

The World Bank in Kazakhstan Country Snapshot



An overview of the World Bank's work in Kazakhstan

October 2018

KAZAKHSTAN	2017
Population, million	18.0
GDP, current US\$ billion	158.2
GDP per capita, current US\$	8,792
School Enrollment, primary (% gross) (2016)	109
Life Expectancy at birth, years (2015)	72

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% of GDP and about 62% of exports in 2017.
- As oil output growth stabilizes in 2018, real GDP growth is expected to moderate to an average annual rate of 3% through 2020. Growth in the non-tradable services sector will be supported by stronger domestic demand, as real household income is expected to start to recover. The planned additional investment in oil output expansion projects will lead to increased construction activity.
- Risks to the outlook include a potentially weakening external environment, worsening problems in the banking sector, and a missed opportunity to deepen structural reforms. To mitigate risks and facilitate a sizable expansion of the tradable non-oil sector's role in the economy, the Government must demonstrate significant improvements in the rule of law, the investment climate, and the quality of human capital.

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, showing a significant progress in country performance in 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 2017, more favorable terms of trade and increased oil production supported an economic recovery and an improvement in poverty indicators.

Ongoing structural and institutional reforms 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.

The economy's vulnerability to external shocks remains the main challenge to achieving stable and sustainable development. External demand from China and the Russian Federation, Kazakhstan's main trading partners, as well as global oil demand and prices, will continue to be the key external factors impacting Kazakhstan's economic performance. Domestic factors include the pace of implementation of structural and institutional reforms.

The World Bank and Kazakhstan

The Country Partnership Framework for 2019–23

The World Bank has recently developed a Systematic Country Diagnostic (SCD) for Kazakhstan, an evidence-based analysis that selectively addresses a set of binding constraints in order to support 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 2019–23.

The draft CPF aims to support the Government of Kazakhstan in substantially improving the competitiveness of the economy through interventions that help create the preconditions for a modern, efficient, climate smart, and entrepreneurial society.

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 Country Partnership Strategy pillars focusing 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.

WORLD BANK PORTFOLIO

Number of Projects: 13

Lending: \$3.8 Billion

IBRD: 10 Loans

GEF: 3 Grants

The Subnational Doing Business in Kazakhstan

2018 report is the continuation of a subnational study in the *Doing Business* series that focuses on business regulations affecting small to medium-sized domestic firms in Kazakhstan.

Subnational Doing Business studies go beyond the largest business cities to examine conditions across a number of locations in a single economy or region in order to capture local differences in business regulations or in the implementation of national laws.

The study creates quantitative indicators on four regulatory areas—starting a business, dealing with construction permits, getting electricity, and registering property—governed by local jurisdiction and/or local implementation of national regulations.

In 2018, the study will compare all of Kazakhstan's regions and recommend reforms based on examples within the country and from the 189 other economies measured by the global Doing Business project.

The results will be shared with local- and national-level stakeholders to support all levels of government in their reform initiatives to improve the ease of doing business across Kazakhstan.

The study is being conducted at the request of the Government of Kazakhstan, with the support of the World Bank Group.

Recent Economic Developments

Supported by robust oil production, the economy expanded at an annual rate of 4.1% in the first half of 2018, down slightly from a growth rate of 4.3% in the same period of 2017. Oil output rose by 6.2% year-on-year in January–June, supported by stronger-than-expected production from the Kashagan oil field, but expansion was below that posted in the same period of 2017 (9.7%).

The services sector also contributed to growth, benefiting from spillovers from favorable terms of trade. Although output from the agriculture sector rose by 4%, construction sector activity remained flat. On the demand side, economic growth continued to be driven by net exports fueled by rising oil exports and higher oil prices.

The external position improved markedly in the first half of 2018, reflecting higher growth in oil exports due to favorable terms of trade and a modest recovery in imports. As a result, the current account deficit narrowed to 1.9% of GDP in the first half of 2018, down from 4.3% of GDP in the same period one year earlier. On the financing side, strong inflows of foreign direct investment (FDI) were offset by short-term capital outflows. As a result, international reserves had declined by around 2% by mid-2018 compared to end-2017. The tenge remained broadly stable against the U.S. dollar in the first half of 2018 owing mainly to the improved external position.

Rising revenue from the oil sector and continuing fiscal consolidation drove an improvement in the fiscal position in the first half of 2018. The fiscal deficit narrowed markedly, falling to 3.9% of GDP in the first half of 2018 (from 6.7% of GDP in the same period of 2017, largely on account of substantial capital injections to the banking sector). The non-oil fiscal balance improved, as the Government continued to curtail transfers from the National Fund to the state budget.

In the absence of external shocks, inflation continued to moderate. Annual consumer price

inflation fell to 6.4% in the first half of 2018 (from 7.6% in the same period of 2017), within the Central Bank's inflation target range of 5–7%. Subsequently, the Central Bank cut its policy rate from 10.25% at the beginning of 2018 to 9% in June.

Kazakhstan is slowly recovering from a 2016 spike in the poverty rate, which rose from 5.6% in 2013 to 7.8% in 2016 (using the US\$5.5/day international poverty line). Poverty rates in the most vulnerable southern regions more than doubled during this period. The poverty rate is estimated to have fallen to 5.9% in 2018.

Economic Outlook

The fiscal balance will improve, assuming the Government maintains its fiscal consolidation plan. The non-oil deficit is expected to moderate as well, but maintaining a lower non-oil deficit in the long term will require bold steps to boost non-oil revenue. Labor income—the main driver of poverty reduction in Kazakhstan—will continue to rise in tandem with economic growth. As a result, the poverty rate is projected to fall to 5% by 2020.

The authorities have initiated a series of reforms—including civil service reforms, fiscal decentralization, judicial modernization, and measures to improve the business environment—in an attempt to address key structural weaknesses. The full implementation of these reforms will accelerate Kazakhstan's transition to a new growth model and boost market confidence.

Favorable external conditions, which have supported strong economic growth in Kazakhstan over the past year, could be impacted by rising uncertainty, geopolitical risks, and the potential of a looming trade war.

At the same time, positive trends in the terms of trade provide an opportunity to tackle key structural bottlenecks. Decisive moves to reform the business environment, reduce the state's economic dominance, and level the playing field for all firms should be at the forefront of public policy.

Project Spotlight

Youth Corps Program



The soft toy-making club that started as a group of volunteers has now evolved into a small but thriving local business.

A soft toy-making club for youth with disabilities in Kapchagai, a city in southeastern Kazakhstan, is having a profound impact. The club provides young people with disabilities not only with a source of income and new skills, but also friends and a feeling that their lives can be meaningful too.

The soft toy-making club started as a group of volunteers and has now

evolved into a small but thriving local business. It employs more than 10 young people with disabilities. The toys they produce are being sold across Kazakhstan.

The group of youth received a grant from the Youth Corps Program in Kazakhstan, supported by the Ministry of Education and Science and the World Bank. The program aims to support vulnerable youth in developing and implementing community projects. The group received US\$3,000 to support the soft toy-making club.

“Others call us people with disabilities, but we call ourselves people with unlimited abilities,” says Lyazzat, the leader of the group. “This project has opened up new prospects for many of us. It has become a second home for many of our members, and brought meaning to their lives.”

Building on their initial success, the team opened their first online store, started participating in city fairs, and took an active part in regional competitions. This has yielded great results: interest in their products is increasing, they are invited to every city fair by local administrations, and they receive around 80–100 orders every month.

The Youth Corps Program aims to involve more young people, especially from vulnerable groups, in the activities of their local community and help them develop vital skills. Since 2017, more than 2,000 young people, who are not engaged in regular work or study, have taken part in various social and entrepreneurial initiatives. By 2020, the program hopes to provide opportunities to more than 8,500 young people across Kazakhstan.

The project is financed from restituted funds channeled through a Trust Fund set up between the World Bank and the Agency for Development and Cooperation (SDC).



CONTACTS

Astana

+7 7172 691-449

12 Samal, 14th floor,
Astana Tower Business
Center,
Astana, Kazakhstan.

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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>