



Kazakhstan Highlights

- **Economic growth continues amid rising inflation.** Real gross domestic product (GDP) grew 3.6 per cent year on year in the first half of 2022, driven by strong export growth amid elevated commodity prices. However, rising inflation and logistical challenges suggest a need to expand the capacity of existing trade routes and diversify into new ones.
- **Significant improvements in governance are under way.** Key developments in 2022 include the strengthening of parliament's role, efforts to renationalise embezzled assets and reduce the dominance of vested interests, and the appointment of new leaders to top government and state-owned enterprise management positions.
- **The reform agenda is advancing at a brisk pace.** The government has recently unveiled a comprehensive economic reform package to address gaps in the rule of law and protection of property rights, the competitive environment, industrial policies and social support mechanisms, human capital and public administration.

Key priorities for 2023

- **The government should intensify efforts to diversify trade and investment flows.** In light of the international sanctions imposed on Russia, Kazakhstan needs to re-route trade flows, build new supply-chain relationships and reach international agreements on key investments in alternative trade and transport corridors to take its export products to Europe and other markets, such as the Gulf region and south and south-east Asia.
- **Efforts to restore macroeconomic stability are urgently needed.** Ineffective fiscal stimulus measures, including support policies for small and medium-sized enterprises (SMEs), should be wound down and the central bank's involvement in subsidising the economy reduced as part of a broader effort to curb inflationary pressures, reduce the fiscal deficit and slow debt accumulation.
- **Social policies should be redesigned.** Targeted income support for the vulnerable should replace price controls and tariff subsidies for all. Utility tariffs should be brought closer to cost recovery over time to incentivise resource-saving behaviour, as well as private investment in renewables and energy-efficient technologies.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.1	4.5	-2.6	4.1	3.0
Inflation (average)	6.0	5.2	6.8	8.0	14.0
Government balance/GDP	2.6	-0.6	-7.0	-5.0	-2.0
Current account balance/GDP	-0.1	-4.0	-3.8	-2.9	3.0
Net FDI/GDP [neg. sign = inflows]	-0.2	-2.1	-4.2	-0.9	-1.1
External debt/GDP	89.4	87.8	96.2	83.7	n.a.
Gross reserves/GDP	15.7	15.9	20.8	17.4	n.a.
Credit to private sector/GDP	25.9	24.3	25.6	n.a.	n.a.

Macroeconomic developments and policy response

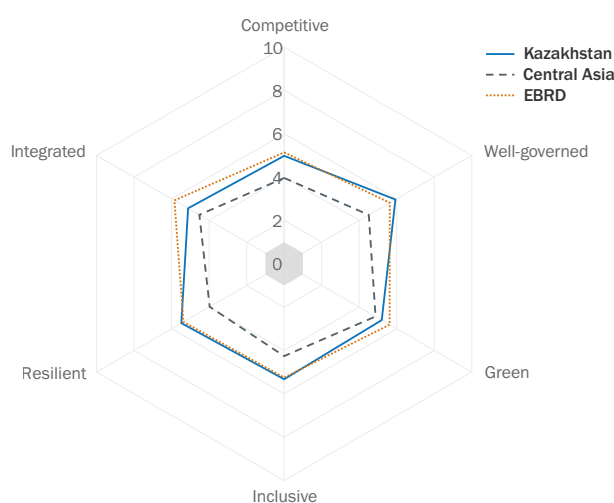
Economic growth has continued. Real GDP grew 3.6 per cent year on year in the first half of 2022. Despite disruptions at the Caspian Pipeline Consortium’s terminal in Novorossiysk, exports demonstrated remarkable resilience (up 50.6 per cent year on year in January-August 2022) amid high oil prices. Growth was broad based, driven by the very strong performance of construction, transport and warehousing, and the economy is resilient to external shocks, despite taking on additional debt. Preliminary estimates suggest that the current account achieved a record surplus of US\$ 6.6 billion in the first half of 2022, compared with a deficit of US\$ 2.8 billion a year ago, driven by external demand for energy products. Official foreign-exchange reserves and assets held by the National Bank of Kazakhstan (NBK) and the National Oil Fund amount to US\$ 83.8 billion (approximately 44 per cent of GDP) well above the country’s total external public debt (18.4 per cent of GDP).

Inflation has been gaining momentum since late 2021. The war on Ukraine and sanctions on Russia led to a sharp depreciation in the Kazakh tenge (KZT) in late February-March 2022. To prevent excessive exchange-rate volatility, the NBK intervened in the foreign-exchange market and introduced a deposit protection programme, offering a premium interest rate on local currency-denominated deposits held in banks for at least one year. The NBK has also increased the policy rate in steps, from 9.75 per cent in December 2021 to 16.0 per cent in October 2022. However, strong growth of nominal wages (25.6 per cent year on year in September), coupled with a surge in transport, food and commodity prices, added to inflationary pressures, with CPI increasing by 18.8 per cent year on year in October compared with 8.4 per cent in December 2021.

The policy response to global and regional shocks has been varied. In addition to tightening monetary policy, the NBK has scaled back its involvement in financing post-Covid-19 stimulus programmes by exiting five out of seven state support programmes. Meanwhile, the government has introduced a new plan to ensure food security for 2022-24. As a temporary measure, the authorities have banned or restricted exports of certain key products, such as sugar and wheat. The country remains vulnerable to transport and logistics disruptions, as highlighted by “technical” incidents at the Caspian Pipeline Consortium’s terminal in Novorossiysk, which accounts for about two-thirds of Kazakhstan’s oil exports. While increasing oil shipments through available alternatives, Kazakhstan has joined regional efforts to add capacity on other trade routes, such as the Trans-Caspian Corridor.

Economic growth is likely to slow in the short term. Overall, we expect the economy to expand by 3.0 per cent in 2022 and 3.5 per cent in 2023. Significant downside risks remain, including any potential interruption to oil transit through Novorossiysk and continued challenges related to trade logistics worsening due to a further escalation of the geopolitical conflict over Ukraine.

CHART Assessment of transition qualities (1-10)



Structural reform developments

Political and economic governance is improving. Following the events of January 2022, the authorities emphasised the need to eliminate all artificial monopolies and underscored the urgency of transitioning from a “super-presidential” form of government to a presidential republic with a strong parliament. A nationwide referendum in June 2022 approved constitutional amendments designed to enhance political competition, reduce the president’s powers, strengthen the lower house of parliament and improve human rights. Meanwhile, the government unveiled a comprehensive economic reform package prepared by the Agency for Reforms and Strategic Planning. The package addresses gaps in the rule of law and protection of property rights, the competitive environment, industrial policies and social support mechanisms, human capital and public administration.

A new programme to promote investment is in place. The New Investment Policy Concept of the Republic of Kazakhstan to 2026, approved by the government in June 2022, aims to boost fixed capital investment from 16.3 per cent of GDP in 2021 to 25.1 per cent of GDP by 2026 and to increase the inflow of foreign direct investment (FDI) to US\$ 25.5 billion over the same period. The concept emphasises the need to enhance labour productivity, increase export volumes and complexity, develop higher-value-added activities and facilitate technological transfers and the gradual localisation of advanced production processes. In addition, it focuses on investment in transport infrastructure to help integrate regional and global value chains and to develop the skills needed to deliver strategically important investment projects.

SME development is being promoted. In April 2022, the government adopted the Concept for the Development of Small and Medium-sized Enterprises of the Republic of Kazakhstan to 2030. Under this concept, the contribution of SMEs should increase from 33.5 per cent of GDP to 40 per cent by the end of the decade, with medium-sized companies contributing 20 per cent of GDP. To this end, the government has committed to reducing red tape and regulatory barriers for SMEs, enhancing the effectiveness of budgetary spending and existing SME support mechanisms, and developing high-quality infrastructure and automated reporting processes.

New counter-cyclical budgetary rules are being introduced. The new rules, to be implemented in the 2023-25 budgets, are designed to strengthen the country’s fiscal stance. Two additional rules concern: (i) a cap on government spending growth; and (ii) setting transfers from the National Fund in relation to a cut-off price for oil.

Kazakhstan is advancing the digitalisation agenda. In June 2022, the NBK launched the Instant Payment System (IPS) platform. The IPS enables 24/7 interbank transfers using a mobile phone number or QR code. The authorities are exploring the opportunity to introduce digital currency (digital tenge), which would enhance financial inclusion by increasing the availability and affordability of financial services. On 1 July 2022 the National Bank and Centre for Development of Payment and Financial Technologies of the National Bank of Kazakhstan published a study discussing a decision-making model for the introduction of digital tenge. The project is currently being piloted. A final decision on the introduction of the digital currency is expected to be made by the end of 2022.

A long-term decarbonisation strategy is being developed. In 2020, Kazakhstan announced its commitment to reaching carbon neutrality by 2060. As part of its decarbonisation strategy, utility tariffs will be gradually brought closer to cost recovery, while the state will provide vulnerable families with targeted assistance. This will help the country remain on track to meet its objectives on the climate front by incentivising private investment in renewables and energy-efficient technologies.

The banking system is adjusting to geopolitical developments. To ensure compliance with international sanctions on Russia, local banks are working to strengthen their “know your client” practices when dealing with international customers. The Kazakh subsidiaries of sanctioned Russian banks Alfa Bank and Sberbank were recently purchased by BCC and Baiterek, respectively, while VTB is still negotiating with potential investors.