KAZAKHSTAN

Highlights

- **The economy is recovering, albeit gradually.** Real gross domestic product (GDP) grew by 3.0 per cent year-on-year in the first three-quarters of 2021, driven by the recovery of domestic demand thanks to government stimulus policies and rising commodity prices. However, growth continues to be negatively affected by recurring domestic restrictions to contain the spread of Covid-19, and rising inflation and real estate prices are a growing concern.
- **The Comprehensive Plan for Economic Recovery has been extended until the end of 2021.** It includes more than 160 measures related to, among other things, investment promotion, support for small and medium-sized enterprises (SMEs), labour market, digitalisation, efficiency of fiscal revenues and the financial sector.
- **A National Development Plan through to 2025 has been adopted.** The plan rests on three main pillars: citizen welfare, quality of institutions and a strong economy. The government seeks, among other things, to strengthen the healthcare system, reduce the state's footprint in the economy, put in place an effective industrial policy framework, and promote digitalisation and the transition to a green economy.

Key priorities for 2022

- **Fiscal support measures need to be better targeted.** State support was extensive even before the Covid-19 pandemic-related crisis. To better use scarce financial resources and encourage green investment and innovation, the government should design policies to deliver private-sector support in a targeted way using market-based incentives.
- **The authorities should step up efforts to build resilience.** The healthcare system's capacity should be further strengthened, with an emphasis on commissioning new hospitals and increasing the supply of medical equipment. To bolster food security, it is desirable to improve the organisation of the agriculture sector and enhance its climate resilience – an urgent challenge illustrated by the severe drought plaguing Kazakhstan and the region in 2021.
- **Efforts are needed to improve inclusion across regions and for vulnerable population groups.** Reforms in education and vocational training need to accelerate, with a focus on digital skills. The government should take advantage of the opportunities offered by rapid advances in remote working and learning to improve the quality of training and education available for workers in need of upskilling and reskilling.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.1	4.1	4.5	-2.6	3.6
Inflation (average)	7.4	6.0	5.2	6.8	7.7
Government balance/GDP	-4.3	2.6	-0.6	-7.0	-2.5
Current account balance/GDP	-3.1	-0.1	-3.6	-3.7	-1.0
Net FDI/GDP [neg. sign = inflows]	-2.8	-0.1	-2.0	-2.3	-2.5
External debt/GDP	100.7	90.0	87.5	96.7	n.a.
Gross reserves/GDP	19.3	18.1	16.1	21.0	n.a.
Credit to private sector/GDP	29.1	25.9	24.2	25.8	n.a.

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Covid-19: macroeconomic implications

Real GDP grew by 3.0 per cent year-on-year in the first three-quarters of 2021. The recovery was enabled by fiscal support measures and expansion in private consumption. Growth in real wages and consumer lending, together with stimulus measures, benefited household demand. Fixed investment remains sluggish due to the contraction in the mining sector but it has been growing outside of mining. Growth is held back by domestic restrictions to contain the spread of Covid-19 and a reduction in mining output to comply with Organization of the Petroleum Exporting Countries Plus (OPEC+) agreements.

Inflation is inching up. The inflation rate rose from 7.5 per cent year-on-year in December 2020 to 8.9 per cent year-on-year in September 2021, fed by rising international food and commodity prices, as well as pent-up demand fuelled by social transfers and other stimulus measures. Real estate prices surged, driven by increased mortgage lending and people spending their retirement savings (allowed from January 2020). Credit growth accelerated to 16.0 per cent year-on-year in August 2021 from 8.0 per cent a year ago. The central bank responded to inflationary pressures by hiking the policy rate stepwise from 9.0 to 9.25 per cent in July 2021, to 9.5 per cent in September 2021, and to 9.75 per cent in October 2021. The exchange rate bottomed out in early April 2021 after a short bout of depreciation triggered by new sanctions imposed on Russia, but is currently stable.

The current account was in deficit in the first half of 2021. Preliminary estimates show a deficit of US$ 1.7 billion in January to June 2021 compared with US$ 0.8 billion a year ago. This is due to a surge in net investment income payments made to foreign direct investors (up by 43 per cent year-on-year) and growing consumer goods imports (27 per cent year-on-year). The export of goods rose by a modest 3.4 per cent year-on-year, driven by non-oil exports.

Economic growth is forecast to accelerate in the short term. Real GDP is expected to grow by 3.6 per cent in 2021 and 3.8 per cent in 2022, supported by higher oil prices, fiscal stimulus and recovery of private consumption. Significant downside risks remain, however, including those related to the path of Covid-19 infections.

Policy response to Covid-19

Measures to support SMEs are continuing in 2021. Credit support, tax and loan payment deferrals for SMEs have been extended. Concessional lending (at 6.0 per cent) is provided via state programmes such as the Employment Roadmap, the Business Roadmap and the Economy of Simple Things. There are also tax incentives in agriculture, tourism, transport and catering. A special retail tax regime was introduced in early 2020 for SMEs in sectors most affected by the Covid-19 pandemic, substituting a 3.0 per cent corporate income tax (on gross income) for social tax and value added tax (VAT) payments.

The Comprehensive Plan for Economic Recovery has been extended until the end of 2021. It includes more than 160 measures targeting, among other things, investment promotion, SME support, the labour market, digitalisation, the efficiency of fiscal revenues and the financial sector. Revisions to the 2021 budget include additional spending to support the fight against Covid-19 within a broader stimulus package. The overall fiscal stimulus package in 2021 amounts to about 1.6 per cent of GDP.

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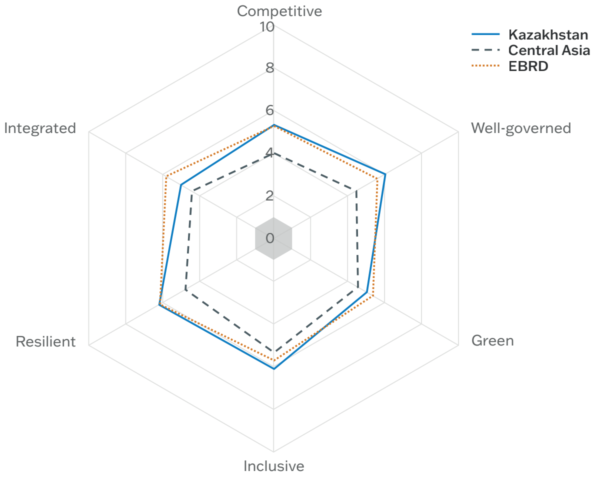
Assessment of transition qualities (1-10)



Structural reform developments

Major development programmes are envisaged in the coming years. The overall fiscal framework for 2022-24 and the proposed 2022 budget remain somewhat expansionary, to accommodate the ruling party's development programmes and social welfare commitments. The government plans major increases in healthcare, education and social spending, which are likely to add to inflationary pressures (although the government is projecting an actual slowdown in inflation from 6-7 per cent in 2021 to 4-5 per cent by 2024). These extra expenditures will be partially balanced by cuts in spending on municipal infrastructure and transport.

A new National Development Plan through to 2025 is in place. The plan, adopted in March 2021, is built on three main pillars: citizen welfare, quality of institutions and a strong economy. The government will seek, among other things, to strengthen the healthcare system, reduce the state's footprint in the economy, put in place a new industrial policy framework, and promote digitalisation, trade and financial integration, regional development and green economy transition. Key targets to be achieved are 5 per cent annual real GDP growth by 2025, a doubling of non-extractive exports and increasing the share of SMEs in GDP to 35 per cent.

The government is committed to restarting privatisation through a programme for 2021-25. Due to the Covid-19 pandemic and the associated deterioration in market sentiment, initial public offerings of KazMunaiGas (the national oil and gas company), Air Astana (the national airline), KazPost (the national postal operator) and Kazakhstan Temir Zholy (the national railways), initially planned for early 2020, were postponed until 2021-23. The new plan envisages privatising 736 state assets (including subsidiaries). Fifty per cent of enterprises will be privatised in 2021, 30 per cent in 2022 and the rest in 2023-24, according to the plan. The target is to reduce the share of state-owned enterprises (SOEs) in the economy to 14 per cent of GDP by 2025.

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Kazakhstan is making progress on the green economy agenda. In December 2020 the president announced the country's commitment to reaching carbon neutrality by 2060. As part of this journey, the country will accelerate transition to renewable energy sources and will plant two billion trees in the next five years to increase carbon absorption. In addition, the new environmental code, effective since July 2021, makes climate change adaptation a legal norm for sectoral and regional policy planning. The 50 largest companies, accounting for 80 per cent of emissions in Kazakhstan, are expected to upgrade to the best available technologies by 2025.

Bitcoin mining has gained prominence due to favourable regulation and low electricity prices. The growth in mining has also been given impetus by new restrictions imposed on cryptocurrency use in China since May 2021. Mining in Kazakhstan has reportedly made up about 8.2 per cent of the average monthly Bitcoin hash rate, ranking third behind China and the United States of America as of April 2021. The regulatory framework has been conducive to investment: the law on the regulation of digital technology has legalised the process of cryptocurrency mining and participation in the global cryptocurrency industry. Cheap electricity (KZT 8 per kilowatt hour (kWh)) is another major incentive for foreign investment in the area. The authorities signed a law on taxation of crypto miners in June 2021, according to which, starting in January 2022, registered miners will be charged an extra KZT 1 (US$ 0.0023) per kWh.