

KAZAKHSTAN

Table 1	2021
Population, million	19.0
GDP, current US\$ billion	202.9
GDP per capita, current US\$	10693.5
International poverty rate (\$1.9) ^a	0.0
Lower middle-income poverty rate (\$3.2) ^a	0.2
Upper middle-income poverty rate (\$5.5) ^a	4.6
Gini index ^a	27.8
School enrollment, primary (% gross) ^b	100.3
Life expectancy at birth, years ^b	73.2
Total GHG Emissions (mtCO ₂ e)	301.1

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2011 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine is likely to reduce growth to 1.5 percent in 2022. This figure follows 4 percent growth in 2021, driven by a rebounding economy, consumption growth, and supportive fiscal policy. Higher food and energy prices have accelerated inflation. The poverty rate is expected to fall in 2022 but remain above pre-pandemic levels. Inflation will also remain elevated due to supply disruptions arising from the war in Ukraine.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced rapid growth, fueled by investments in extractive industries. Growth, in turn, has reduced poverty and transformed the country into an upper-middle-income economy.

However, the achievement masks underlying vulnerabilities and the unevenness of the country's progress. Key challenges include slow productivity growth, wealth inequality, rising living costs, limited job opportunities, and weak institutions. These challenges were amplified by the COVID-19 pandemic and prompted the largest protests in the country's history earlier in the year.

Reforms are needed to raise living standards and human capital, reduce corruption, reverse productivity stagnation, improve competition and private sector growth, and accelerate the low-carbon economic transition. Following the protests in January, which were marred by violence and attempts at destabilization, the government has announced its intentions to tackle these constraints through wide-reaching reforms.

Recent developments

Economic activity returned to pre-pandemic levels in 2021. Despite an increase in

COVID-19 containment measures during the first half of 2021, robust activity in the second half supported real GDP growth of 4 percent for the year.

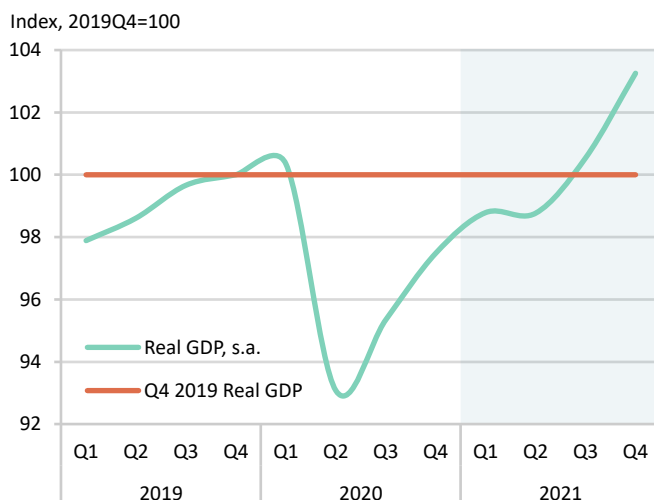
Growth was driven by continued fiscal expansion, strong consumer credit growth, and reduced COVID-19 restrictions. Due to a strong recovery in household consumption, retail trade rose by 6.5 percent and retail loans, including mortgages, by 40 percent in 2021. After contracting by 3.4 percent in 2020, total capital investment rose modestly by 2.6 percent, driven by solid growth in housing construction. Reopening the economy has increased activity in face-to-face services and manufacturing industries mainly aimed at the domestic market.

A sharp increase in global oil prices substantially improved Kazakhstan's trade balance and reduced the current account deficit to 3 percent of GDP in 2021 (from 3.8 percent in 2020). FDI inflows and higher foreign borrowing by state enterprises financed this deficit.

With heightened uncertainty during the January events and the recent plunge in the Ruble, the tenge has depreciated by about 17 percent against the US Dollar. To reduce tenge volatility, the central bank scaled up FX interventions and increased its policy rate by 2.25 p.p. to 13.5 percent in March 2022. FX reserves, however, remain comfortable at US\$33.5 billion.

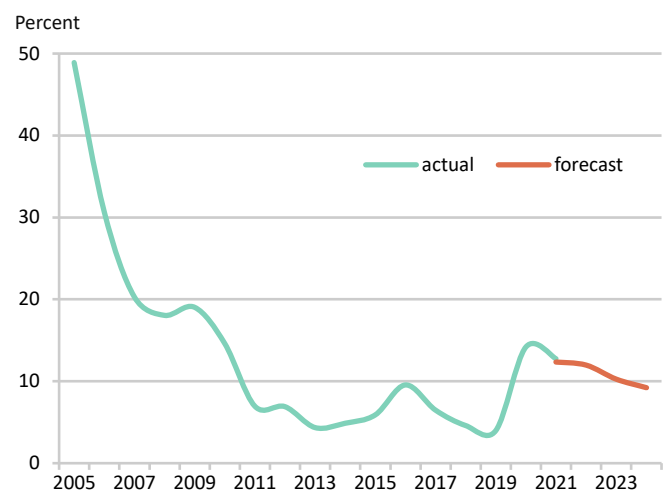
Fiscal policy in 2021 remained accommodative to the impact of COVID-19 on the economy. Budgetary support measures continued for households and businesses facing hardship while public investment priorities shifted from pandemic response

FIGURE 1 Kazakhstan / Movement in real GDP (Q4 2019=100)



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

FIGURE 2 Kazakhstan / Poverty rate \$5.5/day PPP



Source: World Bank estimates, calculations based on ECAPOV harmonization, using 2018-HBS.

to recovery. Higher oil revenues helped reduce the budget deficit to 3 percent of GDP from 4 percent in 2020. The public debt-to-GDP ratio remained broadly unchanged at 24.5 percent of GDP.

At 8.7 percent year-on-year in February 2022, inflation remained above the central bank target of 4-6 percent. Food and energy prices were the main drivers. The government established price caps on certain food and fuel products and utility tariffs in response to January's mass protests.

As loan guarantees and forbearance measures continued to support households and businesses affected by the pandemic, the share of NPLs in the banking system decreased to 3.3 percent in 2021 from 6.9 percent in 2020. Sanctions on banks and transaction restrictions thus far have not stressed the local branches of Russian banks (15 percent of banking sector assets). However, vulnerabilities could emerge from large financial outflows, sustained supply chain disruptions, and risks of secondary sanctions effects given Kazakhstan's significant trade, investment, and people linkages to Russia.

The employment rate has reverted to pre-pandemic levels, and real wages increased by 5.7 percent annually in Q3 2021. In January 2022, the minimum wage was increased by 41 percent as part of

a government package of social reforms. The poverty rate is estimated to have decreased to 12.4 percent in 2021 due to broader economic recovery.

Outlook

Spillovers from Russia's economic collapse will disrupt Kazakhstan's supply chains and dent its growth prospects. Real GDP growth is expected to slow to 1.5-2.0 percent in 2022. Kazakhstan also relies on Russia for 40 percent of its imports. Trade disruptions, lower business confidence, and increased currency volatility will also lower growth.

Growth will also be lower due to the closure (due to storm damage) in March of Kazakhstan's main oil pipeline (to Russia's Black Sea), through which about 80 percent of Kazakhstan's oil is exported. Based on current repair timeframes (up to a month), oil export volumes could fall by about 5-6 percent in 2022.

Further exchange rate depreciation, rising food prices, and wage increases will keep inflation high in 2022. Monetary policy is expected to remain tight in response.

Fiscal policy will continue accommodating public spending to improve household

welfare and sustaining the business environment. Measures include increased social assistance, rental subsidies, and compensation for businesses affected by the January protests.

A small current account balance is projected in 2022, supported by higher oil prices and lower demand for imports.

The national poverty rate is projected to fall to 12.0 percent by end-2022, though this may change if inflation is higher and growth slips further.

These projections bear significant downside risks: spillovers from sanctions that further weaken trade flows and investor confidence; more prolonged suspensions of Black Sea oil exports; risks of wage-price spirals linked to economywide wage increases, and potential capital flight amidst heightened uncertainty and tighter global financial markets.

Events since January clearly urge faster progress on reforms to achieve sustainable growth and shared national prosperity. In that regard, the authorities plan to take a stronger stand against corruption and improve the rule of law, having announced steps to increase competition and the quality of human capital, and address government inefficiency.

TABLE 2 Kazakhstan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.5	-2.5	4.0	1.8	4.0	3.5
Private Consumption	6.1	-3.8	7.0	2.7	4.2	3.7
Government Consumption	15.5	12.8	0.5	1.2	0.8	0.8
Gross Fixed Capital Investment	13.8	-0.3	1.2	0.8	4.0	3.0
Exports, Goods and Services	2.0	-12.1	-0.2	-0.4	6.2	4.5
Imports, Goods and Services	14.9	-10.7	5.9	1.2	4.9	3.4
Real GDP growth, at constant factor prices	4.5	-2.5	4.1	1.8	4.1	3.6
Agriculture	-0.1	5.6	-2.4	2.5	2.8	2.9
Industry	4.1	-0.4	4.3	1.2	5.4	4.8
Services	5.2	-4.5	4.6	2.1	3.4	2.8
Inflation (Consumer Price Index)	5.3	6.8	8.0	10.5	7.2	5.5
Current Account Balance (% of GDP)	-4.0	-3.7	-3.0	0.6	-0.1	-0.3
Net Foreign Direct Investment (% of GDP)	3.1	3.4	2.1	1.7	3.0	2.7
Fiscal Balance (% of GDP)	-1.3	-3.3	-3.0	-2.7	-1.9	-0.8
Debt (% of GDP)	19.6	24.8	24.6	28.3	29.0	29.0
Primary Balance (% of GDP)	-0.3	-2.2	-1.7	-1.6	-0.7	0.3
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	0.2	0.2	0.2	0.2	0.1	0.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	4.0	14.2	12.4	12.0	10.3	9.2
GHG emissions growth (mtCO₂e)	2.2	7.0	1.5	0.8	1.5	1.8
Energy related GHG emissions (% of total)	80.2	81.1	81.0	80.8	80.8	80.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.