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Macroeconomics, Trade & Investment

Funding the Future: Boosting Revenues for Lasting Investments

Kazakhstan Economic Update – Winter 2024-2025

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FOREWORD AND ACKNOWLEDGEMENTS

The *Kazakhstan Economic Update* (KEU) is a report analyzing recent economic developments, prospects, and policy issues in Kazakhstan. The report draws on data available through December 2024 as reported by the authorities, and additional information collected as part of the World Bank's regular economic monitoring.

This report was authored by Azamat Agaidarov (Economist) with contributions from Natasha Sharma (Senior Economist), incorporating findings from the *Public Finance Review 2023: Strengthening Public Finance for Inclusive and Resilient Growth* (led by Sjamsu Rahardja, Kathrin Plangemann) and elaborating on fiscal policy issues featured in the previous *Kazakhstan Economic Update: Shaping Tomorrow: Reforms for Lasting Prosperity.*

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OVERVIEW

The economy is estimated to have grown by 4.0 percent in 2024, primarily supported by fiscal expansion and increased household borrowing, despite weak real incomes and flat investment. In 2025, a temporary growth acceleration is projected, fueled by a one-off expansion in oil production and associated export growth and further fiscal stimulus. Growth may moderate to 3.0–3.5 percent post-2025, due to persistently low productivity and declining investment levels, underscoring the need for policies to diversify the economy and support new levers of economic growth.

Inflation is gradually moderating but remains above the target of 5 percent. In 2024, price pressures eased as pandemic-era supply chain disruptions, post-reopening demand surges, and the inflationary spillovers from Russia's invasion of Ukraine began to subside. Inflation is projected to decline further, reaching 7.5–8 percent in 2025 and 6 percent in 2026 but remain still above the 5 percent target. The inflation outlook remains highly uncertain as fiscal expansion and ongoing currency depreciation risk prolonging price pressures.

Fiscal policy continues to be expansionary with the deficit expected to remain elevated. With expenditure growth outpacing revenue gains, the overall fiscal deficit is projected at 3.1 percent in 2025 before easing slightly to 2.7 percent in 2026. A new Tax Code underway now offers an opportunity to raise revenues through modernizing tax policy. While public and publicly guaranteed debt remains low and manageable at 24 percent of GDP, high domestic borrowing costs can reduce fiscal space. The current account deficit is projected to widen in 2025–2026 as exports moderate and the trade surplus is expected to shrink.

The outlook faces several downside risks. First, a decline in global oil demand/prices would harm exports, fiscal revenues, and growth, and further increase exchange rate volatility. Second, prolonged fiscal expansion may further strain the fiscal balance, contribute to inflationary pressures, and necessitate a prolonged period of tight monetary policy, keeping borrowing costs high. Continued domestic borrowing risks crowding out the private sector and adding to debt servicing cost. Third, the growing frequency of extreme weather events threatens agricultural productivity, critical infrastructure, and economic stability, potentially stoking inflation and prompting further fiscal intervention.

Kazakhstan's tax revenues remain significantly below those of aspirational and structural peers, emphasizing an urgent need for revenue mobilization reforms. Between 2015-2022, tax revenues constituted just 17 percent of GDP, compared to an OECD average of 34 percent, and lagged notably behind resource-rich peers. As Kazakhstan aspires to reach high-income status, some indicators like GNI per capita are converging with high-income countries. However, tax revenues continue to lag, which could result in underfunding essential public services and missing vital opportunities for long-term growth.

Growing expenditure pressures due to social programs and revitalizing infrastructure will continue to sustain the deficit unless new revenues are secured through tax reform. Recurrent budget revenue shortfalls have led to overreliance on the National Oil Fund, undermining the credibility of fiscal rules and jeopardizing Fund's long-term sustainability. This report's special topic section will delve into Kazakhstan's fiscal challenges, exploring pathways for strengthening revenue mobilization and ensuring fiscal sustainability.

To tackle fiscal challenges and strengthen revenue mobilization, Kazakhstan must embark on a comprehensive and strategic tax reform agenda. Key reforms should target income taxes by gradually increasing rates, transitioning to a progressive system, and improving tax administration. Inefficient

tax incentives must be phased out, supported by a transparent tax expenditure report and a rigorous evaluation mechanism to measure their impact. Value-added tax reforms should include a gradual rise in the standard rate, lowering registration thresholds, and better compliance. Excise tax should align with environmental goals by shifting to carbon-based taxes on transport fuels. Establishing a sustainable framework for National Oil Fund utilization, paired with an updated fiscal rule and a robust debt management strategy, will be critical to closing fiscal gaps and ensuring long-term stability

Targeted Tax Reforms to Boost revenues
Addressing the Fiscal Gap
• Adopting a sustainable framework for National Oil Fund usage
• Revise and implement a fiscal rule
Corporate Income Tax
• Consider a gradual hike in CIT rate
• Improve administration and collection mechanisms
Personal Income Tax
• Implement a progressive PIT
• Consider introducing a wealth or inheritance tax
Tax Incentives
• Publish a comprehensive tax expenditure report
• Phasing out ineffective incentives
• Implement a monitoring and evaluation framework
Value-Added Tax
• Consider a gradual increase in the standard VAT rate
• Lower VAT registration thresholds
• Strengthen compliance and enforcement
Excise Tax
• Transition to a carbon-based excise tax

Economic outlook

THE EXTERNAL ENVIRONMENT

Global economic growth is estimated at 2.7 percent in 2024 and is projected to stabilize through 2025-26. Growth remains below the 2010-19 average on 3.2 percent, keeping global output under its pre-pandemic trajectory. This restrained outlook reflects the lingering effects of recent economic shocks and structural slowdowns in key drivers like trade and investment due to ongoing geopolitical tensions and policy uncertainty.[1]

Growth prospects among Kazakhstan's key trading partners, crucial markets for its energy exports, are mixed.[2] In the euro area, after a challenging 2024 marked by high energy costs, modest growth of about 1.1 percent in 2025-26 is projected, supported by a recovery in consumer spending and investment as inflation eases and real incomes recover. In China, growth is projected to decelerate further, from 4.9 percent in 2024 to 4.5 percent in 2025 and 4.0 percent in 2026, due to a cooling property market, rising debt burdens, slowing productivity gains, and demographic challenges. Growth is also expected to slow in 2025-2026 in Russia to 1.6 and 1.1 percent respectively, nearing its lower potential level. Tight monetary policy and high borrowing costs aimed at controlling inflation, will likely limit investment, while fiscal spending and energy exports will remain key growth drivers **(Figure 1)**.

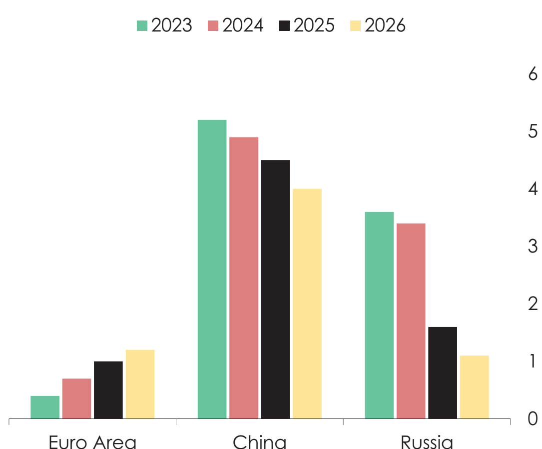
Global risks remain tilted to the downside. Potential shifts in U.S. economic policy, persistent geopolitical tensions, and fragmented global trade and investment networks could disrupt supply chains and dampen growth prospects for export-oriented economies like Kazakhstan. Additionally, further deterioration in China's real estate market could erode further consumer confidence, reduce global commodity demand, and weigh on growth prospects of many developed and developing economies alike

1 World Bank. 2025. Global Economic Prospects, January 2025

2 European Union is the largest export market for Kazakhstan, accounting for 40 percent of total goods exports in 2023. China followed as the second with an 18.5 percent share, while Russia ranked third with 13 percent of exports.

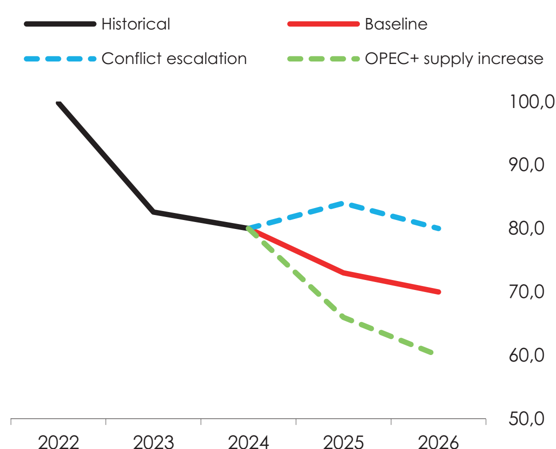
given China's significant footprint in global trade. Third, if inflation in advanced economies such as the U.S. and Eurozone remains high longer than expected, central banks may be forced to delay monetary policy normalization. This could weaken confidence, tighten financial conditions, and heighten market volatility. Such developments may threaten financial stability and exacerbate exchange rate pressures in emerging markets.

Figure 1. Growth prospects in key markets
(y-o-y, percent)



Source: World Bank.

Figure 2. Crude oil price projections
(U.S. Dollar per barrel)



Source: World Bank

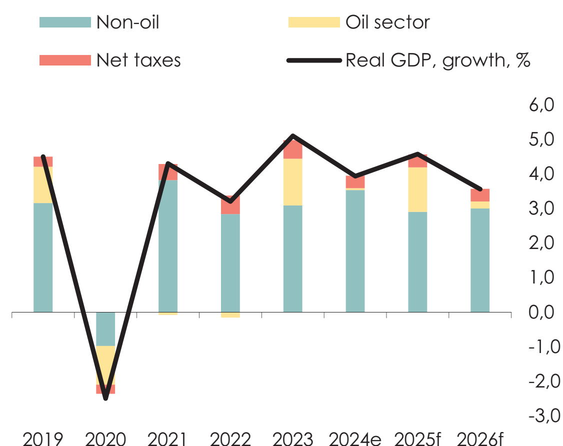
Energy prices are projected to weaken in 2025-2026 on the back of improved supply conditions and moderate global economic growth. Brent oil prices, which averaged an estimated US$80 per barrel in 2024, are projected to dip to US$72 in 2025 and to US$71 in 2026. This forecast reflects anticipated weaker demand from China, creating a substantial surplus through 2026. Risks to this outlook are primarily on the downside, with a weaker-than-expected slowdown in global economic growth, particularly in China, which could depress oil demand and prices further in 2025–26. Potential supply cuts by OPEC+, if unmatched by reductions elsewhere, could exacerbate the surplus, putting additional downward pressure on prices. Meanwhile, a major escalation of Middle East conflicts could threaten Red Sea shipping routes, posing an upside risk that might drive a sharp and sustained increase in oil prices.[3] (Figure 2)

3 World Bank. 2024. Commodity Markets Outlook, October 2024

ECONOMIC GROWTH

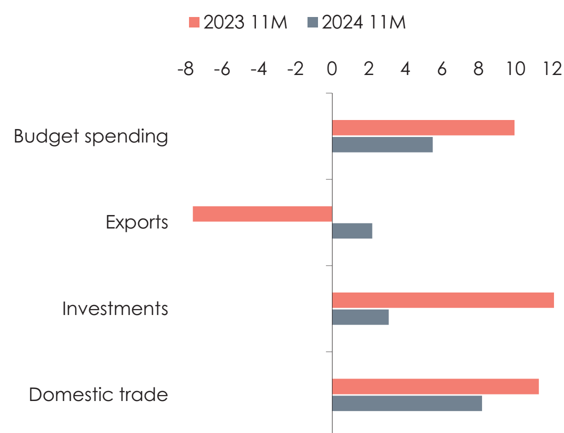
Economic growth slowed to an estimated 4.0 percent in 2024, down from 5.3 percent in 2023. An increase in fiscal spending was the main driver of economic growth. The government intensified spending in the second half of 2024, with consolidated budget outlays rising by roughly 5.5 percent year-on-year in real terms in 2024. Consumer activity remained robust, propped up mostly by strong borrowing amid weak growth in real incomes, with domestic trade—a proxy for household spending—growing by 8.2 percent, though down from 11.3 percent in 2023. Investment activity showed a little change over the same period due to a fall in FDI in mining and weaker residential investment. Exports likely provided modest support boosted by rising shipments of metals, chemicals, and other non-oil products, although this was partially offset by an increase in imports. On the supply side, industrial production grew by a muted 2.7 percent, weighed down by a 2.0 percent decline in oil output, while the services sector decelerated to 4.0 percent growth, down from 5.4 percent in 2023.

Figure 3. Real GDP growth
(y-o-y, percent)



Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates

Figure 4. Demand components
(y-o-y, percent in real terms)



Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates. Note: Nominal exports of goods, balance of payment basis for 9M 2024. Budget spending refers to consolidated fiscal outlays.

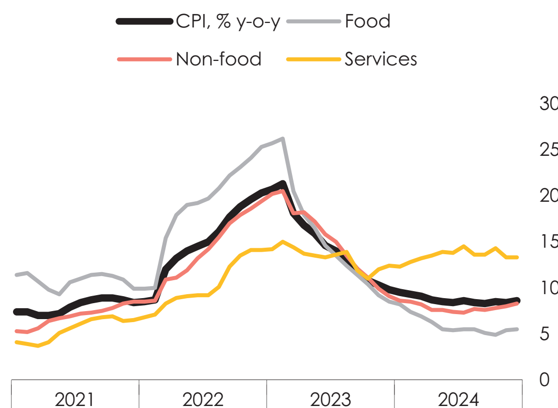
Growth is projected to see a temporary boost to 4.7 percent in 2025, fueled largely by increased oil production. The expanded Tengiz oil field is projected to drive a 7–8 percent rise in the volume of oil exports. This additional output will provide a short-lived lift to growth, while a sustained expansionary fiscal stance, highlighted in the government's three-year fiscal plan through 2027, will also support growth. Beyond 2025, real GDP growth is projected to slow to a more modest 3.0–3.5 percent as the economy reverts to its long-term potential, held back by persistently weak productivity outside the extractive industries. A prolonged decline in investment—from 28 percent of GDP in 2001–2009 to just below 17 percent over 2012–2023—has been a major drag on productivity and potential growth, underscoring the urgent need for policies that encourage investment and diversify the growth drivers beyond extractives **(Figure 3,4)**.

INFLATION

Inflation has shown signs of easing, but underlying pressures persist. By the end of 2024, inflation moderated to 8.6 percent y-o-y, down from 9.8 percent in December 2023, as earlier drivers—pandemic-induced supply chain disruptions, post-reopening demand surges, and logistics shocks from Russia's invasion of Ukraine—began to fade. However, the deceleration lost momentum in the second half of 2024. Real wage growth accelerated to 2.7 percent y-o-y in Q3, up from 1.7 percent in Q2, fueling consumer demand. Increased fiscal spending in the latter half of the year further amplified consumption pressures, while a volatile exchange rate drove import prices up by 6.7 percent y-o-y in September. Food inflation eased to 5.5 percent y-o-y in December 2024, and non-food slowed to 8.3 y-o-y percent. However, services inflation remained elevated at 13.3 percent, largely driven by sharp increases in regulated tariffs for essential utilities like electricity (21.7 percent increase), heating (21.7), and water supply (43.1).

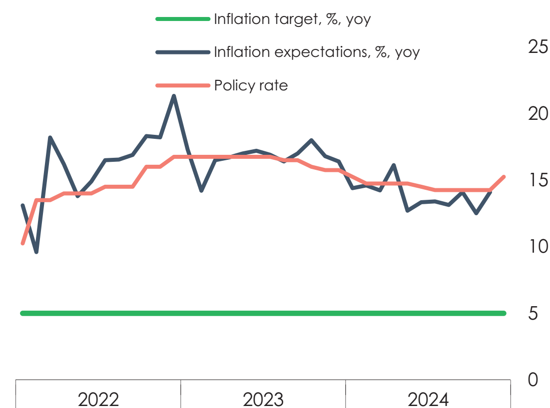
Inflation is projected to ease to 7.5-8 percent in 2025 and further to 6 percent in 2026, though risks lean to the upside. While the overall trend is encouraging, inflation is projected to stay above the 5 percent target. Factors such as accelerated economic growth, continued fiscal expansion, unanchored inflation expectations, and recently increased tenge volatility against the U.S. dollar may sustain inflationary pressures through exchange rate pass-through effects. This could delay reaching the target inflation rate, posing ongoing challenges to stabilizing prices in the medium term **(Figure 5,6)**.

Figure 5. Headline inflation and its main components *(y-o-y, percent)*



Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates

Figure 6. Inflation expectations and policy rate *(y-o-y, percent)*



Source: National Bank

While formal job creation rose by 2.1 percent y-o-y in Q3 2024, the unemployment rate remained unchanged at 4.6 percent in Q3. Employment data historically show limited response to economic cycle and likely underestimate the real situation in the labor market as many people in the informal services may not be registered with the government and thus wouldn't be reflected in official employment figures. To ease the burden on living standards, the authorities once again raised the minimum wage, by 21.4 percent in nominal terms in 2024. This effectively doubled its level from 2021 (55 percent, real terms), exceeding inflation over the same period, and it helped to reduce the poverty rate to 7.6 percent (at USD 6.85/day) in 2024 down from 8.8 percent in 2023.

MONETARY POLICY AND LENDING ACTIVITY

Following a period of rate cuts in 2023-2024, the central bank shifted to a more restrictive monetary policy in response to mounting fiscal expansion and exchange rate pressures. Between January and October 2024, the central bank reduced its benchmark rate by a cumulative 100 basis points, lowering it to 14.25 percent. However, intensified government spending and a recent depreciation of the tenge—driven by a weakening ruble—prompted a sharp course correction with an abrupt 100 basis point hike to 15.25 percent, effectively reversing the easing cycle. The monetary stance remains firmly restrictive as inflation and expectations are still misaligned with the 5 percent target. The central bank is expected to maintain this cautious approach in 2025, proceeding with gradual rate cuts only if conditions allow, particularly given the ongoing rise in fiscal spending.

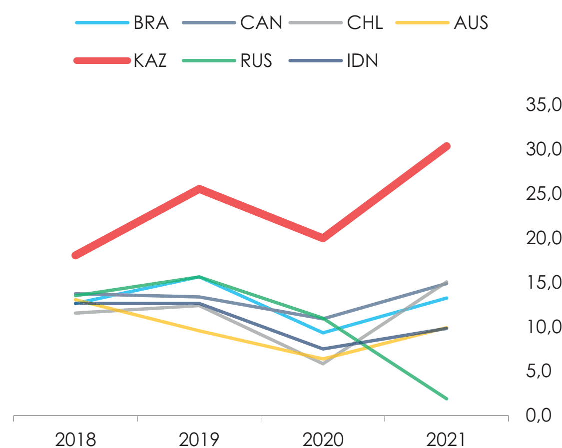
Lending activity is focused on loans to consumers. Real bank lending grew by 13.0 percent y-o-y in November, outpacing the 9.7 percent rise recorded a year earlier. Nearly 70 percent of this expansion stemmed from household borrowing, contributing 9.0 p.p. to overall growth in lending, while business loan growth contribution remains muted. Household lending has been fueled by short-term, high-cost consumer loans—primarily installment plans for durable goods and payday loans accessed via digital platforms, often with interest rates three to five times the inflation rate.[4] As a result, in Q2 2024, household debt-to-wage ratios reached 47.3 percent, surpassing levels seen during the 2008–09 banking crisis, raising concerns about potential vulnerabilities among low-income families **(Figure 7)**.

Fueled by a surge in high-cost consumer loans, banking sector is experiencing record-breaking profitability. Return-on-equity soared to a multi-year high of 33.4 percent in September 2024, as banks aggressively capitalized on the consumer lending boom. In September 2024, households now account for nearly 60 percent of outstanding credit—a dramatic shift from just 20 percent in 2010. In fact, Kazakhstan stands out among many resource-rich economies for its reliance on household borrowing, posing potential risks to financial stability if debt levels grow unchecked.[5] **(Figure 8)**

Figure 7. Household debt
(percent)

Source: Bureau of National Statistics, National Bank, staff estimates

Figure 8. Bank return on equity
(percent, after tax)



Source: World Development Indicators

4 In August 2024, financial authorities revised the maximum interest rates that commercial banks may charge on various loan types, introducing new caps for annual rates. Under the updated regulation, banks may now charge a maximum annual rate of 46% for unsecured loans (reduced from 56%), 35% for collateralized loans (previously 40%), 25% for mortgages, and 46% for microloans (down from 56%).

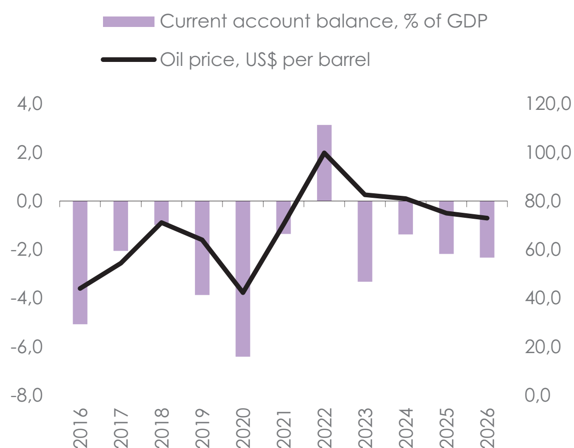
5 Kazakhstan Monthly Economic Update November 2024. World Bank

EXTERNAL SECTOR AND EXCHANGE RATE

The current account deficit is set to widen in 2025–2026. After narrowing in 2024 due to reduced imports and a lower primary income deficit, larger current account deficit in 2025-2026 will stem from projected declines in oil prices which is expected to outstrip planned production gains. As exports moderate and sustained domestic consumption supports import demand, the trade surplus is expected to shrink. While foreign investor income repatriation will continue, its pace may slow in line with lower projected oil prices. Following a dip in 2024 as a major oil project neared completion, FDI inflows are expected to rebound gradually, underpinned by sustained interest in mining and exploration **(Figure 9)**.

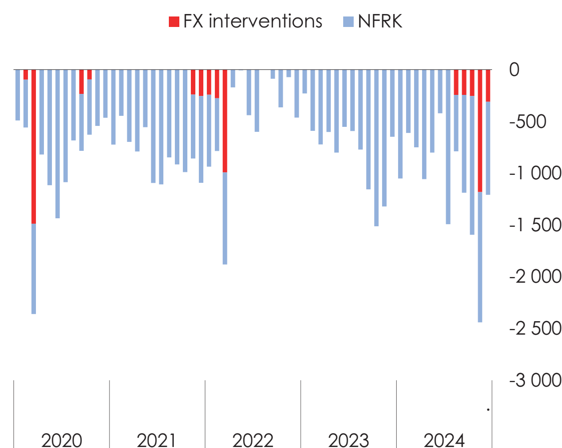
By the end of 2024, the tenge lost about 15 percent of its nominal value against the U.S. Dollar, reflecting softer oil prices and depreciating Russian ruble. Given the extensive cross-border trade ties with Russian economy, weakened ruble against U.S. Dollar has had an outsized role in pressuring tenge exchange rate. To stabilize tenge volatility, the NBK scaled up its presence in the market by selling foreign exchange (FX) from both its own reserves and the assets of the National Fund (NFRK).[6] In August-November 2024, the NBK has sold about US$1.9 billion in FX from its international reserves to mitigate short-term exchange rate volatility **(Figure 10)**. Additionally, introduced surrender requirements for commodity exporting SOEs, requiring them to convert a half of their FX revenues into tenge.

Figure 9. Current account *(percent of GDP)*



Source: Bureau of National Statistics, National Bank, staff estimates

Figure 10. The NBK interventions in the FX market *(US$ million)*



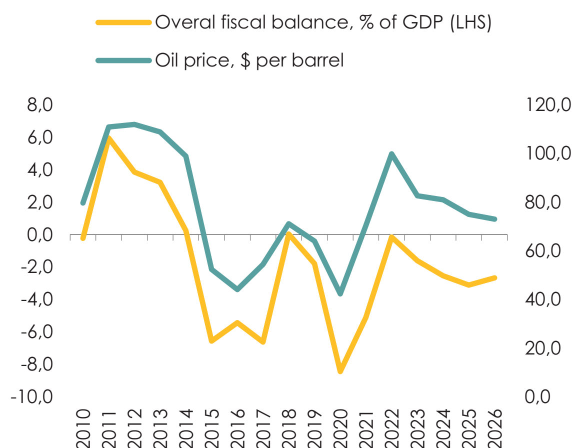
Source: National Bank

6 The FX sales from National Oil Fund have provided support to the currency amid fiscal shortfalls nearly doubling in 2024 compared to previous year.

FISCAL POLICY

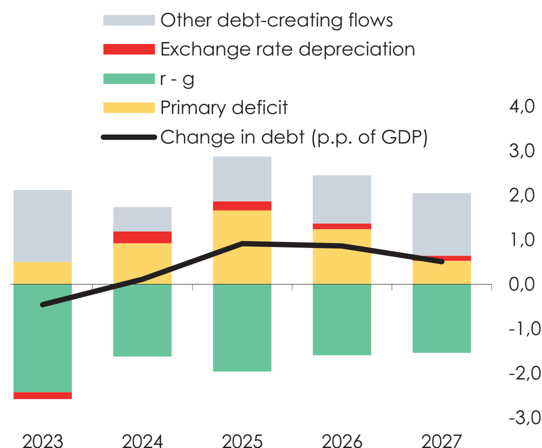
Fiscal policy has become expansionary, contrary to previously announced consolidation plans. The fiscal deficit is projected to rise from 1.6 percent of GDP in 2023 to an estimated 2.5 percent in 2024, driven largely by weaker-than-expected revenue collection and sustained spending to address flood recovery efforts. Revenue underperformance stems from lower oil-related revenues as oil output remained flat and global prices softened in 2024. The authorities' overly optimistic growth assumptions that underpins fiscal revenue collection forecasts also contributed to revenue shortfalls. With actual economic growth likely to fall significantly below projections, the gap between expectations and reality highlights the need for more realistic planning practices **(Figure 11)**.

Figure 11. Consolidated fiscal balance
(percent of GDP)



Source: Bureau of National Statistics, Ministry of Finance, staff estimates

Figure 12. Change in government debt
(percent of GDP)



Source: Bureau of National Statistics, Ministry of Finance, staff estimates

The government's three-year fiscal plan through 2027 outlines ambitious spending increases across social assistance, healthcare, agriculture, and SME support. While oil production is set to grow, oil-related revenues are expected to remain constrained amid forecasts of stable yet modest oil prices through 2027. Non-oil revenues will likely benefit from improving administration efforts and ongoing digitalization efforts, but expenditure growth is projected to outpace revenue gains, widening the fiscal deficit to 3.1 percent in 2025 before easing slightly to 2.7 percent in 2026. The deficit will likely be covered by a mix of domestic borrowing, external loans, and additional withdrawals from the National Oil Fund. Public debt is projected to rise gradually from an estimated 22.2 percent of GDP in 2024 to 24 percent by 2027—still low by global standards and within manageable limits **(Figure 12)**.

A new Tax Code is in development to bolster revenues to meet mounting expenditure demands in the medium term. Proposed reforms include higher taxes on the extractive and financial sectors,

increased levies on luxury goods, and potentially a VAT rate hike, previously delayed. Reducing tax exemptions could also raise revenue, but due to uncertainty around the final provisions, potential gains have not been included in baseline projections. If endorsed by the authorities, a new Tax Code will only become effective in 2026.

Growing demands for social programs and infrastructure renewal will continue to strain expenditures, sustaining the deficit unless new revenues are secured through tax reform. Recurrent budget revenue shortfalls have led to frequent ad hoc withdrawals from the National Oil Fund, undermining the credibility of Kazakhstan's fiscal rules. Additional transfers from the National Fund have become routine, even during periods of above-potential economic growth, further undermining fiscal discipline. Despite government commitments to adhere to fiscal rules, the risk of non-compliance remains significant. This report's special topic section will delve into Kazakhstan's fiscal challenges, exploring pathways for strengthening revenue mobilization and ensuring fiscal sustainability.

RISKS TO THE OUTLOOK

The outlook faces several downside risks. First, a decline in global oil demand/prices would harm exports, fiscal revenues, and growth, increasing exchange rate volatility. Second, increased budget spending and a pause on fiscal consolidation may strain the fiscal balance, sustain inflationary pressures, and necessitate a prolonged period of tight monetary policy, keeping borrowing costs high. Additionally, the growing frequency of extreme weather events (e.g., droughts, wildfires, floods) threatens agricultural productivity, critical infrastructure, and economic stability, potentially stoking inflation and prompting further fiscal intervention.

On the upside, effective implementation of planned reforms could boost business confidence and catalyze investment across non-extractive sectors, including through FDIs, strengthening revenue streams and enhancing long-term growth potential.

Table 1. Kazakhstan: Key Macroeconomic Indicators, 2020-2026

	2020	2021	2022	2023	2024e	2025f	2026f
						projections	
National income and prices							
Real GDP growth	-2.5	4.3	3.2	5.1	4.0	4.7	3.5
Oil sector growth	-5.8	-0.4	-0.8	8.3	0.4	8.2	1.3
Non-oil sector growth	-1.3	5.2	3.9	4.0	4.6	3.9	3.9
CPI inflation (end of period)	7.5	8.5	20.3	9.8	8.4	8.0	6.0
External accounts				*in percent of GDP*			
Current account balance	-6.4	-1.4	3.1	-3.3	-1.3	-2.2	-2.3
Exports of goods and services	28.8	36.4	41.5	34.3	32.9	31.2	29.1
Oil exports	13.9	15.8	20.8	16.1	15.2	14.7	13.7
Imports of goods and services	27.2	25.2	26.7	27.4	26.2	25.5	25.0
Foreign direct investment, net	4.2	2.3	2.2	2.0	0.8	1.4	1.7
NRFK assets, end-period	34.3	28.1	24.7	22.9	20.9	19.3	18.2
NBK reserves, end-period	20.8	17.4	15.6	13.7	14.2	...	...
Total external debt	95.8	83.3	71.3	62.0	58.5	56.3	54.3
Monetary accounts							
Reserve money growth	41.8	12.1	8.4	-2.8	10.3	9.8	9.6
Policy rate, year-end (in %)	9.00	9.75	16.75	16.50	16.25		
Consolidated fiscal accounts */				*in percent of GDP*			
Revenues	16.1	16.8	21.5	21.5	19.7	19.7	19.6
Expenditures	24.5	21.9	21.6	23.1	22.3	22.9	22.2
Consolidated budget balance	-8.4	-5.1	-0.2	-1.6	-2.5	-3.1	-2.7
Public Debt **/				*in percent of GDP*			
Government debt	24.9	23.7	22.5	22.0	22.2	23.1	23.9
External	10.7	10.0	8.6	7.0	7.0	6.6	6.2
Domestic	14.1	13.8	13.9	15.1	15.1	16.5	17.7
Government debt service (% of revenues)	6.8	7.3	6.5	7.4	8.2	7.3	7.3
Memoranda							
Oil price - Brent (US$ per barrel)	42.3	70.4	99.8	82.6	81.0	75.0	73.0

Sources: Government and NBK data and WBG staff estimate and projections. f=forecast.

Note: */ The consolidated budget comprises central and local governments as well as the NFRK

**/ Includes only the debt of the state and local government and government guarantees. Does not include SOE debt.

Special topic section: Boosting Revenues for Lasting Investments

TAX REVENUES AND INCOME LEVEL

Tax revenues remain the backbone of Kazakhstan's fiscal revenue streams, making up nearly 95 percent of total domestic revenue. In contrast, non-tax revenues contribute a mere 1.0 percent of GDP in 2022, primarily driven by irregular dividend payments from SOEs and interest income from the National Oil Fund's foreign exchange reserves. Both sources are highly volatile, with SOEs, primarily in the extractive industries, experiencing fluctuating profits tied to global commodity price swings. This underscores the importance reforming and diversifying tax revenues as the most reliable means of generating sustained fiscal resources.

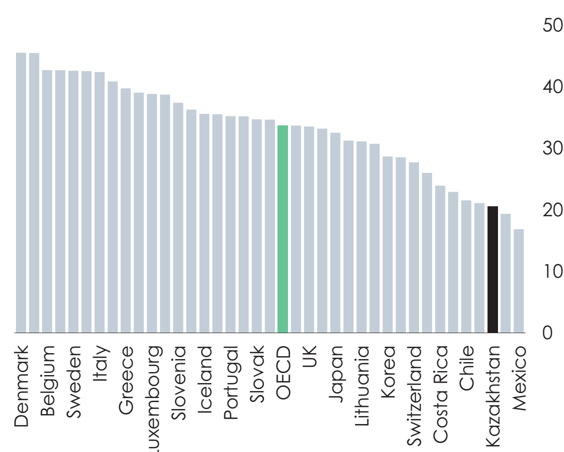
Kazakhstan's low tax revenues relative to both aspirational and structural peers underscore an urgent need for revenue mobilization reforms to bridge the growing fiscal gap. Between 2015 and 2022, the average tax revenues were only 17 percent of GDP, far below the level in high-income, mostly OECD countries, of 34 percent, lagging notably behind resource-rich peers like Australia, Canada, and Chile.[7] This gap highlights missed opportunities to align public spending with the country's economic potential. Kazakhstan made steady progress from 2000 to 2008 in raising its tax-to-GDP ratio from 20 percent to 28 percent of GDP, substantially narrowing the gap with high-income countries, which was 60 percent in 2000, and moved to 87 percent by 2008. The convergence, however, has stalled since then, revealing the need for more sustained tax mobilization to finance essential public services and development **(Figure 1)**.

Over the past decade, Kazakhstan shifted from a relatively high-tax to a low-tax economy, exacerbated by volatile policies and uneven economic growth. While tax revenues steadily increased until 2008, the trajectory changed dramatically between 2009 and 2022 due in large part to volatile tax

7 The consolidated budget tax revenues include aggregate taxes that are transferred to central and local budgets as well as the NFRK.

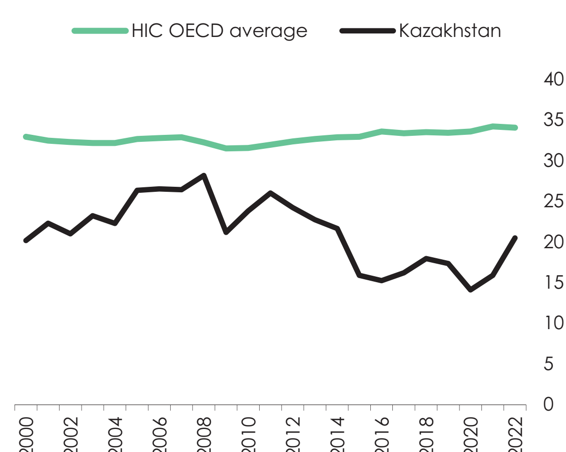
reforms and inconsistent economic growth.[8] This transition became especially apparent in 2020, when tax revenues hit a low of 14.1 percent of GDP since 2000s, even as high-income managed stable revenues despite the economic shock of COVID-19.[9] [10] The shift from a relatively high-tax economy to a low-tax regime over the past decade has eroded revenue base. While advanced economies managed to stabilize tax revenues during the COVID-19 pandemic, Kazakhstan's fiscal fragility was exposed, with tax revenue levels diverging further from international norms **(Figure 2)**.

Figure 1. Total tax revenues *(percent of GDP)*



Source: IMF, OECD, World Bank estimates

Figure 2. Evolution of tax revenues *(percent of GDP)*



Source: IMF, OECD, World Bank estimates

Despite some income convergence toward high-income economies, Kazakhstan's tax revenues have not kept pace, creating a disconnect between income levels and revenue collection. Data consistently demonstrates a positive correlation between GNI per capita and tax-to-GDP ratios, as higher-income countries maintain stronger and more resilient tax bases **(Figure 3,4)**.[11] [12] Evidence suggests that as countries grow, so should their tax revenues, yet a corresponding increase in Kazakhstan's tax-to-GDP ratio has not followed, remaining misaligned with its income level and lagging behind other resource-rich countries **(Figure 5)**. This growing disconnect between income level trajectory and revenue collection is concerning at a time when higher revenues are essential for sustainable and long-term development.[13]

8 Average real GDP growth, which was around 10 percent during 2000-2007, has halved to less than 4 percent in 2010-2022. One of the main contributors to this slowdown has been declining TFP and the marginal product of investment close to zero. More can be found: *Kazakhstan Economic Update: Shaping Tomorrow: Reforms for Lasting Prosperity (English).* Kazakhstan Economic Update. World Bank Group.

9 OECD (2023), Tax Policy Reforms 2023: OECD and Selected Partner Economies, OECD Publishing, Paris

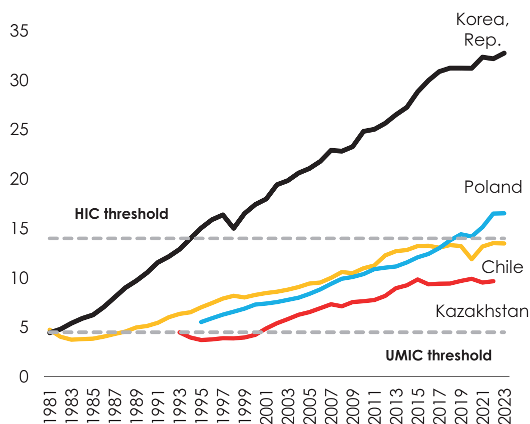
10 Oil sector generates on average about 20 percent of Kazakhstan's GDP in 2019-2023, while tax revenues stemming from the sector sector accounted for 1/3rd of total tax collection over the same period.

11 Vitor Gaspar, Laura Jaramillo, Philippe Wingender. "Tax Capacity and Growth: Is there a Tipping Point?" IMF, 31 Dec. 2016

12 OECD (2023), Tax Policy Reforms 2023: OECD and Selected Partner Economies, OECD Publishing, Paris

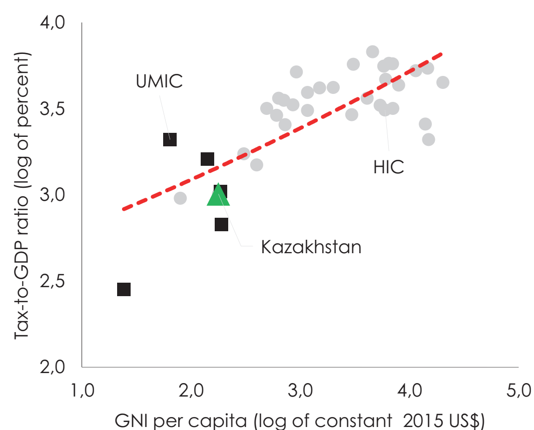
13 Tax-to-GDP ratios have generally risen across countries in recent decades, closely aligned with income levels. This trend also reflects policy adjustments driven by fiscal pressures from the global financial crisis, the pandemic, energy price shocks, and rising global interest rates. Despite these developments, the strong relationship between tax revenues and income levels remains evident.

Figure 3. Gross National Income per capita
(constant 2015 thousand U.S. Dollars)



Source: World Bank

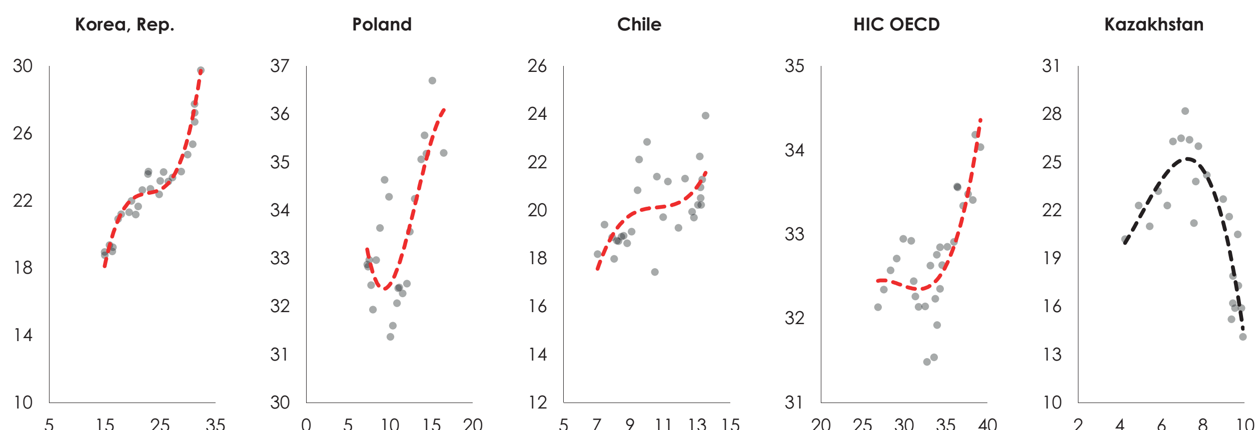
Figure 4. GNI per capita vs Tax-to-GDP in 2022



Source: IMF, OECD, World Bank

Declining tax collection levels combined with rising public expenditures has forced the government to increase debt financing and withdrawals from the National Oil Fund, creating fiscal imbalances. Since the 2015 currency crisis through 2023 the consolidated fiscal deficit averaged 4 percent of GDP, while the non-oil deficit averaged 10 percent of GDP far exceeding the 5 percent target set by the fiscal rule. This persistent fiscal deficit has driven government debt—mostly drawn from domestic sources—to surge from 14.5 percent of GDP in 2014 to 22 percent in 2023, with only one-third of the debt denominated in foreign currency by 2024.[14] **(Figure 6,7)**. While Kazakhstan's debt-to-GDP ratio remains relatively low compared to structural peers, especially among oil producers, without an increase in tax revenues, the reliance on debt is expected to increase over the medium term.

Figure 5. Change in income level vs Change in Tax-to-GDP ratio in 1995-2022
(X axis - GNI per capita in constant 2015 thousand U.S. Dollars, Y axis - Tax-to-GDP ratio)

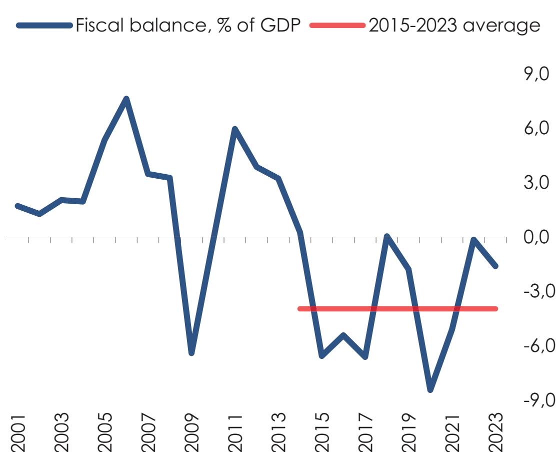


Source: IMF, OECD, World Bank

14 External SOE debt, including by state-owned banks, amounted to approximately 5 percent of GDP in 2023. This debt is primarily associated with entities such as Samruk-Kazyna and Baiterek Fund (80 and 20 percent of all SOE external liabilities, respectively).

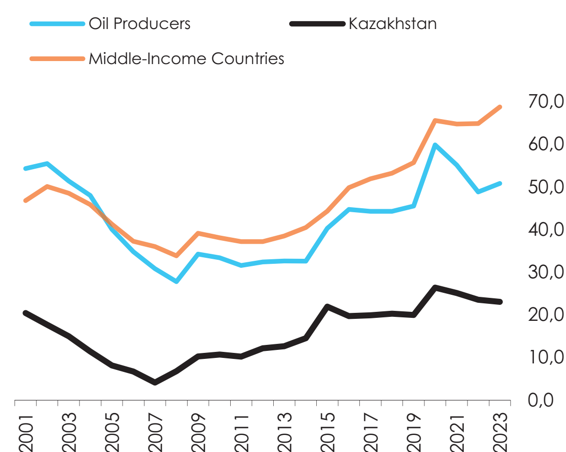
With domestic financing now a primary source for deficit funding, Kazakhstan's debt service costs have risen sharply. Elevated inflation—triggered by the pandemic's aftermath and shocks from the Russia's invasion of Ukraine—coupled with tight monetary policies aimed at containing inflation, have increased the policy rate and raised domestic borrowing costs. Despite these high costs, the government has leaned heavily on domestic borrowing, intensifying fiscal pressures. By 2024, the costs of servicing domestic financing climbed to 1.6 percent of GDP, compared to less than 1 percent before the pandemic. Increased borrowing cost is crowding out essential public investments, with the government now spending more on interest payments and recurrent expenditures than on critical sectors like infrastructure development that will generate returns in the future. This reliance on costly domestic borrowing to finance deficits is unsustainable and underscores the need for improved revenue mobilization.

Figure 6. Consolidated fiscal balance
(percent of GDP)



Source: Ministry of Finance, Bureau of Statistics, World Bank estimates

Figure 7. Gross government debt
(percent of GDP)

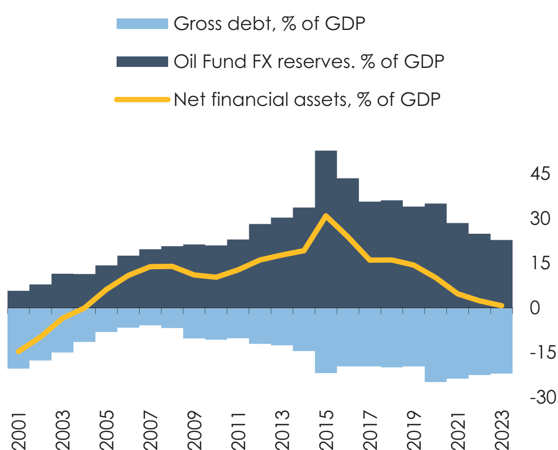


Source: IMF, Ministry of Finance, Bureau of Statistics, World Bank estimates

The National Oil Fund, a cornerstone of Kazakhstan's fiscal resilience, is under strain as withdrawals continue to outpace contributions. With liquid foreign exchange reserves equivalent to just 20 percent of GDP in 2023 the Fund allowed the government to sustain spending during economic downturns without resorting to tax hikes afterward, ensuring fiscal continuity. However, the persistent drawdowns against the limits set by the fiscal rule have steadily eroded the Fund's value relative to GDP **(Box 1)**. At its peak in 2015, the Fund's reserves surpassed 50 percent of GDP, enabling the government to hold a positive net financial asset position of nearly 20 percent of GDP—the difference between Fund's reserves and government debt. By 2024, however, this margin has vanished, with government debt now nearly matching FX reserves. This erosion of fiscal space raises red flags about the Fund's long-term sustainability and its capacity to serve as a buffer in future economic downturns in light of volatile oil prices **(Figure 8)**.

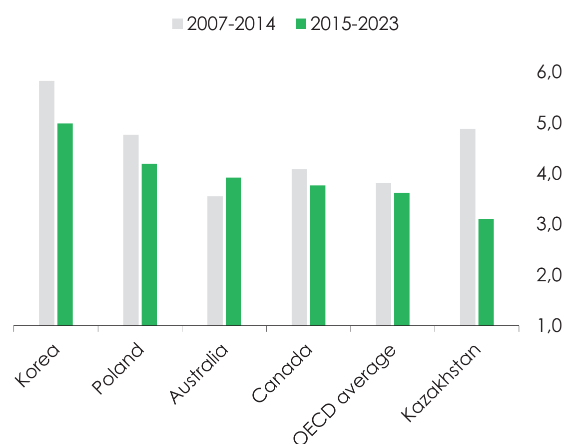
Kazakhstan's infrastructure gap represents both a challenge and an opportunity for economic transformation. Current infrastructure gap demands increased government investment essential to breaking out of the middle-income trap and driving growth. The data show that peer countries are not only demonstrating higher productivity growth but are also delivering stronger, more resilient public services. Ample economic evidence underscores the transformative impact of robust infrastructure investment on reducing production costs, boosting productivity, and fueling growth.[15] [16] Kazakhstan's ambitious National Infrastructure Plan through 2029 reflects the urgency of this mission, laying out a roadmap for projects across energy, transport, digital, and water infrastructure with nearly US$80 billion in required public resources. Equally essential is ensuring the sustainability of social welfare programs to raise income of those poor and vulnerable and ease inequality.[17]

Figure 8. Net financial assets
(percent of GDP)



Source: Ministry of Finance, Bureau of Statistics, staff estimates

Figure 9. Government investment
(percent of GDP)



Source: IMF, Ministry of Finance, staff estimates

15 The Impact of Infrastructure on Development Outcomes: A Qualitative Review of Four Decades of Literature (English). Policy Research working paper; no. WPS 10343

16 International Monetary Fund. Research Dept. (2014). "Chapter 3. Is it Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment". In World Economic Outlook.

17 The Effects of Infrastructure Development on Growth and Income Distribution. (2004) Policy Research Working Paper; No.3400. World Bank.

Box 1. Rules-based framework hampered by weak implementation and enforcement

Kazakhstan's current fiscal rule has too many overlapping numerical targets that complicates effective fiscal management. It attempts to balance several operational rules and objectives, such as capping public expenditure growth below nominal GDP growth—calculated as the 10-year average real GDP growth plus expected inflation—and reducing the non-oil deficit to below 5 percent of GDP by 2030. Additionally, it incorporates targets for debt levels and debt service payments relative to central government expenditure. However, the complexity and redundancy of these targets hinder successful implementation.

A significant limitation lies in the narrow scope of the fiscal rule, which applies solely to the central government budget, excluding local budgets and the balance of the National Oil Fund. Central to the rule are guidelines for withdrawals from the National Oil Fund, comprising guaranteed and targeted transfers. Guaranteed transfers are capped at KZT 2 trillion annually, but the criteria for targeted withdrawals remain ambiguous, granting the government excessive discretion. This lack of clarity allows for unsynchronized withdrawals, undermining the rule's counter-cyclical intent.

In practice, frequent discretionary withdrawals from the National Oil Fund, even during economic upswings, have derailed the fiscal rule's objectives. These withdrawals have fueled inflationary pressures, forcing the central bank to maintain tight monetary policies, resulting in higher borrowing costs. The weak enforcement mechanisms are another limit to the rule's effectiveness in ensuring fiscal sustainability.

To bolster fiscal discipline, the government should streamline the fiscal rules and prioritize the non-oil deficit as the central anchor. Implementing a structural non-oil deficit target would be more effective, provided the government can accurately estimate potential non-oil GDP and the cyclical component of non-resource revenues. Flexibility could be enhanced by extending the non-oil deficit target over a two- to three-year horizon, reducing the need for abrupt policy adjustments during external shocks. Simplifying the fiscal framework by concentrating on the non-oil deficit and maintaining a consistent expenditure growth target would enhance transparency and policy coherence.

Ultimately, a strong commitment from the government to adhere to fiscal rule requirements is crucial; without it, the rules risk becoming mere formalities rather than genuine guidelines for fiscal discipline.

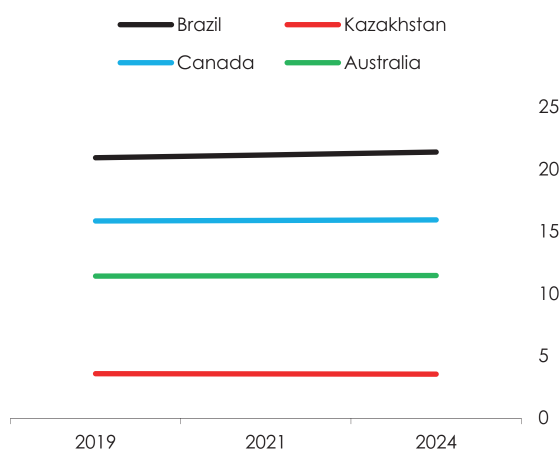
Source: World Bank 2023 Public finance review, staff assessment

Kazakhstan must double government investment in the medium term to bridge its infrastructure gap. The country has long underinvested in public infrastructure, lagging both high-income nations and resource-rich peers with similar economic and geographic conditions. Government investment dropped sharply from an average of 5 percent of GDP in 2007-2014 to just 3 percent over the past decade, leaving critical infrastructure underfunded **(Figure 9)**.[18] This investment shortfall has eroded the efficiency and

18 The government has continued to priority welfare-enhancing programs aimed at alleviating the social impact of multiple crises over the past decades. As the fiscal envelope has got tighter, the share of budget investment has dropped from almost 1/4th of total expenditure before 2012 to less than 15 percent in 2015-2023.

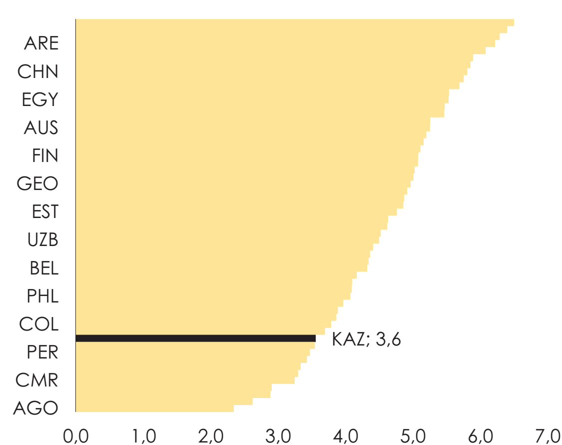
reliability of essential public services, from transport to utilities, limiting the country's ability to meet rising demand for public services. To reverse this trend, the government must scale up public investment, prioritizing high-impact projects in transport, energy, digital and utility networks. These investments are essential not only for ensuring uninterrupted service delivery but also for improving energy efficiency and building resilience to mitigate the impacts of natural disasters on lives and livelihoods. The recent devastating floods serve as a stark reminder of the growing demand for substantial government investment in climate adaptation measures. **(Figure 10-13)**. Additional public investment—estimated at 2-3 percent of GDP annually—will be necessary to meet infrastructure needs. [19] [20]

Figure 10. Road density, km/surface area



Source: The Travel & Tourism Development Index (TTDI) 2024

Figure 11. Quality of roads, 1-7 (best score)



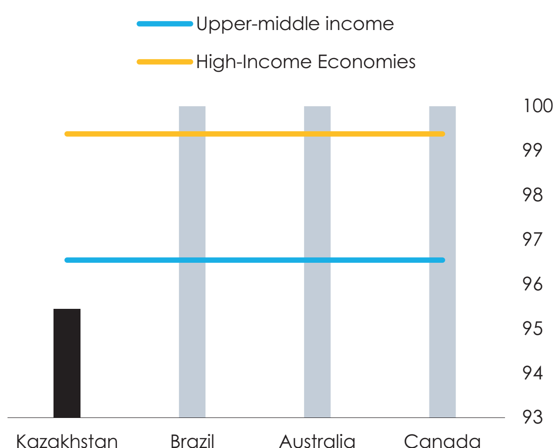
Source: The Travel & Tourism Development Index (TTDI) 2024

Ramping up fiscal revenues is not merely a policy option—it's an urgent and indispensable step toward ensuring long-term fiscal sustainability. Although low public debt relative to GDP allows room for further borrowing, rising debt service cost that outpaces economic growth could undermine stability, especially given the drag of Kazakhstan's stagnant productivity. Sole reliance on domestic borrowing is costly, if not properly mixed with other sources, given relatively high inflationary context due in large part to high dependence on imported products and exchange rate volatility. Heavy use of National Oil Fund reserves, essential resources for future generations, to cover fiscal gaps, on the other hand, could deplete fiscal reserves prematurely, especially as global decarbonization pressures reduce oil revenues. Strengthening revenue mobilization is therefore imperative. Yet, these necessary steps demand strong political commitment and tough choices.

19 UN. ESCAP (2020). Infrastructure financing in Asian Landlocked Developing Countries: challenges, opportunities and modalities. Retrieved from: https://hdl.handle.net/20.500.12870/4107.

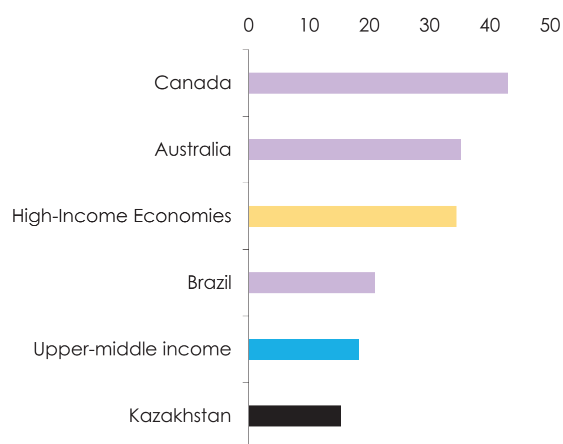
20 International Monetary Fund. Middle East and Central Asia Dept. (2020). Front Matter. IMF Staff Country Reports, 2020(038), from https://doi.org/10.5089/9781513529288.002.A000

Figure 12. Use of basic drinking water *(percent of population)*



Source: The Travel & Tourism Development Index (TTDI) 2024

Figure 13. Broadband internet subscribers in 2024 *(per 100 population)*



Source: The Travel & Tourism Development Index (TTDI) 2024

The ongoing Tax Reform is projected to bolster revenue base, but its ambition falls short of what is needed to transform the revenue landscape. The upcoming Tax Code aims to streamline exemptions, reduce their scope, and introduce higher levies in key sectors, laying the groundwork for a more robust fiscal framework. Government estimates suggest these measures could increase revenues by a mere 1.0 percent of GDP in 2026—a critical move toward rebuilding the tax base.[21] However, even with these planned changes, tax-to-GDP ratio will remain below mid-2000 levels and are unlikely to significantly alter the country's low-tax status, leaving considerable room for further revenue mobilization.

The Tax Reform should aim to foster growth, ensure equity, and strengthen the social contract between the government and its citizens. In an oil-rich economy like Kazakhstan, where a significant portion of government revenues comes from natural resources, the tax system must balance reliance on these revenues with efforts to diversify and broaden the tax base. A critical objective is to build a system where citizens and businesses actively contribute to public finances through fair and transparent taxation and, in return, can expect high-quality public services, infrastructure, and social protection. This reciprocal relationship underpins trust in public institutions and should cultivate a culture of shared responsibility and accountability.

Global evidence highlights that well-targeted Tax Reforms can positively impact economic activity. Studies consistently emphasize that the type of tax, prevailing economic conditions, and—most importantly—the allocation of tax revenues are key determinants of outcomes. Studies show that tax increases directed toward reducing deficits, enhancing education, and investing in infrastructure tend to

21 The government estimates released in media outlet.

generate positive spillovers over time.[22] [23] These increased public investments generate productivity gains, boosting potential output and raising the public capital stock, and foster social well-being, underscoring the long-term benefits of effective revenue mobilization.

Kazakhstan's past focus on generous tax incentives for businesses has not produced the desired gains in productivity, economic complexity. Instead, these incentives have likely exacerbated income inequality, with overall growth masking the uneven distribution of benefits—particularly for lower-income households.[24] A shift toward increased public spending, supported by a stronger tax base, would enable strategic investments in physical and digital infrastructure, education, and healthcare, ultimately improving social well-being. Such a shift could foster inclusive growth, reduce inequality, and provide the foundation for long-term productivity gains and prosperity.

22 Chye-Ching Huang and Nathaniel Frentz, "What Really Is the Evidence on Taxes and Growth?" CBPP, February 18, 2014, https://www.cbpp.org/research/what-really-is-the-evidence-on-taxes-and-growth.

23 Nazila Alinaghi & W. Robert Reed, 2021, "Taxes and Economic Growth in OECD Countries: A Meta-analysis," Public Finance Review 49(10), 3-40.

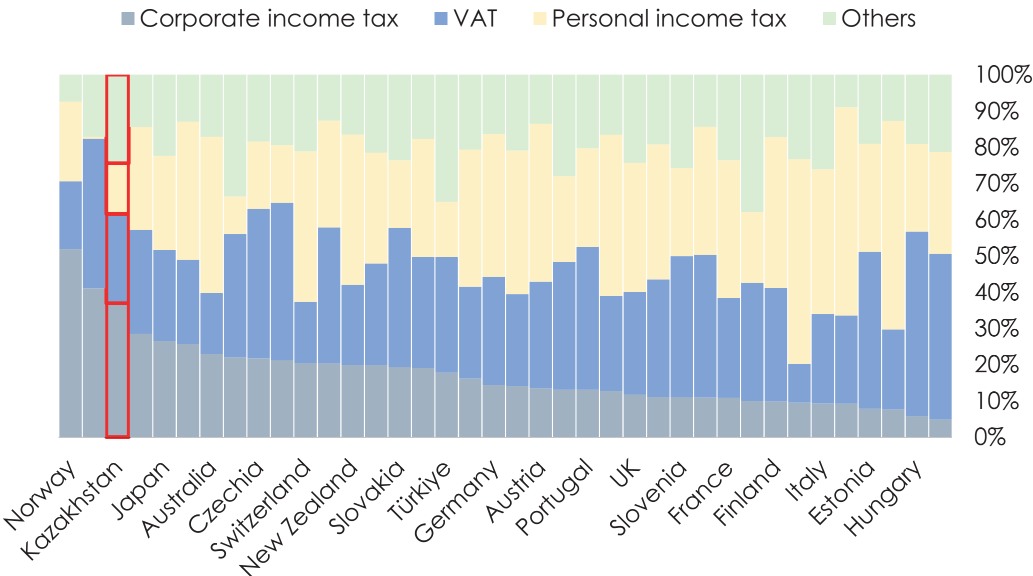
24 *Kazakhstan Economic Update: Shaping Tomorrow: Reforms for Lasting Prosperity (English).* Kazakhstan Economic Update. World Bank Group.

MAXIMIZING THE POTENTIAL OF CIT, PIT, AND VAT

Kazakhstan's tax revenue structure is heavily reliant on CIT and VAT, highlighting a fiscal composition that contrasts sharply with global benchmarks. In 2022, CIT alone represented 37 percent of total tax revenue—over twice the OECD average of 16 percent—while VAT contributed 25 percent of revenues, lower than the one-third share typical in OECD countries. Together, CIT and VAT account for nearly 60 percent of Kazakhstan's tax base, compared to less than half in most high-income economies, while PIT and excises are notably lower than in peer and aspirational countries. This reliance reflects both the country's dependency on resource-driven sectors and its relatively narrow revenue base, underscoring potential vulnerabilities and areas for reform **(Figure 14)**.

Additionally, the extensive system of tax incentives, while designed to stimulate investment and economic activity, in practice reduce the effective tax base. This section examines the structure and performance of CIT, PIT, VAT, excises, as well as the role of tax incentives, to explore how reforms could improve revenue mobilization.

Figure 14. Tax structure in 2022 *(as percent of total tax revenue)*

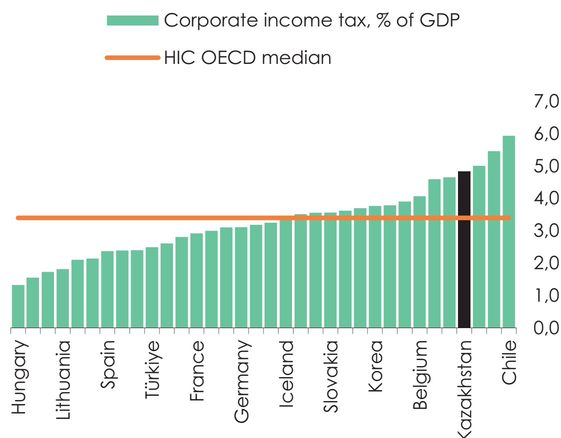


Source: IMF, Ministry of Finance, World Bank estimates

CORPORATE INCOME TAX

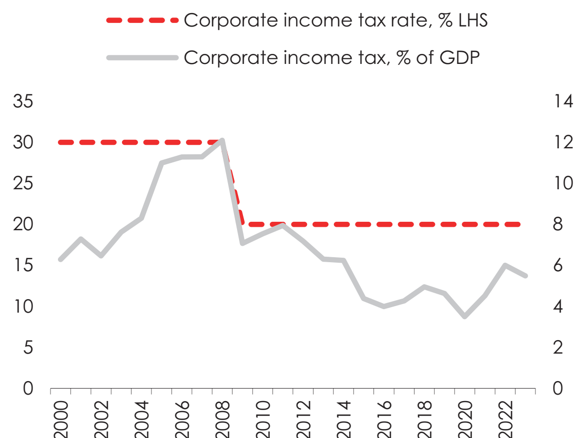
The dominance of corporate income tax in tax structure conceals a troubling decline in its contributions, which reflects low tax buoyancy and a constrained revenue base.[25] Although CIT revenue averaged nearly 5 percent of GDP between 2018 and 2022—slightly above the high-income average—the past decade shows a steady downward trend **(Figure 15)**. This slide began following a 2009 CIT rate cut from 30 percent to 20 percent, aimed at boosting competitiveness and productivity. Yet, these hoped-for economic gains have not materialized as anticipated. Instead, the rate cut permanently lowered tax revenue by an estimated 2.5 percent of GDP, limiting government resources for essential investments in infrastructure and development **(Figure 16)**. Had the CIT rate remained at its original level the government would have been able to allocate an additional US$6-7 billion in 2023 alone to growth-oriented priorities. This shortfall highlights the critical need for a balanced fiscal strategy in re-evaluating the CIT structure — one that carefully weighs the benefits of stimulating growth against the imperative of securing fiscal sustainability.

Figure 15. Cross-country comparisons of taxes paid by corporations *(percent of GDP, 2018-2022 average)*



Source: IMF, OECD, Ministry of Finance, World Bank estimates

Figure 16. CIT collection vs tax rates *(percent of GDP)*

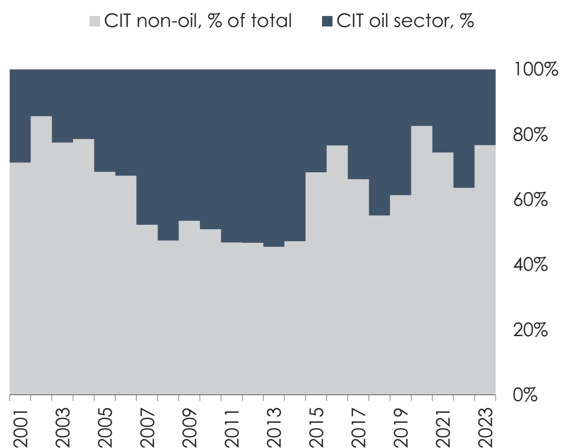


Source: World Bank estimates

Moreover, CIT revenue shows significant volatility, particularly in comparison to other resource-rich countries. From 2010 to 2023, CIT revenues fluctuated with a standard deviation of 1.6, a level of instability far surpassing the relative consistency seen in countries like Brazil (0.5) and Mexico (0.7), though somewhat less erratic than Norway (4.2). The volatility of Kazakhstan's CIT revenues largely reflects the influence of the oil sector, where CIT collections are highly sensitive to global oil price shifts. When oil prices surge, so do CIT revenues; when prices fall, revenues decline sharply. This heavy dependence on oil amplifies volatility, exposing the budget to substantial external shocks **(Figure 17,18)**.

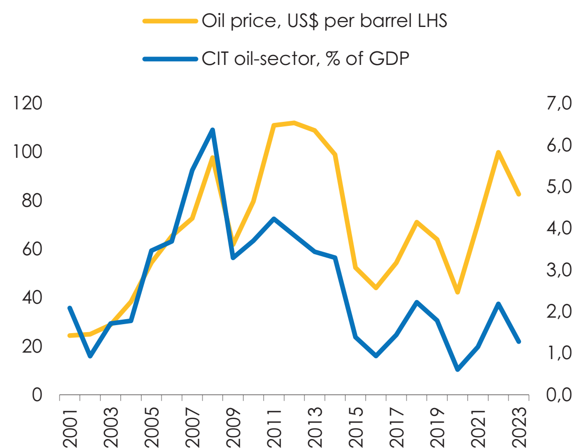
25 The 2023 Kazakhstan Public Finance Review indicates that the CIT exhibits the lowest buoyancy among the analyzed tax types. CIT buoyancy, measured as the ratio of the growth rate in tax revenues to the growth rate of the tax base (in real terms), was found to be 0.49.

Figure 17. CIT by sectors *(percent of total)*



Source: Bureau of Statistics, Ministry of Finance, World Bank estimates

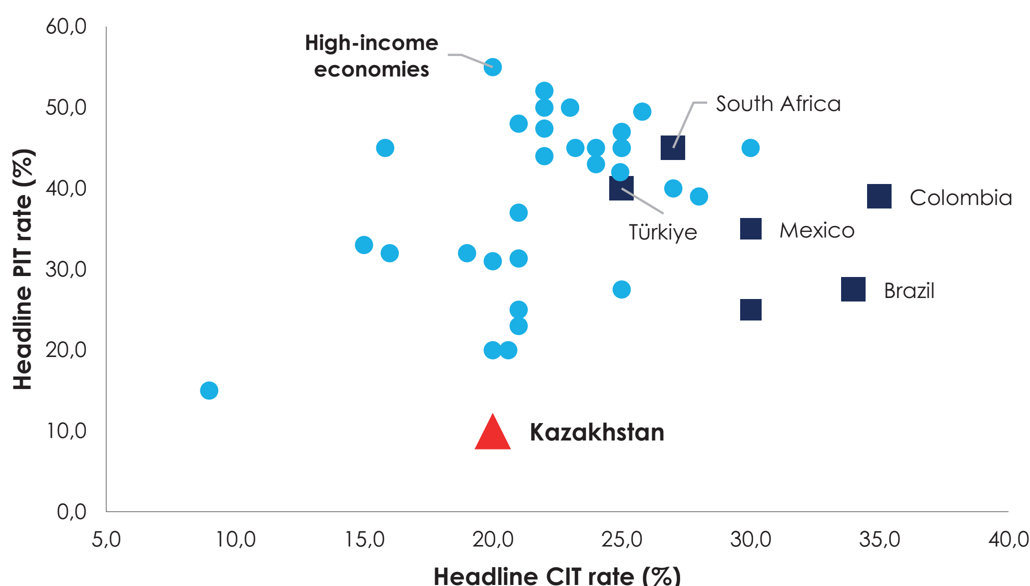
Figure 18. CIT from oil sector vs Oil price



Source: Ministry of Finance, World Bank estimates

Standard CIT rate is not only below the OECD average but also lags behind rates in several resource-rich peer economies. While many countries implement differential CIT rates across sectors, Kazakhstan maintains a flat 20 percent rate applied across the sectors lower than the OECD average weighted by size of GDP at 26.2 percent in 2023.[26] Corporate capital gains and interest income are taxed at the same 20 percent rate, though dividends are fully exempt, providing attractive incentives for investors. Additionally, a preferential CIT rate of 6 percent is applied to the agricultural sector, supporting rural development and food production, while an excess profit tax levies rates from 10 to 60 percent to capture windfalls, depending on profitability levels. This combination of uniform CIT rates and incentives, though business-friendly, may dilute the revenue base needed for long-term fiscal resilience and development **(Figure 19)**.[27]

Figure 19. Comparative statutory CIT and PIT rates 2024-2025 *(percent)*



Source: PWC, World Bank

CIT productivity has improved since 2020, nearing the levels of top-performing resource-rich economies.[28] This positive trend underscores gains in efficiency within the existing tax framework, yet there remains considerable room for further progress. Boosting CIT productivity through enhanced collection efforts and an overhaul of CIT-related incentives could reduce reliance on volatile sectors and expand fiscal capacity. These improvements would not only reduce dependency on volatile sectors but also provide the government with greater flexibility and increase the fiscal space **(Figure 20)**.

26 Corporate tax rates around the world, 2023 (2023) Tax Foundation. Available at: https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/.

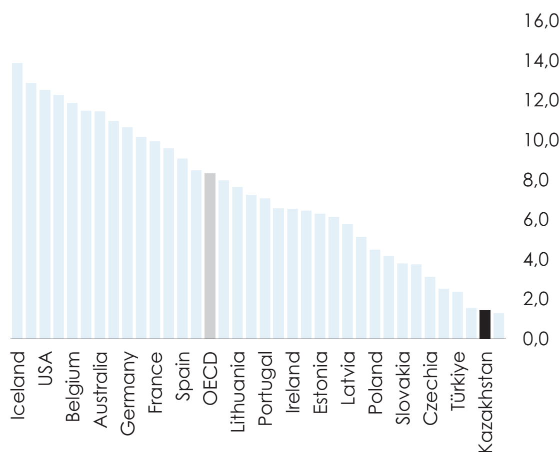
27 World Bank. 2023. Kazakhstan: strengthening public finance for inclusive and resilient growth. Public finance review. World Bank.

28 CIT productivity is a ratio of CIT collection to GDP divided by the standard CIT rate

PERSONAL INCOME TAX

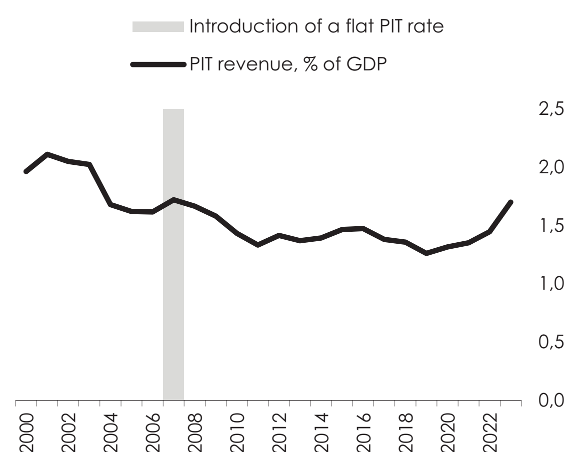
Personal Income Tax collections are among the lowest globally and have steadily declined over the past decade, reflecting significant gaps in revenue mobilization. Over the last five years, the PIT-to-GDP ratio has averaged just 1.3 percent, far below the OECD average of 8.1 percent during the same period. This marks a drop from an average of 1.7 percent before 2007, driven largely by policy changes. Prior to 2007, Kazakhstan operated a progressive PIT system with tax brackets ranging from 5 percent to 30 percent. However, the shift to a flat 10 percent tax rate in 2007, intended to simplify the system, failed to boost revenues. Instead, it cemented one of the lowest effective tax burdens on labor income in the region.[29] **(Figure 21,22)**

Figure 21. Personal income tax revenue
(percent of GDP in 2022)



Source: IMF, OECD, World Bank estimates

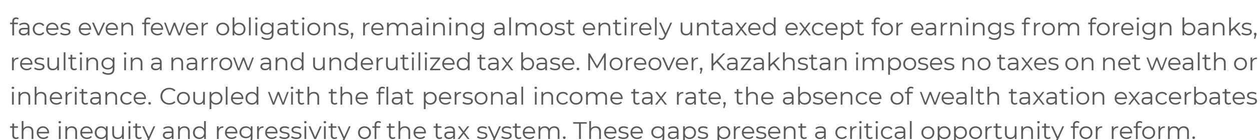
Figure 22. Evolution of PIT revenues
(percent of GDP)



Source: IMF, OECD, World Bank estimates

Capital income tax system is characterized by numerous exemptions that erode its revenue potential and diminish its fairness. Capital gains, nominally taxed at 10 percent, are exempt for securities held longer than three years and for shares in non-extractive firms. Dividends enjoy similar preferential treatment, including exemptions for securities listed on the domestic stock exchange. Interest income

29 OECD data from 2018 reveals that Kazakhstan's implicit tax rate (ITR) on labor—measuring taxes and social security contributions relative to total employee compensation—was just 24.5 percent, significantly below the EU-28 average of 36.3 percent.



faces even fewer obligations, remaining almost entirely untaxed except for earnings from foreign banks, resulting in a narrow and underutilized tax base. Moreover, Kazakhstan imposes no taxes on net wealth or inheritance. Coupled with the flat personal income tax rate, the absence of wealth taxation exacerbates the inequity and regressivity of the tax system. These gaps present a critical opportunity for reform.

The current flat PIT rate could be restructured into a progressive, graduated system with 4–5 brackets, including an exempt bracket. Such a reform would enhance revenue generation from this critical tax instrument while improving equity. The highest marginal rate in the proposed PIT structure could be aligned with the standard CIT rate. In parallel, it would be essential to introduce an annual inflation adjustment mechanism for the exempt bracket, deductions, and income credits to maintain fairness over time.

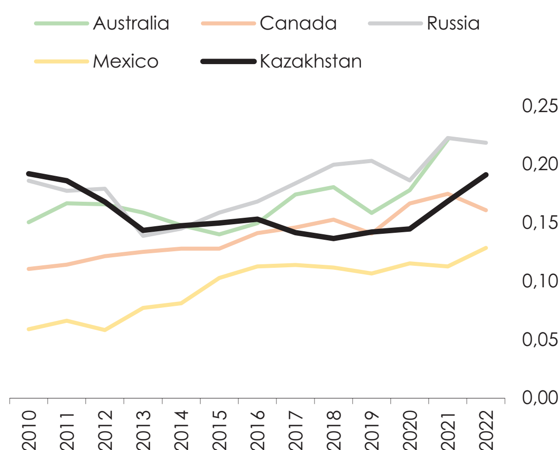
The introduction of a wealth or inheritance tax could be considered as a mid-term reform. Enhancing compliance with the existing annual recurrent property tax, along with instituting asset taxes on luxury properties or vehicles, could approximate a wealth tax and improve the overall fairness of the tax system. To further streamline taxation, a unified 10 percent tax rate on all forms of capital income—covering interest, dividends, and capital gains—could be implemented, regardless of the source. Over time, this unified capital income tax rate could be gradually increased, complementing the transition to a progressive PIT structure with higher marginal rates as part of a dual income tax regime. This approach would support more equitable revenue generation and strengthen fiscal sustainability.

RATIONALIZING TAX INCENTIVES

Kazakhstan's extensive system of tax incentives was introduced to stimulate business activity and attract investment. Concentrated mainly in corporate income tax and value-added tax, these incentives allow businesses to significantly reduce their tax burdens through exemptions, reduced rates, accelerated depreciation, deferrals, and partial tax relief. Tailored incentives are also granted to priority sectors, expanding fiscal support and offering policy flexibility. However, while these incentives were intended to catalyze growth, their effectiveness in enhancing productivity and economic diversification has come into question.

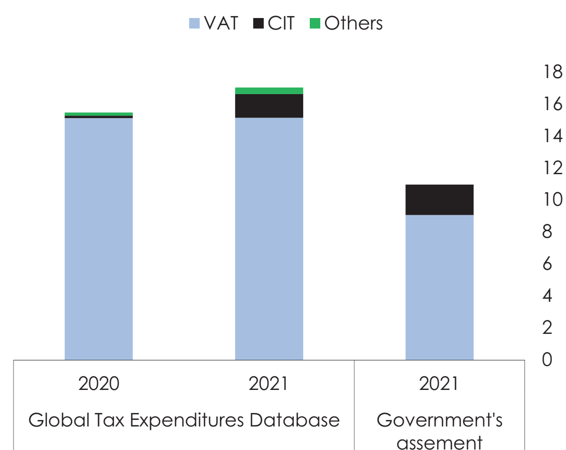
The true cost of fiscal incentives has grown considerably, crowding out fiscal space needed for critical spending. Kazakhstan does not currently publish a tax expenditure report as part of its fiscal reporting framework, making it difficult to assess the full scope of fiscal support channeled through these incentives. In 2021, government estimates put the revenue loss from VAT and CIT incentives alone at 11 percent of GDP, with figures from the Global Tax Expenditure Database suggesting it may be closer to 17 percent **(Figure 24)**.[30] [31] This means that nearly half of Kazakhstan's total tax revenue is foregone due to incentives—yet the economic benefits remain uneven, with limited improvements in productivity and diversification. Such a heavy fiscal cost demands a critical reassessment, focusing on whether these incentives are achieving their intended impact or simply eroding public revenue without sufficient returns.

Figure 23. Corporate income tax productivity



Source: IMF, Ministry of Finance, World Bank estimates.

Figure 24. Budget revenue foregone by tax types *(percent of GDP)*



Source: Global Expenditure Database, data by authorities, World Bank estimates

30 The information announced by authorities in the media.

31 The data was retrieved from the Global Expenditure Database and excludes tax incentives on exports.

Global evidence underscores that tax incentives often fall short of delivering sustained economic benefits. In a study of over 40 Latin American countries, while tax holidays attracted foreign direct investment, they rarely resulted in sustained investment or long-term productivity gains.[32] Similarly, research in Europe shows that special tax regimes with reduced CIT rates for small firms can inadvertently trap businesses in a "small business" category, stifling growth to maintain eligibility.[33] These examples illustrate a common trend: while incentives may bring short-term gains, they frequently lack the durability to support long-term growth and, in many cases, may even hinder it.

By carefully scaling back redundant or ineffective tax incentives, Kazakhstan can unlock significant revenue gains that can strengthen public finances without compromising economic growth. While certain incentives may still be necessary to support strategic sectors, the sheer scale of current tax expenditures points to a substantial, untapped opportunity for revenue mobilization through reform. This revenue could be channeled toward sustainable public services and essential infrastructure investments that foster long-term development. The government's New Tax Code attempts to partially streamline tax benefits, minimize inefficiencies, and automate reporting. These measures can enable more targeted incentive use and increase transparency, providing a clearer view of which incentives deliver real economic value.

In many developed countries fiscal incentives are subject to systematic assessment based on clear and objective criteria. Regular review of tax incentives ensure they contribute effectively to economic goals while improving governance and maintaining a level playing field. Kazakhstan can adopt a similar approach by implementing a robust monitoring and evaluation framework, utilizing detailed firm-level data to assess the impact of incentives. Comparing the performance of beneficiaries with non-beneficiaries would allow policymakers to identify and retain effective incentives while eliminating those that fail to deliver. Such a data-driven approach would not only enhance transparency and accountability but also reduce reliance on short-term incentives, strengthen public revenue collection, and ensure that incentives are aligned with the country's broader economic objectives.

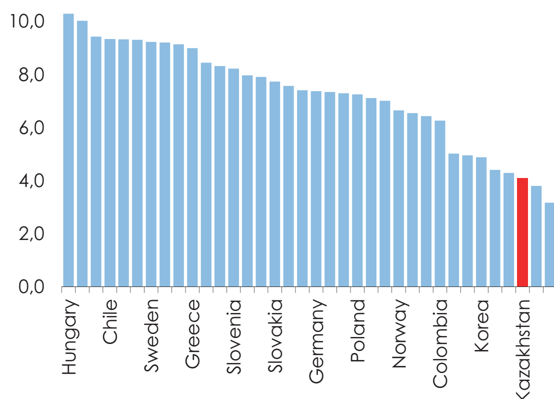
32 Klemm, Alexander and Van Parys, Stefan, Empirical Evidence on the Effects of Tax Incentives (July 2009). IMF Working Paper No. 09/136, Available at SSRN: https://ssrn.com/abstract=1438845

33 Benedek, Dora, and others (2017). The Right Kind of Help? Tax Incentives for Staying Small. IMF Working Paper, No. 17/139.

VALUE-ADDED TAX

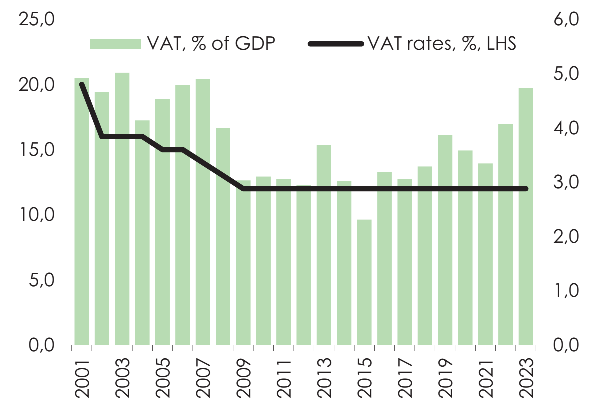
Despite being the second-largest contributor to government revenue after CIT, VAT significantly underperforms compared to international standards. While VAT is a critical revenue source, it generated just 4 percent of GDP in 2022—far below the high-income countries' average of 7 percent. Before 2009 the VAT relied heavily on imports, with import VAT making up nearly 80 percent of total VAT revenue. Over the past decade, however, this dependency has nearly halved, primarily due to reduced VAT rates and structural shifts. While reducing reliance on import VAT aligns with policies aimed at economic diversification, it has also exposed vulnerabilities in domestic VAT collection. To strengthen VAT efficiency, broader reforms are necessary to capture a larger share of domestic consumption and reduce the gap with international norms **(Figure 25)**.

Figure 25. Value added taxes
(percent of GDP)



Source: OECD, IMF, World Bank estimates

Figure 26. VAT collection vs VAT rates
(percent of GDP, percent)



Source: OECD, PWC, World Bank

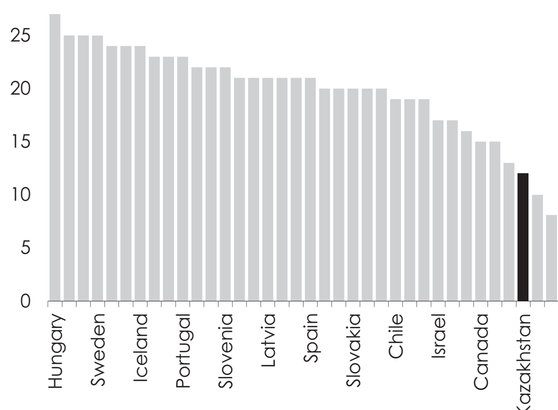
A low VAT rate in large part limits the tax base and hinder the government's ability to fully mobilize revenue. A key driver of Kazakhstan's low VAT-to-GDP ratio is its relatively low standard VAT rate of 12 percent, one of the lowest among peer economies and well below the OECD average of 20 percent. Initially set at 15 percent, the VAT rate was lowered to 12 percent in 2009 and has remained unchanged since. Although this lower rate aims to stimulate consumer spending, it also limits the government's ability to fully mobilize VAT revenue from domestic consumption **(Figure 26,27)**.

The VAT base is also burdened by a web of exemptions and preferential treatments embedded in the tax system. Currently 47 categories of goods and services are exempt from VAT. In contrast to global best practices, which typically limit exemptions to essential sectors like healthcare, education, and financial services. These exemptions, particularly for Special Economic Zones, while designed to incentivize growth, significantly narrow the tax base and complicates enforcement. Frequent refund audits are required to ensure compliance, increasing administrative costs and reducing overall system efficiency. Streamlining these exemptions would simplify compliance, reduce administrative burdens, and allow for a more consistent and productive revenue stream.

In addition to the low rate and extensive exemptions, high VAT registration threshold further narrows its tax base. VAT system features one of the highest registration thresholds compared to peer aspirational and structural peers. As of 2023, with a mandatory threshold of $150,000 (and nearly US$1

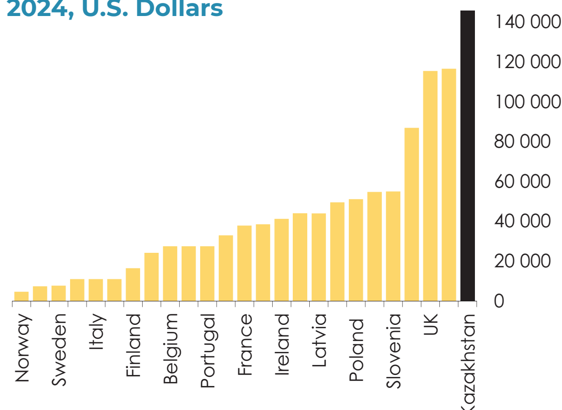
million for individual entrepreneurs under special tax regimes), only larger businesses are required to register for VAT, excluding many small and medium-sized enterprises. While businesses below this threshold may voluntarily register, the high bar effectively keeps many firms outside the VAT system. Lowering the registration threshold would not only expand the tax base but also increase compliance, capturing a wider spectrum of economic activity **(Figure 28)**.

Figure 27. Standard VAT rates *(percent)*



Source: OECD

Figure 28. VAT Registration Thresholds in 2024, U.S. Dollars



Source: Bureau of Statistics, Ministry of Finance, World Bank estimates

Broadening the base and increasing the standard rate offers Kazakhstan a powerful tool for boosting fiscal revenue. Even a modest rate increase—alongside compliance improvements and base broadening—could generate significant revenue gains without substantially impacting economic growth. With VAT productivity at 0.33, a 3-percentage-point rate hike could yield an additional 1 percent of GDP in revenue, assuming minimal behavioral changes.[34] Studies consistently show that, as a consumption-based tax, VAT is generally less distortive to economic activity than income taxes, as it does not directly discourage investment or labor, except where exemptions are applied.[35] Additionally, the cross-country analysis show that the impacts of VAT on economic growth are highly non-linear, and at an already low rate the effects of small changes in VAT on growth are essentially insignificant.[36]

The VAT reforms present an underutilized tool that offer untapped fiscal potential to raise revenues. Targeted reforms—raising the rate modestly, lowering registration thresholds, and limiting exemptions—can transform the VAT into a cornerstone of fiscal revenue base. Aligning Kazakhstan's VAT rate and structure with those of Nordic and Baltic countries, which sustain high rates without stifling growth, would provide a sustainable revenue source. Strengthening VAT in this way will not only increase revenue but also reduce dependency on volatile oil-related revenues and help to finance the country's ambitious infrastructure development agenda. At Kazakhstan's already low VAT rate, the economic impact of a rate increase would likely be minor, especially if accompanied by measures to broaden the base and streamline exemptions. Tightening compliance to ensure the effectiveness of any rate increase certainly remains key to the success of the reforms.

34 VAT productivity calculated as the ratio of VAT collection to GDP divided by the standard VAT rate.

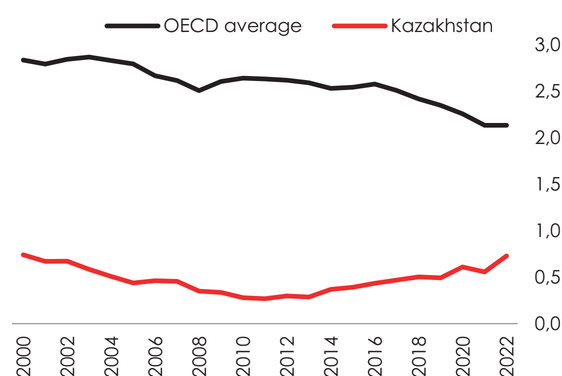
35 Nguyen et al., 2021, "The Macroeconomic Effects of Income and Consumption Tax Changes," American Economic Journal: Economic Policy 13(2)

36 Gunter et al., 2019, "Non-linear Effects of Tax Changes on Output: The Role of the Initial Level of Taxation," NBER Working Paper 26570.

EXCISE TAX

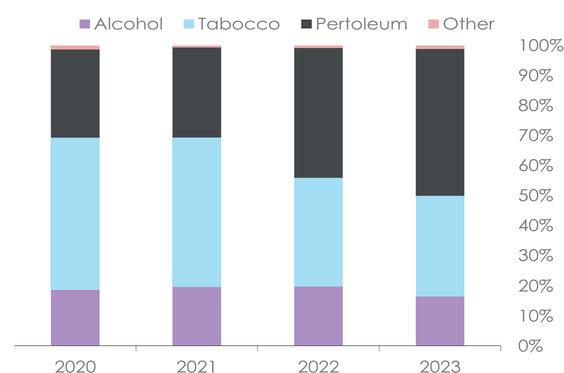
Kazakhstan's excise tax collection remains strikingly low compared to peer nations, hindered by a narrow tax base. Tax base concentrated on tobacco, alcohol, and petroleum products, and domestically produced goods are taxed on a per-unit volume basis rather than ad valorem rates. Despite steady growth in excise revenues from 2015 to 2023, reaching 0.7 percent of GDP in 2023, collections remain disproportionately low—nearly 4.5 times below the OECD average **(Figure 29,30)**. This shortfall stems from a combination of factors, including a constrained tax base, low rates, and weak compliance. Given the administrative simplicity of excise taxes, broadening the base—particularly to include all fossil fuels to reflect their environmental impact—represents a significant untapped opportunity. Such reforms could boost revenue mobilization while aligning with Kazakhstan's climate commitments and global sustainability goals.

Figure 29. Excise tax collection
(percent of GDP)



Source: IMF, OECD, Ministry of Finance, World Bank estimates.

Figure 30. Composition of excise tax
(percent of total)



Source: Bureau of Statistics, Ministry of Finance, World Bank estimates

Modernizing the excise tax system by expanding it to all fuels provides an opportunity to raise revenue efficiently while contributing to Kazakhstan's development goals. The government can consider transitioning to a carbon-based excise tax for transport fuels. This would apply excise taxes based on the carbon content of the fuels rather than purely their volume. Excise could then be expanded to all fuels (such as coal and natural gas) based on carbon content. Much like for transport fuels, this could be done upstream at the point of fuel supply, making the tax simple to administer and difficult to evade, while capturing the informal sector. It would also help Kazakhstan capture revenue that would otherwise be lost under the European Union's Carbon Border Adjustment Mechanism. If implemented, this change could raise substantial additional revenue up to 2.0 percent of GDP[37] and recover and estimated US$77 million of revenue per year that would otherwise go to the EU. Additional revenue can be recycled to offset potential impacts on lower-income families, by redirecting a portion of the revenue to social assistance and public investment. By reducing fossil fuel use at home, these reforms would free-up fossil fuels for export, enhancing revenue to the oil and gas sector and, in turn, to the government. These reforms align with the country's goal of achieving carbon neutrality by 2060, providing a foundation for accelerating the transition to a low-carbon and more diversified economy.

37 With a $25 carbon price. The excise formula would be: volume of fuel x emissions factor x carbon price.

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