REPUBLIC OF KAZAKHSTAN

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KAZAKHSTAN

In the context of the 2021 Article IV Consultation, the following documents have been released and are included in this package:

- A Press Release including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its April 4, 2022 consideration of the Staff Report that concluded the Article IV consultation with Kazakhstan.

- The Staff Report prepared by a staff team of the IMF for the Executive Board’s consideration on April 4, 2022, following discussions that ended on November 17, 2021 with the officials of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 21, 2022.

- An Informational Annex prepared by the IMF staff.

- A Staff Statement updating information on recent developments.

- A Statement by the Executive Director for Kazakhstan.

The documents listed below have been or will be separately released.

Selected Issues Paper

*Also included in the abovementioned Staff Report

The IMF’s transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D
IMF Executive Board Concludes 2021 Article IV Consultation with the Republic of Kazakhstan

FOR IMMEDIATE RELEASE

Washington, DC – April 11, 2022: On April 4, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.

Kazakhstan’s economy has recovered from the initial effects of the COVID pandemic. Real GDP grew by 4 percent in 2021, following a 2.5 decline in 2020. Substantial buffers and policy space enabled the authorities to mitigate the impact of the shock on livelihoods and economic activity. Progress in vaccinations also contributed to the recovery, and activity returned to its pre-COVID level in 2021. However, spillovers from the war in Ukraine will affect growth and fuel inflationary pressures in 2022. Together with the ongoing pandemic and heightened social tensions, they raise substantial uncertainty about economic prospects. In the long term, sustainable growth will require greater economic diversification and decisive actions to tackle climate-related challenges.

The authorities plan to return to fiscal consolidation to preserve buffers once the recovery is entrenched. The set of fiscal rules has been expanded aiming to safeguard sustainability and intergenerational equity and promote a countercyclical policy framework. Facing elevated external spillovers and inflation pressures, the National Bank of Kazakhstan (NBK) raised its policy rate and signaled possible further tightening if needed in 2022. Banks weathered the COVID crisis well, but the withdrawal of support measures and a rapid pickup in consumer lending have led to intensified financial supervision. The government, NBK, and financial regulatory agency are strengthening their cooperation and policy coordination.

The social unrest in early 2022 has provided new impetus for structural reforms. Key priorities announced by the authorities are to raise economic growth and inclusion by promoting economic diversification, private sector development, and improved governance. The authorities are also committed to reduce greenhouse gas emissions by 15 percent in 2030 (relative to the 1990 level) and achieve carbon neutrality by 2060. Given the multiplicity of reform needs, a Supreme Council for Reforms, chaired by the President, was created to strengthen reform prioritization and implementation.

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1 Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.
Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their well-coordinated policy response to the COVID-19 pandemic, which supported a strong recovery in 2021. Directors noted that activity is being affected by spillovers from the war in Ukraine, while downside risks to the outlook have increased, including from the recent social unrest. In this context, they concurred that continued fiscal support is warranted in 2022 and that, amid sustained price pressures, further monetary tightening may be necessary to anchor inflation expectations. Over the medium term, Directors underscored the need to safeguard policy buffers and lay the groundwork for more diversified, private sector-led, inclusive, and green economic growth.

Directors emphasized the need for gradual medium-term fiscal consolidation to preserve buffers. To achieve this, they noted that strengthening revenue administration should be complemented by reforms to raise the VAT rate, broaden the tax base, and introduce a progressive income tax. Directors recommended enhancing public expenditure efficiency and public sector transparency. They also concurred that streamlined fiscal rules would support sustainability, intergenerational equity, and policy flexibility.

Directors commended the central bank for its commitment to a fully-fledged inflation targeting regime, which along with exchange rate flexibility, will help absorb shocks. They stressed that strengthening monetary policy effectiveness requires continued efforts to enhance the central bank’s policy independence and credibility, improve its analytical framework and communications, develop domestic capital markets, and reduce dollarization. Directors agreed that the enhanced coordination between monetary and fiscal policies should also help curb inflation.

Directors underscored that financial sector policy should continue to balance supporting the economic recovery and safeguarding financial stability. They called for careful monitoring of risks, including from bank liquidity pressures and fast-growing consumer lending, and for further efforts to strengthen risk-based supervision and the bank resolution framework. Directors encouraged the authorities to carefully consider the implications of introducing a central bank digital currency.

Directors emphasized the need for accelerated structural reforms and greater economic diversification to make long-term growth sustainable and inclusive. They saw a need to reduce the state’s footprint in the economy, including by reassessing and reducing the role of state-owned enterprises and by ensuring a level playing field for competition. Considering the recent social unrest, Directors called for accelerated reforms to improve governance, address corruption vulnerabilities, and strengthen the business environment.

Directors welcomed the authorities’ commitment to achieve carbon neutrality by 2060. While noting that increasing carbon taxation would provide adequate incentives and help finance a smooth and inclusive transition, Directors stressed the importance of proceeding gradually to allow time to reinforce social safety nets and for the private sector to adjust.

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2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.
<table>
<thead>
<tr>
<th>Kazakhstan: Selected Economic Indicators, 2019–23</th>
<th>2019 (est.)</th>
<th>2020 (est.)</th>
<th>2021 (est.)</th>
<th>2022 (proj.)</th>
<th>2023 (proj.)</th>
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<tr>
<td><strong>Output</strong></td>
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<td>Real GDP growth (%)</td>
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<td>-2.5</td>
<td>4.0</td>
<td>2.3</td>
<td>4.4</td>
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<td>Real oil</td>
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<td>-0.3</td>
<td>0.6</td>
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<td>Real non-oil</td>
<td>5.9</td>
<td>-2.0</td>
<td>5.3</td>
<td>2.8</td>
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<td>Crude oil and gas condensate production (million tons)</td>
<td>90.4</td>
<td>85.7</td>
<td>85.7</td>
<td>86.2</td>
<td>92.6</td>
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<td><strong>Employment</strong></td>
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<td>Unemployment (%)</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
<td>4.8</td>
<td>4.9</td>
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<td><strong>Prices</strong></td>
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<td>Inflation (%)</td>
<td>5.4</td>
<td>7.5</td>
<td>8.4</td>
<td>8.5</td>
<td>6.0</td>
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<td><strong>General government finances</strong></td>
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<tr>
<td>Revenue (% GDP)</td>
<td>19.7</td>
<td>17.5</td>
<td>18.7</td>
<td>21.7</td>
<td>20.6</td>
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<tr>
<td>Of which: oil revenue</td>
<td>6.9</td>
<td>3.4</td>
<td>5.2</td>
<td>8.2</td>
<td>7.0</td>
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<td>Expenditures (% GDP)</td>
<td>20.3</td>
<td>24.6</td>
<td>22.8</td>
<td>22.2</td>
<td>21.1</td>
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<td>Fiscal balance (% GDP)</td>
<td>-0.6</td>
<td>-7.1</td>
<td>-4.1</td>
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<td>Non-oil fiscal balance (% GDP)</td>
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<td>-10.5</td>
<td>-9.4</td>
<td>-8.7</td>
<td>-7.5</td>
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<td>Gross public debt (% GDP)</td>
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<td>26.4</td>
<td>25.9</td>
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<td>29.4</td>
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<td><strong>Money and credit</strong></td>
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<tr>
<td>Broad money (% change)</td>
<td>2.4</td>
<td>16.9</td>
<td>10.7</td>
<td>20.1</td>
<td>9.7</td>
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<tr>
<td>Credit to the private sector (% GDP)</td>
<td>21.3</td>
<td>22.0</td>
<td>23.2</td>
<td>22.2</td>
<td>22.8</td>
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<tr>
<td>NBK policy rate (% eop)</td>
<td>9.3</td>
<td>9.0</td>
<td>9.8</td>
<td>...</td>
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<tr>
<td><strong>Balance of payments</strong></td>
<td></td>
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<tr>
<td>Current account (% GDP)</td>
<td>-4.0</td>
<td>-3.8</td>
<td>-3.0</td>
<td>3.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Net foreign direct investments (% GDP)</td>
<td>-3.2</td>
<td>-3.5</td>
<td>-2.1</td>
<td>-1.7</td>
<td>-1.7</td>
</tr>
<tr>
<td>NBK reserves (in months of next year's imports of G&amp;S)</td>
<td>7.7</td>
<td>9.1</td>
<td>8.3</td>
<td>9.4</td>
<td>9.9</td>
</tr>
<tr>
<td>NFRK assets (in months of next year's imports of G&amp;S)</td>
<td>16.4</td>
<td>15.4</td>
<td>13.4</td>
<td>15.0</td>
<td>16.3</td>
</tr>
<tr>
<td>External debt (% GDP)</td>
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<td>96.0</td>
<td>90.7</td>
<td>88.9</td>
<td>75.0</td>
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<tr>
<td><strong>Exchange rate</strong></td>
<td></td>
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</tr>
<tr>
<td>Exchange rate (y-o-y percent change; Tenge per U.S. dollar; eop)</td>
<td>-0.8</td>
<td>10.4</td>
<td>2.6</td>
<td>...</td>
<td>...</td>
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</tbody>
</table>

Sources: Kazakhstani authorities and Fund staff estimates and projections.
REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

KEY ISSUES

Context: Activity returned to its pre-COVID level in 2021. Inflation remains well above the NBK’s 4–6 percent target band, and spillovers from sanctions on Russia will exacerbate price pressures and weaken economic growth in 2022. Kazakhstan benefits from strong fiscal and external buffers but risks to the outlook are elevated due to the uncertain impact on Kazakhstan of the sanctions on Russia and heightened domestic tensions since the January social unrest episode. In the medium term, non-oil growth under the baseline is expected to converge to about 4 percent. Sustainable growth will require greater economic diversification. Climate-related challenges are acute for Kazakhstan given its outsized hydrocarbon sector, high per-capita greenhouse gas emissions, and low domestic energy prices.

Key recommendations: The discussions focused on near-term pressures on inflation and growth, the need to secure economic resilience through stronger macro-financial policy frameworks, and reforms to reach sustainable long-term growth:

- Fiscal policy. Accommodative fiscal policy supported the post-COVID recovery, and some fiscal stimulus remains warranted in light of recent shocks. Buffers should be rebuilt through gradual medium-term consolidation. A simple set of fiscal rules would best serve the authorities’ goals to safeguard sustainability and intergenerational equity, and to promote countercyclical policy.

- Monetary policy. Monetary policy is assessed as moderately tight, which is appropriate given the continued inflation pressures and fiscal stimulus. Further tightening may be warranted in the coming months. The authorities should continue the transition to full-fledged inflation targeting, while enhancing transparency and the National Bank of Kazakhstan’s (NBK) independence.

- Financial sector policy. Policies should continue to balance supporting the economic recovery and safeguarding financial stability. Further progress in strengthening the supervisory and resolution frameworks is needed. Risks from fast-growing consumer lending and potential bank liquidity pressures should be carefully monitored.

- Structural reforms. Sustained and inclusive growth in a low-carbon global economy calls for economic diversification driven by the private sector. Accelerated reforms are needed to reduce the state’s footprint in the economy, improve governance and the business environment, and take early action to address climate-related challenges.
Discussions took place in Almaty and Nur-Sultan during November 4–17, 2021 and remotely during January 28–March 14, 2022. The team comprised N. Blancher (head), A. Hajdenberg, G. Impavido, and W. Shi (MCD), J. Zhou (MCM), O. Basdevant (FAD), K. Kao (LEG), and O. Bissekeyeva (local office manager). The mission met with senior government and NBK officials, as well as representatives from the private sector, civil society organizations, diplomatic community, and media. P. Trabinski and M. Zhunusbekova (OED) attended the meetings, and L. Nigmatullina, and S. Arzoumanian provided support from IMF HQ.

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