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

- A challenging external environment has caused a broad-based economic slowdown, along with an adjustment in income and domestic prices. GDP growth slowed from 4.1% in 2014 to 1.2% in 2015. In 2016, Kazakhstan's real GDP growth continued to slow and real wages declined further, adversely affecting poverty rates. The authorities reacted by extending additional spending measures and loosening monetary policy during the year.

- Medium-term growth is projected to pick up slowly as oil prices recover and oil production gradually expands. To improve Kazakhstan's growth prospects and enhance the sustainability and inclusiveness of growth, the authorities will need to deepen structural reforms (100 Steps Program) designed to facilitate an economic transformation.

Country Context

Kazakhstan has a land area equal to that of Western Europe but one of the world’s lowest population densities. Strategically, it links the large 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 the incidence of poverty 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. The anticipated political transition, including the ongoing constitutional reform that is supposed to lead to a rebalancing of powers, may slow the current reform momentum and delay the transition to a new development model that aims at more sustainable and inclusive growth. Success in the implementation of planned institutional and structural reforms under the “100 Concrete Steps” program will be critical to improving Kazakhstan’s endowments, including human capital and institutions. Successful reforms may contribute to improved living standards for all and therefore a better shared prosperity in the long run.
The World Bank and Kazakhstan

Kazakhstan joined the World Bank in 1992. Since 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 45 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 carrying out a 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 government counterparts and civil society, a new Partnership Strategy with Kazakhstan was developed that will shape a new lending program and quality technical assistance to the Government.

Key Engagement

Over the years, the World Bank has significantly extended its Advisory Services and Analytics (ASA) provided under the Join Economic Reform Program (JERP) since 2003. Over 13 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. The JERP for the 2017 financial year comprises seven programmatic tasks for a total of US$3.355 million.


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 will create quantitative indicators on four 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 each of these areas, it will identify existing good practices across the eight locations in Kazakhstan (Aktobe, Almaty, Astana, Karagandy, Oskemen, Pavlodar, Kostanay, and Shymkent) 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 the support of the WBG.
Recent Economic Developments

Kazakhstan's economy continued to suffer from the protracted slowdown in global oil prices and weaker domestic demand. Real GDP growth declined from 1.2% in 2015 to an estimated 1% in 2016. On the supply side, growth was dragged down by low oil production and prices and a significant slowdown of growth in the services sector (mainly due to wholesale trade contraction), which was partially offset by a higher output in agriculture and metallurgy. On the demand side, subdued private consumption continued slowing growth due to a pass-through effect of the currency devaluation, which fueled inflation to an average rate of 14.6%. However, inflationary pressures subsided in the fourth quarter of 2016, allowing the central bank to loosen its contractionary monetary policy stance.

Vulnerabilities in the banking system persisted. The authorities announced recapitalization plans for large banks plagued with nonperforming loans (NPLs), and the Government will inject an additional US$6.5 billion into the Problem Loans Fund in 2017. The current account position deteriorated, driven by a combination of low oil prices and output, recording a deficit of 6.1% of GDP in 2016 compared to 3% in 2015. The fiscal deficit was 5.3% of GDP in 2016 compared to 7.8% in 2015. The non-oil deficit remained elevated at 10.2% of GDP in 2016, 2 percentage points higher than before the crisis. The economic slowdown put downward pressure on household income and affected the labor market. Official data suggest that average real wages declined by 0.9% in 2016, compounding a 2.4% drop in 2015.

To mitigate the impact of falling real incomes on the vulnerable, the authorities reacted by adjusting pensions and other social transfers and expanding employment support programs. The increase in social transfers from 3.8% of GDP in 2015 to 4.0% in 2016 was most beneficial to households that receive pensions, whose incomes remained steady. To support employment and labor productivity, the Government allocated additional funds for the Employment Road Map 2020 and adopted a new program on Productive Employment and Mass Entrepreneurship for 2017–21.

Economic Outlook

Under the baseline scenario, economic activity is projected to pick up gradually over the medium term, but growth will remain much slower than before 2014, when the oil price shock hit the economy. Real GDP is projected to grow in the range of 2.4–2.9% a year during 2017–19, resulting in a decline in poverty to about 17% by 2019. Growth will be driven by the projected rise in oil prices (from US$55 per barrel in 2017 to about US$60–62 in 2018–19), coupled with increased oil production from the Kashagan offshore oil field, which is expected to more than offset the declining output from other aging fields.

The outlook for the current account is generally positive, while the fiscal position is expected to deteriorate due to the banking sector support package that was allocated in early 2017. The planned resolution of NPL problems in the banking sector in 2017 is also expected to help generate a long-awaited recovery of lending to the economy and start supporting growth. In the longer run, the implementation of the ongoing institutional reform program “100 Concrete Steps” may have positive spillovers for private sector development and diversification of the economy.

In 2017 and 2018, the Bank also expects to see progress on the restructuring and privatization of state-owned enterprises (SOEs), both critical for fiscal sustainability. A better economic performance will allow the central bank to focus more on inflation targeting. The flexible exchange rate regime will help the economy to absorb external shocks that may occur in the future. As the pass-through effect of the currency depreciation fades, the real wages and purchasing power of the population are expected to improve, which may help poverty reduction and job creation but at a much lower pace than observed before.
**Project Spotlight**

**Kazstat: Strengthening the National Statistical System Project**

The Government has strengthened the national statistical system in Kazakhstan with the KAZSTAT Project, launched together with the World Bank in 2013.

As a first step, the entire collection of national statistics, from the first years of the country’s independence, were downloaded to a database. By January 1, 2015, the electronic database of the Statistics Committee (e-Statistics) was launched, allowing visitors to carry out any statistical research or perform any calculation.

Today, e-Statistics is linked to the information systems of almost all government agencies, and the interface of the e-Statistics database satisfies different audiences. The number of e-visits is now comparable to e-visits to public institutions in South Korea.

Advice and training through partnerships with the World Bank and the Federal Statistical Office of Germany, as well as experts from South Korea, helped achieve the most important element: the rapid implementation of electronic document flow. Moreover, statisticians have managed to achieve the seemingly impossible: the conversion of the registration book of rural households into electronic format.

The Project has enabled a 41% reduction in the reporting of state agencies and has consequently reduced bureaucracy and red tape in official operations. The Statistics Committee is working to introduce the Computer Assisted Personal and Telephone Interviews (CAPI and CATI) initiatives that will significantly reduce the cost of data collection, minimize errors, and improve the quality and timeliness of data. All regional offices will soon have standardized websites with online reporting functions to help respondents—mainly businesses—complete their regular reporting online.

The achievement of project objectives already supports the overall goal of informing the Government’s decision-making process by providing timely and accurate economic and social data and also helps monitor progress toward national development goals.

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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