July 2010
IMF Country Report No. 10/241

Republic of Kazakhstan: 2010 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Kazakhstan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 8, 2010, with the officials of the Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 25, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 12, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for the Republic of Kazakhstan.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the
2010 Consultation with the Republic of Kazakhstan

Approved by David Owen and David D. Marston

June 25, 2010

Executive Summary

- **The financial crisis exposed underlying vulnerabilities in the banking sector and impaired GDP growth.** Aided by ample resources, the authorities responded with a large-scale policy package that helped stabilize banks and limited the impact on growth and employment.
- **External liabilities of two large banks were successfully restructured, but the banking system continues to be burdened by a large and increasing stock of nonperforming loans.** A transparent and comprehensive strategy to resolve bad debts is crucial for restoring financial sector health. This should be accompanied by an independent assessment of systemic banks to evaluate recapitalization needs, and by improvements in the legal, regulatory and supervisory frameworks.
- **The fiscal stimulus should be withdrawn gradually, as public support is still needed for bank liquidity and non-oil economic activity.** The stimulus can be sustained as the public sector's net foreign asset position remains strong, but expenditures need to be better prioritized. In the medium term, the fiscal deficit should be placed on a downward path to limit inflationary pressures and real exchange rate appreciation. This will be consistent with an accumulation of oil revenues over time.
- **The economy would benefit from greater exchange rate flexibility, once the problems in the banking system have been resolved.** The exchange rate regime is currently classified as pegged to the U.S. dollar with horizontal bands. Greater exchange rate flexibility would facilitate monetary management, help the economy adjust to external shocks, and promote local-currency financial market development.
- **In the longer term, Kazakhstan is set to benefit from its mineral resource wealth and plans to diversify the economy and improve the business environment.** The authorities' medium-term strategy provides the framework for increasing the share of manufacturing in GDP, improving productivity in agriculture, and reforming the health and education systems.
- **Policy actions have been generally consistent with the recommendations of the 2009 Article IV consultation.** The authorities have maintained the fiscal stimulus, improved FSA regulations, and kept the exchange rate peg to support the recovery of the financial sector. Further efforts to strengthen bank soundness are needed.

Contents Page

I. The Financial Crisis—Impact and Response

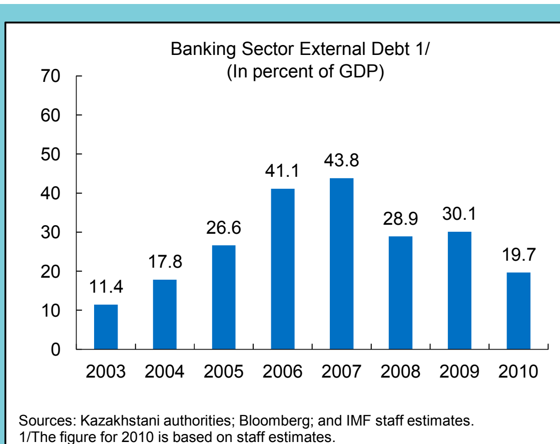
The global financial crisis led to an abrupt halt in credit growth and a bursting of the property bubble in Kazakhstan. As a result, underlying vulnerabilities in the banking sector were exposed and GDP growth declined sharply. Benefitting from ample resources and low public debt, the authorities responded with substantial support to the banking sector and the real economy. The stimulus measures have helped lessen the impact of the crisis on incomes and employment. Nevertheless, structural weaknesses in banks persist, the sector remains under stress, and the ongoing deleveraging process makes the economic recovery uncertain.

A. Deteriorating Bank Soundness and Slower Economic Growth

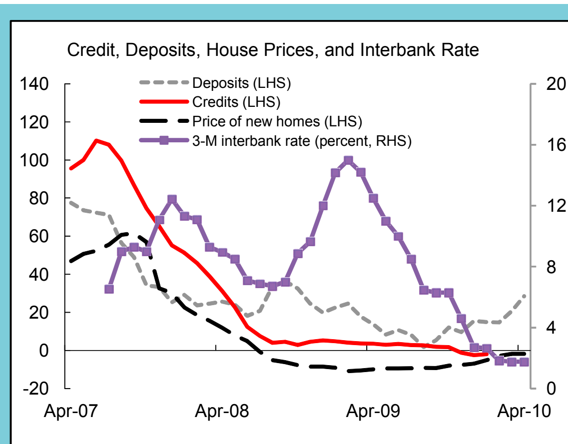
1. **The sudden stop in capital inflows in the early stages of the global financial crisis exposed the underlying vulnerabilities in the banking system.** Kazakhstani banks borrowed heavily from abroad in the years preceding the crisis—amassing external debt of $46 billion by 2007 (44 percent of GDP)—to fund a rapid expansion of credit, largely concentrated in the nontradables sector. The tightening of external funding precipitated marked declines in credit growth and property prices, and the early 2009 devaluation of the tenge exacerbated risks in the highly dollarized economy. Notwithstanding the provision of liquidity and capital support, the combination of weak economic growth, currency induced credit exposure, and increased uncertainty led to a sharp worsening of banks' balance sheets.

2. **Four financial institutions stopped making principal repayments and were forced to restructure their external liabilities.** Following extensive and difficult processes, foreign creditors agreed to restructure external obligations in two large banks (BTA and Alliance Bank), while significant progress has been made at two smaller institutions (Temir Bank and Astana Finance). The banks are now developing new business models, but public sector support will need to continue.

3. **The banking system faces significant difficulties.** Nonperforming loans (NPLs) on a 90-day overdue basis have risen sharply to 26 percent of total loans (from 3½ percent in mid–2008), increasingly driven by non-restructuring banks, including some systemic ones.



Sources: Kazakhstani authorities; Bloomberg; and IMF staff estimates.
1/The figure for 2010 is based on staff estimates.



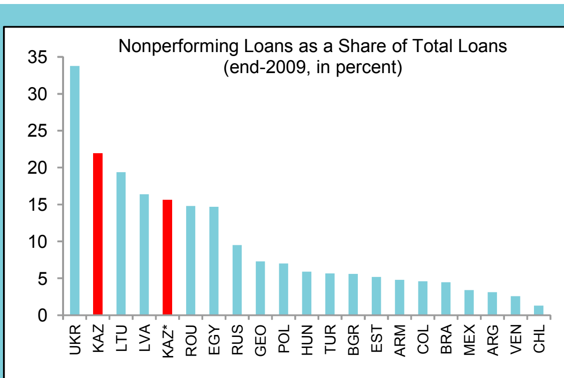
Aggregate provisioning levels are high by international standards, covering more than total NPLs, but the coverage has declined over the last year. Banks have been reluctant to write off bad debts, allegedly for tax reasons. At 18½ percent, the aggregate capital adequacy ratio excluding restructuring banks, remains above the minimum requirements. However, the capital base has been under pressure as profitability has been hit by the need for higher provisions and the negative carry resulting from the placement of excess liquidity at the National Bank of Kazakhstan (NBK) or in correspondent accounts (Box 1).

4. **The steady decline in deposit dollarization quickly reversed with the onset of the crisis.** Foreign currency deposits peaked at around 45 percent of total deposits by September 2009, compared to just 24 percent in mid–2007. High inflation, economic uncertainty, and a loss of confidence in the tenge during the early stages of the crisis precipitated a rise in dollarization after more than two years of steady decline. However, the recent strength of the tenge and lower rates of inflation have prompted some shift back into local currency deposits.

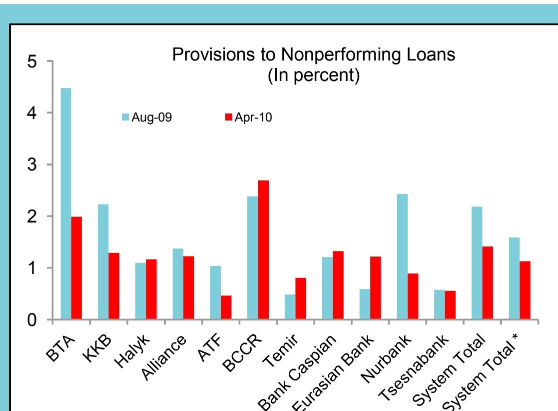
5. **Although banks' aggregate liquidity is comfortable, credit dynamics remain weak.** Annual credit growth has plummeted into negative territory from its pre-crisis peak of over 110 percent. This reflects a drastic decline in external funding (banks' external debt falling to $30 billion or 30 percent of GDP at end–2009), heightened risk aversion by banks, ongoing private sector deleveraging, insufficient demand in the nontradables sector, and the onset of tighter prudential regulations. Overall external debt remains manageable (see Appendix 1 and Debt Sustainability Tables).

6. **The debt restructuring undermined confidence of external creditors, limiting access of all institutions to international markets.** Kazakhstan's credit default swaps and bond spreads have benefited from an improvement in global risk appetite and higher commodity prices, but remain highly sensitive to shifts in market sentiment. Importantly, external funding from traditional sources remains prohibitive, and is likely to be only partly replaced by new sources of official financing—notably from the Gulf, Russia, and China, as well as from the rise of Islamic banking in Kazakhstan.

7. **Given the clear linkages between the financial and real sectors, most macroeconomic indicators worsened in 2009.** Real GDP growth slowed sharply from the 10 percent rates recorded during 2000–07, becoming negative by mid–2009, but a sharp



Sources: Kazakhstani authorities; Bloomberg; and IMF staff estimates.
*Excluding restructuring banks.

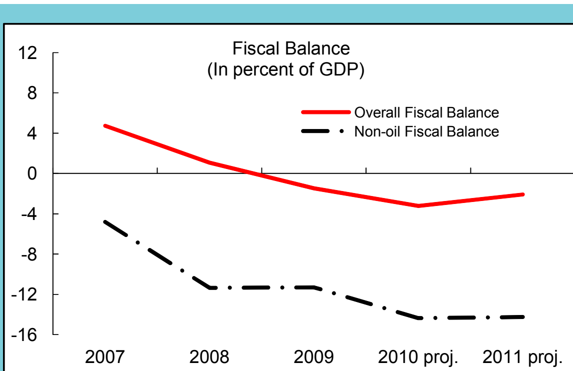


rebound in the last quarter of the year (driven by the strong performance of industry and agriculture, according to official statistics) helped it reach 1¼ percent for the year as a whole. Exports fell significantly, reflecting lower oil prices and a decline in non-oil sales abroad. Notwithstanding the fall in imports from weaker demand, the current account shifted into a deficit of about 3 percent of GDP in 2009, reinforcing pressures on the balance of payments from ongoing capital outflows and declining foreign exchange reserves. Average annual inflation slowed in 2009 and has remained relatively contained at around 7½ percent.

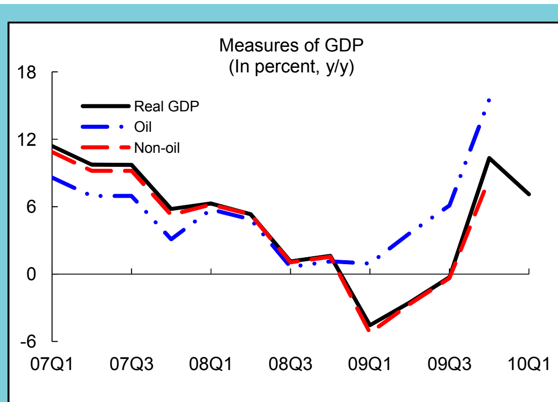
B. A Strong Policy Response Supported by Ample Resources and Fiscal Space

8. **Drawing upon savings in the National Oil Fund (NFRK), the authorities responded with a large scale policy package that helped stabilize banks.** The response included measures amounting to 8½ percent of GDP, and was focused on stabilizing banks. Samruk-Kazyna (SK), the national development agency, took equity stakes in four large banks (including two majority positions); public entities placed deposits in the troubled banks by repatriating funds from abroad and reallocating from perceived stronger banks; and key sectors of the economy where NPLs are concentrated—real estate, construction and other nontradables—are currently receiving preferential funding. This support, alongside enhanced deposit insurance and the external nature of the debt restructuring, largely shielded domestic agents, mitigating widespread withdrawals of deposits. A Distressed Asset Fund (DAF) was capitalized through the budget in late 2008 to remove overdue obligations from banks' balance sheets, but has not been involved in bad debt resolution, and its role has evolved to the provision of support to specific sectors and banks.

9. **Countercyclical fiscal policy helped limit the economic slowdown.** The authorities allowed automatic stabilizers to operate even as revenues fell sharply. In addition, tax cuts in the non-extractive sector were introduced, although some of the initially announced cuts were delayed to help preserve the fiscal position. Additional expenditures to mitigate the impact of the crisis were mostly directed through SK, but some budgetary outlays—for pensions, public sector wages and social benefits—increased significantly. This resulted in an expansion of the deficit, financed through oil savings, domestic debt, and a loan from the Asian Development Bank.



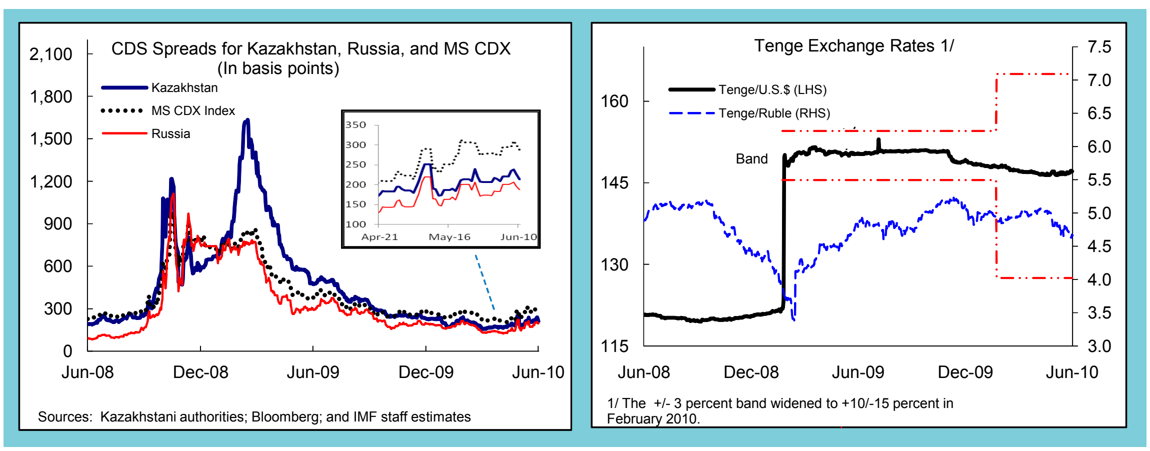
Sources: Kazakhstani authorities; Bloomberg; and IMF staff estimates.



10. **Monetary policy was accommodative in 2009 as the economy remained weak and inflation pressures declined.** The central bank lowered reserve requirements on domestic and foreign currency obligations to 1½ and 2½ percent, respectively, and the main policy rate was reduced to 7 percent, reflecting a series of cuts totaling 350 basis points since the start of the year. Easier monetary conditions and enhanced liquidity facilities contributed to an improvement in bank liquidity. Despite these measures, broad money expansion slowed sharply, and the banking sector's net foreign assets improved with continued balance sheet deleveraging and the prohibitive cost of international borrowing.

11. **The devaluation of the tenge in February 2009 helped stabilize market pressures, and was followed a year later by a widening of the trading band.** The combination of declining oil prices, a depreciating ruble, and significant capital outflows prompted the 20 percent devaluation. As a result, domestic deposits stabilized and international reserves recovered. In February 2010, the central bank introduced a wider, asymmetric trading corridor (+10/-15 percent around the central parity of T/$150) to accommodate favorable market sentiment resulting from the stabilization of the ruble and the ongoing rebound in global commodity prices. Since then, the tenge has gained only about two percent as the central bank, focused on managing the effective exchange rate, has accumulated reserves and limited the bilateral appreciation of the tenge against the U.S. dollar.

12. **Kazakhstan and Russia have begun implementing a customs union agreement as a first step to creating a single economic space by 2012.** Belarus was also part of the agreement but has temporarily withdrawn. In line with the agreement, the countries have eliminated most duties on mutual trade, moved to harmonize customs rules, and are set to adopt a common external tariff. While Kazakhstan is expected to benefit from larger trade volume, free movement of labor, capital, and goods, and better access to outside markets, it will have to raise its currently low customs duties, increasing the prices of goods coming from outside of the union. The modalities for WTO accession remain unresolved, but Kazakhstan has committed to continue to pursue accession independent of the customs union.



Sources: Kazakhstani authorities; Bloomberg; and IMF staff estimates

1/ The +/- 3 percent band widened to +10/-15 percent in February 2010.

Box 1. Kazakhstan: The Ongoing Balance Sheet Restructuring of Banks

The restructuring process has been largely completed. Against market expectations of unlimited government support, the authorities' decision to stop payments and propose restructuring resulted in a reduction of external liabilities of the banking system by about one-third, while domestic confidence was effectively maintained.

- At end-May 2010, external creditors voted in favor of restructuring $12¼ billion of BTA's debt. This will result in a debt reduction of $6¾ billion once the legal and operational procedures are completed. BTA's capital will revert to a positive position of $1¼ billion as SK will also increase its equity stake to 81½ percent.
- Alliance Bank restructured $4½ billion of external debt in early 2010, lowering its liabilities by about $3½ billion and improving its capital from negative $3.0 billion to $0.2 billion, of which SK now owns 67 percent.
- Restructuring is also underway at smaller institutions, including Temir Bank, which will become 80 percent owned by SK, and Astana Finance.

As a result of debt restructuring and restricted access to foreign borrowing, the aggregate banking sector balance sheet shows the following main changes:

Assets. The net loan-to-GDP ratio has fallen from 63 percent in 2007 to around 34 percent currently. Other assets have been significantly written down, largely as a result of write offs of BTA's external portfolio, and also as bank holdings of property and securities have declined in value. Outstanding credit related to mortgages, construction, and non-productive sectors accounts for nearly three-quarters of system loans. House prices have fallen by 27 percent since their peak in 2007—with prices in Almaty declining by 54 percent. Assets that are 100 percent provisioned account for over 20 percent of all assets.

Liabilities. Banks' external debt has declined to around 20 percent of GDP from over 44 percent in 2007. Deposits of companies linked to SK reportedly account for around 25 percent of the deposit base. The loan-to-deposit base continues to fall although it is above the new prudential norm of 150 percent for many banks.

Provisions. Reflecting the rise in NPLs, provisions have been raised from 6 percent of total loans at end–2007 to 37 percent in April 2010, and the coverage is high by international standards. However, the coverage of NPLs has been falling and may be overstated as provisions include amounts allocated for restructured loans that have been removed from the NPL classification.

Capital. The aggregate capital base has declined from the equivalent of 11 percent of GDP in 2007 to negative 3 percent in April 2010, reflecting current bank restructuring and the massive rise in provisioning. Capital is expected to turn positive by mid-2010 after accounting for BTA's restructuring.

Key Bank Ratios and Vulnerabilities (end-April 2010, in percent)

	KKB	Halyk	BTA 1/	BCC	ATF	Alliance 1/
Assets (as share of total banks' assets, gross)	20.0	17.4	16.2	10.5	8.8	3.7
Deposits (as share of total banks' deposits)	18.0	19.1	18.6	10.2	6.1	2.1
Capital adequacy ratio	14.9	18.3	-69.2*	19.9	21.7	12.4
Loans-to-Deposit Ratio	176.5	85.6	160.7	90.9	184.4	377.2
Foreign borrowing / capital	163.7	89.6	-80.9	155.8	228.5	360.3
Loans to the broad real estate sector (including mortgages) / total loans 2/	61.1	34.1	50.2	34.8	33.9	…
NPLs (90 days overdue basis) / total gross loans	21.5	17.9	39.1	3.8	28.8	59.5
Provisioning ratio (Provisioning / NPLs)	128.8	112.3	199.0	268.4	46.9	122.5
Provisioning ratio (Provisioning / NPLs plus restructured loans) 2/	63.2	62.0	…	38.1	22.1	…

Sources: FSA, Visor Capital, and IMF staff estimates
1/ Under restructuring
2/ Based on Visor Capital estimates
* Planned to be 10% after restructuring

II. Economic Outlook and Authorities' Announced Policies

Higher commodity prices, stronger trade, and improved expectations will support the authorities' plans to continue to back bank liquidity and stimulate key economic sectors in the near term. This would sustain a recovery of economic growth driven by tradable sectors, but broader activity will remain contained by weak credit growth and banking difficulties. In the longer term, the authorities plan to reduce their dependency on oil by improving competitiveness and productivity in the nontradables sector.

13. **Staff projects real GDP growth of around 4 percent in 2010 and a recovery of the external outlook.** Growth will be driven mainly by the oil, gas, and mining sectors, as well as by some recovery in trade, transport, and communications. The current account is expected to show a surplus in 2010, driven by a strong rebound in exports (in particular oil) combined with a relatively slow recovery in import growth. This outlook would allow for a continued build-up of gross international reserves in 2010. Staff projects inflation to remain around 7½ percent under the current monetary policy stance. A possible deterioration of external conditions would pose risks to this outlook (Box 2).

14. **Continued public sector support, albeit at a lower level than in 2008 and 2009, will sustain the expected recovery.** Additional direct capital injections to banks are not expected, but liquidity provision through public sector deposits will continue. With long-term bilateral credit facilities from China totaling over $13 billion that are ready to be drawn once projects are identified, public sector enterprises will finance investments in the mining sector and infrastructure development, a key priority within the authorities' industrialization policy.

15. **The government is coordinating additional efforts to address banking sector vulnerabilities.** A Council for Financial Stability—comprising the NBK, FSA, and government ministries—is to be established to strengthen coordination across the public sector. This policy forum plans to enact tighter macroprudential policies to limit credit boom-bust cycles, including prudential measures to manage unhedged credit risk, and countercyclical bank regulations on capital and provisioning.

Summary of the Anti-Crisis Spending (end-May 2010)

	Amount (*$, bns*)		Comment
	Allocated	Disbursed	
Original $10 billion plan launched in 2008			
Financial sector	4.0	4.0	Publically identified capital and deposits (ex. SOEs).
Mortgage loan refinancing	1.0	1.0	Provided to banks to refinance existing mortgages.
Construction sector	2.0	0.6	Provided to banks to finish uncompleted housing projects.
Agriculture	1.0	1.0	Provided to KAZ Agro.
SMEs	1.0	1.0	Provided to banks for onlending.
Infrastructure/industry	1.0	0.1	
Additional measures undertaken in 2010			
Support to SMEs and financing of residential and other investment projects	0.5	0.5	Disbursed from the resources of Distressed Asset Fund.
Interest rate subsidies and loan guarantees for SMEs	0.2	…	Budget allocation under the new "Road Map Program".
TOTAL	**10.7**	**8.2**	

16. **Budgetary and monetary policies will remain accommodative.** The revised 2010 budget projects a general government deficit of about 3¼ percent of GDP, higher than the 2009 deficit of 1½ percent, mainly on account of higher current spending, including another significant increase in the public sector wage bill.[1] However, if nonbudgetary items are included, the fiscal stance would tighten in 2010, consistent with the expected recovery in economic activity.[2] Apart from the annual transfer from the NFRK to the budget—now limited to $8 billion per year—the authorities intend to exclude the use of oil savings to finance the 2010 deficit, preferring instead to borrow both domestically and externally, including $1 billion directly from the World Bank, and through possible Eurobond and Sukuk issuances. With continued favorable external conditions, the authorities expect to allow a greater role for market forces in the determination of the exchange rate.

17. **Over the medium term, the government plans to improve productivity and advance economic diversification through structural reforms.** Efforts will be directed to improving the business environment, modernizing enterprises, creating new high value added export-oriented sectors, and providing selective support to key industries, including telecommunications and transport. The Development Plan to 2020 envisages an increased share of manufacturing and SMEs in GDP, improved productivity in agriculture, and health and education reforms. This would allow real GDP growth to increase gradually toward its estimated potential of about 6 percent over the next five years (Box 3).

Selected Economic Indicators, 2009–15

	2009	2010	2011	2012	2013	2014	2015
		Projections					
Real GDP (percent, y/y)	1.2	4.1	4.8	5.5	5.9	6.3	6.5
Consumer price inflation (percent, p.a.)	7.3	7.6	6.6	6.5	6.2	6.0	6.0
Overall fiscal balance (percent of GDP)	-1.5	-3.2	-2.1	-1.0	0.1	0.8	0.9
Credit to the economy (growth, in percent) 1/	7.2	3.4	6.0	10.1	13.8	13.6	14.1
Current account balance (percent of GDP)	-3.2	2.6	2.5	3.0	3.5	2.9	2.3
NBK gross reserves (eop) 2/ 3/	23.2	32.1	44.5	54.2	65.2	71.7	73.0
NFRK foreign assets (eop) 3/	19.4	23.5	27.3	33.2	40.9	49.7	58.1
Nominal GDP 3/	107.8	129.7	148.7	170.0	193.7	220.4	251.5

1/ In 2009, credit growth would be -2.5 percent, if adjusted for the devaluation.
2/ Does not include NFRK.
3/ In billions of U.S. dollars.

[1] On the authorities' definition, the deficit is expected to increase from 3 percent of GDP in 2009 to 4½ percent in 2010. Staff treats all taxes from the oil sector as revenues, while the authorities only include the funds transferred from the NFRK to the budget.

[2] In particular, the support to the financial sector in 2009 amounted to about 4 percent of GDP. This expense will not be repeated in 2010, resulting in an improvement in the augmented fiscal stance.

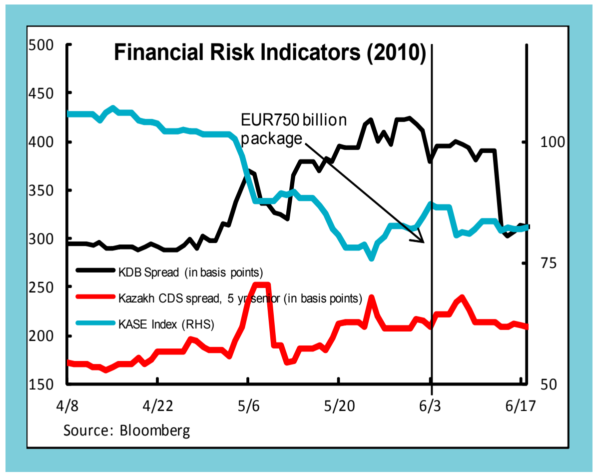
Box 2. Possible Spillovers to Kazakhstan of Renewed Global Market Turbulence

Kazakhstan is well positioned to cope with global economic uncertainties. The economy is supported by a strong foreign asset position ($54 billion or 42 percent of GDP), a healthy outlook for FDI, and the prospect of large official bilateral financing deals. Moreover, government debt remains low at less than 20 percent of GDP—with external debt amounting to only 3 percent of GDP—and is underpinned by a strong track record of fiscal management.

Nonetheless, the economy is vulnerable to renewed turbulence in global markets:

Risk perception. Notwithstanding limited direct financial linkages with euro area countries, the recent deterioration in global risk appetite resulted in volatile movements in CDS, quasi-sovereign and corporate bond spreads, and marked declines in the stock market. This reflects the impact of current financial fragilities on confidence.

Financial costs. Kazakhstan's sovereign borrowing requirements are fully financed by domestic or official sources, and ultimately, the government could draw upon the large foreign assets. However, plans for additional sovereign borrowing to set a market benchmark could be impaired by prolonged global turbulence and continued re-pricing of sovereign and quasi-sovereign risk. Moreover, although approximately $3¼ billion of private external obligations maturing in 2010 are expected to be covered without constraint, current and future pricing and rollover rates of private sector debt would be affected. A negative impact on corporate share prices could potentially complicate planned divestment of public sector equity stakes in the banking system.



Trade and growth. Kazakhstan remains vulnerable to possible negative commodity price effects from weaker European or global growth. Euro area countries account for around 25 percent of Kazakhstan's exports ($11½ billion in 2009), of which nearly 85 percent is oil related. Spillovers felt by Russia—also a large commodity exporter—would reinforce the negative impact on Kazakhstan through the strong trade and financial linkages.

Bank soundness. Weaker economic growth would further undermine asset quality, placing additional pressures on financial sector balance sheets and posing significant contingent fiscal risks for the government.

Policy constraints. While there is space for fiscal policy to continue to support the recovery, shallow domestic markets and high financial dollarization restrict the traction of monetary policy in the face of renewed pressures.

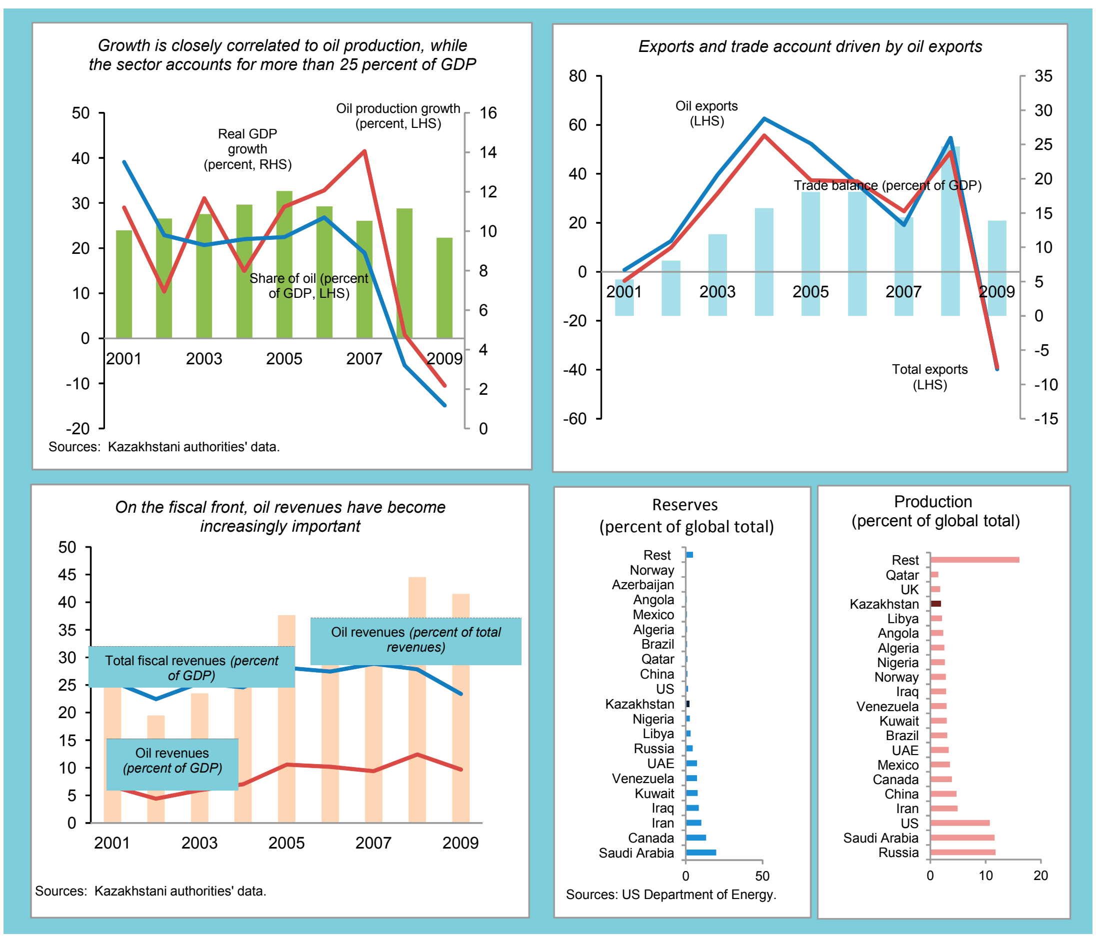
Box 3. Oil and the Kazakhstani Economy

Kazakhstan is the site of the most significant new oil discovery in recent years. At current production levels (1½ million barrels per day in 2009), Kazakhstan is the 18th largest oil producer in the world and the largest in the region after Russia. Proven reserves are now estimated at 30 billion barrels (similar to Nigeria and exceeding Algeria, Mexico and the United States) due to the discovery of oil in the Kashagan field in the Caspian Sea.

The oil sector dominates the economy. Oil accounts for almost one fourth of GDP, 60 percent of total exports, and 40 percent of total budget revenues. In 2009, about three fourths of FDI inflows were directed into oil and gas-related activities. These ratios are expected to rise significantly when production in Kashagan begins in 2015. Once Kashagan achieves peak production towards 2020, domestic oil production is expected to double from current levels.

To ensure macroeconomic stability and save income for future generations, a large share of oil revenue is transferred to the NFRK. The fund is managed by the NBK on behalf of the government, and its assets, mainly from direct oil taxes (corporate income tax, royalties, the state's share under production-sharing agreements, and rent tax on exports), are invested abroad.

Oil revenues benefit the economy mainly through budget spending, but also through spillovers to oil-related services. The primary channels of transmission to the domestic economy are the fiscal accounts, in the form of yearly transfers from the oil fund, and through state and local taxes in oil producing regions. Prospecting, exploration and maintenance services are additional channels of transmission, and oil-related earnings of local firms, especially the state-owned oil firm, are a significant source of liquidity in the banking system.



Sources: Authorities' data; IFS; U.S. Energy Information Authority; Department of Energy; IMF staff estimates.

III. Policy Discussions

Public sector support, external debt restructuring, and improvements in supervision have been appropriate to tackle the immediate difficulties. The key policy priorities now are to effectively resolve bank weaknesses and gradually unwind emergency assistance. Given the large expansion of commodity exports expected over the medium term, the appropriate policy mix to prevent overheating entails a fiscal strategy balancing the needs for infrastructure spending and saving of oil revenues; a monetary policy centered on controlling inflation; and structural reforms to make the non-oil sector more competitive.

A. Financial Sector—Restoring Balance Sheets While Addressing Vulnerabilities

18. **Debt restructuring and stabilization have been vital in reducing banks' external liabilities, but there is a clear need to address the deterioration in the quality of assets.** The evolving nature of the crisis and concerns over undermining confidence limited the authorities' appetite for a wider and more forceful recapitalization strategy. In this context, discussions focused on the need to take action to swiftly design and implement a comprehensive and transparent resolution strategy for NPLs (Chapter I of the Selected Issues Paper). Discussions also centered on the need to address the vulnerabilities that led to the deterioration of the quality of bank capital by implementing pending FSAP recommendations.

19. **Resolution of problematic loans is a precondition to rehabilitate the financial system and resume an appropriate level of credit growth.** Staff stressed that a resumption of economic growth by itself is unlikely to adequately address the NPL problem, since nontradables sector are expected to lag the recovery in commodity-driven sectors. Thus, the current fragmented policy approach for the provision of subsidies and guarantees is insufficient to effectively tackle the asset quality problems of individual banks. Moreover, if sustained at high levels over a long period, NPLs could significantly weigh on growth prospects and deter the creation of employment. The authorities considered that the current ample level of provisioning provides an adequate buffer to the capital base, and explained that valuation, legal and budgetary factors are likely to act as constraints, but saw merits in being prepared for a more comprehensive resolution of bad debts. For this purpose they requested technical assistance from the Fund.

20. **A strategy to reduce NPLs is urgent and should be accompanied by a full diagnostic assessment of systemically important banks to assess recapitalization needs.** Staff stressed the need to adopt decisive policies to resolve the mounting problem loans, and encouraged the authorities to assess the scope for remedial measures at the bank level (for example, by a market-based restructuring of existing loans), or the need for a more centralized approach to deal with bad assets via a reinvigorated DAF. In any case, continued public support could be made conditional on a comprehensive and time-bound resolution mechanism. A forward-looking evaluation of asset quality and capitalization, conducted by independent auditors under the control of the Financial Supervision Agency (FSA), will be

crucial to assess additional recapitalization needs. The authorities agreed that any needed recapitalization should ideally come from the private sector, but noted that raising new capital from existing shareholders was challenging even in the case of banks with foreign parents. Staff highlighted the need for contingency planning in case there is a need for additional public sector resources.

21. **In parallel, improvements in the legal, regulatory and supervisory frameworks are needed to deal with underlying vulnerabilities.** The government should continue to strengthen the FSA with the due independence, authority, legal protection and resources to credibly conduct its mandate and refrain from regulatory forbearance. Legal frameworks—including collateral, foreclosure, and bankruptcy laws—should be improved, and appropriate asset valuation methods, governance, transparency, and accountability should be established and maintained. The FSA confirmed progress in some of these areas, including by raising capital requirements, limiting overseas borrowing by banks, and increasing provisioning requirements on foreign currency loans to unhedged borrowers. Staff advised avoiding market distortions created by directed lending at negative real interest rates and funding of long term projects with public sector deposits. The authorities agreed to consider an FSAP Stability Module, possibly in early 2011.

B. Fiscal Policy—Unwinding the Stimulus While Ensuring Sustainability

22. **The fiscal stimulus needs to be gradually withdrawn while ensuring efficiency of spending.** With the current low level of public debt, the authorities are well positioned to continue sustaining the economic recovery. However, staff stressed the importance of avoiding further increases in hard-to-reverse outlays and ensuring that the quality of public spending is consistent with growth objectives. The authorities explained that the sharp increase in pensions and wages was needed to reduce the still existing large gap with private sector salaries, preserve social stability, and support incomes. Staff also recommended eliminating remaining tax exemptions and strengthening tax administration, to ensure that revenue collection from the non-oil sector is maximized, without affecting its competitiveness.

23. **On the adequacy of financing, there is a trade-off between paying the costs of borrowing and building reserves.** Discussions focused on the economic and financial rationale for external borrowing to finance the 2010 deficit vis-à-vis making further use of accumulated oil savings. The authorities emphasized that higher but reasonable financial costs were justified by the benefits of reinstating fiscal discipline and avoiding private sector pressure on the use of oil savings. Staff advised against an undue increase in external borrowing, and the authorities confirmed that there will be no additional financing needs beyond the World Bank loan, and that the planned sovereign issuances are primarily aimed at establishing interest rate benchmarks for Kazakhstani corporations.

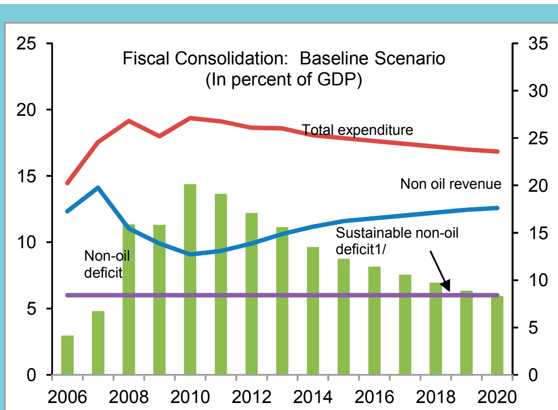
24. **Medium-term institutional arrangements should support the fiscal framework.** The authorities support gradual fiscal consolidation starting in 2011 and phasing out of contingent liabilities. Staff recommended the use of an aggregate approach (also comprising

off-budget fiscal transactions) to assess sustainability within a medium-term framework.[3] Medium-term planning is also instrumental in defining the optimal combination of savings and use of oil and commodity revenues. In this regard, the new concept for the management of the NFRK explicitly increases the proportion of oil revenue to be saved over the next decade by setting a ceiling on the annual transfers to the budget, eliminating the possibility of off-budget use of NFRK, and establishing a target of 3 percent of GDP for the non-oil deficit by 2020 (11 percent in 2009). Staff supported a steady accumulation of oil revenue and a reduction of the non-oil deficit to promote macroeconomic stability. However, staff regarded the authorities' target as too ambitious, and suggested supplementing the concept with a fiscal rule framework that would allow for countercyclical fiscal policy.[4]

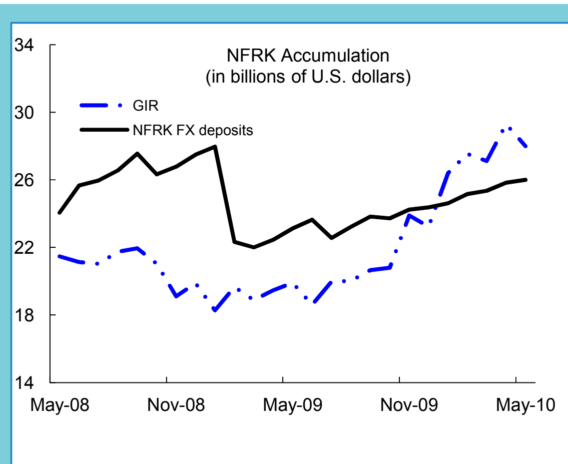
C. Monetary Policy—Remaining Supportive While Developing Domestic Markets

25. **Monetary policy will need to keep inflation under control, while supporting the financial sector and the real economy.** With higher growth and excessive bank liquidity, the NBK is aware of the need to continuously monitor pressures to maintain inflation within the projected 6-8 percent range. The NBK should continue to manage domestic liquidity through short-term notes in coordination with the domestic borrowing plans of the government. Staff noted that real interest rates should be kept positive to support depositor confidence and should be market determined to avoid distortions created by government intervention in the credit market.

26. **The economy will benefit from greater exchange rate flexibility.** In the short term, the projected increase in foreign exchange inflows and confidence recovery are expected to mitigate risks to banks' balance sheets from adverse exchange rate fluctuations, while supporting dedollarization. In the medium term, staff's exchange rate assessment shows no



Sources: Kazakhstani authorities and staff projections.
1/Estimated at 6 percent of GDP (Selected Issues, Chapter II).



[3] Ensuring timely publication of SK financial accounts is crucial for this purpose.

[4] Chapter II of the Selected Issues Paper estimates the sustainable level of non-oil fiscal deficit at 6 percent of GDP.

evidence of systematic deviations from equilibrium (Appendix I). Staff advised the authorities to allow greater exchange rate flexibility once financial sector's problems are appropriately addressed, to enhance the economy's ability to absorb external shocks and provide additional monetary policy leverage. The NBK agreed with staff, but added that the timing of any change would also be influenced by policies of major trading partners. Staff stressed that the accumulation of oil savings in the NFRK should continue to be used to limit oil-driven real appreciation, while planned structural reforms should enhance productivity and competitiveness in the non-oil sectors.

27. **Against an improved macroeconomic and financial sector backdrop, the authorities are interested in promoting efforts to spur dedollarization.** Staff stressed that the demand for holding and transacting in tenge will resume once confidence in macroeconomic policies is rebuilt, and economic agents perceive that an adequately capitalized and well regulated financial system is in place. Staff supported the authorities' plans to deepen domestic financial markets in tenge to reduce the reliance on bank lending, as well as the development of liquid futures and forward markets in foreign exchange to promote risk diversification (Chapter III of the Selected Issues Paper).

IV. Staff Appraisal

28. **In the context of a slow global rebound and uncertain international financial conditions, Kazakhstan's economy is expected to recover at a gradual pace.** Growth is projected to pick up in 2010, mainly driven by higher exports, increasing commodity prices, and the associated foreign direct investment. The strong and timely public sector support provided to the economy will also result in some rebound in domestic demand, and the restructuring of external liabilities is expected to support banking sector confidence. However, stagnant credit growth and ongoing private sector deleveraging is likely to weigh on the pace of recovery.

29. **In these circumstances, Kazakhstan has an urgent need to resolve bank weaknesses.** This will require a proactive, comprehensive and transparent strategy to reduce the stock of NPLs on banks' balance sheets. In parallel, the macroprudential framework should continue to be strengthened to address the key vulnerabilities that led to the deterioration of bank credit portfolios, including excessive reliance on foreign funding and risky lending practices. Importantly, on the difficult trade-off between imposing enhanced regulations to strengthen banks' balance sheets and promoting credit growth through directed lending policies, the restoration of banking system health should take precedence.

30. **The removal of public entity deposits, divestment of government equity stakes in banks, and withdrawal of the stimulus-oriented budget spending should be gradual.** Official support is still critical in the near term, mainly through the maintenance of public entity deposits in key banks and the continuation of programs to sustain the recovery in sectors most affected by the crisis. Public sector support could be conditioned on an improvement in the quality of banks' credit portfolios. Against this, the divestment of bank equity stakes should be timed carefully to maximize the value of banks. The need for

continued public sector support should be couched within a medium-term plan for fiscal consolidation, centered on maintaining the quality of public spending and increasing savings of oil revenues to ensure macroeconomic stability and save income for future generations.

31. **Close policy coordination between the government, FSA and NBK is central to ensuring the appropriate management of post-crisis risks and incentives.** Government support to the economy should be transparent and avoid price and interest rate subsidies that could create market distortions or exacerbate governance problems. Given the challenges ahead, the government should continue to strengthen the FSA's independence, authority and resources. The FSA should focus on strengthening banks' finances through enforcement of regulations and refrain from regulatory forbearance. The NBK should continue to closely monitor inflationary pressures taking into account expected capital inflows, current excessive bank liquidity and the domestic borrowing plans of the government. In parallel, greater exchange rate flexibility should support monetary management and the economy's response to external shocks.

32. **Plans to develop domestic capital markets should complement other efforts to encourage a reduction in the level of dollarization.** With lower external funding and increased savings of oil resources, there is a clear need to mobilize domestic deposits over the medium term to finance productive activities. This should be supported by efforts to deepen domestic money markets, promote tenge long-term liquidity, and facilitate appropriate risk management and hedging practices. The establishment of a well-functioning government benchmark yield curve, with full market determination of prices and yields, is crucial to these efforts and should be linked with the overall debt management strategy.

33. **In the longer term, Kazakhstan is set to benefit from its mineral resource wealth and foreign asset holdings.** Success in promoting sustainable development will entail reduced dependence on commodities, increased productivity in the non-oil economy and higher reliance on private consumption and investment as the primary sources of growth. The government's medium term strategy provides a strong basis for the gradual diversification of the economy, but this requires the support of a well-capitalized and regulated financial system.

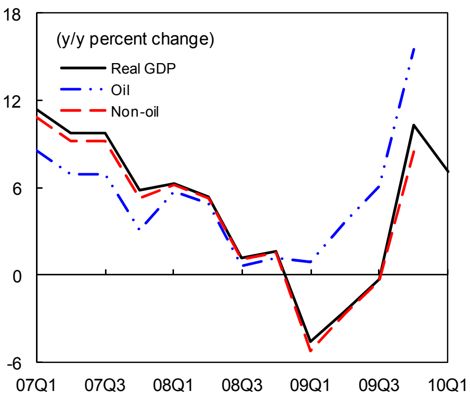
34. **The board of the Extractive Industries Transparency Initiative (EITI) granted Kazakhstan an extension to September 2010 to complete validation procedures.** The government's intention to raise participation of Kazakhstan's oil companies in line with EITI over the coming years is welcome.

35. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle**.

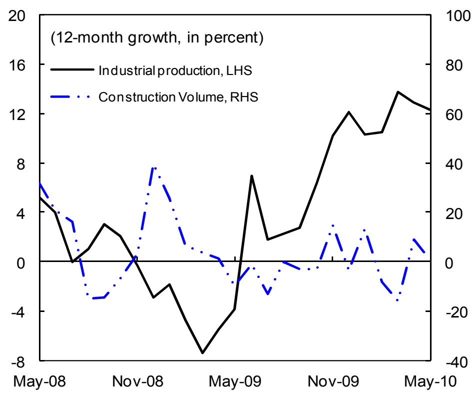
Figure 1. Kazakhstan: Macroeconomic Developments

Kazakhstan's economy is recovering. A strong rebound in the last months of 2009 brought real GDP growth into positive territory for the year as a whole. The recovery was driven by the strong performance of industry and agriculture. At the same time, the recovery is held back by continued difficulties in the banking sector.

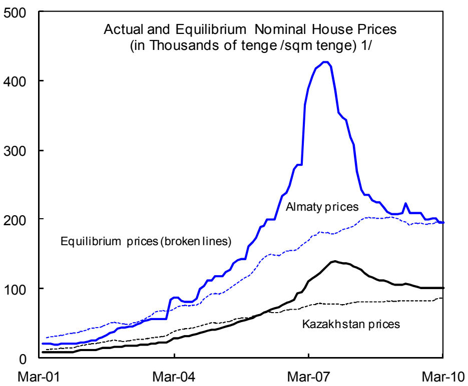
Real GDP rebounded strongly in late 2009 and early 2010...



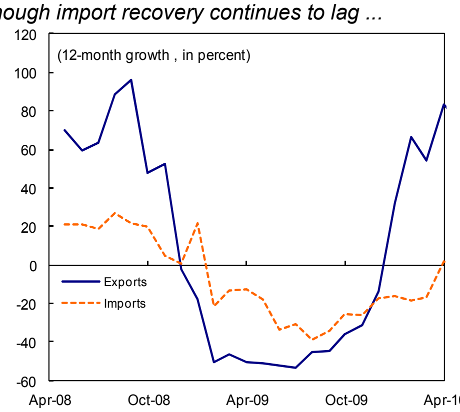
…driven in part by recovery in industrial production. At the same time, construction activity remains weak...



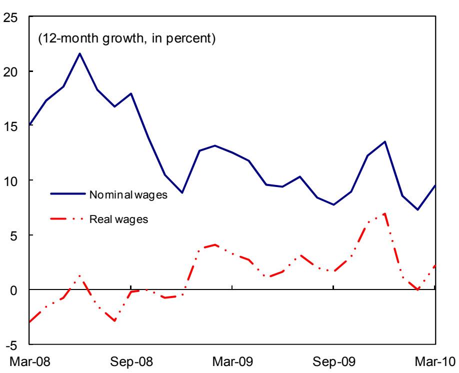
…as the real estate market has not yet started to recover.



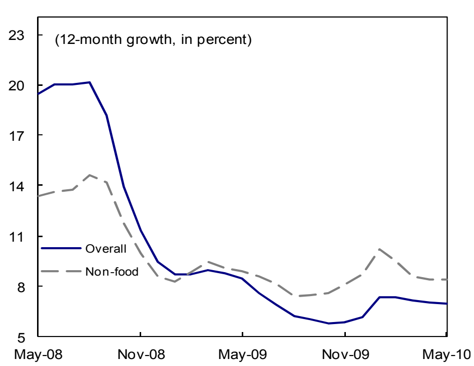
Exports (in particular oil) have rebounded strongly, though import recovery continues to lag ...



… as a moderation in real wage growth has contributed to slower consumption growth.



Inflation slowed in 2009, and remains relatively contained.

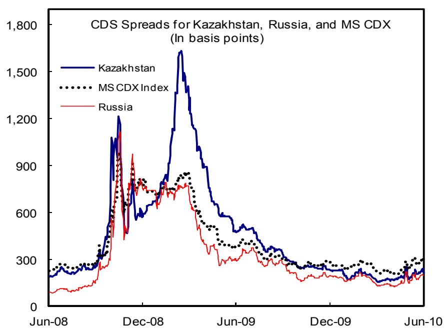


Sources: Kazakhstani authorities; and IMF staff estimates.
1/ Based on equilibrium user-cost approach (see SM/08/173).

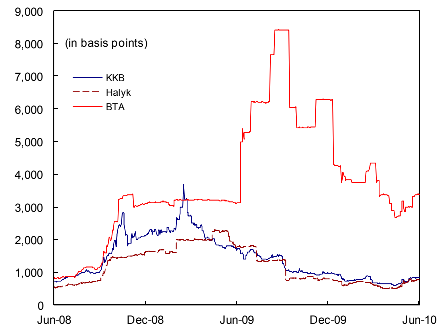
Figure 2. Kazakhstan: Financial Market Developments

Kazakhstan's risk indicators have improved in line with global market conditions. Nevertheless, equities, CDS spreads and bonds remain highly sensitive to shifts in risk appetite, adding to country specific factors and leaving the outlook uncertain. Higher commodity prices and favorable market sentiment leave the exchange rate within the new T/$150 (+10/-15 percent) band, while monetary policy remains accommodative to support liquidity and real sector activity.

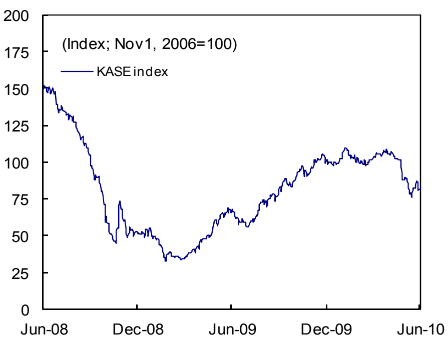
Sovereign CDS spreads have improved with global risk appetite, but remain sensitive to market developments.



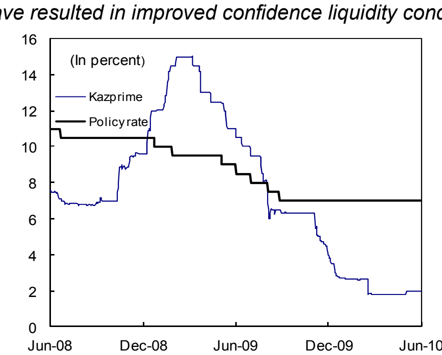
Bank CDS have performed similar to the sovereign, with additional volatility driven by bank-specific factors.



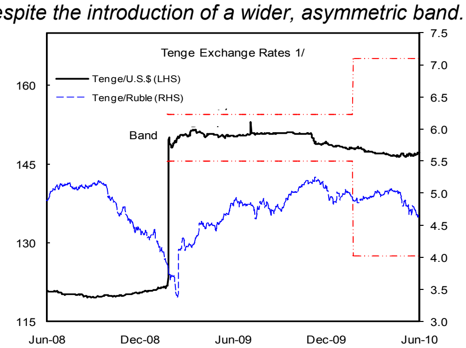
Despite early signs of recovery, equity prices have responded negatively to global market turbulence.



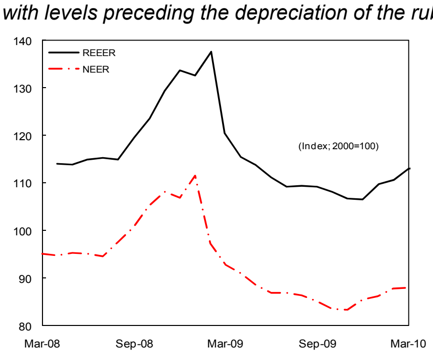
Easier monetary policy and successful debt restructuring have resulted in improved confidence liquidity conditions.



The authorities have limited the appreciation of the tenge despite the introduction of a wider, asymmetric band.



This has helped to bring the effective exchange rates in line with levels preceding the depreciation of the ruble.



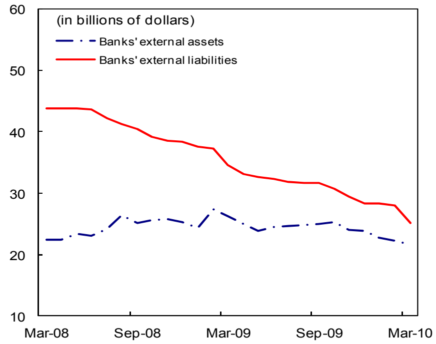
Sources: Kazakhstani authorities and IMF staff estimates.

1/ The band widened from T/$150 (+/- 3 percent) to T/$150 (+10/-15 percent) in February 2010.

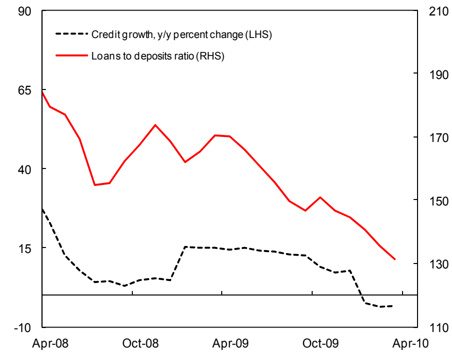
Figure 3. Kazakhstan: Banking Sector Developments

The banking system continues to deleverage as asset quality deteriorates, resulting in pressure on capital and reinforcing the downward trend in credit growth. Although dollarization has begun to decline, banks' balance sheets remain highly exposed to weak sectors of the economy, underscoring the need for continued government support.

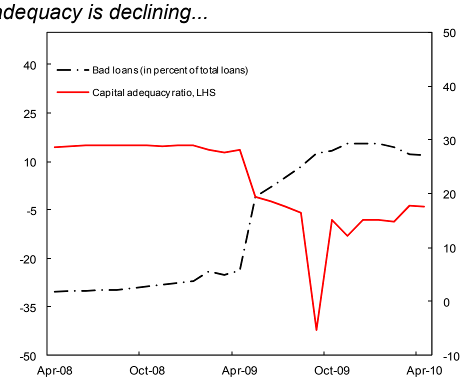
Banks continue to deleverage against deteriorating asset quality and prohibitive external funding …



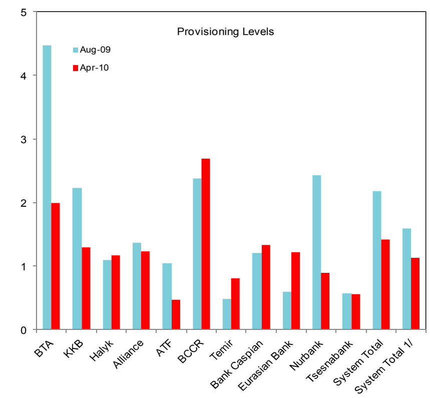
…resulting in a sharp squeeze in domestic credit growth.



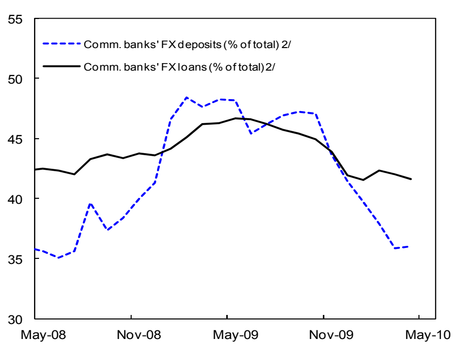
Nonperforming loans (NPLs) are rising and bank capital adequacy is declining...



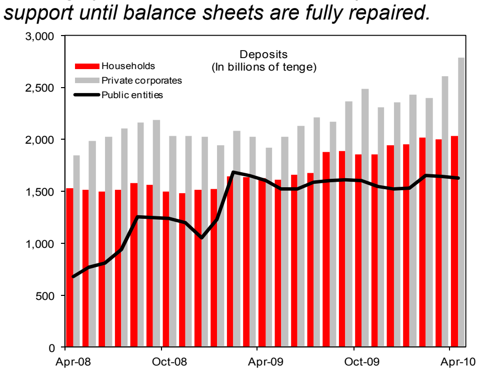
...as banks raise provisioning levels, which have continued to decline as a share of NPLs.



Lower inflation and renewed confidence in the tenge has supported a decline in deposit dollarization.



Large public sector deposits have helped to stabilize the banking system, and will remain an important source of support until balance sheets are fully repaired.

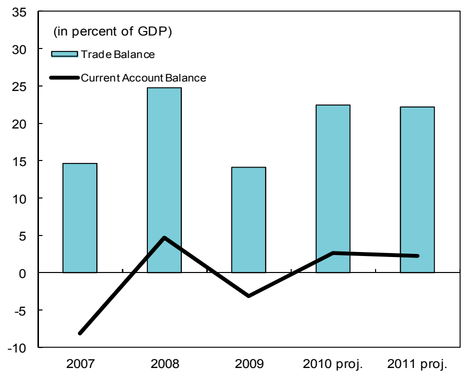


Sources: Kazakhstani authorities; and IMF staff estimates.
1/Excluding restructuring banks.
2/ Accounting for exchange rate valuation effects.

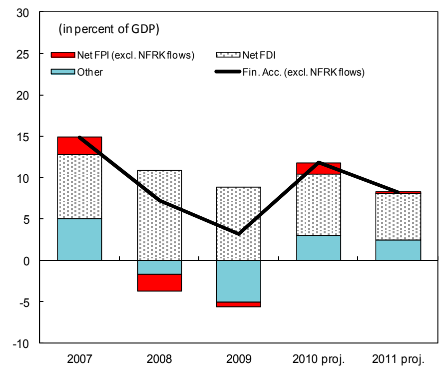
Figure 4. Kazakhstan: External and Fiscal Sector Developments and Outlook

The external position is expected to improve in 2010, driven by a strong rebound in exports (in particular oil). The budget deficit will increase in 2010, but the overall fiscal stance (including off-budget items) will improve. Apart from the $8 billion transfer to the budget, the NFRK will not be used to finance the deficit.

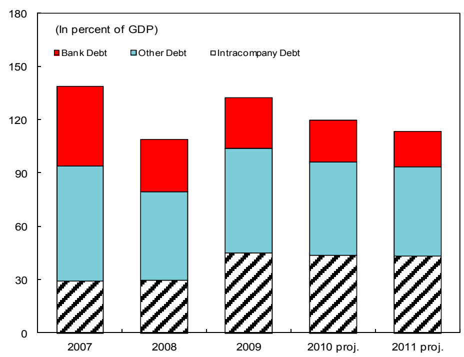
The current account slipped into deficit in 2009, but a rebound in exports and a slow recovery in imports will see this reverse from 2010 onwards..



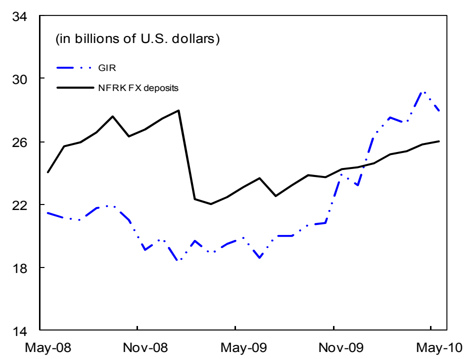
Foreign direct investment, especially in the mining sector, is expected to be sustained and some resumption of portfolio flows has been observed.



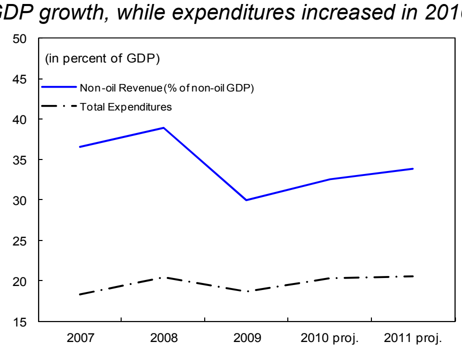
External debt is high at over 100 percent of GDP, but about 40 percent is intra-company debt.



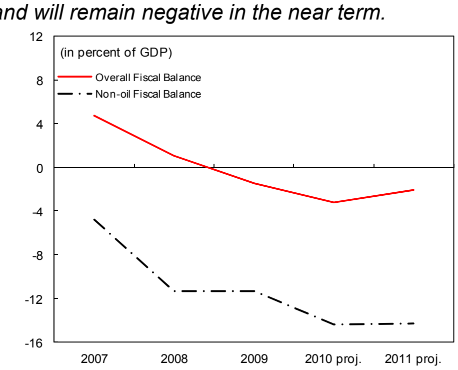
Subsequent to the anti-crisis plan, the authorities have excluded the use of the NFRK to finance the 2010 deficit.



Non-oil revenue has plummeted with lower taxes and GDP growth, while expenditures increased in 2010.

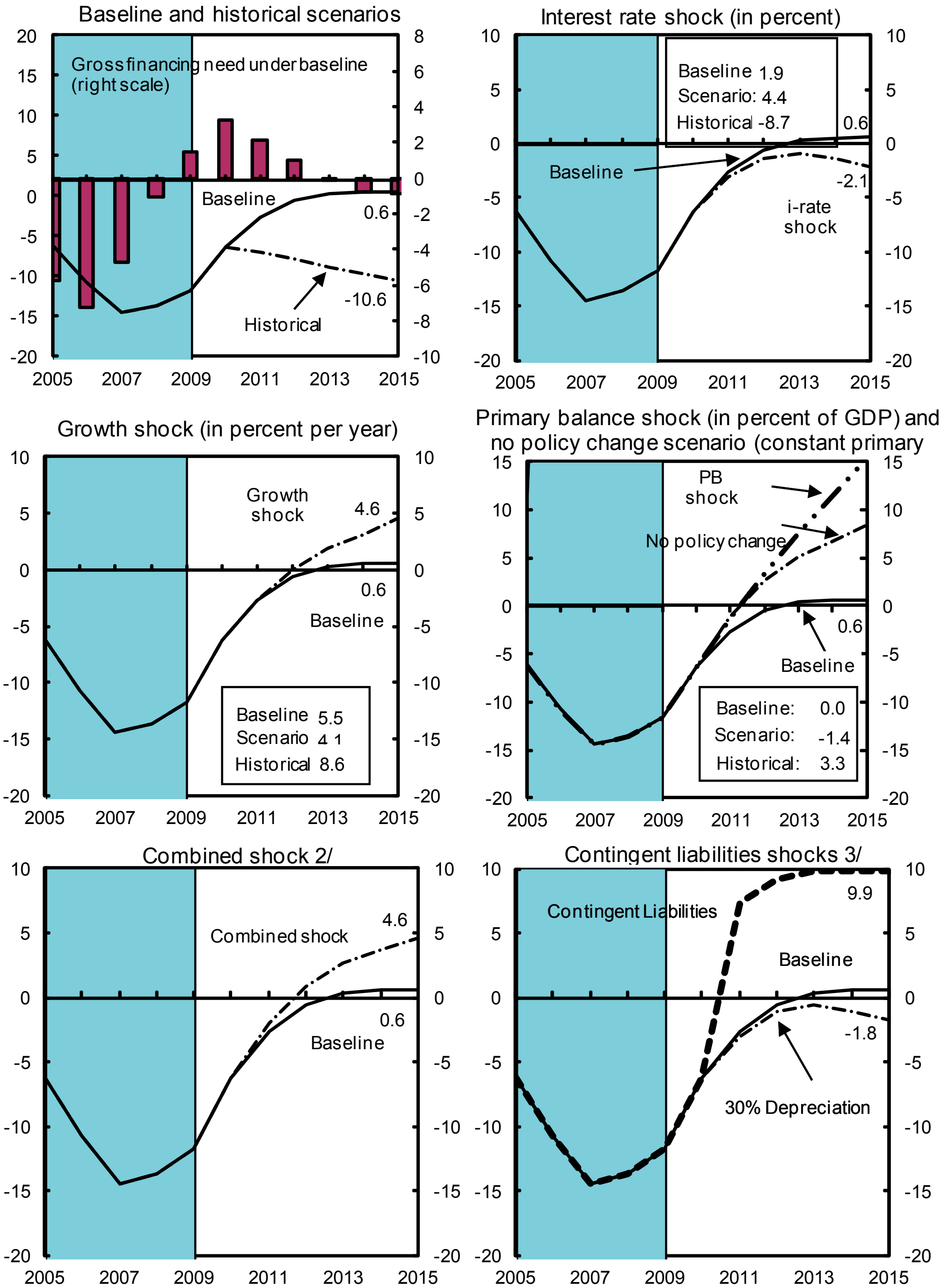


The overall fiscal balance moved into deficit in 2009, and will remain negative in the near term.



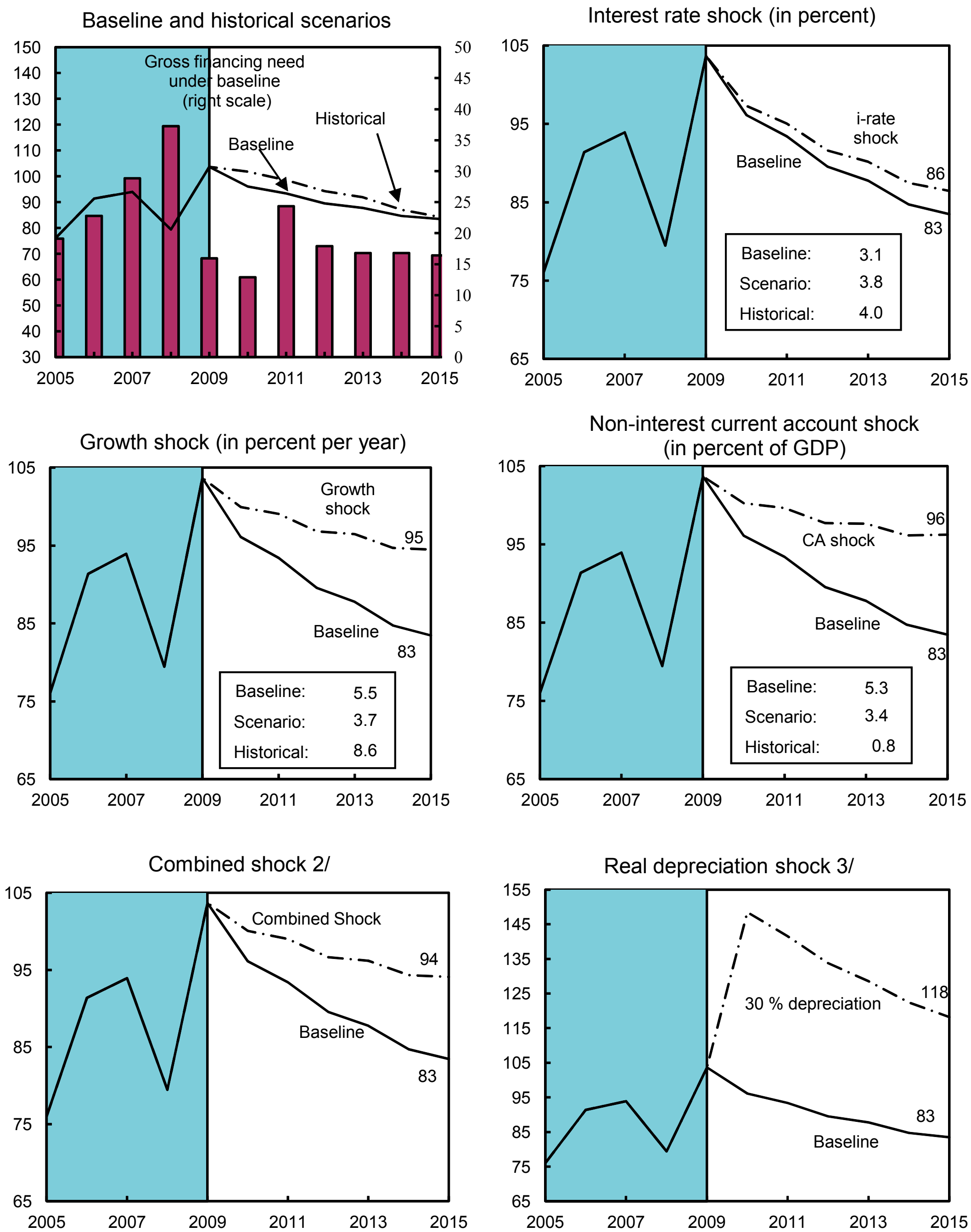
Sources: Kazakhstani authorities and IMF staff estimates.

Figure 5. Kazakhstan: Public Debt Sustainability: Bound Tests 1/
(Net public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ 10 percent of GDP shock to contingent liabilities occurs in 2011.

Figure 6. Kazakhstan: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009 (in addition to the mid-February depreciation).

Table 1. Kazakhstan: Selected Economic Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Projections					
				(Annual percent change, unless otherwise indicated)					
National accounts and prices									
Real GDP	8.9	3.2	1.2	4.1	4.8	5.5	5.9	6.3	6.5
Real oil	6.3	2.8	7.1	8.1	5.6	5.3	4.7	1.7	2.2
Real non-oil	8.5	3.2	0.5	3.6	4.7	5.5	6.1	6.9	7.0
Crude oil and gas condensate production	67	71	75	81	85	89	93	95	98
Consumer price index (eop)	18.8	9.5	6.2	8.0	6.8	6.3	6.2	6.0	6.0
Consumer price index (p.a)	10.8	17.1	7.3	7.6	6.6	6.5	6.2	6.0	6.0
GDP Deflator	13.6	25.0	-3.7	13.3	4.3	4.3	4.0	3.7	3.8
Exchange rate (tenge per U.S. dollars; eop)	-5.3	0.4	22.9	…	…	…	…	…	…
Exchange rate (tenge per Russian rubles; eop)	2.1	-16.5	19.7	…	…	…	…	…	…
				(In percent of GDP, unless otherwise indicated)					
General government fiscal accounts									
Revenues and grants	29.3	27.9	23.7	23.9	25.3	26.2	26.8	26.7	26.5
of which: oil revenues	9.6	12.4	9.8	11.2	12.2	12.3	11.9	11.0	10.1
Expenditures and net lending	24.6	26.8	25.2	27.1	27.4	27.1	26.7	26.0	25.7
Overall fiscal balance	4.7	1.1	-1.5	-3.2	-2.1	-1.0	0.1	0.8	0.9
Statistical discrepancy	0.4	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-4.3	-1.4	1.7	3.2	2.1	1.0	-0.1	-0.8	-0.9
Non-oil fiscal balance	-4.8	-11.3	-11.3	-14.4	-14.3	-13.3	-11.8	-10.2	-9.3
Non-oil overall fiscal balance (percent of non-oil GDP)	-6.5	-15.9	-15.0	-20.1	-19.6	-17.8	-15.5	-13.1	-11.5
				(Annual percent change, unless otherwise indicated)					
Monetary accounts									
Reserve money	-2.5	4.2	60.7	22.7	16.7	14.7	10.1	10.2	10.6
Broad money	25.9	35.4	19.5	16.5	14.7	18.8	10.1	10.2	10.6
Broad money velocity (annual average)	2.7	2.6	2.1	2.2	2.1	1.9	1.9	1.9	1.9
Credit to the economy 1/	55.2	5.2	7.3	3.4	6.0	10.1	13.8	13.6	14.1
Credit to the economy (percent of GDP)	59.9	48.9	53.8	47.1	45.7	45.7	47.3	48.7	50.3
NBK refinance rate (eop; percent)	11.0	10.5	7.0	…	…	…	…	…	…
				(In billions of U.S. dollars, unless otherwise indicated)					
External accounts									
Current account balance (percent of GDP)	-8.1	4.6	-3.2	2.6	2.5	3.0	3.5	2.9	2.3
Exports of goods and services	51.9	76.4	48.2	62.8	71.7	80.1	90.1	100.3	114.3
Oil and gas condensate	28.1	43.5	26.2	36.4	40.9	44.7	48.5	50.0	51.6
Imports of goods and services	-45.0	-49.6	-38.8	-40.9	-49.0	-55.6	-64.8	-76.4	-91.3
Foreign direct investments (net, percent of GDP)	7.7	10.9	8.8	7.5	5.6	5.2	4.7	4.4	4.0
NBK gross reserves (eop) 2/	17.6	19.9	23.1	32.1	44.5	54.2	65.2	71.8	73.3
In months of next year's imports of goods and services	4.3	6.1	6.8	7.9	9.6	10.0	10.2	9.4	13.2
NFRK assets (eop)	21.0	27.5	24.4	28.5	32.3	38.2	45.9	54.7	63.1
Public external debt, incl. guaranteed (percent of GDP)	1.4	1.2	1.5	1.3	1.1	1.0	0.9	0.8	0.7
Total external debt	96.9	107.7	111.7	124.7	138.8	152.2	170.0	186.8	202.4
in percent of GDP	93.9	79.5	103.7	96.1	93.4	89.6	87.8	84.7	80.5
excluding intracompany debt (percent of GDP)	64.8	49.9	58.5	52.6	50.4	45.5	44.7	42.8	39.9
Memorandum items:									
Nominal GDP (in billions of tenge)	12,641	16,307	15,894	18,750	20,502	22,568	24,847	27,383	30,273
Nominal GDP (in billions of U.S. dollars)	103.1	135.6	107.8	129.7	148.7	170.0	193.7	220.4	251.5
Crude oil, gas cnds. Production (millions of barrels/day) 3/	1.38	1.45	1.56	1.68	1.77	1.85	1.94	1.98	2.03
Oil price (in U.S. dollars per barrel)	71.1	97.0	61.8	75.3	77.5	80.3	82.0	83.5	85.5

Sources: Kazakhstani authorities; and Fund staff estimates and projections.

1/ In 2009, credit growth would be -2.5 percent, if adjusted for the devaluation.
2/ Does not include NFRK.
3/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2007–15
(In billions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Projections					
Current account	-8.3	6.3	-3.4	3.3	3.7	5.0	6.7	6.4	5.9
Trade balance	15.1	33.5	15.2	29.1	33.3	36.5	39.0	39.4	40.9
Exports (f.o.b.)	48.4	72.0	44.0	58.3	66.5	74.2	83.4	92.4	105.0
Oil and gas condensate	28.1	43.5	26.2	36.4	40.9	44.7	48.5	50.0	51.6
Non-oil exports	20.2	28.5	17.8	21.9	25.6	29.5	34.9	42.3	53.4
Imports (f.o.b.)	-33.3	-38.5	-28.8	-29.2	-33.2	-37.7	-44.4	-53.0	-64.1
Oil and gas condensate	-1.8	-2.8	-1.4	-2.3	-2.5	-2.7	-3.0	-3.2	-3.5
Non-oil, gas imports	-31.4	-35.7	-27.3	-26.9	-30.6	-35.0	-41.4	-49.7	-60.5
Services and income balance	-21.3	-26.3	-17.7	-25.0	-28.7	-30.4	-31.1	-31.7	-33.6
Services, net	-8.2	-6.7	-5.8	-7.2	-10.6	-12.1	-13.7	-15.5	-18.0
Income, net	-13.1	-19.6	-11.9	-17.8	-18.1	-18.3	-17.4	-16.2	-15.6
of which: Income to direct investors	-11.3	-17.0	-9.8	-14.9	-14.3	-14.8	-14.4	-13.3	-12.7
Current transfers	-2.2	-1.0	-0.9	-0.8	-0.9	-1.1	-1.2	-1.3	-1.5
Capital and financial account	8.3	3.3	7.2	13.7	8.6	5.0	4.2	0.2	-4.3
Foreign direct investment	8.0	14.8	9.5	9.7	8.4	8.8	9.2	9.7	10.1
Amortization of intracompany liabilities	-5.7	-5.7	-6.1	-7.3	-7.4	-7.6	-8.6	-8.6	-9.7
Portfolio investment, net	-4.6	-9.3	3.1	-2.3	-3.3	-4.9	-5.8	-5.9	-6.8
of which: National Fund	-6.8	-6.6	3.7	-4.0	-3.6	-5.2	-6.1	-6.2	-6.3
Other investment	5.2	-2.3	-5.4	3.9	3.6	3.2	1.2	-3.2	-7.3
Errors and omissions	-3.0	-7.4	-1.3	-7.7	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.0	2.2	2.5	9.3	12.3	10.1	10.9	6.6	1.6
Financing: Net international reserves of NBK	3.0	-2.2	-2.5	-9.3	-12.3	-10.1	-10.9	-6.6	-1.6
Memorandum items: 1/				*(In percent of GDP)*					
Current account	-8.1	4.6	-3.2	2.6	2.5	3.0	3.5	2.9	2.3
Exports of goods	46.9	53.1	40.8	44.9	44.7	43.7	43.0	41.9	41.8
Oil exports	27.3	32.1	24.3	28.1	27.5	26.3	25.0	22.7	20.5
Non-oil exports	19.6	21.0	16.5	16.9	17.2	17.4	18.0	19.2	21.2
Imports of goods	-32.2	-28.4	-26.7	-22.5	-22.3	-22.2	-22.9	-24.0	-25.5
				(Annual growth rate, in percent)					
Exports	24.7	48.9	-38.9	32.6	14.0	11.6	12.4	10.8	13.7
Non-oil exports	33.5	40.7	-37.6	23.3	16.8	15.5	18.2	21.4	26.2
Volume on non-oil exports	15.6	38.3	-18.5	6.9	11.0	13.2	15.8	19.0	23.8
Average price of non-oil exports	15.4	1.8	-23.4	16.5	4.1	-1.0	-1.0	-1.2	-3.3
Imports	37.9	15.6	-25.2	1.4	13.7	13.6	17.7	19.4	20.9
Oil and gas imports	22.3	51.8	-47.8	57.5	10.5	7.8	8.8	8.8	9.2
Non-oil imports	38.9	13.5	-23.4	-1.6	14.0	14.1	18.4	20.2	21.7
Volume on non-oil imports	25.8	11.2	-11.0	-11.5	12.5	14.4	17.3	19.0	20.5
Average price of non-oil imports	10.7	3.0	-16.1	12.8	1.8	-0.7	-0.2	-0.2	-1.3
Exports of oil and gas condensate (in MT)	60.8	60.7	67.3	71.5	75.5	80.0	84.0	85.0	86.5
NBK gross international reserves (in bill. U.S. dollars)	17.6	19.9	23.1	32.1	44.5	54.2	65.2	71.8	73.3
In months of next year's imports of g&n.f.s.	4.3	6.1	6.8	7.9	9.6	10.0	10.2	9.4	13.2
excluding bank deposits in FX at NBK	14.1	18.7	21.8	…	…	…	…	…	…
National Fund (including interest), e.o.p.	21.0	27.5	24.4	28.5	32.3	38.2	45.9	54.7	63.1
External debt in percent of GDP	93.9	79.5	103.7	96.1	93.4	89.6	87.8	84.7	80.5
excluding intra-company loans	64.8	49.9	58.5	52.6	50.4	45.5	44.7	42.8	39.9
World oil price (U.S. dollars per barrel)	71.1	97.0	61.8	75.3	77.5	80.3	82.0	83.5	85.5

Sources: Kazakhstani authorities; and Fund staff estimates and projections.
1/ Estimates and projections are based on GDP at market exchange rates.

Table 3. Kazakhstan: General Government Fiscal Operations, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Projections					
				(In billions of tenge)					
Total revenue and grants	3,706	4,542	3,766	4,475	5,184	5,903	6,659	7,321	8,034
Total revenue	3,706	4,542	3,766	4,475	5,184	5,903	6,659	7,321	8,034
of which: Tax revenue	3,393	4,520	3,598	4,362	5,051	5,689	6,315	6,880	7,528
Oil revenue	1,208	2,024	1,563	2,091	2,495	2,768	2,960	3,015	3,066
Non-oil tax revenue	2,185	2,496	2,035	2,271	2,556	2,921	3,355	3,864	4,462
of which: Income from capital transactions	36	35	26	31	34	38	42	46	51
Grants	0	0	0	0	0	0	0	0	0
Total expenditure and net lending and transfers	3,106	4,369	4,002	5,079	5,614	6,126	6,626	7,111	7,770
Total expenditure and net lending	3,106	4,369	4,002	5,079	5,614	6,126	6,626	7,111	7,770
Total expenditure	3,098	4,326	3,971	5,042	5,574	6,082	6,577	7,057	7,710
Current expenditure	2,318	3,336	2,975	3,808	4,209	4,558	4,879	5,166	5,598
Capital expenditure	779	991	997	1,235	1,365	1,523	1,698	1,891	2,112
Net lending	8	42	31	36	40	44	49	54	60
Overall budget balance	600	173	-236	-604	-430	-223	33	209	264
Statistical discrepancy	53	-55	35	0	0	0	0	0	0
Financing	-546	-228	271	604	430	223	-33	-209	-264
Domestic financing, net	274	277	469	951	967	1,049	1,029	973	842
Foreign financing, net	0	0	76	250	-1	-3	-4	-3	-3
Privatization receipts	60	24	17	12	8	6	4	3	2
NFRK 1/	-880	-529	-290	-608	-544	-829	-1,062	-1,182	-1,105
				(In percent of GDP)					
Total revenue and grants	29.3	27.9	23.7	23.9	25.3	26.2	26.8	26.7	26.5
Total revenue	29.3	27.9	23.7	23.9	25.3	26.2	26.8	26.7	26.5
of which: Tax revenue	26.8	27.7	22.6	23.3	24.6	25.2	25.4	25.1	24.9
Oil revenue	9.6	12.4	9.8	11.2	12.2	12.3	11.9	11.0	10.1
Non-oil tax revenue	17.3	15.3	12.8	12.1	12.5	12.9	13.5	14.1	14.7
Income from capital transactions	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending and transfers	24.6	26.8	25.2	27.1	27.4	27.1	26.7	26.0	25.7
Total expenditure and net lending	24.6	26.8	25.2	27.1	27.4	27.1	26.7	26.0	25.7
Total expenditure	24.5	26.5	25.0	26.9	27.2	26.9	26.5	25.8	25.5
Current expenditure	18.3	20.5	18.7	20.3	20.5	20.2	19.6	18.9	18.5
Capital expenditure	6.2	6.1	6.3	6.6	6.7	6.8	6.8	6.9	7.0
Net lending	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Primary balance	5.0	1.4	-1.1	-2.7	-1.5	-0.3	0.9	1.6	1.7
Overall balance	4.7	1.1	-1.5	-3.2	-2.1	-1.0	0.1	0.8	0.9
Non-oil primary balance	-4.5	-11.0	-10.9	-13.9	-13.6	-12.6	-11.0	-9.4	-8.4
Non-oil overall balance	-4.8	-11.3	-11.3	-14.4	-14.3	-13.3	-11.8	-10.2	-9.3
Financing	-4.3	-1.4	1.7	3.2	2.1	1.0	-0.1	-0.8	-0.9
Domestic financing, net	2.2	1.7	2.9	5.1	4.7	4.6	4.1	3.6	2.8
Foreign financing, net	0.0	0.0	0.5	1.3	0.0	0.0	0.0	0.0	0.0
Disbursements	0.5	0.0	0.5	1.4	0.1	0.0	0.0	0.0	0.0
Amortization	0.5	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Privatization receipts	0.5	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
NFRK 1/	-7.0	-3.2	-1.8	-3.2	-2.7	-3.7	-4.3	-4.3	-3.7
Memorandum items:									
Off-budget anti-crisis spending (percent of GDP) 2/	0.0	0.0	4.6	0.4	0.0	0.0	0.0	0.0	0.0
Augmented overall balance (in percent of GDP) 2/	4.7	1.1	-6.1	-3.6	-2.1	-1.0	0.1	0.8	0.9
Non-oil balance (in billions of tenge)	-608	-1,851	-1,799	-2,695	-2,925	-2,991	-2,927	-2,806	-2,802
Non-oil balance (in percent of non-oil GDP)	-6.5	-15.9	-15.0	-20.1	-19.6	-17.8	-15.5	-13.1	-11.5
Non-oil revenues (in percent of non-oil GDP)	26.9	21.7	18.4	17.8	18.0	18.7	19.6	20.1	20.5
Non-oil revenues (in percent of GDP)	19.8	15.4	13.9	12.7	13.1	13.9	14.9	15.7	16.4
Wages (in percent of GDP)	3.4	2.9	3.7	4.4	4.4	4.5	4.3	4.1	3.9
Interest payments (in percent of GDP)	0.3	0.4	0.4	0.5	0.6	0.7	0.8	0.8	0.9
Gross debt to GDP (percent)	5.9	6.6	10.9	15.7	19.0	21.9	24.1	25.4	25.7
Net liabilities (in percent of GDP)	-14.4	-13.6	-11.7	-6.3	-2.7	-0.5	0.3	0.5	0.6
NFRK assets (in billions U.S. dollars) 1/	21.0	27.5	24.4	28.5	32.3	38.2	45.9	54.7	63.1
Use of oil revenues (in percent of GDP)	2.2	9.5	7.8	7.9	9.5	8.6	7.6	6.7	6.5
Nominal GDP (in billions KZT)	12,641	16,307	15,894	18,750	20,502	22,568	24,847	27,383	30,273

Sources: Kazakhstani authorities; and Fund staff estimates and projections.

1/ National Fund of the Republic of Kazakhstan. (-) is accumulation in the Fund.

2/ Includes expenditures finances by Samruk-Kazyna under the anti-crisis plan.

Table 4. Kazakhstan: Monetary Accounts, 2005–2011

	2005	2006	2007	2008	2009	2010	2011
						Projections	
			(End of period, in billions of tenge)				
Monetary Survey							
Net Foreign Assets	1,200	2,296	1,961	4,126	6,219	6,744	8,863
Net Domestic Assets	1,126	2,394	3,446	2,678	2,344	3,383	2,372
Domestic Credit	1,822	3,592	5,583	5,264	6,003	7,523	5,536
Net claims on central government	-998	-1,914	-2,649	-3,093	-4,395	-3,229	-3,314
Net claims on other government	47	34	43	34	978	969	-1
Credit to the private sector	2,709	4,881	7,574	7,970	8,544	8,837	9,372
Other claims on the economy	64	592	615	353	875	946	-1,150
Other items, net	-696	-1,199	-2,137	-2,586	-3,659	-4,140	-3,164
Broad money	2,065	3,678	4,630	6,267	7,487	8,721	10,001
Currency in circulation	412	601	740	858	913	647	742
Total deposits	1,654	3,077	3,890	5,409	6,574	8,074	9,259
Domestic currency deposits	961	1,994	2,646	3,493	3,645	4,759	5,410
Foreign currency deposits	693	1,083	1,244	1,917	2,828	3,315	3,849
Nonliquid liabilities	30	129	90	80	92	95	97
Statistical discrepancy	231	883	688	457	1,084	1,311	1,137
Accounts of National Bank of Kazakhstan							
Net foreign assets	2,027	4,219	4,648	5,717	6,887	6,930	8,599
Net international reserves 1/	966	2,428	2,121	2,403	3,384	4,549	6,032
Net domestic assets	-1,367	-2,711	-3,156	-3,580	-4,236	-3,823	-4,990
Net domestic credit	-1,279	-2,576	-2,916	-3,357	-3,644	-3,232	-4,501
Net claims on central government	-1,125	-2,051	-2,790	-3,302	-4,636	-3,520	-3,703
Net claims on other government	17	5	6	6	940	940	600
Net claims on the private sector	0	1	0	0	1	1	2
Net claims on banks	-172	-532	-133	-62	52	-654	-1,400
Other items, net	-89	-135	-239	-223	-592	-590	-489
Reserve money	650	1,501	1,464	1,525	2,451	3,007	3,509
Currency in circulation	459	687	860	987	1,048	1,173	1,369
Liabilities to banks	184	797	568	328	949	1,147	1,197
Required reserves	110	665	558	295	460	501	550
Other liabilities	74	132	10	33	489	646	646
Demand deposits	7	17	37	210	454	687	944
Other deposits	0	0	0	0	0	0	0
Other liquid liabilities	10	7	28	612	201	100	100
Deposit money banks							
Net foreign assets	-828	-1,923	-2,687	-1,591	-669	-186	264
Net domestic assets	2,494	5,105	6,602	6,258	6,579	7,206	7,362
Domestic credit	3,101	6,168	8,500	8,621	9,646	10,756	10,037
Net claims on central government	127	136	141	209	241	291	389
Net claims on other government	30	28	37	28	38	29	29
Credit to the private sector	2,708	4,879	7,573	7,969	8,544	8,836	9,370
Banks' reserves	296	1,195	840	597	1,438	1,750	950
Net claims on other financial corporations	-60	-71	-92	-182	-615	-150	-700
Other items, net	-607	-1,064	-1,898	-2,363	-3,067	-3,550	-2,675
Banks' liabilities	1,666	3,182	3,916	4,667	5,910	7,020	7,626
Demand deposits	524	884	925	1,149	1,733	2,119	2,411
Other deposits	1,112	2,169	2,901	3,438	4,085	4,803	5,116
Other liabilities	30	129	90	80	92	98	98
Memorandum items							
Reserve money (percent change, yoy)	12.5	131.0	-2.5	4.2	60.7	22.7	16.7
Broad money (percent change, yoy)	26.3	78.1	25.9	35.4	19.5	16.5	14.7
Credit to the economy (percent change, yoy)	74.2	80.2	55.2	5.2	7.3	3.4	6.0
Velocity of broad money	3.7	2.8	2.7	2.6	2.1	2.2	2.1
Money multiplier	3.2	2.4	3.2	4.1	3.1	2.9	2.9
Foreign currency deposits (in percent of total deposits) 2/	42	35	33	41	47	41	38
Foreign currency loans (in percent of total loans) 2/	50	48	43	44	47	45	44

Sources: Kazakhstani authorities; and Fund staff estimates and projections.
1/ Does not include oil fund resources.
2/ Commercial banks only.

Table 5. Kazakhstan: Selected Prudential Indicators of the Banking Sector, 2007–10

	2007	2008	2009	2010 Q1	2010 May
Capital adequacy ratio (K2, percent of risk weighted assets)	14.2	14.9	-8.2	-8.0	-4.0
Capital adequacy ratio (K2, percent of risk weighted assets) 1/	…	…	…	…	18.9
Tier I capital (K1, percent of risk weighted assets)	10.7	12.4	-11.6	-11.3	-8.1
Tier I capital (K1, percent of risk weighted assets) 1/	…	…	…	…	11.6
Growth in banks' total assets	31.7	1.8	-2.8	-2.1	3.3
Growth in banks' loans (credit to the private sector)	55.2	5.2	7.2	7.2	…
Growth of claims on private non-financial institutions	48.7	12.2	-1.8	-0.8	…
Growth of claims on households	68.1	-8.0	-10.4	-12.0	…
Classified assets to total assets 2/	45.9	41.0	38.2	38.2	…
Classified loans to total loans 2/	60.3	3.4	29.2	29.2	…
Percentage of loans that are 90 days past due in loan portfolio	…	5.2	21.2	21.9	26.1
Loans classified as loss (percent of total loans)	1.5	4.4	30.6	30.6	29.9
Loan loss provisions (percent of total loans)	5.9	11.1	37.7	37.0	36.8
Bad assets that are 100% provisioned (percent of total assets)	…	3.0	20.6	21.0	21.1
Net foreign assets (percent of total assets)	23.1	13.4	5.8	7.2	13.6
Net open position in FX (percent of capital) 3/	…	-109.1	68.2	87.4	…
Share of resident deposits denominated in FX	30.3	41.3	37.0	40.9	41.0
Share of FX loans to residents	42.0	43.5	47.2	46.8	47.2
Loans-to-deposit ratio	227.7	187.9	165.8	167.2	143.6
Loans-to-deposit ratio, excluding deposits of nonresident legal entities	237.1	173.7	146.8	144.6	149.3
FX denominated loans-to-FX denominated deposits ratio	336.0	183.7	148.4	150.6	190.1
Return on assets, before tax (percent of assets, e.o.p)	2.6	0.2	-24.5	2.2	2.2
Return on equity, before tax (percent of equity, e.o.p)	18.4	1.9	…	…	…

Sources: FSA; NBK; and IMF staff calculations.

1/ Excludes restructuring banks for May figures.

2/ Loans or assets classified as doubtful and loss.

3/ The net open postion for the non restructuring banks is unavailable.

Table 6. Kazakhstan: Gross Financing Requirements and Financing, 2009–11
(In billions of U.S. dollars, unless otherwise specified)

	2009	2010	2011
Gross external financing requirements	25.8	16.0	11.7
Current account deficit (if surplus = -)	3.4	-3.3	-3.4
Maturing short-term debt	9.8	11.4	6.8
Amortization of medium- and long-term debt	12.6	8.0	8.3
Medium and long-term to external private creditors	12.5	7.9	8.0
Medium and long-term to external official creditors	0.1	0.1	0.3
IMF	0.0	0.0	0.0
To other official creditors	0.1	0.1	0.3
Amortization payments by domestic private sector	0.0	0.0	0.0
Amortization payments by domestic public sector	0.1	0.1	0.3
Available financing	25.8	16.0	11.7
Net FDI (including privatization receipts)	9.5	9.7	8.4
Roll-over of short-term debt 1/	10.2	3.7	3.4
Medium- and long-term borrowing	12.9	14.2	14.5
Of which: bilateral financing 2/	7.1	5.4	1.0
Other net capital flows	-4.4	-2.3	-2.6
Exceptional financing	0.0	0.0	0.0
Reserve accumulation (decrease = +)	-2.5	-9.3	-12.0
Memorandum items:			
Gross international reserves in billions of U.S. dollars	23.2	32.1	44.2
in months of imports	6.8	7.9	9.5

1/ Short-term debt rollover is high in 2009 due to high rollover in the non-bank sector. With restructuring of the external debt of 4 banks, rollover rates are expected to return to historical levels in 2010 and 2011.

2/ Includes bilateral credit lines totalling $13.5 billion from Chinese state-owned entities, and the World Bank's Development Policy Loan approved in May 2010.

Table 7. Kazakhstan: Public Sector Debt Sustainability Framework, 2007–15
(In percent of GDP, unless otherwise indicated)

	Actual			Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Net public sector debt 1/	-14.4	-13.6	-11.7	-6.3	-2.7	-0.5	0.3	0.5	0.6	0.0
Change in public sector debt	-3.7	0.8	2.0	5.4	3.6	2.1	0.9	0.2	0.1	
Identified debt-creating flows (4+7+12)	-3.2	1.2	0.4	3.9	1.8	0.4	-0.9	-1.6	-1.7	
Primary deficit	-5.0	-1.4	1.1	2.7	1.5	0.3	-0.9	-1.6	-1.7	
Revenue and grants	29.3	27.9	23.7	23.9	25.3	26.2	26.8	26.7	26.5	
Primary (noninterest) expenditure	24.3	26.4	24.7	26.6	26.8	26.4	25.9	25.1	24.8	
Automatic debt dynamics 2/	1.8	2.6	-0.7	1.2	0.3	0.1	0.0	0.0	0.0	
Contribution from interest rate/growth differential 3/	1.8	2.6	-0.7	1.2	0.3	0.1	0.0	0.0	0.0	
Of which contribution from real interest rate	1.0	2.2	-0.8	0.8	0.0	-0.1	0.0	0.0	0.0	
Of which contribution from real GDP growth	0.8	0.4	0.2	0.4	0.3	0.1	0.0	0.0	0.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.5	-0.3	1.6	1.4	1.9	1.8	1.8	1.8	1.8	
Public sector debt-to-revenue ratio 1/	-49.2	-48.9	-49.3	-26.4	-10.6	-2.0	1.3	2.0	2.3	
Gross financing need 6/	-4.7	-1.1	1.5	3.2	2.1	1.0	-0.1	-0.8	-0.9	
in billions of U.S. dollars	-4.9	-1.4	1.6	4.2	3.1	1.7	-0.3	-1.7	-2.2	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (in percent)	8.9	3.2	1.2	4.1	4.8	5.5	5.9	6.3	6.5	
Average nominal interest rate on public debt (in percent) 8/	5.0	4.1	3.8	5.0	6.4	7.4	8.5	9.7	10.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-10.5	-18.8	6.1	-7.3	-0.2	2.9	4.4	4.7	6.6	
Nominal appreciation (increase in US dollar value of local currency, in percent)	5.9	-0.4	-18.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	15.5	23.0	-2.3	12.3	6.6	4.5	4.1	5.0	4.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	30.4	14.0	-6.5	13.0	3.1	4.1	3.6	1.9	4.7	
Primary deficit	-4.9	-1.4	1.1	2.7	1.5	0.3	-0.9	-1.6	-1.7	
A1. Key variables at their historical averages 7/				-6.3	-7.0	-7.9	-8.8	-9.7	-10.6	1.5
A2. No policy change (constant primary balance) in 2010-15				-6.3	-1.3	3.2	7.5	11.5	15.2	-0.9
B. Bound Tests										
B1. Real interest rate is at baseline plus one half standard deviation				-6.3	-3.1	-1.4	-0.9	-1.4	-2.1	-0.1
B2. Real GDP growth is at baseline minus one half standard deviation				-6.3	-2.6	0.1	1.9	3.1	4.6	0.1
B3. Primary balance is at baseline minus one half standard deviation				-6.3	-1.1	2.6	5.1	6.8	8.4	0.0
B4. Combination of B1-B3 using 1/4 standard deviation shocks				-6.3	-2.0	0.9	2.6	3.6	4.6	0.1
B5. One time 30 percent real depreciation in 2011				-6.3	-3.0	-1.1	-0.6	-1.1	-1.8	0.0
B6. 10 percent of GDP increase in other debt-creating flows in 2011				-6.3	7.3	9.2	9.9	9.9	9.9	0.0

1/ Defined as net debt of the general government.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 8. External Debt Sustainability Framework, 2007–15
(In percent of GDP, unless otherwise indicated)

	Actual 2007	2008	2009	10-Year Standard Deviation	2010	2011	2012	2013	2014	2015	Projected Average
					I. Baseline Projections						
External debt	93.9	79.5	103.7		**96.1**	**93.4**	**89.6**	**87.8**	**84.7**	**83.5**	
Change in external debt	2.6	-14.5	24.2		-7.6	-2.7	-3.8	-1.8	-3.0	-1.3	
Identified external debt-creating flows (4+8+9)	-23.1	-37.8	11.8		-29.2	-22.8	-22.5	-21.6	-20.1	-19.7	
Current account deficit, excluding interest payments	4.3	-7.8	0.1		-5.5	-5.2	-5.5	-5.8	-5.2	-4.5	
Deficit in balance of goods and services	-6.7	-19.8	-8.7		-16.9	-15.3	-14.4	-13.1	-10.8	-9.1	
Exports	50.3	56.4	44.8		48.4	48.2	47.1	46.5	45.5	45.4	
Imports	43.6	36.6	36.0		31.5	32.9	32.7	33.5	34.7	36.3	
Net non-debt creating capital inflows (negative)	-11.6	-10.7	-11.8		-9.1	-8.0	-7.8	-7.2	-6.6	-6.9	
Automatic debt dynamics 1/	-15.8	-19.3	23.6		-14.6	-9.5	-9.2	-8.6	-8.4	-8.3	
Contribution from nominal interest rate	3.8	3.2	3.1		2.9	2.7	2.5	2.4	2.3	2.1	
Contribution from real GDP growth	-6.4	-2.3	-1.2		-3.5	-4.0	-4.5	-4.6	-4.9	-4.8	
Contribution from price and exchange rate changes 2/	-13.2	-20.2	21.7		-14.0	-8.2	-7.2	-6.3	-5.8	-5.6	
Residual, incl. change in gross foreign assets (2-3)	25.7	23.3	12.4		21.7	20.1	18.6	19.8	17.0	18.4	
External debt-to-exports ratio (in percent)	186.6	141.0	231.7		198.7	193.6	190.1	188.6	186.3	183.7	
Gross external financing need (in billions of US dollars) 3/	38.4	21.6	26.0		16.7	36.2	30.5	32.5	37.0	41.3	
in percent of GDP	37.3	16.0	24.2		12.9	24.3	17.9	16.8	16.8	16.4	
Key Macroeconomic Assumptions											
Real GDP growth (in percent)	8.9	3.2	1.2	3.3	4.1	4.8	5.5	5.9	6.3	6.5	5.5
GDP deflator in US dollars (change in percent)	16.9	27.3	-21.4	16.5	15.6	9.3	8.4	7.6	7.1	7.1	9.2
Nominal external interest rate (in percent)	5.3	4.5	3.1	1.3	3.4	3.2	3.1	3.0	2.9	2.9	3.1
Growth of exports (US dollar terms, in percent)	24.9	47.2	-36.9	18.8	30.1	14.3	11.6	12.6	11.2	13.9	15.6
Growth of imports (US dollar terms, in percent)	36.8	10.2	-21.6	17.0	5.2	19.9	13.6	16.5	17.9	19.5	15.4
Current account balance, excluding interest payments	-4.3	7.8	-0.1	3.8	5.5	5.2	5.5	5.8	5.2	4.5	5.3
Net non-debt creating capital inflows	11.6	10.7	11.8	3.6	9.1	8.0	7.8	7.2	6.6	6.9	7.6
					II. Stress Tests for External Debt Ratio						**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2010-2014 4/					**101.8**	**98.5**	**94.3**	**91.9**	**87.1**	**84.3**	**-19.9**
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviation					**97.3**	**95.1**	**91.6**	**90.2**	**87.5**	**86.5**	**-14.9**
B2. Real GDP growth is at baseline minus one-half standard deviations					**99.9**	**99.1**	**96.8**	**96.5**	**94.7**	**94.5**	**-14.1**
B3. Non-interest current account is at baseline minus one-half standard deviations					**100.3**	**99.6**	**97.7**	**97.6**	**96.1**	**96.2**	**-15.8**
B4. Combination of B1-B3 using 1/4 standard deviation shocks					**100.3**	**99.6**	**97.7**	**97.6**	**96.1**	**96.2**	**-15.1**
B5. One time 30 percent real depreciation in 2009					**148.5**	**141.5**	**133.8**	**128.6**	**122.4**	**118.2**	**17.8**

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
5/ The implied change in other key variables under this scenario is discussed in the text.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix I. Kazakhstan: External Stability and Exchange Rate Assessment

External stability

Kazakhstan's current account is projected to return to surplus in 2010, which will be sustained over the medium term. The surpluses reflect both higher prices and production of commodities, primarily oil, as well as a gradual recovery in domestic demand after the economic crisis.

External debt is more manageable than headline numbers suggest. While debt (mostly private) amounts to nearly 100 percent of GDP, a large proportion is intra-company debt, mainly in the oil, gas and mining sectors. Excluding this, debt is expected to fall to 47 percent of GDP in 2010, and will be on a downward trajectory thereafter. Staff projects external debt (excluding inter-company debt) to stabilize at 40 percent of GDP by the end of the projection period.

Exchange rate

There is no evidence that the tenge deviates systematically from its long-run equilibrium. The three CGER approaches yield deviations that range from -3.5 to +3.1 percent.

Kazakhstan: Exchange Rate Assessments

	Underlying current account balance	Current account norm	Estimated over(+)/under (-) valuation
Macroeconomic balance 1/	10.2	9.5	-2.3
Equilibrium exchange rate 2/	n.a.	n.a.	-1.6
External sustainability 3/			
Constant annuity to GDP	8.5	9.4	3.1
Constant real per capita annuity	8.5	7.6	-3.5

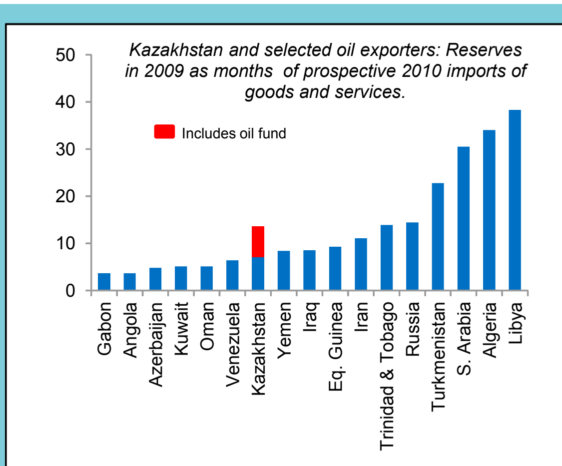
1/ Underlying current account adjusted for oil-related flows, while the norm is computed using coefficients estimated for oil exporters.

2/ Based on current (2010) fundamentals. Medium term fundamentals are 2015 projections.

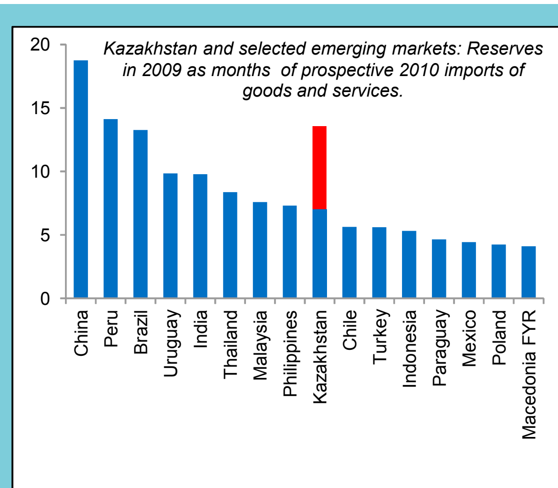
3/ The underlying current account and the norm exclude income; estimates based on NFA and NPV of oil wealth.

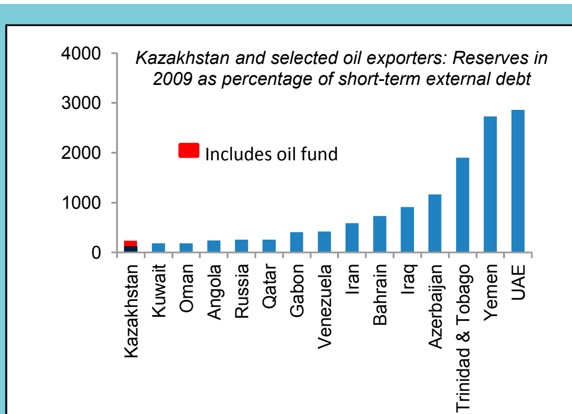
International reserve adequacy

How do Kazakhstan's reserves compare to other emerging markets? Like many emerging markets, Kazakhstan has experienced a strong increase in international reserves in recent years despite the significant capital outflow in 2008. With better growth prospects, reserves are projected to rise further over the medium term to about $73 billion by 2015 (9 months of imports). A variety of common prudential measures suggest that the current level of reserves is not significantly out of line compared with other oil exporters. Even a number of oil-importing emerging markets have comparable reserve levels. This same pattern is expected to continue over the projection period.

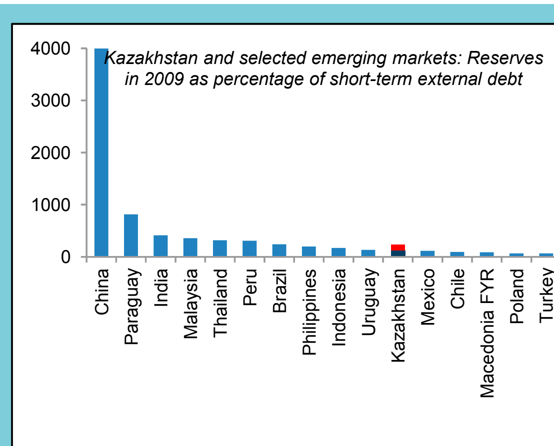


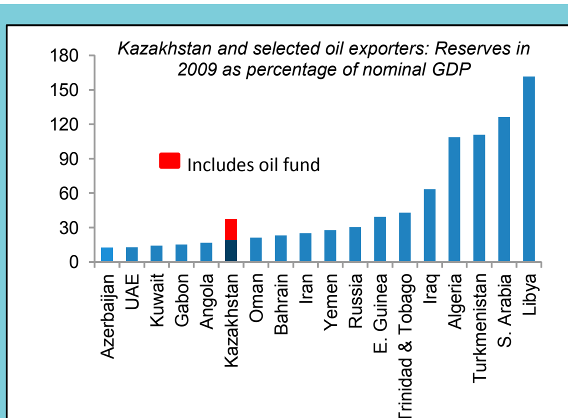
Sources: Kazakhstani authorities' data, WEO, and staff estimates.



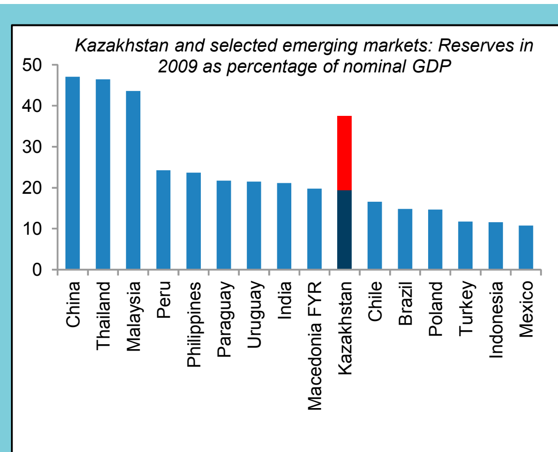


Sources: Kazakhstani authorities' data, WEO, and staff estimates.





Sources: Kazakhstani authorities' data, WEO, and staff estimates.



INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Middle East and Central Asia Department
(In Consultation with Other Departments)

June 25, 2010

Contents Page

ANNEX I. KAZAKHSTAN: RELATIONS WITH THE FUND

(As of June 1, 2010)

- ***Mission:*** Article IV consultation discussions were held on May 26–June 8, 2010 in Astana and Almaty. The concluding statement of the mission is available at http://www.imf.org/external/np/ms/2010/060810.htm
- ***Staff Team:*** A. L. Coronel (head), A. Al-Eyd, and D. Rozhkov (all MCD), N. Raman (SPR), and N. Saker (MCM). D. Owen (MCD Reviewer) participated in key meetings. D. Orynbaev (OED) joined some discussions.
- ***Country Interlocutors***: Prime Minister Massimov, parliamentarians, economic authorities, and members of the banking, business, and international communities.
- ***Fund Relations***: Kazakhstan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The exchange rate regime has been classified as a pegged exchange rate with horizontal bands (previously a managed float).
- ***Statistical Issues:*** The authorities subscribe to the SDDS and the provision of data is adequate for surveillance purposes.
- ***Outreach:*** The mission met with the local press and made a presentation on the regional economic outlook at the Kazakhstan National University.

I. Membership Status: Joined: 07/15/92; Article VIII

II. General Resources Account

	SDR Million	% Quota
Quota	365.70	100.00
Fund holdings of currency	365.70	100.00
Reserve tranche position	0.01	0.00

III. SDR Department

	SDR Million	% Allocation
Net cumulative allocation	343.65	100.00
Holdings	344.56	100.26

IV. Outstanding Purchases and Loans **None**

V. Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	12/13/99	3/19/02	329.10	0.00
EFF	7/17/96	7/16/99	309.40	154.70
Stand-by	6/05/95	6/04/96	185.60	185.60

VI. Projected Obligations to the Fund

None.

VII. Safeguards Assessments

Not applicable to the National Bank of Kazakhstan (NBK) at this time.

VIII. Exchange Rate Arrangements

The currency of Kazakhstan is the tenge, which was introduced in November 1993. The official exchange rate is determined on the basis of foreign exchange auctions that are held daily. Auctions are held for U.S. dollars, euros, and Russian rubles, and official rates are quoted for over 30 other currencies on the basis of cross-rates. From late 1999 to October 2007, the exchange rate regime was a managed float with no preannounced path. Since October 2007 the tenge has effectively been pegged to the U.S. dollar. In February 2010, the trading band was widened and set at an asymmetric T150/US$ +10/-15% and an appreciation of 2 percent has occurred since. The exchange rates at numerous exchange bureaus are very close to the auction rate, and the spread between buying and selling rates is very small. The exchange system is free from restrictions on payments and transfers for current international transactions.

IX. Article IV Consultation

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded on July 8, 2009 (see IMF Country Report No. 09/300).

X. FSAP Participation and ROSCS

Kazakhstan participated in the Financial Sector Assessment Program (FSAP) in 2000. The staff report on the Financial Sector Stability Assessment (FSSA) was issued on November 27, 2000 (FO/DIS/00/142). The FSSA included the following ROSC modules: Basel Core Principles for Effective Banking Supervision, Core Principles for Systemically Important Payment Systems, Code of Good Practices on Transparency in Monetary and Financial Policies, IOSCO Objectives and Principles of Securities Regulation, and IAIS Insurance Core Principles. An FSAP Update mission took place in February 2004 and a second FSAP Update mission took place in March 2008. The fiscal transparency module was completed in October 2002 and the final report published in April 2003. A data module mission took place in April/May 2002, and its final report was published in March 2003. An update of the data ROSC was undertaken in 2006 and the report was published in February 2008 (see Annex V).

XI. Technical Assistance

Kazakhstan has received technical assistance and training by the Fund in virtually every area of economic policy, including through about 80 technical assistance missions provided during 1993–2010 by FAD, LEG, MCM, STA, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank of Kazakhstan, to the Agency of Statistics of the Republic of Kazakhstan, to the Ministry of Finance, and a peripatetic expert to the Financial Supervision Agency. Other international agencies and governments, including the World Bank, EU TACIS, EBRD, UNDP, and OECD, also are providing a wide variety of technical assistance.

The following list summarizes the technical assistance provided by the Fund to Kazakhstan since 2002.

Monetary and Capital Markets Department

Technical assistance has enabled steady progress in a number of areas related to monetary and exchange affairs, including banking legislation, central bank accounting, payments system reform, central bank organization and management, foreign operations and reserve management, banking supervision, monetary statistics, currency issuance, monetary operations, and money-market development.

1. December 2002: Sequencing of Capital Account Liberalization and Financial Sector Supervision
2. January 2003: Assessment of the CPSS Core Principles for Systematically Important, Payment Systems and Transparency of Payment System Oversight
3. September 2004: Bringing Banking Prudential Regulation up to EU Standards
4. September 2004: Implementing Inflation Targeting: Next Steps
5. November 2007: Strengthening Banking Supervision and Risk Assessment
6. January 2009: Developing Banking Sector Stress Testing. As follow up, a peripatetic expert made a number of visits to the FSA over the course of 2009 and early 2010.

Fiscal Affairs Department

The Fiscal Affairs Department has given advice to Kazakhstan in the areas of tax and expenditure administration, the establishment of a treasury system, and the introduction of a social safety net.

1. April 2003: Customs Administration
2. 1997–2004: Treasury Modernization
3. September 2004: Treasury Reform Process

Statistics

The Fund's technical assistance program in statistics has focused on the development of the institutional framework appropriate to the needs of a market economy. The assistance has concentrated on establishing procedures for collecting and compiling monetary, government finance, balance of payments (including external trade), and national accounts.

1. November 2002: International Reserves Template
2. January 2006: Real sector and balance of payments statistics
3. August 2006: Real sector statistics
4. December 2006: ROSC Update mission (and DQAF)
5. April 2008: GFSM 2001 Implementation
6. January 2009: Monetary statistics

Legal Department

December 2003: Draft Law on Mandatory Reporting on Certain Financial Transactions
April 2008: Reforms to Tax Law
April 2010: Anti-Money Laundering and Combating the Financing of Terrorism (jointly with the World Bank and United Nations Office on Drugs and Crime)

IMF Institute

Kazakhstani officials have participated in courses in Washington and at the Vienna Institute in the areas of macroeconomic management, expenditure control, financial programming, taxation, statistics, and other. In addition, the Fund's Institute has conducted courses in the region. Seminars and training sessions have also been conducted by MCM and STA technical assistance missions.

XII. Resident Representatives

The position was terminated in August 2003, but he Fund maintains a local office in Almaty.

ANNEX II. KAZAKHSTAN: RELATIONS WITH THE WORLD BANK

(As of June 1, 2010)

1. **Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) in July 1992 and of the International Finance Corporation (IFC) in September 1993.** The Bank's lending program was curtailed earlier in this decade as a result of the country's reduced borrowing needs, but in FY09 it was revived and four new projects were launched. In addition to lending activities, the Joint Economic Research Program (JERP) allows the Bank to transfer knowledge in support of the government's critical development needs. In FY10 the total financing of JERP amounts to just over $2.7 million, of which about 69 percent is financed by the Government. JERP is built around four pillars aligned with the government's strategic priorities: (i) reform of public administration and public finance; (ii) macroeconomic management and crisis mitigation; (iii) improvement in human development outcomes; and (iv) private sector development and improvement to business climate.

2. **At present, the Bank's program comprises thirteen projects (IBRD loans) with a total commitment of $2.7 billion, of which $315 million is disbursed and outstanding**. Nine loans with total commitment amount of $2.6 billion are disbursing (Syr Darya Control and Northern Aral Sea - Phase I, Nura River Clean-Up, Agricultural Post-Privatization Assistance - Phase II, Agricultural Competitiveness, North–South Electricity Transmission, Forest Protection and Reforestation, Customs Development Project, Health Sector Technology Transfer, and South West Roads). Remaining four projects with total commitment amount of $107 million were either launched recently (Moinak Electricity Transmission), or pending effectiveness (on Tax Administration Reform six projects are under preparation: Irrigation and Drainage Improvement - Phase II, Vocational Education and Training, Syr Darya Control and Northern Aral Sea - Phase II, Statistical Capacity Improvement, Development Policy Operation, and South Kazakhstan Electricity Transmission (the latter under Sovereign Guarantee) with an expected financing envelope of about $1.4 billion.

3. **Kazakhstan is the IFC's largest client in Central Asia. As of the end of March 2010, IFC's total committed portfolio in Kazakhstan amounted to $602 million of which $458 million were disbursed.** IFC's efforts in Kazakhstan are directed to foster private sector led growth, particularly in the non-extractive sectors and frontier regions. This includes ongoing support to the financial sector; and when possible, investments to promote SME development, manufacturing, infrastructure, and the service sector. In the financial sector, IFC is focusing on: (a) further stabilization, diversification and extension of the maturity of the funding base in the banking sector; and (b) establishment of the best international banking and corporate governance and regulatory environment. As the global financial crisis has deepened, IFC aimed to identify partner financial institutions to contribute to the stabilization of the financial sector and to effectively increase access to finance in the priority sectors in the economy. IFC's investment portfolio is mostly in the financial sector

and general manufacturing. In the past year, IFC has increased its investment program in Kazakhstan to help alleviate problems with access to finance. IFC grew its investments tenfold between FY05 and FY08 (from $11 to $110 million) and more than doubled commitments again in FY09, committing $243 million in 7 projects despite the financial crisis. In FY10 to date, IFC has already surpassed its FY09 commitment volumes with about $330 million committed in four financial sector projects, including equity, quasi-equity, and trade finance. IFC is also providing advisory services on corporate governance and infrastructure; and is currently in discussions to help the government to structure PPP projects and attract private investment in power generation, transmission, and distribution.

4. **On May 25, 2010, a US$ 1 billion Development Policy Loan (DPL) to Kazakhstan was approved.** The loan will provide budgetary support to the country to help it implement its current economic program and sustain living standards of the population in the aftermath of the economic crisis. The new loan supports the government's economic program for ensuring financial stability and sustainable growth, with a particular focus on fiscal policy, budgetary management, and banking regulation.

ANNEX III. KAZAKHSTAN: RELATIONS WITH THE EBRD

(As of June 1, 2010)

1. **The EBRD is the largest investor outside the oil and gas sector in Kazakhstan.** As of May 31, 2010 the EBRD's total business volume in Kazakhstan, including co-financing, stood at €9.4 billion, with investments totaling €2.9 billion. The EBRD's portfolio reached €1.7 million. During 2009, the bank signed 16 projects, including regional ones, for a total amount of EBRD finance of €436 million.

2. **During the first five months of 2010 the EBRD signed 10 operations with total business volume of €273 million.** The bank made a significant progress dealing with the investments in Industry, Commerce & Agribusiness (ABV 42 %) and Power and Energy (ABV 30%) and Infrastructure (ABV 18%). The bank's business is promoting diversification of the economy, which is in line with the new country strategy approved in January 2010.

The EBRD's main operational objectives for 2010

3. The EBRD's strategic directions reflect the immediate need to help Kazakhstan weather the crisis and get on the path of economic recovery, as well as to assist the country in confronting its fundamental transition challenges.

Enterprise sector

4. Support for the corporate sector, including through addressing the immediate financing needs as part of crisis response, while promoting economic diversification and innovation, including utilization of best available technology, integration into the global economy (including through supporting inbound and outbound direct investment), best business and environmental practices, and energy efficiency. The bank's engagement with Kazakhstani corporate clients will be underpinned by the principles of integrity, transparency and good corporate governance. The EBRD will seek to engender these principles further through greater use of equity instruments. Additional opportunities in the enterprise sector are likely to be offered by energy-efficiency projects as well as by participation in existing and new investment funds.

5. The Kazakhstan state's involvement in the country's economy is not likely to abate in the current post-crisis conditions. With that in mind, it will be strategically vital to develop an appropriate level of co-operation with the National Welfare Fund Samruk-Kazyna (SK). The Bank will selectively pursue opportunities to co-operate with SK at the project level, including in the corporate sector, in situations where the projects are based on sound market principles, and subject to the usual integrity considerations. The EBRD will also selectively consider possibilities to co-finance with such SK-owned institutions as the Development Bank of Kazakhstan, as well as through co-investing with SK in investment funds.

Financial sector

6. The EBRD will closely cooperate with the authorities and other IFIs to help formulate a vision for the financial sector with the aim of achieving a sustainable financial model, including through the scaling back over time of the government's involvement in the banking system. Through targeted investment, policy dialogue and technical assistance, the EBRD will structure its work around that vision to help redress over-reliance on foreign wholesale funding and a still limited deposit base, FX lending to unhedged borrowers, excessive sectoral concentration of loan portfolios– in particular in construction and real estate– and shortcomings in risk management, corporate governance and transparency.

7. The banking sector will remain the primary conduit for channeling the bank's funds to SME's and into energy efficiency and climate change projects. To allow the Kazakhstan's banking system to fulfill this role in a sustainable way, the EBRD will also seek to promote and support the development of local currency and capital markets through engagement with pension funds, increased involvement with non-bank financial intermediaries, and development of institutional capacity through both macro and micro (project-related) technical assistance. In particular, it will continue to support the emerging private equity sector in order to ensure a sufficient supply of risk capital in addition to debt funding.

8. The EBRD will seek to engage with non-bank financial institutions, including leasing and insurance companies, and non-bank micro-lenders, and will consider the possibility of launching a micro-finance bank.

Infrastructure and energy sectors

9. Support the development and transformation of infrastructure sectors, which is pivotal to further economic diversification and longer-term sustainable growth, while fostering commercial viability, competition, and private sector participation.

Transport

10. The EBRD will pursue rehabilitation of key international road corridors, for which sovereign support may be required, provided the financing package is accompanied by sector reform. To that end, the EBRD will seek to co-finance with other IFIs and to coordinate police advice and technical assistance.

11. In the rail segment, the EBRD will seek to replicate its existing successful transaction with Transtelecom, pursuing similar deals with other subsidiaries of Kazakhstan Temir Zholi (KTZ). In connection with the financing, the bank will provide technical assistance to support KTZ's restructuring efforts based on the draft Rail Reform Strategy 2009–2014.

Municipal and Environmental Infrastructure (MEI)

12. The EBRD will continue to pursue development of creative mechanisms for financing municipal projects, replicating the successfully closed transactions in water/ waste water and municipal transport segments. In addition to urban transport and water/waste water projects, the bank will consider projects in the district heating segment, where historical underinvestment has created significant rehabilitation needs.

Power and Energy

13. The EBRD aims to advance the transformation of the energy sector through implementation of the "Sustainable Energy Action Plan" ("SEAP") milestones. It will remain committed to financing bankable power and energy projects that have a positive systemic effect in the power sector—including use of best available technology, promotion of renewable sources, energy efficiency and environmental standards—for both state and private operators. The EBRD will also through technical assistance support the development of a legal framework that supports their market penetration, and strengthen regulatory agencies and tariff environment.

14. In keeping with its transition mandate, the EBRD will concentrate its operations and policy dialogue on promotion of the private sector and seek to further the diversification of ownership in the economy. To that end, it will selectively work with creditworthy state-owned companies if deemed consistent with the bank's transition objectives, i.e., by requiring commercial viability, good corporate governance, and best business practices, in particular when privatization prospects are realistic, but also when, in the absence of an imminent privatization plan, there are opportunities to promote reform . In doing so, the bank will carefully balance its work with national companies to contribute to separation between ownership and regulation.

15. The EBRD will continue to ensure that all of its operations in Kazakhstan are subject to the bank's 2008 Environmental and Social Policy and incorporate, where appropriate, Environmental and Social Action Plans.

Main trends in Kazakhstan portfolio over 2009–2010

Notable progress was made in the infrastructure sector

16. **South-West Corridor Road Project.** In March 2009, the EBRD signed a $180 million sovereign loan for the rehabilitation of West China - West Europe International Road Transit Corridor, a key international transport link connecting Europe with China. The EBRD financing will upgrade a 102 km section between the border with Russia and the city of Aktobe. Other sections of the corridor will be rehabilitated with loans provided by the World Bank, the Asian Development Bank, and the Islamic Development Bank, as well as with budget financing from the Government.

17. **Kaztemirtrans project.** In March 2010, the Bank signed a $50 million senior loan to support this important subsidiary of Kazakhstan Temir Zholi in its rolling stock renewal program.

The EBRD continues to focus on power and energy sector

18. At present the power sector is suffering from significant inefficiency and capacity underinvestment. As a response, the EBRD initiated and implemented Kazakhstan Sustainable Energy Finance Facility program (KAZSEFF). Under this program the EBRD via bank-partners will support private sector investments in energy efficiency and renewables with a $75 million framework. Kazakhstan bank-partners will provide loans to local companies to promote energy efficiency investments. Bank Center Credit with $10 million and ATF Bank with a $30.5 million loan are the first recipients under this facility.

19. In March 2009, the EBRD approved its first equity investment in the power sector of Kazakhstan, and is investing up to KZT 9.2 billion (€46 million equivalent) to acquire a stake in the private power company Central-Asian Electric Power Corporation (CAEPCO). The capital injection will be used for the company's investment program up to 2013, including the upgrade and rehabilitation of CAEPCO's generation and distribution assets to improve efficiency, reliability and performance. Also, in February 2010, the bank signed a $51.5 million financing for CHP Aktobe rehabilitation.

The EBRD continues its support and cooperation with Kazakhstan's partners

20. In May 2009, the EBRD has approved two loans worth a total $100 million to ATF Bank to support lending to small and medium-sized enterprises and to promote energy efficiency of industrial companies.

21. As of May 2009 the total bank's investments in the Kazakhstan's banking system reached €1.5 billion including: bank equity €192 million; bank lending €674 million; non-bank financial institutions €47 million; SME finance €319 million. In 2008, the EBRD committed loans and guarantees under the Regional Trade facilitation program was about €50 million.

The EBRD made good progress in financing corporate sectors, especially agribusiness and oil services sectors

22. During 2009 the EBRD signed 4 projects in the agribusiness sector for the total EBRD finance $63 million. In 2009 and 2010 the bank supported KazExportAstyk, leading grain producing and trading company with two $15 million loans.

23. In March 2010, the EBRD signed a $50 million senior loan for Petrolinvest, supporting the exploration and oil production operations of the company, demonstrating its support to FDI and mid-sized operators committed to transparency and high operational standards.

Priorities for the coming year

24. In **industry, commerce and agribusiness**, the bank will support the industrial diversification strategy of the country while financing commercially viable, transparent projects across key industries.

25. In the **financial sector**, the bank will continue to provide long-term debt, to support the equity of banks and reduce the reliance of the sector on the state, with the long term aim of facilitating the introduction of strategic international investors and to reconnect banks to the international financial markets. In addition, EBRD will have an important role to play in working with private equity funds and non-bank financial institutions to promote the development of the local capital market as a complement to bank lending. Transparency of shareholding structures and the willingness to improve corporate governance will be a precondition to any future EBRD financing in Kazakhstan.

26. **Power** shortages are an important constraint on private sector development, especially in Southern Kazakhstan. To support the government with regulatory improvements and tariff reform will be key for EBRD's operations in this area. The EBRD will focus on implementation of the Sustainable Energy Action Plan, financing priority investments in power generation and supporting energy efficiency and the use of renewable energy. Continued technical assistance will be given to improve sector regulation.

27. The **transport and communication infrastructure** will be key to the country's long-term competitiveness and regional cooperation and integration. In addition to road infrastructure development, the EBRD will support the ongoing reform of the railway sector and financing improvements of railway infrastructure and rolling stock. Development of municipal and environmental infrastructure will be a priority.

EBRD Portfolio: May 31, 2010			
In millions of euros			
Sector Business Group (SIC)		Commitments	Portfolio
Energy	Private	220	177.2
	State	272	239.4
FI	Private	1,016	436.3
	State	0	0
Industry, Commerce &Agribusiness	Private	782	459.6
	State	49	0
Infrastructure	Private	27	20.3
	State	478	342.3
TOTAL		2,844	1,675

Annex IV. Kazakhstan: Relations with the Asian Development Bank

(As of May 13, 2010)

1. **Kazakhstan became a member of the Asian Development Bank (ADB) in 1994**. As of May 2010, total public sector loan commitments amounted to $1.5 billion, covering 17 loans in agriculture and natural resources, education, finance, transport and communications, and water supply, sanitation, and irrigation. Kazakhstan is no longer eligible for concessional resources from the Asian Development Fund. As of March 2010, total loan disbursements amounted to $989 million. In recent years, ADB activities for Kazakhstan have focused on road transportation, SME development, water distribution, and private sector. Regional cooperation is a key theme.

2. **ADB's public sector operations in Kazakhstan picked up in 2008**. A $700 million Multi-tranche Financing Facility (MFF) was approved by ADB in November 2008 for the CAREC Transport Corridor project. In 2009, ADB signed two loan agreements for the total amount of $527 million to reconstruct Zhambyl Oblast sections of the International Transit Corridor "Western Europe-Western PRC". The Corridor project will improve a major transport corridor across the country, linking eastern and western neighbors, as well as opening up north-south routes. This is to be complemented by a proposed loan in 2010 for reconstruction of Aktau–Beineu Road section located in Mangistau oblast (western part of the country), which will connect Kazakhstan to its neighboring countries through the Caspian Sea.

3. **ADB provided Kazakhstan assistance to help mitigate negative impacts of the global economic crisis.** In September 2009, ADB provided a $500 million loan to Kazakhstan to support a government-run crisis-mitigation action plan and the employment-generation program. The loan was provided under ADB's $3 billion Countercyclical Support Facility (CSF), which was established to support ADB's developing member countries to increase fiscal spending to counter global turmoil. The Kazakhstan CSF loan helped the government shoulder anti-crisis expenditure requirements and thereby financed a part of the budget deficit. As part of the loan program activities, ADB will closely monitor the fiscal stimulus package to ensure its effective use, as well as assess microeconomic and financial sector performances.

4. **As requested by the government, ADB is to provide support for Kazakhstan's SME development, under a $500 million MFF in 2010.** This intervention will address the government's important funding need and support the development of more competitive SMEs and a more efficient financial sector. This will result in greater employment and decreased poverty and lead to more sustainable economic growth through diversification.

5. **To assist the government in implementing the State Drinking Water Sector Program for 2002–2010**, ADB provided a loan of $34.6 million in 2004 for basic water supply services and a capacity-building program designed to improve the living and health

conditions of selected rural communities. It covered three oblasts of Kazakhstan: Akmola and North and South Kazakhstan. Given the State Drinking Water Sector Program extension up to 2015 and its focus on both rural and urban areas, ADB may continue its assistance to the water supply and sanitation sector of Kazakhstan with a new loan proposed for small and secondary towns.

6. **ADB's private sector operations in Kazakhstan** began in 2006, and has historically focused on the banking sector, with five private sector financings in the amount of $375 million. ADB's previous interventions with the banking sector through its private sector operation arm raised many issues and lessons, which will need to be addressed and reflected in the future proposed projects. Near-term ADB private sector financing prospects are in private infrastructure.

Annex V. Kazakhstan: Statistical Issues

(As of June 2010)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are monetary and balance of payments statistics, with remaining deficiencies in national accounts.

National Accounts: The quality of GDP statistics is affected by the limited coverage of small businesses in selected activities such as retail and construction. While some progress has been made in compiling and reporting GDP by final expenditure consistent with output-based measures, dissemination of quarterly GDP series data is conducted on a discrete basis only.

Government finance statistics: Progress has been made in the classification of the fiscal accounts consistent with the Fund's Government Finance Statistics Manual 2001 (GFSM 2001). However, as a result of the reorganization of the public sector, including the redefinition of budgetary units, difficulties have arisen with regard to the recording and reporting of expenditure arrears.

Monetary statistics: The monetary statistics based on the Standardized Report Forms (SRFs) complied by the central bank have a few inconsistencies, and a technical assistance mission in January 2009 provided several recommendations.

Balance of payments: In general, the balance of payments is compiled in concordance with the fifth edition of the Balance of Payments Statistics Manual (BPM5). However, foreign direct investment statistics are not fully in line with the standards set forth in BPM5, as local branch offices of foreign companies operating in the construction sector are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production. In addition, the errors and omissions have been large and increasing.

II. Data Standards and Quality

Participant in the Special Data Dissemination System (SDDS) since March 2003. Metadata need to be updated.	Data ROSC published in 2002.

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of June 10, 2010)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items: Data Quality-Methodological Soundness[8]	Memo Items: Data Quality-Accuracy and Reliability[9]
Exchange Rates	06/10/10	06/10/10	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/31/10	06/07/10	M	M	M		
Reserve/Base Money	04/30/10	05/27/10	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	04/30/10	05/27/10	M	M	M		
Central Bank Balance Sheet	05/31/10	06/07/10	M	M	M		
Consolidated Balance Sheet of the Banking System	04/30/10	05/25/10	M	I	I		
Interest Rates[2]	05/31/10	05/31/10	I	I	I		
Consumer Price Index	05/31/10	06/07/10	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	04/30/10	05/27/10	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	04/30/10	05/27/10	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2010	04/20/10	Q	Q	Q		
External Current Account Balance	Q1/2010	04/30/10	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q1/2010	04/30/10	Q	Q	Q		
GDP/GNP	Q1/2010	04/30/10	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q1/2010	04/30/10	Q	Q	Q		
International Investment Position[6]	Q1/2010	04/30/10	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/98
FOR IMMEDIATE RELEASE
July 27, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with the Republic of Kazakhstan

On July 12, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.[1]

Background

The sudden stop in capital inflows in the early stages of the global financial crisis exposed the underlying vulnerabilities in the banking system. The combination of weak economic growth, currency induced credit exposure, and increased uncertainty led to a sharp worsening of banks' balance sheets. Four financial institutions were forced to restructure their external liabilities.

Drawing upon savings in the National Oil Fund, the authorities responded with a large scale and timely policy package that helped stabilize banks. This support, alongside enhanced deposit insurance and the external nature of the debt restructuring, mitigated deposit withdrawals. Nevertheless, the banking system continues to face significant difficulties. Nonperforming loans have risen sharply, increasingly driven by non-restructuring banks. Capital adequacy excluding restructuring banks remains above the minimum requirement, but the capital base has declined, and bank profitability is under pressure. Although banks' aggregate liquidity position is comfortable, credit dynamics remain weak, with annual credit growth plummeting into negative territory.

[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. 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.

Most macroeconomic indicators worsened in 2009. Real GDP growth slowed sharply, although a strong rebound in the last quarter helped it reach 1¼ percent for the year as a whole. Exports fell significantly, reflecting lower oil prices and a decline in non-oil sales abroad. Notwithstanding the fall in imports from weaker demand, the current account shifted into a deficit of about 3 percent of GDP. Average annual inflation slowed in 2009 and has remained relatively contained at around 7½ percent (the end-of-period inflation was 6 ¼ percent).

Countercyclical fiscal policy helped limit the economic slowdown, but resulted in an expansion of the deficit and public debt. Monetary policy was accommodative as the economy remained weak and inflation pressures declined. The devaluation of the tenge in February 2009 helped stabilize market pressures, and was followed a year later by a widening of the trading band. Since then, the tenge has gained about two percent and the central bank has accumulated international reserves.

Staff projects real GDP growth of around 4 percent in 2010, driven mainly by the oil, gas, and mining sectors. The external outlook is expected to recover, with an improvement in the current account position, led by a strong rebound in exports (in particular oil) combined with a relatively slow recovery in import growth. Average inflation is projected to remain around the current level of 7½ percent.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their prudent macroeconomic policies and swift response to the financial crisis. Large-scale, coordinated public support—backed by ample resources accumulated in good times—had helped stabilize the banking system and stimulated the economy. The near-term growth outlook has improved, driven by tradable sectors, and inflation is expected to remain under control. Directors observed, however, that broader economic activity remains constrained by stagnant credit growth and banking sector difficulties. The key policy priorities are to restore financial sector health and to gradually unwind support to both banks and economic sectors, while ensuring sufficient liquidity and promoting more balanced growth.

Directors stressed the urgency of implementing a comprehensive and transparent bank resolution strategy, aimed at reducing nonperforming loans. This should be accompanied by a full assessment of recapitalization needs, and by improvements in the regulatory and supervisory frameworks to address key underlying vulnerabilities, notably excessive reliance on foreign funding, weak governance, and risky lending practices. Directors encouraged the authorities to formulate contingency plans should a need for additional public support arise. They also stressed that actions to restore bank soundness should take precedence over specific measures to promote credit growth in the short term.

Directors supported the plans to withdraw the fiscal stimulus gradually, while prioritizing expenditures and strengthening tax administration. They recommended that the authorities weigh carefully the costs and benefits of borrowing vis-à-vis using oil savings to finance the deficit. Directors encouraged the development of a well-defined medium-term plan for fiscal consolidation, allowing for increased savings of oil revenues and steadily reducing the non-oil deficit.

Directors noted the staff assessment that the exchange rate is broadly aligned with long-run equilibrium. However, they considered that greater exchange rate flexibility, once conditions in the banking system have stabilized, would enhance the economy's ability to absorb external shocks and provide additional monetary policy leverage. They agreed that real interest rates should be kept positive to maintain depositor confidence, and cautioned against the use of subsidized interest rates. The plans to develop domestic capital markets are a welcome step to complement de-dollarization efforts.

Directors noted that Kazakhstan is set to benefit from its mineral resource wealth over the long term. The government's medium-term development strategy appropriately focuses on reducing dependence on commodities and increasing productivity and competitiveness in the non-oil economy. Directors highlighted the important role of a well-capitalized and well-regulated financial system in facilitating economic diversification, and urged sustained efforts to improve governance, transparency, and the business environment. They also encouraged the authorities to continue to pursue WTO accession.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Kazakhstan: Selected Economic Indicators, 2007–11

	2007	2008	2009	Proj. 1/ 2010	Proj. 1/ 2011
	(Changes in percent)				
Real economy					
Real GDP	8.9	3.2	1.2	4.1	4.8
CPI (end-of-period)	18.8	9.5	6.2	8.0	6.8
	(In percent of GDP)				
Public finance					
Government revenue and grants	29.3	27.9	23.7	23.9	25.3
Government expenditures	24.5	26.5	25.0	26.9	27.2
General government balance 2/	4.7	1.1	-1.5	-3.2	-2.1
General government non-oil balance	-4.8	-11.3	-11.3	-14.4	-14.3
General government debt (end-of-period) 3/	5.9	6.6	10.9	15.7	19.0
	(Changes in percent)				
Money and credit					
Base money	-2.5	4.2	60.7	22.7	16.7
Broad money	25.9	35.4	19.5	16.5	14.7
Banking sector credit to the economy	55.2	5.2	7.3	3.4	6.0
NBK refinance rate (eop; percent)	11.0	10.5	7.0	...	...
	(In percent of GDP)				
Balance of payments					
Trade balance	14.6	24.7	14.1	22.4	22.4
Current account balance	-8.1	4.6	-3.2	2.6	2.5
External debt	93.9	79.5	103.7	96.1	93.4
Excluding intra-company loans	64.8	49.9	58.5	52.6	50.4
Gross international reserves					
In billions of U.S. dollars, end of period	17.6	19.9	23.1	32.1	44.5
In months of imports of goods and nonfactor services	4.3	6.1	6.8	7.9	9.6
	(Changes in percent)				
Exchange rate 4/					
Tenge vs. U.S. dollar (end of period)	5.3	-0.4	-22.9	...	...
Tenge vs. Russian ruble (end of period)	-2.1	16.5	-19.7	...	...
Real effective exchange rate (p.a)	2.2	7.0	-6.2	...	...

Sources: Kazakhstani authorities; and IMF staff estimates and projections.

1/ Staff projections.

2/ Privatization revenues are treated as a financing item.

3/ Gross domestic and external government debt, including government guaranteed debt.

4/ A positive sign indicates appreciation.

Statement by Mr. Willy Kiekens, Executive Director for Republic of Kazakhstan and Mr. Daulet Orynbayev, Advisor to Executive Director
July 12, 2010

The Kazakhstani authorities thank the staff for a productive dialogue and helpful policy recommendations. The Article IV consultation with the Fund and the provided technical assistance are fully appreciated.

The Outlook for Growth

The Kazakhstani economy started to recover in the second part of 2009, thanks to stronger trade and activity in the oil, mining and manufacturing sectors. Fiscal and monetary policies were supportive of economic activity last year. Policy stimulus will be continued this year. Thanks to skillful macro-economic management, real output growth in 2009 remained positive at 1.2 percent. During the first quarter of 2010, GDP growth was slightly above 7 percent. For the entire year 2010, growth is projected to exceed 4 percent for the economy as a whole, and to exceed 8 percent in the oil sector. The non-oil sector growth is rebounding strongly from last year's low to 3.6 percent. In the medium term, growth is expected to further recover to its potential, estimated to be in the range of 5.5 to 6.5 percent. This would be lower than the average 10 percent annual growth registered in the period 2000–2007, when activity in the construction and real estate sectors was particularly buoyant.

The Financial Sector

The banking sector proved to be overextended in real estate financing, domestically and abroad, and relied to a significant extent on foreign funding.

When the subprime crisis emerged in 2007 in the United States, the real estate sector in Kazakhstan was soon hit by a severe correction, triggering significant loan portfolio losses for banks. Rolling over of foreign funding became increasingly expensive, if at all possible.

As was documented in last year's Article IV consultation, large scale public capital and liquidity support was critical in supporting the banking sector. Earlier this year, the external debts of Alliance Bank and BTA, two major Kazakhstani banks, were successfully restructured without hurting the confidence of the domestic depositor base of the Kazakhstani banks.

Although the Kazakhstani banking sector has been stabilized, and has now adequate liquidity and capital, the amount of non-performing loans remains high. The staff has formulated valuable advice on the needed broad actions that could help reduce NPLs and effectively rehabilitate the financial system, so as to avoid that a high stock of NPLs could act as a significant drag on growth.

The Financial Supervision Agency will continue to closely monitor and credibly address weaknesses and risks in the banking sector. The authorities will determine any need for additional capital and assess banks' contingency plans for raising capital when needed. Their attention will also focus on reducing foreign borrowing by banks, especially short term, and to improve banks' governance. Unwinding of public support for banks will be done gradually to minimize market disorders, while continued support for lending to SMEs will be done with the needed vigilance to avoid future bad debts.

With an adequately capitalized and well-regulated financial system in place, the process of de-dollarization should accelerate and implementing plans to deepen domestic financial markets should further progress.

The Council on Financial Stability and Development of the Financial Market of the Republic of Kazakhstan was established with special Presidential Decree as a consultative body under the President for interaction between state bodies on the matters of preserving financial stability and effective development of the financial sector. The Council comprises high-level officials from NBK, FSA, Ministry of Finance, Antimonopoly Agency and Presidential Administration. The main tasks of the Council are assistance and making proposals on implementation of macro-prudential regulation aimed at financial system stability and minimization of systemic risks. This policy forum is to enact tighter macroprudential policies to limit credit boombust cycles, including prudential measures to manage unhedged credit risk, and countercyclical bank regulations on capital and provisioning.

Samruk-Kazyna, a public company, has been successfully managed through the crisis resolving complicated financial issues. In 2010, the company's assets totaled over USD 70 billion. The financial situation with the restructured banks has improved. In the medium term, the shares in the banking sector will be sold.

Monetary and Exchange Rate Policy

In line with recommendations by the staff, since the start of the crisis, the central bank has pegged the exchange rate in order to contain the risks related to significant amount of liabilities in foreign currency. This policy has worked well and provided relative stability, even in the wake of the 20 percent devaluation which was implemented successfully in February 2009, thanks to a skillful handling of the delicate operation by the National Bank of Kazakhstan. The staff advises to allow more exchange rate flexibility when the situation becomes more stable. The authorities agree with the wisdom and common sense in recommending a managed floating, the success of which depends much on good judgment used for such management. It will inspire confidence for markets when gradual exchange rate evolutions take place that are beneficial for the diversified development of the economy. The timing of changes in exchange rate management will also depend on exchange rate policies of major trading partners.

The authorities take note that staff's "*exchange rate assessment shows no evidence of systematic deviation from equilibrium*". Monetary policy will remain focused on maintaining inflation within the projected 6 - 8 percent range. The monetary authorities are well aware of the need to protect the depositor base in tenge by positive real interest rates and to properly manage domestic liquidity.

Fiscal Policy

Kazakhstan's fiscal policy has been constantly prudent, even during the past crisis years. The authorities' decision to avoid to bail out two private banks at what could have been an excessive fiscal cost, is fully in line with their traditional prudent fiscal stance. Prior to the crisis in 2007, Kazakhstan registered an annual fiscal surplus of 4.7 percent of GDP, a gross public debt of 5.9 percent and a net positive public asset position of almost 15 percent of GDP thanks to a sizable National Fund equivalent to 21 percent of GDP.

With fiscal space available to support economic activity and to assist the financial sector in an orderly manner, the fiscal balance was allowed last year, to swing into a moderate deficit of 1.5 percent. This year, the deficit will reach 3.2 percent of GDP. In addition, the total off-budget anti-crisis spending is estimated at about 5 percent of GDP. From next year onwards, the fiscal stimulus will be gradually withdrawn with the fiscal balance expected to become positive by 2013. Consequently, gross public debt is projected to rise moderately in the coming years. At the same time, with oil production scheduled to come fully on stream, the endowment of the National Fund is projected to grow at a brisk pace to reach US$ 50 billion by 2014 and approach US$ 60 billion by 2015 (depending on world oil prices).

Structural Policies and Strategies to Diversify the Economy

In 1997, the authorities introduced the strategy "Kazakhstan – 2030". So far, its implementation is on track.

The authorities agree with staff that a decline in world commodities' market prices poses risks for the country's economic growth. Following earlier staff recommendations, they advance with the diversification of the economy. The authorities aim to double the average labor productivity with a targeted unemployment rate below 5 percent.

The 2010-2014 accelerated industrialization program sets out future work. The authorities intend to introduce more than 200 innovative industrial projects worth investments totaling USD 50 billion. In June 2010, 72 projects for an initial USD 2.5 billion have been initiated. Another 72 projects are planned to start during the second half of the year. The projects target developing infrastructure, processing of natural recourses, industrial production, and the development of a chemical industry. Hundred thousand new jobs should be created by the end of this year.

The country's mining and oil sectors are highly advanced and developed. The mining sectors' output is projected to double and oil production could increase up to 2.7 million barrels a day by 2020, up from 400,000 barrels in 1994, and 1.5 million barrels a day in 2009. By 2020, the mining sector is expected to produce more than 70 tons of refined gold annually and metal processing facilities cover most of the domestic demand for steel and other metal products.

The authorities project that agricultural output could significantly increase thanks to investment in new transportation infrastructure. By 2014, the sector should supply more than 80 percent of the domestic food demand. Grain production will grow further and the country will remain an important exporter.

The downturn of the construction sector has demonstrated a high dependency on imported materials. Domestic production of construction materials will grow, and within a few years, will cover most of the domestic demand.