The World Bank in Kazakhstan

# Country Snapshot

*An overview of the World Bank's work in Kazakhstan*

**April 2019**

| KAZAKHSTAN | 2018 |
|---|---|
| Population, million | 18.2 |
| GDP, current US$ billion | 164.3 |
| GDP per capita, current US$ | 9,036 |
| 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 62 percent of exports in 2017.

- The economy grew by 4.1 percent in 2018, benefiting from higher oil exports and strong private consumption.

- Poverty is estimated to have fallen to 7.4 percent. Economic growth is projected to decelerate going forward as oil production levels off.

- Risks to the outlook include new sanctions on Russia that could negatively impact Kazakhstan's trade and investment and place downward pressure on the national currency. Greater trade protectionism and a deeper-than-expected slowdown in the country's trading partners would adversely affect demand for exports, slowing GDP growth.

## 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 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 as well as the potential impacts of the political transition.

## The World Bank and Kazakhstan

### The Country Partnership Framework for 2020–25

The World Bank has recently developed a Systematic Country Diagnostic (SCD) for Kazakhstan, an evidence-based analysis that selectively addresses the set of 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 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 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.

### WORLD BANK PORTFOLIO

Number of Projects: 13

Lending: $3.7 Billion

IBRD: 10 Loans

Trust Funds: 3 Grants

### Subnational Doing Business in Kazakhstan 2019

The Subnational Doing Business in Kazakhstan 2019 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 2019, 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

Real GDP expanded by 4.1 percent in 2018 on the back of stronger exports and recovering domestic demand. Net exports continued to contribute substantially to GDP due to stronger-than-expected production from the Kashagan oil field, though the impetus appears to be diminishing as production flattens. Private consumption rose by an estimated 4.5 percent, benefiting from rising incomes and moderating inflation.

Higher oil prices supported a rise in profits in the extractive industries, which contributed to a 3 percent increase in overall investment. On the supply side, the domestic, non-export manufacturing and services sectors continued to be the main engines of growth, though the contribution of mining was slightly lower compared to previous years.

Higher oil prices and robust foreign demand have made a sizable dent in the current account, which turned into a surplus of 0.5 percent of GDP in 2018 (from a deficit of 3.3 percent of GDP in 2017). On the capital account, net outflows of portfolio investment offset higher inflows of foreign direct investment (up by 9.8 percent) and Eurobond proceeds. Net international reserves stood at US$30.9 billion (18.1 percent of GDP) in 2018.

Budget spending growth was moderate in nominal terms and slightly negative, adjusted for inflation, in line with the Government's consolidation and deficit reduction commitment. The completion of major infrastructure projects in 2018 and the removal of one-off large banking sector bail-out packages in 2017 contributed to the moderation in spending. On the revenue side, corporate income tax and value added tax—which account for two-thirds of fiscal tax revenue— increased by a combined 16.2 percent in 2018.

The overall fiscal deficit is estimated at 0.6 percent of GDP (down from 4.6 percent in 2017), while the non-oil fiscal deficit is estimated to have narrowed to 6.8 percent of GDP in 2018 from 12.8 percent a year earlier. Public debt inched up to an estimated 21.1 percent of GDP from 20.1 in 2017.

Against the backdrop of buoyant economic activity and labor market improvements, the poverty rate (using the US$5.5/ day international poverty line) is estimated to have declined to 7.4 percent in 2018 from 8.6 percent in 2017, marking the second consecutive year in which poverty has fallen since its peak in 2016.

## Economic Outlook

GDP growth is projected to decelerate slightly in 2019–20 and flatten thereafter. The outlook reflects slow productivity growth and the underlying structural weaknesses of the economy, including market dominance by state-owned enterprises, the unequal regulatory treatment of enterprises, and the low level of competition.

Decelerating economic growth in Kazakhstan's main trading partners—particularly China, the European Union, and the Russian Federation—is also forecast to dampen growth in 2019.

Boosted by rising real wages, consumer spending will continue to drive economic activity, though to a lesser extent than in previous years. Government initiatives to provide subsidized mortgage and car purchase loans will also support private consumption. The non-oil fiscal deficit is expected to decline further in line with the Government's medium-term fiscal consolidation strategy.

The NBK is expected to raise the key policy rate to counter inflationary pressures from real wage growth, thereby keeping inflation within the 2019 target range.

The tax cut for low income earners and the 50 percent increase in the minimum wage in January 2019, along with a tight labor market, are expected to stabilize the poverty rate at around 5 percent by 2021.

However, a significant share of the population is close to the poverty line and therefore will remain vulnerable to economic shocks.

## 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).

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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