April 2023

| Kazakhstan | 2022 |
|---|---|
| Population, million | 19.2 |
| GDP, current US$ billion | 220.5 |
| GDP per capita, current US$ | 11494.3 |
| School Enrollment, primary (% gross) (2020) | 100.3 |
| Life Expectancy at Birth, years (2020) | 71.4 |

**CONTEXT**

Since the 2000s, Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

This progress, however, masks vulnerabilities and unevenness in the country's development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the "middle-income trap."

Kazakhstan needs to strengthen competition and human capital and improve public sector and SOEs performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation. Since Kazakhstan's economy relies heavily on oil-related revenues, and given the global shift toward decarbonization, the Government should focus on diversifying the economy. The transition to renewable energy needs to be accelerated to ensure a sustainable and resilient economic future. Investing in renewables, implementing carbon taxes, and energy tariff reforms are key areas to achieving this.

**World Bank Portfolio**

- No. of Projects: 7
- Lending: US$3.8 billion
- IBRD: 6 loans
- TF: 1 grants

**STRATEGY**

**Country Partnership Framework for 2020–25**

The partnership between Kazakhstan and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF), developed in consultation with counterparts and civil society to guide a new investment program and quality technical assistance to the Government for 2020–25.

The CPF is fully aligned with the Government's reform program and Kazakhstan's 2050 development strategy to accelerate the country's transformation into a modern society with a knowledge-based, diversified, and private sector–driven economy.

The CPF focuses on the following priority areas:

- **Promoting inclusive growth** by strengthening the environment for private sector development, promoting the market-led transformation of the agriculture sector, and bolstering the connectivity infrastructure
- **Strengthening human capital** by closing the gap along regional and rural-urban divides in the delivery of education, health, and social protection services
- **Securing sustainable, resilient, and low carbon growth** by managing natural capital, including land and water resources, promoting less energy intensity, and strengthening institutions and service delivery

Underlying these focus areas is the cross-cutting theme of more effective governance and strengthened market and social institutions.

**Key Engagement**

Since 2003, the World Bank has significantly extended its Advisory Services and Analytics (ASA) provided under the Joint Economic Reform Program (JERP). Over the years, the program has proven to be an innovative solution, with a client-driven knowledge agenda and Bank-selected work, bringing in and building up international experience.

The JERP is structured around the Government's strategic priorities and focuses on development gaps in growth, governance, and the public service delivery agenda. The program is designed to ensure strong government ownership while enhancing the Bank's contribution to the country's development in a way that goes beyond funding.

**ECONOMY**

**Recent Economic Developments**

Despite challenges from decreased oil production and supply-chain issues stemming from the country's economic ties with Russia, Kazakhstan recorded 3.2% GDP growth in 2022. Growth was driven by non-oil exports to neighboring countries and investment growth of 7.9%, primarily in resource sectors, while consumer demand weakened as real incomes shrank under the weight of high inflation. Growth was also supported by an inflow of Russian tourists/immigrants. On the supply side, agriculture, manufacturing, construction, and services sectors all contributed to growth.

The current account recorded a surplus of $6.2 billion in 2022, supported by high oil exports values, a significant reversal from the $7.9 billion deficit in 2021. The acceleration in FDI was likely due to the high oil prices that drove investment into mining. Gross international reserves grew by 2% and stood at 7 months of import cover by end-2022. Inflation reached 21.3% (yoy) by February 2023, the highest in over 20 years, as a result of rising import prices, the large minimum wage and pay increases following the riots, and depreciation of the tenge. Food prices have risen especially sharply.

The Central Bank (NBK) tightened its policy rate to 16.75% in February 2023 from 10.25% a year ago. Following a depreciation of 8% against the US dollar in 2022, the tenge has remained stable in 2023. The Government increased its welfare-enhancing programs by 0.5% of GDP in 2022 (to a total 3% of GDP), and also increased transfers to local governments. Despite the higher spending, improved tax collection from both oil and non-oil, resulted in higher revenues, and delivered a fiscal surplus of 0.4%.

The banking sector has remained resilient. Prior to Russia’s war on Ukraine, Russian subsidiaries held about 15% of assets, but, following sanctions, this fell to 0.4%. NPL rates reached 3.6% in December 2022, only slightly up from 3.3% a year earlier. The unemployment rate held steady at 4.9% throughout 2022. Labor strikes and a 41% increase in the minimum wage drove up real wages by 2.8% in Q4 (yoy).

**Economic Outlook**

The economy is expected to see a moderate increase in growth to 3.5% in 2023 and to 4% in 2024, led by the hydrocarbons sector as oil production rises thanks to several new projects. Continued FDI in mining and the Government's affordable housing program will sustain investment.

However, growth in household consumption is likely to be dampened by high inflation, rising borrowing costs, and increased indebtedness. Inflation is expected to decrease but will remain elevated in 2023 due to the prolonged impact of high food prices. Tight monetary policy will contribute to a reduction toward the upper limit of its target range. The poverty rate is expected to slightly decline to 14.7% (at US$6.85/day level) in 2023 as growth picks up and inflation subsides. The rising cost of food and housing will remain a key factor impacting the well-being of the population.

Among the downside risks are any further disruptions to the Caspian Pipeline Consortium and persistently high inflation. Access to effective coping mechanisms will be important to protect the poverty reduction gains of the last decade. The continued monetary tightening and tighter control over fiscal spending can make space for higher spending on social protection programs. Additional tightening of global financial conditions and potential capital flow volatility pose risks to the exchange rate. On the upside, global demand and oil prices exceeding expectations would boost growth.