The World Bank in Kazakhstan

Country Snapshot

An overview of the World Bank's work in Kazakhstan

April 2020

KAZAKHSTAN	2019
Population, million	18.2
GDP, current US$ billion	170.9
GDP per capita, current US$	9,244
School Enrollment, primary (% gross) (2017)	108.8
Life Expectancy at birth, years (2017)	73

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.

- The economy grew at a higher-than-expected rate of 4.5 percent in 2019, driven by solid growth in domestic demand. Inflation rose gradually due to higher increases in food prices. The poverty rate fell to 8.5 percent. However, GDP is likely to contract in 2020 because of lower oil output, a weaker external environment, and disruptions associated with measures to contain the COVID-19 outbreak.

- Although the authorities have taken active and bold steps to contain the spread of COVID-19, the possibility for protracted containment measures should not be ruled out. This scenario, compounded by a deep global economic recession, could have far-reaching repercussions on already fragile economic growth. Progressing with structural reforms and strengthening financial sector performance will be important once the authorities have managed the COVID-19 outbreak.

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.

Ongoing economic expansion and a minimum wage increase in early 2019 boosted real wages by 8.9 percent and helped sustain labor demand. The official unemployment rate remained under 5 percent.

In the context of rising wages and increased social assistance, the poverty rate is estimated to have fallen to 8.5 percent in 2019, marking the third consecutive year of poverty reduction.

The authorities are taking active measures to contain the spread of the COVID-19 pandemic, but a further drop in business activities will most probably cause a significant deterioration in firms' balance sheets and undermine the ability of households to repay loans, which in turn increases the risk of a higher number of nonperforming loans (NPLs).

The deeper shortfall in tax revenues from the economic fallout might require that additional resources be deployed. The country has the fiscal ability to raise revenue either through external borrowing or additional transfers from the Oil Fund.

The World Bank and Kazakhstan

The Country Partnership Framework for 2020–25

A new Country Partnership Framework (CPF) has been developed in consultation with counterparts and civil society to guide a new investment program and quality technical assistance to the Government for 2020–25.

The CPF is fully aligned with the Government's reform program and Kazakhstan's 2050 development strategy to accelerate the country's transformation into a modern society with a knowledge-based, diversified, and private sector–driven economy.

The CPF focuses on the following priority areas:

- Promoting inclusive growth by strengthening the environment for private sector development, promoting a market-led transformation of the agriculture sector, and strengthening the connectivity infrastructure;
- Strengthening human capital by closing the gap along regional and rural-urban divides in the delivery of education, health, and social protection services;
- Securing sustainable, resilient, and low carbon growth by managing natural capital, including land and water resources, promoting less energy intensity, and strengthening institutions and service delivery.

Underlying these focus areas is the cross-cutting theme of more effective governance and strengthened market and social institutions.

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, over 20 brainstorming sessions have provided direct input into 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 notable comparative advantages that the Bank brings to the JERP include the ability to draw on a global network to find best practice examples and an outside neutrality that is critical for proposing changes and navigating political land mines.

The JERP for FY20 is amounting to roughly US$1 million and includes seven activities, which, for the most part, are aimed at supporting the main priorities of Kazakhstan's 2025 Strategic Development Plan. In particular, the analytical work is focusing on

(i) increasing productivity and support to industrial innovation and digital development;

(ii) promoting sustainable development; and

(iii) developing a national monitoring and evaluation system for measuring results, thereby linking the strategies and national plans to the budget.

WORLD BANK PORTFOLIO

Number of Projects: 13

Lending: $3.7 Billion

IBRD: 10 Loans

Trust Funds: 3 Grants

Recent Economic Developments

Preliminary estimates suggest that real GDP grew by 4.5 percent in 2019, driven by buoyant consumer spending and mining-related investment. Higher wages, social transfers to low-income households, and rising retail credit supported a 6- percent expansion in consumer demand.

Meanwhile, investment rose by 12.9 percent, driven by foreign direct investment (FDI) in the oil and gas industry and investment in residential construction.

On the supply side, non-tradable services remained the main driver of growth, though the contributions of mining and manufacturing were moderate due to sluggish oil production and weak demand for processed metals.

Lower exports, higher remittance outflows, and rising imports widened the current account deficit to an estimated 3.3 percent of GDP in 2019 from a near balance in 2018. Higher household demand and capital investment in an ongoing mining project boosted import spending.

Net inflows of FDI fell to 3.5 percent of GDP from 4.3 percent in 2018. Due to a wider current account deficit and higher outflows of portfolio investment, foreign exchange reserves fell to US$29 billion at the end of 2019 from US$30.9 billion a year earlier. The tenge lost 11 percent of its value against the U.S. dollar in 2019.

The fiscal stance was expansionary in 2019, with a government budget of 1.9 percent of GDP, higher than that in 2018 even as GDP growth increased. The non-oil fiscal deficit increased to 8.1 percent of GDP from 7.3 percent a year earlier, as higher expenditures outpaced revenues despite improved tax collection and additional transfers from the Oil Fund.

Spending reflected the sizable increases in welfare support programs to socially vulnerable households. Public debt remained unchanged at roughly 20 percent of GDP.

The active role of subsidized credit support programs in Kazakhstan distorts credit markets and reduces the effectiveness of monetary policy. The National Bank of Kazakhstan (NBK) has continued to remove excess liquidity by issuing short-term notes.

In February 2020, 12-month inflation hit the upper limit of the NBK's 4–6 percent target range. Higher increases in food and utility prices and exchange rate pass-through from the depreciated tenge were key factors pushing up inflation.

After abrupt declines in oil prices, which put strains on the exchange rate, the NBK raised its policy rate by 275 basis points to 12 percent in March 2020.

The NBK's asset quality review of bank assets showed a capital shortfall of US$1.2 billion for the 14 banks participating in the assessment. Lending to the corporate sector has continued to fall, largely on account of bad loan write-offs, risk aversion due to the high stock of NPLs held by the banks, and weak lending demand from small and medium enterprises (SMEs). The officially reported NPL ratio was 8.1 percent in January 2020.

Economic Outlook

GDP is projected to contract by 0.8 percent in 2020, as external demand for crude and manufactured goods fall notably and the COVID-19 mitigation measures sap consumer demand and investment. To contain the rapidly expanding coronavirus, the authorities have implemented extreme measures by locking down the country's two key cities.

Prior to the COVID-19 outbreak, the draft budget for 2020 assumed a slight increase in the deficit, but considering plummeting oil prices and the standstill in economic activity, the deficit is likely to be significantly higher. In response to the economic crisis, the authorities have announced a fiscal stimulus package in the amount of KZT 4.4 trillion, equivalent to 5.6 percent of GDP.

Although a large part of the announced fiscal stimulus is expected to come from central bank resources and state-owned enterprises (and thus not from the central budget), the authorities intend to reallocate budget resources to the sectors most in need.

The current account deficit is expected to widen to 6 percent of GDP in 2020, in large part owing to the collapse in oil prices and deteriorating terms of trade. Inflation is likely to move up above the central bank target on the back of the depreciation of the tenge, which has lost almost 15 percent of its value against the U.S. dollar since the beginning of 2020.

The strict and prolonged lockdown measures could paralyze economic activity. If the pandemic continues to spread and the external economic environment deteriorates further, GDP could contract by as much as 3 percent in 2020, which would significantly increase the poverty rate.

Project Spotlight

Fostering Productive Innovation in Kazakhstan

Almagul Kakimzhanova conducts cutting-edge research into plant species adapted to Kazakhstan's climate

Whether it happens among students in a classroom or engineers in a laboratory, innovation is a process that begins with an idea and results in transformative trends and business start-ups that can boost a country's economic development. For Kazakhstan, innovation has the potential to unleash the private sector as the country strives to build a more diversified and competitive economy.

Launched by the Kazakh Ministry of Education and Science and the World Bank, and building on the impressive achievements of the Bank's Technology Commercialization Project over the past 12 years, the Fostering Productive Innovation Project (FPIP) promotes and develops commercial innovations in Kazakhstan by providing grants to entrepreneurs and start-ups seeking to improve the quality of people's lives. The primary objective of the FPIP for Kazakhstan is to promote high-quality, nationally relevant research on, and the commercialization of, new technologies.

"Such innovation grants designed to foster productive innovation financed by the Science Committee and the World Bank are in great need in Kazakhstan. They just change our thinking as scientists. This project changed our thinking into believing that any scientific development could be commercialized in order to bring benefits to people," notes Almagul Kakimzhanova, a leading specialist in the molecular biology of plants and a successful recipient of one of the competitive innovation grants, "Greenlab," provided under the FPIP.

The projects that receive the inclusive innovation consortia grants are varied in their nature and application.

"X-matrix," which produces biological dressings with highly efficient healing properties for the treatment of burns and wounds based on an extracellular xenogenic matrix, is one of the many successful grantees. ReLive, a start-up company based at Nazarbaev University and another grantee, has developed a unique platform designed to rehabilitate patients after a stroke through groundbreaking artificial intelligence–supported neuro-rehabilitation robotic software. The United Nations has recognized the start-up's invention as one of the world's top 20 innovative solutions.

The FPIP has helped to improve the quality of scientific research in Kazakhstan and its relevance to market needs, research and development spending, and collaboration between universities and industry.

The project has also strengthened the capacity of key institutions of the National Innovation System by introducing market-oriented approaches to the selection and support of innovation projects and technology start-ups. Moreover, it has contributed significantly to the country's ability to effectively collaborate in funding international-level research and development and in changing the mindset of the scientific community and policy makers to look more closely at Kazakhstan's economic development through direct engagement and dialogue with the private sector.

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

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