of the lowest population densities globally. Strategically, it links the large and fast-growing markets of China and South Asia and those of Russia and Western Europe by road, rail, and a port on the Caspian Sea.

Kazakhstan has transitioned from lower-middle-income to upper-middle-income status in less than two decades. The country moved to the upper-middle-income group in 2006. Since 2002, GDP per capita has risen sixfold and poverty incidence has fallen sharply, significantly improving the country's performance on the World Bank's indicator of shared prosperity.

Kazakhstan's challenging external environment caused a broad-based economic slowdown in 2014 and put upward pressure on inflation. Progress on poverty reduction was largely stagnant in 2014 and 2015, reflecting slow growth and weak labor market outcomes. In the context of rising wages and more generous social assistance, however, the poverty rate is expected to have continued to fall to 8.5 percent in 2018, marking the second consecutive year of poverty reduction.

The presidential transition in June 2019 went smoothly, and new President Kassym-Jomart Tokayev has emphasized the continuity of economic reforms and development goals that aim to reduce the role of the state in the economy and facilitate the development of a vibrant, modern, and innovative tradable non-oil sector.

Economic growth in Kazakhstan depends significantly on whether global trade wars trigger a substantial global economic slowdown or even a recession, affecting the dynamics of manufacturing and the goods trade and depressing global commodity prices and external demand for the country's exports.

The World Bank and Kazakhstan

The Country Partnership Framework for 2020–25

The World Bank developed an evidence-based analysis Systematic Country Diagnostic (SCD) for Kazakhstan that outlines the binding constraints that could hinder the country's aspiration to achieve equitable growth and integration into the top 30 economies.

Building on the outcomes of the SCD and the results and impact of the Bank's operations, a new Country Partnership Framework (CPF) is being developed in consultation with counterparts and civil society to shape a new investment program and quality technical assistance to the Government for 2020–25.

The Kazakhstan CPF for 2020–25 aims to accelerate the transformation of Kazakhstan into a modern society with a knowledge-based, diversified, and private sector–driven economy.

The CPF's focus areas are:

- promoting inclusive growth
- strengthening human capital
- securing sustainable growth

Underlying these focus areas is the crosscutting theme of more effective public sector and institutional development.

Key Engagement

Since 2003, the World Bank has significantly extended its Advisory Services and Analytics (ASA) provided under the Joint Economic Reform Program (JERP). Over the years, the program has proved to be an innovative solution, with a client-driven knowledge agenda and Bank-selected work, bringing in and building up international experience.

The JERP is structured around the Government's strategic priorities and focuses on development gaps in growth, governance, and the public service delivery agenda. The program is designed to ensure strong government ownership while enhancing the Bank's contribution to the country's development in a way that goes beyond funding.

It works on a cost-sharing arrangement between the Bank and the Government to ensure relevance and ownership on both sides of the table. The areas of focus and scope of the economic research program are determined by the Government in consultation with the World Bank.

The high-level brainstorming sessions, co-chaired by the prime minister, have become a highlight of the JERP. Since 2003, 20 brainstorming sessions have provided direct input to the Government's ambitious reform agenda. These forums make use of the Bank's technical expertise and international experience to build capacity in reform formulation and implementation. The JERP for FY19 amounted to US$2.3 million and included eight activities, which were primarily aimed at supporting the main priorities of the Nation Plan - 100. In particular, the analytical work focused on:

(i) strengthening the role of the private sector in the economy, developing small and medium-sized businesses, and improving the business climate, sustainable regional development, and the formation of agglomerations;

(ii) supporting dialogue and institutional reform; and

(iii) developing labor skills that meet the requirements of the modern labor market.

WORLD BANK PORTFOLIO

Number of Projects: 13

Lending: $3.7 Billion

IBRD: 10 Loans

Trust Funds: 3 Grants

Recent Economic Developments

Real GDP growth rose by 4.1 percent in the first half of 2019, reflecting robust expansion in household and business spending. The contribution of net exports, which had provided a substantial addition to GDP during the past two years, faded because of a surge in imports. Private consumption expanded by an estimated 5 percent, supported by higher wages and social benefits and increased bank lending. Investment increased by 3.4 percent. On the supply side, growth was supported largely by non-tradable services, while the contribution of mining remained moderate compared to previous years.

The current account deficit widened to 2.7 percent of GDP in the first half of 2019 from 1.8 percent a year earlier, as higher domestic spending boosted imports and lower oil prices squeezed exports. Net inflows of foreign direct investment (FDI), mostly in the mining sector, fell to 4.4 percent of GDP from 5.6 percent a year earlier. With net capital inflows lower than the current account deficit, the National Bank of Kazakhstan's (NBK) net international reserves declined to $27.7 billion by the end of June 2019 from US$30.9 billion at the end of 2018. A weaker current account put pressure on the tenge, which fell by roughly 3 percent to a historic low level in August 2019 relative to its record in early January.

Higher revenues largely offset stepped-up spending to keep the deficit of the general government budget (excluding the National Fund of the Republic of Kazakhstan) at about 0.3 percent of GDP in the first half of 2019, little changed from a year earlier. Revenues increased because of improved tax administration and the weaker tenge.

Although the Government supported the banking sector through several bailouts, the sector remains fragile. The NBK plans to conduct an asset quality review of banks later this year, while in June 2019, officially reported nonperforming loans amounted to 9.4 percent of total loans. A continued contraction in corporate lending was more than offset by increased lending to households, in part reflecting the Government's program of subsidized loans to households.

Twelve-month inflation increased to 5.4 percent in July 2019 from 4.8 percent in March 2018, partly because of a faster increase in food prices and a recent pickup in import prices. After surging in 2016 following the tenge devaluation, inflation has been following a downward trend over the past three years.

Poverty rates have yet to return to their previous lows following the 2014–16 decline in oil prices and the ensuing economic slowdown that pushed the poverty rate above 12 percent (using the US$5.5/day international poverty line). But in the context of rising wages and more generous social assistance, the poverty rate is expected to have continued to fall to 8.5 percent in 2018, marking the second consecutive year of poverty reduction.

Economic Outlook

Economic activity is likely to slow modestly in 2019 because of softer exports, including of hydrocarbons. Growth is expected to slow further in 2020, reflecting the impact of stagnant oil production and sluggish demand in Kazakhstan's main trading partners, as well as the diminishing effect of the fiscal stimulus on domestic demand.

Household spending and investment will continue to drive demand, although to a lesser extent than in previous years. On the supply side, growth is expected to be supported by non-tradable services. A weak performance of manufacturing, owing to lackluster FDI and the limited participation of domestic companies in the global supply chains, will weigh down on the economic expansion.

Lower oil prices and higher domestic demand for imports will likely keep the current account in a modest deficit over the medium term.

The Government's policy actions to support the socially vulnerable, along with solid job creation, are expected to help bring the poverty rate down to near 8 percent by 2021. A significant portion of the population will likely remain close to the poverty line, and any potential shocks to economic activity might reverse the prior gains.

Project Spotlight

Tax Administration Reform Project

Since 2011, Kazakhstan has been carrying out tax administration reforms to become more efficient and effective at serving its citizens.

Since 2011, Kazakhstan has been carrying out tax administration reforms to become more efficient and effective at serving its citizens while at the same time reducing the administrative burden on the private sector. To enhance tax compliance and thereby reduce the shadow economy, the **Tax Administration Reform Project** was designed by the State Revenue Committee of the Ministry of Finance, jointly with the World Bank, to support these reforms. After eight years of intensive business reengineering, legislative changes, and IT investments, the efforts are bringing tangible results.

These results, among other outcomes, have led to improvements in the legal framework for tax administration, international taxation, and universal filing; improvements in excise taxation; the introduction of electronic invoices; and enhanced risk management. As a result of business reengineering, taxpayer time spent paying taxes was reduced from 271 hours in 2010 to 182 hours in 2019. Electronic filing increased from 65 percent in 2010 to 99 percent in 2019.

The developed E-invoicing system launched in January 2019 as of today has generated a more than US$300 million increase in value added tax (VAT) revenue. It is internationally recognized that E-invoicing and the use of information and communications technology help prevent VAT fraud and evasion and allow for the transparent flow of goods. Today, users of the system in Kazakhstan benefit from reduced paperwork, fewer errors in accounting, and faster communication between supplier and recipient.

To evaluate tax reporting and taxpayer performance, the project also initiated the development of a risk management system (RMS). The system is currently fully operational and helps to identify high-risk areas and improve capacities in detecting tax abuse cases.

In the first eight months of operation, the RMS helped generate additional revenue of US$185 million to the budget (as against its cost of US$1.6 million). It is important to note that the system also helps to avoid the human element in decision making, minimize corrupt practices, and save on labor costs.

By 2020, the Government is planning to launch an integrated database to centralize the tax information of all government authorities when universal tax declaration becomes effective in January 2021.

CONTACTS

Astana
+7 7172 691-449
12 Samal, 14th floor, Astana Tower Business Center, Astana, Kazakhstan.

More about the World Bank in Kazakhstan

Website:
http://www.worldbank.org/kazakhstan

Data:
http://data.worldbank.org/country/kazakhstan

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at http://www.worldbank.org/kazakhstan