KAZAKHSTAN

Table 1	2022
Population, million	19.6
GDP, current US$ billion	225.3
GDP per capita, current US$	11476.6
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	194.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

GDP is projected to grow by 4.5 percent in 2023 and subsequent years, aided by new oil production coming on-stream. Inflation is expected to return to target. Geopolitical tensions, with attendant risks of oil market disruption and secondary sanctions, present downside risks.

Key conditions and challenges

Since 2008 average growth has slowed to less than 4 percent a year as productivity gains have stalled. In recent years, coupled with rising living costs, this lackluster economic performance has fostered public discontent over inequality and elite capture, culminating in violent protests in January 2022. Russia's invasion of Ukraine has increased uncertainty and introduced new risks, given Kazakhstan's close economic ties to Russia.

Revitalizing economic growth and productivity requires implementing structural reforms to transition from a state-dominated development model to a more resilient private sector-led model. 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. Public investment in human capital and public goods should support growth prospects and more balanced development across the country.

Recent developments

The economy grew by 5.1 percent in H1 2023, driven by exports and fiscal stimulus. The influx of an estimated 150,000 Russian migrants bolstered domestic demand and brought a significant increase in registration of new businesses, which has grown by over 20 percent (yoy) to June 2023. Robust growth of retail trade (8.8 percent in real terms, yoy), and car sales (11.1 percent, 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.

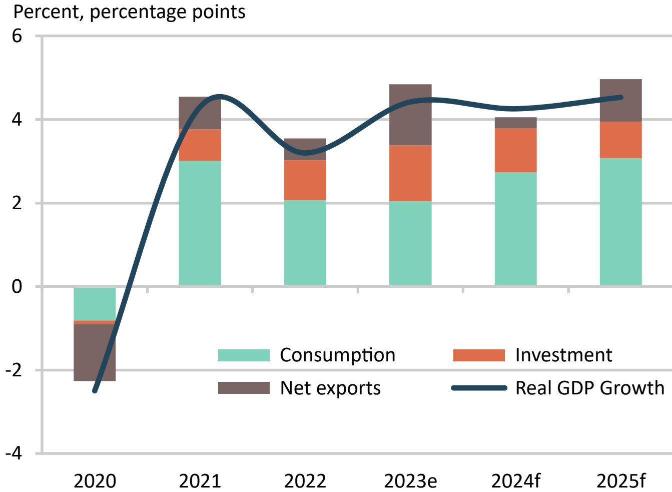
The unemployment rate declined slightly to 4.7 percent in Q2 2023, from 4.9 percent in 2022. Economic growth and an above-inflation increase in minimum wages drove up real wages by 1.2 percent in Q2 (yoy).

In August 2023, inflation slowed to 14 percent (yoy) from a peak of 21.3 percent in February, still well above the National Bank of Kazakhstan (NBK) 4-6 percent target range. Food price inflation decelerated to 13.5 percent yoy, while services inflation was 13.9 percent yoy.

The Central Bank (NBK) cut its policy rate by 250 basis points to 16.50 percent in August for the first time since February 2022.

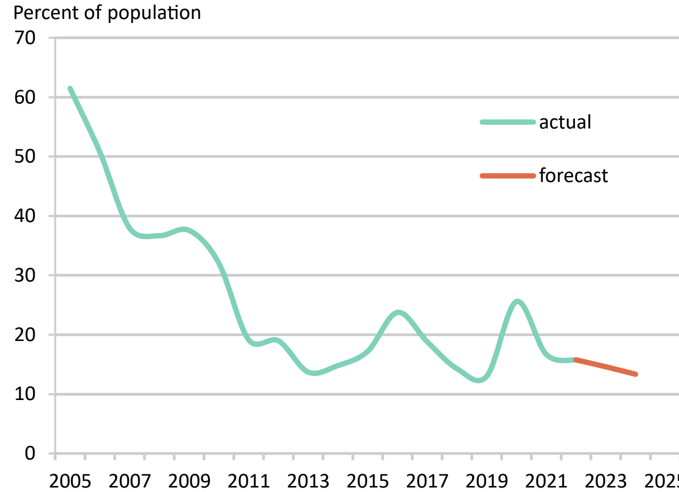
The current account deficit reached USD 3.6 billion in H1, reversing the surplus of USD 6.6 billion in H1 2022, as oil prices subsided, leading to a fall in nominal USD export values of 10.6 percent (yoy). FDI increased by 18.6 percent (yoy) in nominal USD value, with investments primarily flowing into the mining sector. Gross international reserves decreased slightly to 7 months of import cover at the end of June 2023. The KZT depreciated slightly against the USD in H1 2023, as the RUB depreciated sharply.

FIGURE 1 Kazakhstan / Real GDP growth and contributions to real GDP growth



Sources: Statistical Office of Kazakhstan and World Bank staff estimates.

FIGURE 2 Kazakhstan / Poverty rate, percent of population living on less than $6.85 (PPP) per day



Source: World Bank staff estimates.

The consolidated budget deficit reached an estimated 3.0 percent of GDP in H1 2023, compared to a 1.1 percent surplus in H1 2022. This deterioration is primarily due to increased spending on education, social assistance, housing, and utility infrastructure, driving expenditures up 2.9 percent to 25.8 percent of GDP. Elevated interest rates pushed up debt service costs to 2.3 percent of GDP in H1 2023 (compared to 1.9 percent in H1 2022).

The banking sector has sufficient capitalization levels and the reported asset quality is relatively good. As of March 2023, the ratio of capital to risk-weighted assets stood at 18.8 percent – compared to the minimum requirement of 12 percent. The share of non-performing loans has remained stable at 3.4 percent (although the share of overdue loans with less than 90 days has been increasing slightly).

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. As a result, economic growth is projected at 4.5 percent in 2023 as a whole. Household spending will strengthen gradually as inflation and financial conditions ease. Investment, notably in mining and manufacturing, is expected to be strong. Growth is expected to remain at around the same levels in 2024 and 2025.

Inflation is projected to gradually decline to the target range 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 percent 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 rapidly driven by a reduction in lower oil-related taxes.

Poverty is expected to fall slightly to 14.6 percent (at USD 6.85/day) in 2023, as growth picks up and inflation subsides. High prices of basic items will remain a key factor impacting the population, especially the poorest households.

This outlook is subject to significant risks. Stubborn inflation may lead the authorities to sustain higher volumes of targeted support, increasing fiscal costs. Russia's invasion of Ukraine, escalating tensions in and near the Black Sea related to the invasion, and western sanctions against Russia, leave Kazakhstan vulnerable to disruptions in oil exports via the Russian-controlled Caspian pipeline, which could have serious economic and fiscal implications for Kazakhstan. In addition, the risk of secondary sanctions on Kazakh companies and banks continues to be a concern, given the wide and deep economic ties to neighboring Russia. Kazakhstan has become a transit point for the import of dual-use goods to Russia. If imposed, sanctions could bring sizable economic costs, erode confidence and hamper FDI, and threaten the development agenda and growth.

TABLE 2 Kazakhstan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.5	4.3	3.2	4.5	4.3	4.5
Private consumption	-3.8	6.3	2.0	4.0	5.0	5.0
Government consumption	12.8	-2.4	9.1	4.1	1.0	0.5
Gross fixed capital investment	-0.3	2.6	3.6	5.2	4.8	5.0
Exports, goods and services	-12.1	2.3	10.2	6.1	3.9	6.7
Imports, goods and services	-10.7	-0.3	11.6	4.1	4.1	5.0
Real GDP growth, at constant factor prices	-2.5	4.1	2.9	4.6	4.4	4.5
Agriculture	5.6	-2.2	9.1	4.0	3.5	3.5
Industry	-0.4	3.6	1.2	5.2	4.1	5.7
Services	-4.5	5.0	3.5	4.2	4.6	3.8
Inflation (consumer price index)	7.5	8.5	20.3	11.6	10.2	6.8
Current account balance (% of GDP)	-6.4	-1.3	3.5	-1.1	-0.6	-0.2
Net foreign direct investment inflow (% of GDP)	-3.4	-1.0	-3.5	-3.2	-3.3	-3.7
Fiscal balance (% of GDP)	-6.5	-4.3	0.4	-1.0	-1.3	-1.0
Revenues (% of GDP)	18.0	17.6	22.0	21.7	20.8	19.8
Debt (% of GDP)	24.9	23.7	22.5	22.9	23.2	24.9
Primary balance (% of GDP)	-5.4	-3.1	1.8	0.2	0.6	0.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	25.6	16.7	15.7	14.6	13.3	12.2
GHG emissions growth (mtCO2e)	-5.8	-13.0	-12.4	-9.2	-8.4	-8.9
Energy related GHG emissions (% of total)	76.0	73.5	71.2	69.4	67.4	64.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.