An overview of the World Bank's work in Kazakhstan

Kazakhstan	2020
Population, million	18.7
GDP, current US$ billion	159.8
GDP per capita, current US$	8,528,4
School Enrollment, primary (% gross) (2019)	104.4
Life Expectancy at Birth, years (2018)	73.2

April 2021

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.
- The coronavirus pandemic and the collapse in exports have taken a severe toll on the Kazakh economy. GDP fell for the first time in two decades, down by 2.6 percent in 2020, due to reduced domestic demand and mobility and health safety restrictions. Inflation moved up, driven by higher food prices and the depreciation of the tenge. With employment and incomes negatively affected, the poverty rate increased to 14 percent in 2020.
- Economic growth is expected to rebound to 3.2 percent, driven by a resumption in domestic activity, a recovery in global demand for oil, continued fiscal support measures, and a successful national vaccination campaign against the COVID-19 virus. With the continued pace of recovery, the economy is expected to grow within the 3–4 percent range in 2021.

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 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.

But given that half of the country's population lives in rural and economically isolated areas with poor access to public services and vulnerability to poverty, the COVID-19 pandemic is likely to exacerbate Kazakhstan's economic and social vulnerabilities.

The Government responded early to the COVID-19 crisis and introduced a fiscal stimulus package of roughly 6 percent of GDP directed at small and medium-sized enterprises and individual households. To further support strong, sustainable, and inclusive economic recovery, the authorities need to advance structural reforms while dealing effectively with the pandemic. The policy imperatives are multifold. The first is to diversify the economic base by improving the competitiveness of the non-extractive sectors, including through reforms in the financial sector. The second priority is to limit the outsized role of state-owned enterprises, enhance competition, and create a level-playing field for the private sector. The third priority is to improve the quality and progressivity of public spending to address inequality. Finally, it would be essential to strengthen public sector institutions and reinforce the rule of law to attract much-needed investment in the non-extractive sector.

THE WORLD BANK AND KAZAKHSTAN

The Country Partnership Framework for 2020–25

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

World Bank Portfolio

- No. of Projects: 13
- Lending: US$4.15 billion
- IBRD: 11 loans
- TF: 2 grants

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.

It works on a cost-sharing arrangement between the Bank and the Government to ensure relevance and ownership on both sides of the table. The areas of focus and scope of the economic research program are determined by the Government in consultation with the World Bank.

The high-level brainstorming sessions, co-chaired by the prime minister, have become a highlight of the JERP.

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

The JERP for FY21 amounts to roughly US$1.6 million and includes seven activities and brainstorming sessions, which, for the most part, are aimed at supporting the main priorities of Kazakhstan's strategic development. In particular, the analytical work is focusing on (i) increasing productivity and support to industrial innovation and digital development; and

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

RECENT ECONOMIC DEVELOPMENTS

The nationwide mobility restrictions due to COVID-19 led to a contraction in consumer demand and investment. Consumer demand fell 5.0 percent, along with a drop in retail trade, while investment dropped by 3.4 percent, largely because of a sharp fall in FDI. Economic activity experienced a severe contraction in April–June of 2020 at the peak of restrictions, followed by a growth rebound in manufacturing, trade, and transportation services in the second half of the year.

A sharp fall in exports and a commensurate reduction in imports left the current account balance broadly unchanged at 3.4 percent of GDP in 2020. Reserves of the National Bank of Kazakhstan (NBK) rose by almost US$6.7 billion in December to reach US$35.6 billion because of higher gold prices, despite heavy foreign exchange market interventions. The tenge fell by 15 percent against the U.S. dollar by April 2020 because of the collapse in oil prices but has since regained a third of its losses following the pickup in oil prices and foreign exchange interventions by the NBK.

To fund the anti-crisis package, the Government reallocated existing budgetary funds, tapped into Oil Fund reserves, and scaled up domestic borrowing. Budget spending surged to an estimated 23.2 percent of GDP from a pre-crisis 19.5 percent. The budget deficit rose to 4.0 percent of GDP from a 1.8 percent a year earlier, and public debt moved up to 24.4 percent of GDP.

In February 2021, inflation rose to 7.4 percent year-on-year, up from 6.0 percent a year earlier, largely because of an 11.6 percent increase in food prices in January. Higher inflation also reflects the impact of the tenge depreciation. Despite higher inflation, the NBK kept its policy rate at 9.0 percent in January 2021.

Even with the crisis, the banking sector recorded a positive return to assets of 2.3 percent, thanks to strong growth in consumer loans, while corporate lending remained subdued. Nonperforming loans (NPLs) remained little changed at 6.8 percent of the loan portfolio in December. Government support measures, such as loan guarantees, moratoria, and subsidized loans, helped halt mass corporate insolvencies during the lockdown. However, the true size of NPLs might emerge higher than officially reported when support measures taper off after the pandemic.

In 2020, the official unemployment rate changed little from the pre-pandemic level. However, the rate of temporary leave, especially among low-income workers, rose sharply during the national lockdowns. As a result, the poverty rate is estimated to have increased to 14 percent in 2020.

ECONOMIC OUTLOOK

Growth is likely to bounce back in 2021 as disruptions associated with the pandemic dissipate and external demand picks up. The pace of recovery remains vulnerable to the course of the pandemic.

Private consumption spending is likely to pick up in 2021, driven by the release of pent-up demand as incomes rebound and retail lending continues apace. Higher demand for housing is expected to support residential investment, as a government program allows pensioners to use some of their savings to purchase a house or pay down mortgages.

The Government is likely to continue an expansionary fiscal stance in 2021 due to rising spending on social assistance, education, and infrastructure. The nonoil deficit is projected to decline to nearly 9.0 percent of GDP in 2021 but remain above the mid-term target of 6 percent. Government debt is likely to increase to 27 percent of GDP due to higher domestic borrowing and the disbursement of external loans to finance the deficit.

Inflation is expected to moderate in 2021, as supply disruptions and the precautionary food buying wane. However, an expansionary fiscal stance with significant direct lending provisions can sustain the pressure on inflation.

The current account deficit is projected to improve modestly, supported by stronger exports thanks to higher oil prices, a rebound in global demand for oil, and a gradual pickup in imports.

Despite the recovery in growth, the poverty rate is expected to decrease only gradually before reaching its pre-crisis level. However, the economic recovery could lose momentum if progress on vaccinations slows, mobility restrictions last longer, and external demand is weaker than expected. Business insolvencies and layoffs could hit incomes, increase poverty, and expose the banking sector to higher NPLs.

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