



Kazakhstan

Highlights

- **Economic growth has accelerated significantly in 2023.** The economy grew 5.3 per cent year on year in the first half of 2023. Very strong investment in transport and warehousing (up 56.8 per cent year on year in the first half of the year) is a reflection of the country's ability to substitute for Russia as a production and distribution hub serving Central Asia.
- **The authorities are taking steps to level the playing field for entrepreneurs.** A new Comprehensive Plan of Measures to Counteract the Shadow Economy for 2023-25 aims to reduce shadow trade within the retail and wholesale sectors, improve the tax and customs administration, upgrade the competitive environment for businesses and rationalise fiscal policy.
- **Regional inclusion is being improved.** The Concept for Rural Area Development (2023-27) aims to improve living standards and socioeconomic conditions for rural inhabitants by upgrading and constructing infrastructure, providing financial assistance and reducing rural poverty and unemployment rates.

Key priorities for 2024

- **The authorities should accelerate infrastructure investment in conjunction with comprehensive tariff reform.** Key priorities are transport (East-West and North-South corridors) and energy (including transmission infrastructure to support the roll-out of renewables). Public-private partnerships (PPPs) should complement sovereign financing to mobilise private resources, boost employment and strengthen the country's competitiveness.
- **The authorities should ensure adequate access to drinking and irrigation water.** With transboundary water cooperation re-emerging as a key constraint on Central Asia's future development, Kazakhstan should lead on regional diplomacy efforts while rationalising its domestic water policies through cost-reflective tariffs and improved resource management.
- **Diversification efforts should be stepped up through a combination of privatisation and industrial policies targeting medium-sized companies in priority sectors.** The authorities should proceed with initial public offerings of large state-owned assets, such as Air Astana and Bereke Bank, as well as privatise all non-core assets. Multipronged industrial policies should be employed to nurture medium-sized enterprises in specific value chains, including loan guarantees to unlock commercial financing, and non-financial support measures to help businesses embrace new technologies and reach export markets.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	4.5	-2.6	4.1	3.3	5.0
Inflation (average)	5.2	6.8	8.0	15.0	15.0
Government balance/GDP	-0.6	-7.0	-5.0	0.1	-0.9
Current account balance/GDP	-3.9	-6.4	-1.3	3.5	-1.5
Net FDI/GDP [neg. sign = inflows]	2.1	4.2	2.3	2.2	n.a.
External debt/GDP	87.7	94.4	81.1	n.a.	n.a.
Gross reserves/GDP	15.9	20.8	17.4	15.9	n.a.
Credit to private sector/GDP	24.3	25.6	26.0	25.6	n.a.

Macroeconomic developments and policy response

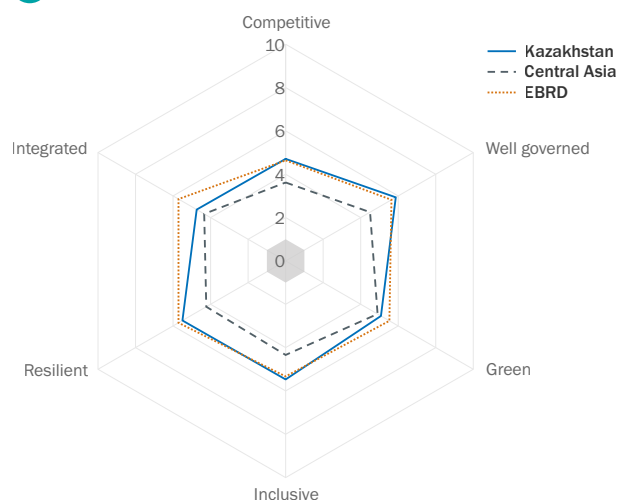
Economic growth has accelerated significantly in 2023. Gross domestic product (GDP) expanded 5.3 per cent year on year in the first half of 2023. The strongest gains were seen in construction (up 13.4 per cent on the year), driven by public infrastructure investment and generous (although declining) mortgage subsidies from the government. Retail trade turnover was up 8.8 per cent year on year, with the large size of the sector making it the highest contributor to GDP growth. Industry (up 3.8 per cent year on year) and agriculture (up 3.2 per cent year on year) posted smaller growth rates. On the expenditure side, fixed capital investment gained most (up 13.1 per cent year on year). Importantly, a very strong rise (of 56.8 per cent year on year) in investment in transport and warehousing reflects the country's ability to substitute for Russia as a production and distribution hub serving Central Asia. Preliminary estimates suggest that the current account recorded a deficit of US\$ 3.6 billion (€3.4 billion, 1.5 per cent of 2022 GDP) in the first half of 2023, despite a positive trade balance.

Inflationary pressures started to recede in early spring 2023, in line with broader global trends. Annual inflation fell from a peak of 21.3 per cent in February 2023 to 14 per cent in July 2023, thanks to tight monetary policy and the appreciation of the tenge. The central bank increased its policy rate to 16.75 per cent in December 2022 and maintained it at that level until August 2023, when it undertook a 25 basis-point reduction. The tenge had been slowly gaining against major global currencies from July 2022 amid growing interest by non-residents in Kazakh government securities. In the seven months to July 2023, foreign investment in government and central bank paper increased 46.7 per cent, prompting policymakers to reduce the requirement of mandatory selling of hard currency export revenues from 75 to 30 per cent and then suspend it completely until 2025. Because of this measure, and possibly the Russian rouble's sharp devaluation against the US dollar, by the end of August 2023 the tenge had dropped to its January 2023 rate against the US dollar.

Strong international reserves support Kazakhstan's fiscal stance, despite increased public debt. In the first six months of 2023, the country's public debt increased by US\$ 8.1 billion (€7.67 billion) to US\$ 62.8 billion (€59.4 billion, around 27 per cent of 2022 GDP). Meanwhile, external government debt accounted for just 7.3 per cent of 2022 GDP. Taken together, the central bank's official reserves (US\$ 34.18 billion [€32.35 billion]) and the National Oil Fund's assets (US\$ 60.2 billion [€56.98 billion]) amounted to around 42.7 per cent of 2022 GDP, providing a comfortable cushion against external vulnerabilities.

Strong growth is likely to continue in the short term. We forecast the economy to grow by 5 per cent in both 2023 and 2024. Key downside risks stem from the potential for Russia's war on Ukraine to escalate to the point of disrupting east-west transport routes, including the Caspian Pipeline Consortium (CPC) pipeline, and negatively affecting global growth. Concurrently, water and energy issues have been constraining growth, due to insufficient public investment in infrastructure on the one hand, and low tariffs failing to induce private-sector investment and the rational use of resources, on the other. On the upside, growth could be boosted by National Oil Fund-financed fiscal stimulus spending and investment in transport and other public infrastructure.

Assessment of transition qualities (1-10)



Structural reform developments

The authorities are tackling the informal economy. In July 2023 the government approved a Comprehensive Plan of Measures to Counteract the Shadow Economy for 2023 to 2025. The plan sets ambitious objectives, with a focus on reducing the share of shadow trade within the retail and wholesale sectors from an estimated 6.7 per cent in 2022 to 5 per cent by 2025. The government is further committed to confronting informal employment and raising the contribution of small and medium-sized enterprises to the country's GDP from 36 per cent in 2022 to 37.5 per cent by 2025. The plan includes many initiatives to enhance tax and customs administration, promote healthy competition and ensure prudent budget allocation.

PPP legislation was revised in January 2023. The amended law seeks to tackle the issue of excessive profit margins and advance a more equitable risk-sharing framework between the government and private sector companies involved in PPP projects. In addition, the Ministry of National Economy is developing a PPP portal designed to enhance transparency and mitigate corruption risks in procurement of PPP projects.

Kazakhstan has adopted a decarbonisation strategy until 2060. The strategy, adopted in February 2023, encompasses climate mitigation and adaptation actions, incorporating environmental and social governance (ESG) principles, gradually enacting cost-reflective tariffs (with targeted assistance to vulnerable groups as part of a just transition) and digital monitoring of carbon emissions. A special carbon fund will be set up to accumulate funds from carbon credit sales and carbon taxes to finance investment in low-carbon technologies.

Kazakhstan is advancing in financial sector reforms. The European Bank for Reconstruction and Development (EBRD)-supported derivatives legal framework became effective in September 2022. This marks the completion of a complex reform effort that will help businesses and investors manage a wide variety of risks, starting with currency- and interest-rate-related risks. In turn, this will increase Kazakhstan's appeal to foreign investors, while promoting financial stability. The EBRD also helped develop a framework for the resolution and sale of non-performing loans (NPLs) to private investors, which will enhance banks' NPL management and increase the availability of credit to the economy.

The electricity sector is undergoing reform. In March 2023 the government adopted the Concept on the Development of the Electric Energy Industry for 2023-2029. As part of the initiative, it introduced the Tariff in Return for Investment strategy, seeking to stimulate private-sector investment in ageing heat and power infrastructure. Furthermore, on 1 July 2023 the government inaugurated a real-time balancing market for electricity, with the Financial Settlement Centre of Renewable Energy acting as a single-buyer responsible for the centralised procurement of electricity. These measures are designed to curtail regional disparities in electricity pricing and facilitate more effective planning of electricity consumption and generation, ultimately enhancing grid stability.

A strategic partnership with the European Union (EU) sets the stage for an accelerated transition to green energy. In November 2022 the EU and Kazakhstan signed a memorandum of understanding (MoU) to ensure a sustainable supply of critical raw materials, batteries and green hydrogen. Central to this partnership are the establishment of resilient green supply chains, capacity-building and innovation associated with the decarbonisation of value chains in critical raw materials, and joint sustainability initiatives. Building on the MoU, Kazakhstan and the EU-based Svevind Group finalised a US\$ 50 billion (€47.32 billion) agreement in late November 2022 for the production of green hydrogen in Kazakhstan. The project is expected to yield up to 2 million tonnes of green hydrogen annually when completed in 2032. Kazakhstan is expanding its green energy generation capacity, with the share of renewable energy sources in the overall electricity mix rising to 5.8 per cent in the first half of 2023 from 4.5 per cent in 2022.

Oil export routes are being diversified. The authorities have developed alternative oil export routes as a hedge against potential disruptions to the CPC Black Sea terminal in Novorossiysk, on which the country remains highly reliant. In 2023 Kazakhstan increased its oil shipments through the Druzhba and Baku-Tbilisi-Ceyhan pipelines. The recent escalation of security risks in the Black Sea region presents a serious threat to operations of the CPC terminal in Novorossiysk, potentially affecting maritime insurance costs and clouding Kazakhstan's oil export and growth outlook.

Measures to promote rural development are under way. In April 2023 the government introduced the Concept for Rural Area Development (2023-27) to enhance the living standards and socioeconomic conditions of rural inhabitants. This strategic plan seeks to modernise 3,500 high-potential villages to house 90 per cent of the country's rural population. The initiative includes substantial investments in water, transport, social infrastructure and internet access, as well as financial assistance through favourable lending schemes and capital expenditure support for rural households. These measures are intended to improve the wellbeing of rural communities to discourage the migration of rural residents to urban areas.

Digital inclusion is advancing. In February 2023 the Ministry of Digital Development, Innovation and Aerospace Industry published Accessible Internet, a national pilot project to be implemented from 2023 to 2027. The pilot entails the extensive enhancement of communication infrastructure in rural regions, broader and better access to high-speed internet, and the establishment of data centres throughout the country. Aligned with this project, the government has set a goal to elevate the proportion of internet users in rural areas from 91.7 per cent in 2022 to 97 per cent by 2027.