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GRAY/22/976

March 31, 2022

**Statement by Mr. Stephan and Mr. Rothacher on Republic of Kazakhstan  
(Preliminary)  
Executive Board Meeting  
April 4, 2022**

**We thank staff for a comprehensive set of reports and Mr. Trabinski and Ms. Zhunusbekova for their informative Buff statement.**

**We concur with the thrust of the appraisal.** Kazakhstan has made significant progress in economic development prior to the pandemic. Support measures during the pandemic with its phase of oil market volatility helped to limit the impact of the shocks. However, notable structural weaknesses remain, including socioeconomic inequality and corruption that feeds social discontent. These vulnerabilities underscore the need for a sustained reform push aimed at diversifying the economic base along with liberalizing private sector activity, as well as strengthening effectiveness and good governance within the public sector. We broadly share staff's outlook while acknowledging that the degree of uncertainty is unusually large.

**We agree with staff and the authorities that the pandemic and the potential fallout from Russia's military aggression against Ukraine create uncertainties about the recovery and thus warrant some fiscal discretion in the short term.** *We take note of the authorities' plans for regulating food and energy prices. Could staff provide details on the authorities' plans to use these regulations only temporarily and give an assessment of how credible this is?* Over the medium and long term, the need for reforms to entrench fiscal sustainability remains. In this context, we share staff's concerns regarding the potential inconsistency of the authorities' proposed set of 10 rules for budget formulation and emphasize the importance of fiscal rules to be as transparent, reliable and parsimonious as possible. Moreover, we agree with staff that the transition to a low-carbon global economy calls for the

mobilization of stable and durable non-oil tax revenues and encourage further depoliticizing the process of energy price adjustments.

**We appreciate that the central bank (NBK) is vigilant and responsive to inflationary risks.** We note that staff points to the need of further monetary policy tightening this year. Moreover, further progress in solidifying the NBK's autonomy is important. Furthermore, we welcome the goal to modernize monetary policy with a view to complete the transition to full-fledged inflation targeting. *We take note that staff calls for strengthened policy coordination between the government, NBK and the financial oversight agency ARDFM. We would appreciate if staff elaborated on the safeguards for ensuring that this coordination works effectively without giving rise to concerns on government interference into the NBK's autonomy.* We agree with staff on the positive assessment of the authorities' intention to maintain a flexible exchange rate regime and we support the call for phasing out remaining capital flow management measures (CFMs).

**While the financial sector remained resilient despite the pandemic shock, we encourage the authorities to continue strengthening the regulatory and resolution framework and capacities for effective and risk-based supervision.** One particular risk in our view relates to potentially underestimating the full extent of asset quality deterioration, which lends support to staff's recommendation for updating the framework for loan classification and provisioning in line with international best practices.

**We welcome the discussion of climate transition challenges for Kazakhstan in the report and agree on the need for comprehensive structural reforms to promote diversification towards a low-hydrocarbon economic model.** As state economic actors continue to play a prominent role in the economy, we underscore the case for reducing state involvement and advancing governance reforms for SOEs. We encourage the authorities to complement these efforts with reforms to create framework conditions conducive for private sector initiative, such as a level playing field for competition, combatting corruption and ensuring an independent judicial system based on impartiality.