KAZAKHSTAN COUNTRY SNAPSHOT

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.

- Diversification remains a challenge for a country with the ninth-largest oil reserves in the world, as the hydrocarbon output constituted 18% of GDP and about 60% of exports in 2015.

- As Kazakhstan’s economy started to recover from the crisis caused by the decline in global oil prices, real GDP grew by 4.2% in the first half of 2017, compared to 0.1% in the same period last year, driven mainly by the oil sector.

- The construction sector rebounded and grew by 5.9% due to new large capacity expansion projects in the oil sector. The non-oil economy also expanded on the back of dynamic activity in the manufacturing, agriculture, transport, and trade sectors.

- Over the medium term, the GDP growth rate is expected to hover around 3% a year, and other economic and poverty indicators are projected to improve.

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.

Kazakhstan’s main short-term economic policy challenge is to adjust to the new reality of slower growth and lower income for the near future. This will entail effective measures to strengthen the sustainability of the macroeconomic framework as well as action to protect the vulnerable.

The longer-term development policy challenge is to transform the country’s growth model away from reliance on natural resource extraction toward a more diversified, competitive economy.

The economy’s vulnerability to external shocks remains the major source of risk to medium-term growth and poverty reduction. External demand from China and Russia, the country’s key trading partners, as well as global oil demand and prices, remain the key external factors impacting Kazakhstan’s economy.

Unless the Government implements significant improvements in the rule of law, investment climate, and quality of human capital, there is little likelihood that the role of the tradable non-oil sector will expand to produce more productive and better-paid jobs that will facilitate poverty reduction.
The World Bank and Kazakhstan

This year marks the 25th anniversary of the partnership between the Government of Kazakhstan and the World Bank Group (WBG). Since 1992, the Bank has provided 46 loans to the country for a total amount of more than US$8 billion.

The Country Partnership Strategy (CPS) (2012–17) is designed to ensure continued strong government ownership of the Bank-supported programs and concentrates on the Government’s key priorities of competitiveness and jobs; strengthened governance in public administration and service delivery; and the safeguarding of the environment.

The Bank is currently finalizing the Systematic Country Diagnostic, 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.

After studying the results and impact of the Bank’s operations in consultation with counterparts and civil society, a new Partnership Strategy with Kazakhstan was developed that will shape a new investment program and quality technical assistance to the Government for 2018–22.

Key Engagement

Since 2003, the World Bank has significantly extended its Advisory Services and Analytics (ASA) provided under the Join Economic Reform Program (JERP) since 2003. Over 14 years, the program has proven to be an innovative solution, with a client-driven knowledge agenda and Bank-selected work, bringing in and building up international experience while developing wider lessons on good public character.

The JERP is structured around the CPS 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.


Subnational Doing Business studies go beyond the largest business city 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 2016, it identified existing good practices and barriers in these areas across eight locations in Kazakhstan: Aktobe, Almaty, Astana, Karagandy, Oskemen, Pavlodar, Kostanay, and Shymkent.

This year, the study will look at the remaining regions and recommend reforms based on examples within the country and from the 188 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 WBG support.
Recent Economic Developments

As Kazakhstan’s economy started to recover the fall in global oil prices, real GDP grew by 4.2% in the first half of 2017 compared to 0.1% in the same period in 2016. The oil sector was the main driver of economic growth, as oil output increased by 9.7% due to the commissioning of the long-awaited off-shore oil field Kashagan in October 2016. More favorable terms of trade—as oil prices increased by 30%—also contributed to the better performance of the oil sector.

Additionally, the construction sector rebounded and grew by 5.9% due to the new, large capacity expansion projects in the oil sector. The non-oil economy also expanded on the back of dynamic activity in the manufacturing, agriculture, transport, and trade sectors. On the external side, robust oil exports improved the trade balance, leading to an accumulation of official reserves and some strengthening of the tenge.

The country’s macroeconomic policy stance remained accommodative. Lower inflationary pressures allowed the Central Bank to cut its policy rate further from 12% at the beginning of 2017 to 10.25% in August. The inflation rate fell from over 17% in July 2016 to 7.1% in July 2017, as the pass-through effect from the currency devaluation faded out. As inflation receded, consumer confidence improved, leading to higher private consumption and a recovery in domestic demand.

The banking sector continued to struggle, and credit growth remained stalled. To speed up the banks’ balance sheet repair, the Government injected US$6.5 billion (about 4% of GDP) into the Problem Loans Fund, and the Central Bank provided another US$0.5 billion for credit revival.

The poverty rate (using the US$5.5/day international poverty line) rose from 5.6% in 2013 to an estimated 7.8% in 2016. Despite the economic recovery and higher consumer confidence, household income remained under pressure, as the labor market has not yet recovered. Thus, real wages and salaries fell by 2.4% on average in the first half of 2017, and the official unemployment rate remained flat at 4.9%.

Economic Outlook

Despite the ongoing economic recovery, growth will remain lower than in the pre-crisis period. The growth projection for 2017 has been revised upward from 2.4 to 3.7%. This reflects a better-than-expected oil sector performance in the first half of 2017, driven by the commissioning of the Kashagan oil field and higher oil prices. Improved consumer confidence and higher domestic demand will drive growth in the non-oil economy.

Nevertheless, the current account and fiscal balances are not expected to see improvements in 2017. The current account deficit is projected to remain elevated due to higher profit repatriation by multinational oil companies, though this is partially offset by the profit shares that are reinvested as foreign direct investment back into the oil sector, boosting the capital and financial account of the balance of payments. The fiscal deficit is estimated to remain high due to the 2017 banking sector bailout.

Over the medium term, the GDP growth rate will hover around 3% a year, as the oil sector’s contribution to economic growth declines relative to 2017. More favorable terms of trade will drive improvements in the current account and fiscal balances. Moreover, implementation of inflation targeting will help stabilize consumer price inflation at levels below 5% per year.

As the economy recovers, labor income, the primary driver of poverty reduction, is expected to return to positive real growth. The poverty rate is projected to decline to 6% by 2019 based on the current growth forecast.
**Project Spotlight**

**Kazakhstan Youth Corps Project**

To support the implementation of Kazakhstan’s “Concept of Youth Policy 2020”, the Youth Corps Project will help promote positive youth development through community-based service learning opportunities while enhancing youth initiative and life skills.

The project targets some 8,500 young people and 100 youth organizations around the country. At the same time, the project will help develop institutional mechanisms for implementing youth policy by the Ministry of Education and Science.

The project supports young people’s community engagement through the Grant Program, with special attention to vulnerable groups. The Grant Program for community-based service learning, life skills development, and mentorship opportunities focuses on five important domains.

First is community engagement to motivate youth to pursue meaningful activities, such as volunteering or community service, as a positive contribution to the community. Second is to build the capacity to direct cumulative efforts to promote initiative development. Third is support system development to build strong adult-youth and youth-youth relationships. Fourth is safe space development to create environments free from physical and psychological threats, and fifth is the encouragement of positive behavior that contributes to the future of other facets of the program.

Currently, the project is being piloted in four regions of Kazakhstan with the highest rate of NEET youth (not in education, employment, or training). To date, the project has involved 2,000 young people in life skills and project management training as well as in socially meaningful activities. Starting in 2018, after the pilot is completed, the Grants Program will be scaled up to the entire country. The grant for the implementation of the four-year project (April 2016–December 2020) in the amount of US$21.763 million has been provided by the Swiss Agency for Development and Cooperation through the World Bank–administered Trust Fund.