An overview of the World Bank's work in Kazakhstan

April 2022

Kazakhstan	2021
Population, million	19
GDP, current US$ billion	202.9
GDP per capita, current US$	10,693.5
School Enrollment, primary (% gross) (2019)	100.3
Life Expectancy at Birth, years (2019)	73.2

AT A GLANCE

- Over the past decade, Kazakhstan has made strong policy strides and responsibly absorbed large natural resource–based earnings by implementing a rules-driven fiscal framework. However, diversification remains a challenge for a country with the ninth-largest oil reserves in the world, as hydrocarbon output constituted 21 percent of GDP and about 70 percent of exports in 2020.
- Russia's invasion of Ukraine is likely to reduce growth to 1.5 percent in 2022. This figure follows 4 percent growth in 2021, driven by a rebounding economy, growth in consumption, and supportive fiscal policy.
- Higher food and energy prices have accelerated inflation. The poverty rate is expected to fall in 2022 but remain above pre-pandemic levels. Inflation will also remain elevated due to supply disruptions arising from the war in Ukraine.
- Following protests in January 2022, the largest since independence, the government announced its intention to tackle the existing constraints through wide-reaching reforms.

COUNTRY CONTEXT

Kazakhstan has a land area equal to that of Western Europe but one of the lowest population densities globally. Strategically, it links the large and fast-growing markets of China and South Asia with those of Russia and Western Europe by road, rail, and a port on the Caspian Sea.

Since independence in 1991, Kazakhstan has experienced a remarkable economic performance. Rapid growth, fueled by structural reforms, abundant hydrocarbon resources, strong domestic demand, and foreign direct investment (FDI), has helped reduce poverty and transform the country into an upper-middle-income economy.

However, the achievements mask underlying vulnerabilities and the unevenness of the country's progress. Key challenges include slow productivity growth, wealth inequality, rising living costs, limited job opportunities, and weak institutions. These challenges were amplified by the COVID-19 pandemic and prompted the largest protests in the country's history earlier in the year.

The January events, which were marred by violence and attempts at destabilization, clearly pointed to the need for faster progress on reforms to achieve sustainable growth and shared national prosperity. In that regard, the authorities plan to take a stronger stand against corruption and to improve the rule of law, announcing steps to increase competition and private sector growth and to address government inefficiency. Reforms are also needed to raise living standards and the quality of human capital, reverse productivity stagnation, and accelerate a low-carbon economic transition.

THE WORLD BANK AND KAZAKHSTAN

The Country Partnership Framework for 2020–25

World Bank Portfolio

- No. of Projects: 11
- Lending: US$4.37 billion
- IBRD: 11 loans
- Trust Funds: 3 grants

The partnership between Kazakhstan and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF), developed in consultation with counterparts and civil society to guide a new investment program and quality technical assistance to the Government for 2020–25.

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

The CPF focuses on the following priority areas:

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

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

Key Engagement

Since 2003, the World Bank has significantly extended its Advisory Services and Analytics (ASA) provided under the Joint Economic Reform Program (JERP). Over the years, the program has proven to be an innovative solution, with a client-driven knowledge agenda and Bank-selected work, bringing in and building up international experience.

The JERP is structured around the Government's strategic priorities and focuses on development gaps in growth, governance, and the public service delivery agenda. The program is designed to ensure strong government ownership while enhancing the Bank's contribution to the country's development in a way that goes beyond funding.

The areas of focus and scope of the economic research program are determined by the Government in consultation with the World Bank.

The high-level brainstorming sessions, co-chaired by the prime minister, have become a highlight of the JERP. Since 2003, over 20 brainstorming sessions have provided direct input into the Government's ambitious reform agenda. These forums make use of the Bank's technical expertise and international experience to build capacity in reform formulation and implementation. The notable comparative advantages that the Bank brings to the JERP include the ability to draw on a global network to find best practice examples and an outside neutrality that is critical to proposing changes and navigating political land mines.

The 2020–23 JERP Technical Cooperation Agreement (TCA) with the Government was signed in early January 2020. The Annual Program for FY22 was signed in June 2021 for roughly US$1.4 million. The current JERP program is focused on, inter alia, support for: the development of the new Agglomeration Law; capacity building in economic modeling for policy analysis; the increased capacity of the Economic Research Institute; and the development of a new Investment Policy Concept.

Key ASA activities in FY22 include: the Kazakhstan Public Finance Review FY21–23, a Kazakhstan mining sector diagnostic, Equitable Human Capital Development, the Country Economic Memorandum (CEM), and the Climate Change and Development Report.

Both the ASA and Reimbursable Advisory Service (RAS)/JERP programs follow filters that are similar to the lending program in terms of selectivity and priorities, which continue to be highly relevant in the context of a new post-COVID normal.

Recent Economic Developments

Economic activity returned to pre-pandemic levels in 2021. Despite an increase in COVID-19 containment measures during the first half of 2021, robust activity in the second half supported real GDP growth of 4 percent for the year.

Growth was driven by continued fiscal expansion, strong consumer credit growth, and reduced COVID-19 restrictions. Due to a strong recovery in household consumption, retail trade rose by 6.5 percent and retail loans, including mortgages, by 40 percent in 2021. After contracting by 3.4 percent in 2020, total capital investment rose modestly by 2.6 percent, driven by solid growth in housing construction. Reopening the economy has increased activity in face-to-face services and manufacturing industries mainly aimed at the domestic market.

A sharp increase in global oil prices substantially improved Kazakhstan's trade balance and reduced the current account deficit to 3 percent of GDP in 2021 (from 3.8 percent in 2020). FDI inflows and higher foreign borrowing by state enterprises financed this deficit.

With heightened uncertainty following the January events and the recent plunge of the ruble, the tenge has depreciated by about 17 percent against the U.S. dollar. To reduce the tenge's volatility, the Central Bank scaled up foreign exchange interventions and increased its policy rate by 2.25 percentage points to 13.5 percent in March 2022. Foreign exchange reserves, however, remain comfortable at US$33.5 billion.

Fiscal policy in 2021 remained accommodative to the impact of COVID-19 on the economy. Budgetary support measures continued for the households and businesses facing hardship, while public investment priorities shifted from a pandemic response to recovery. Higher oil revenues helped reduce the budget deficit to 3 percent of GDP from 4 percent in 2020. The public debt-to-GDP ratio remained broadly unchanged at 24.5 percent of GDP. At 8.7 percent year-on-year in February 2022, inflation remained above the Central Bank target of 4–6 percent. Food and energy prices were the main drivers. The Government established price caps on certain food and fuel products and utility tariffs in response to January's mass protests.

As loan guarantees and forbearance measures continued to support households and businesses affected by the pandemic, the share of nonperforming loans in the banking system decreased to 3.3 percent in 2021 from 6.9 percent in 2020. However, vulnerabilities could emerge from the large financial outflows, sustained supply chain disruptions, and risks of secondary sanctions effects, given Kazakhstan's significant trade, investment, and people linkages with Russia.

The employment rate has reverted to pre-pandemic levels, and real wages increased by 5.7 percent annually in the third quarter of 2021. The poverty rate is estimated to have decreased to 12.4 percent in 2021 due to the broader economic recovery.

Economic Outlook

Spillovers from Russia's economic collapse will disrupt Kazakhstan's supply chains and dent its growth prospects. Real GDP growth is expected to slow to 1.5–2.0 percent in 2022. Kazakhstan also relies on Russia for 40 percent of its imports. Trade disruptions, lower business confidence, and increased currency volatility will also lower growth, as will the storm damage in March to Kazakhstan's main oil pipeline (to Russia's Black Sea), through which about 80 percent of Kazakhstan's oil is exported. Based on current repair time frames (up to a month), oil export volumes could fall by about 5–6 percent in 2022.

Further exchange rate depreciation, rising food prices, and wage increases will keep inflation high in 2022. Monetary policy is expected to remain tight in response. Fiscal policy will continue to accommodate public spending to improve household welfare and sustain the business environment. Measures include increased social assistance, rental subsidies, and compensation for businesses affected by the January protests.

A small current account balance is projected in 2022, supported by higher oil prices and lower demand for imports. The national poverty rate is projected to fall to 12.0 percent by end-2022, though this may change if inflation is higher and growth slips further.

The projections bear significant downside risks: spillovers from sanctions that further weaken trade flows and investor confidence; more prolonged suspensions of Black Sea oil exports; risks of wage-price spirals linked to economywide wage increases; and potential capital flight amid heightened uncertainty and tighter global financial markets.

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