[KAZAKHSTAN]

Kazakhstan	2022
Population, million	19.2
GDP, current US$ billion	225.3
GDP per capita, current US$	11,476.6
School Enrollment, primary (% gross) (2020)	100.3
Life Expectancy at Birth, years (2020)	70.2

CONTEXT

Since the 2000s, Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

This progress, however, masks vulnerabilities and unevenness in the country’s development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the “middle-income trap.”

Kazakhstan needs to strengthen competition and human capital and improve public sector and SOEs performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation. Revitalizing economic growth and productivity requires implementing structural reforms to transition from a state-dominated development model to a more resilient private sector-led one. This entails fostering competition and limiting the market dominance of SOEs, reinforcing the rule of law, and resolute anticorruption action. Enabling private investment and competition in non-oil growth sectors would need to be a key part of this effort.

World Bank Portfolio

- No. of Projects: 7
- Lending: $3.8 billion
- IBRD: 6 loans
- TF: 1 grants

STRATEGY

Country Partnership Framework for 2020–25

The partnership between Kazakhstan and the World Bank Group 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 of Kazakhstan 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 World 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 World Bank's contribution to the country's development in a way that goes beyond funding.

ECONOMY

Recent Economic Developments

The economy grew by 5.1% in H1 2023, driven by exports and fiscal stimulus. The influx of Russian migrants bolstered domestic demand and saw an increase in registrations of new businesses by over 20% (YoY) in June 2023. Robust growth of retail trade (8.8% in real terms, YoY), and car sales (11.1%, YoY) in H1 indicate strong consumer spending, while investment, driven by rising FDI, has also strengthened. Growth in production was broad-based, including mining and machinery manufacture, basic metals, and chemical products.

The unemployment rate declined slightly to 4.7% in Q2 2023, from 4.9% in 2022. Economic growth and an above-inflation increase in minimum wages drove up real wages by 1.2% in Q2 (YoY). In August 2023, inflation slowed to 14% (YoY) from a peak of 21.3% in February. Food price inflation decelerated to 13.5% YoY, while services inflation was 13.9% YoY.

The National Bank of Kazakhstan cut its policy rate to 16.5% in August for the first time since February 2022. The current account deficit reached $3.6 billion in H1, reversing the surplus of $6.6 billion in H1 2022, as oil prices subsided, leading to a fall in nominal USD export values of 10.6% (YoY). FDI increased by 18.6% (YoY) in nominal USD value, with investments primarily in the mining sector. The tenge (KZT) depreciated slightly against the USD in H1 2023, as the RUB depreciated sharply. The consolidated budget deficit reached 3.0% of GDP in H1 2023 primarily due to increased spending on education, social assistance, housing, and utility infrastructure, driving expenditures to 25.8% of GDP.

The banking sector has sufficient capitalization levels with reported relatively good asset quality. As of March 2023, the ratio of capital to risk-weighted assets was at 18.8%. The share of non-performing loans has remained stable at 3.4%.

Economic Outlook

Economic activity is expected to weaken slightly in H2 owing to a lessening of inventory restocking and the impact of rising real interest rates. GDP is projected to grow by 4.5% in 2023 and subsequent years, aided by new oil production coming on-stream.

Inflation is expected to return to target by the end of 2025 due to monetary policy effects and easing external pressures. The current account is expected to post a moderate deficit in 2023 and in future years. With FDI concentrated in the oil and gas sectors, foreign companies will continue to repatriate profits, leading to a primary income deficit.

Government expenditure as a share of GDP is expected to be 2% higher in 2023, but the government plans to wind back this increase over the next two years. However, the fiscal deficit is projected to increase further as revenues are projected to decrease driven by a reduction in lower oil-related taxes. Poverty is expected to fall to 14.6% (at $6.85/day) in 2023, as growth picks up and inflation subsides.

Geopolitical tensions, with attendant risks of oil market disruption and secondary sanctions, present downside risks. Stubborn inflation may lead the authorities to sustain higher volumes of targeted support, increasing fiscal costs.