

**IMMEDIATE
ATTENTION**

SM/11/109
Supplement 1

June 3, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Kazakhstan—Staff Report for the 2011 Article IV
Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2011 Article IV consultation with the Republic of Kazakhstan (SM/11/109, 6/3/11), which is being considered on a lapse of time basis. Unless an objection from the authorities of the Republic of Kazakhstan is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Ms. Coronel (ext. 38119), Mr. Rozhkov (ext. 39745), and Mr. Al-Eyd (ext. 37884) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, June 13, 2011; and to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 1, 2011

Prepared by

The Middle East and Central Asia Department (In
Consultation with Other Departments)

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ANNEX I. RELATIONS WITH THE FUND

(As of May 1, 2011)

Membership Status: Joined: 07/15/92; Accepted Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The de jure exchange rate arrangement is a managed float, while the de-facto arrangement is classified as crawl-like.

General Resources Account

	SDR Million	Percent Quota
Quota	365.70	100.00
Fund holdings of currency	365.70	100.00
Reserve position in Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	343.65	100.00
Holdings	344.55	100.26

Outstanding Purchases and Loans

None

Latest Financial Arrangements

In millions of SDR, (mm/dd/yyyy)				
Type	Arrangement	Date	Amount Approved	Amount Drawn
ECF	12/13/99	3/19/02	329.10	0.00
ECF	7/17/96	7/16/99	309.40	154.70
Stand-By	6/05/95	6/04/96	185.60	185.60

Projected Payments to Fund

None

Safeguards Assessments

Not applicable to the National Bank of Kazakhstan (NBK) at this time.

Exchange Rate Arrangements

The currency of Kazakhstan is the tenge, which was introduced in November 1993. The official exchange rate is determined on the basis of foreign exchange auctions that are held daily. Auctions are held for U.S. dollars, euros, and Russian rubles, and official rates are quoted for over 30 other currencies on the basis of cross-rates. From late 1999 to October 2007, the exchange rate regime was a managed float with no preannounced path. From October 2007 the tenge was maintained within a narrow range against the U.S. dollar. In February 2009 the tenge was devalued by 18 percent against the US dollar, and a trading band of T150/US\$ +/- 3 percent was established. In February 2010, the trading band was widened and set at an asymmetric T150/US\$ +10/-15 percent. In February 2011, the trading band was officially abolished, and the de jure exchange rate arrangement was changed from a pegged exchange rate within a horizontal band to a managed float. The de facto exchange rate arrangement is classified as crawl-like, because the tenge has been consistently tracking a trend against the U.S. dollar within a 2 percent margin. The exchange rates at numerous exchange bureaus are very close to the auction rate, and the spread between buying and selling rates is very small. The exchange system is free from restrictions on payments and transfers for current international transactions.

Article IV Consultation

Kazakhstan is on the standard 12-month consultation cycle, in accordance with the *Decision on Article IV Consultation Cycles* (Decision No. 14747-(10/96) (9/28/2010). The last consultation was concluded on July 12, 2010 (see IMF Country Reports No. 10/241 and 10/237).

FSAP Participation and ROSCS

Kazakhstan participated in the Financial Sector Assessment Program (FSAP) in 2000. The staff report on the Financial Sector Stability Assessment (FSSA) was issued on November 27, 2000 (FO/DIS/00/142). The FSSA included the following ROSC modules: Basel Core Principles for Effective Banking Supervision, Core Principles for Systemically Important Payment Systems, Code of Good Practices on Transparency in Monetary and Financial Policies, IOSCO Objectives and Principles of Securities Regulation, and IAIS Insurance Core Principles. An FSAP Update mission took place in February 2004 and a second FSAP Update mission took place in March 2008. The fiscal transparency module was completed in October 2002 and the final report published in April 2003. A data module mission took place in April/May 2002, and its final report was published in March 2003. An update of the data ROSC was undertaken in 2006 and the report was published in February 2008 (Annex V).

Technical Assistance

Kazakhstan has received technical assistance and training by the Fund in virtually every area of

economic policy, including through about 85 technical assistance missions provided during 1993–2011 by FAD, LEG, MCM, STA, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank of Kazakhstan, to the Agency of Statistics of the Republic of Kazakhstan, to the Ministry of Finance, and a peripatetic expert to the Financial Supervision Agency. Other international agencies and governments, including the World Bank, EU TACIS, EBRD, UNDP, and OECD, also are providing a wide variety of technical assistance.

The following list summarizes the technical assistance provided by the Fund to Kazakhstan since 2004.

Monetary and Capital Markets Department

Technical assistance has enabled steady progress in a number of areas related to monetary and exchange affairs, including banking legislation, central bank accounting, payments system reform, central bank organization and management, foreign operations and reserve management, banking supervision, monetary statistics, currency issuance, monetary operations, and money-market development.

1. September 2004: Bringing banking prudential regulation up to EU standards.
2. September 2004: Implementing inflation targeting: next steps.

3. November 2007: Strengthening banking supervision and risk assessment.
4. January 2009: Developing banking sector stress testing. As follow up, a peripatetic expert made a number of visits to the FSA over the course of 2009 and 2010.
5. November 2010: Reducing nonperforming loans in the banking system (joint with LEG).

Fiscal Affairs Department

The Fiscal Affairs Department has given advice to Kazakhstan in the areas of tax and expenditure administration, the establishment of a treasury system, and the introduction of a social safety net.

1. April 2003: Customs administration
2. September 2004: Treasury reform process

Statistics

The Fund's technical assistance program in statistics has focused on the development of the institutional framework appropriate to the needs of a market economy. The assistance has concentrated on establishing procedures for collecting and compiling monetary, government finance, balance of payments (including external trade), and national accounts.

1. January 2006: Real sector and balance of payments statistics.
2. August 2006: Real sector statistics.
3. December 2006: ROSC Update mission (and DQAF).

4. April 2008: GFSM 2001 implementation.
5. January 2009: Monetary statistics
6. April 2011: BOP statistics .

Legal Department

1. April 2008: Reforms to tax law
2. April 2010: Anti-money laundering and combating the financing of terrorism (jointly with the World Bank and United Nations Office on Drugs and Crime).
3. November 2010: Reducing nonperforming loans in the banking system (joint with MCM).

IMF Institute

Kazakhstani officials have participated in courses in Washington and at the Vienna Institute in the areas of macroeconomic management, expenditure control, financial programming, taxation, statistics, and other. In addition, the IMF Institute has conducted courses in the region. Seminars and training sessions have also been conducted by MCM and STA technical assistance missions.

Resident Representative

The position was terminated in August 2003, but the Fund maintains a local office in Almaty.

ANNEX II. RELATIONS WITH THE WORLD BANK

(As of April 1, 2011)

Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in July 1992 and a member of the International Finance Corporation (IFC) in September 1993. In 2010 Kazakhstan became an IDA donor under the IDA 16 replenishment. Kazakhstan is the largest client of the IFC in Central Asia.

IBRD in Kazakhstan

The Bank's lending operations in Kazakhstan are wide-ranging and all fall within the key pillars of the Country Partnership Strategy adopted in 2004. As of April 2011, the IBRD loan program comprises fifteen projects with a total commitment of \$2.7 billion, of which \$519 million has been disbursed. Among the fifteen projects, implementation of three projects (Nura river clean-up, agricultural post-privatization assistance - phase II, and North-South electricity transmission) will be completed by the end of this calendar year and two projects (technical and vocational education modernization, and strengthening the national statistical system) are pending signing. The other ten active projects are: agricultural competitiveness, forest protection and reforestation, Ust-Kamenogorsk environmental remediation, technology commercialization, customs development, tax administration reform, health sector technology transfer and institutional reform, South West roads, Moinak electricity transmission, and Alma electricity transmission.

The Joint Economic Research Program (JERP) provides extensive analytical support to the Government's development needs. Analytical and advisory services (AAA) under the JERP remain in high demand and currently comprise 27 activities amounting to \$2.8 million. Under the current FY11 program, the government increased its co-financing coverage to 77 percent of the total JERP budget, reflecting a greater emphasis by the government on advisory assistance. As in previous years, the current JERP is focused on the government's strategic priorities in: (i) enhancing competitiveness; (ii) mitigating macroeconomic risks; (iii) strengthening public finance management and administration; and (iv) improving human development.

IFC in Kazakhstan

Kazakhstan is the IFC's largest client in Central Asia. As of the end of February 2011, IFC's total committed portfolio in Kazakhstan amounted to \$525 million, of which \$460 million has been disbursed. IFC's efforts in Kazakhstan are directed to foster private sector led growth, particularly in the non-extractive sectors and frontier regions. The investment portfolio is mostly concentrated in the financial sector and general manufacturing, although recently IFC has begun making investments in the agribusiness sector. In the financial sector, IFC is focusing on: (i) further stabilization, diversification and extension of the maturity of the banks' funding base; and (ii) establishment of the best international corporate

governance and regulatory environment. As a result of the financial sector crisis, the IFC has aimed to identify partner financial institutions to contribute to the stabilization of the financial sector and increase access to finance in priority sectors. In this regard, over the past two and a half years, the IFC has provided over \$500 million in equity, quasi-equity, senior debt, and trade finance to several banks.

IFC's investment program has been expanding in recent years. Investments grew tenfold between FY05 and FY08 (to \$110 million) and more than doubled again in FY09, with \$243 million committed in seven projects despite the financial crisis. In FY10, IFC invested \$353 million in six

projects in the financial, agribusiness, and infrastructure sectors, with vast majority provided to commercial banks. Since the beginning of FY11, IFC has invested \$78 million in three projects.

In addition, the IFC is providing advisory services in several key areas. These include Corporate Governance and Private Public Partnerships (PPPs), where IFC's Infrastructure Advisory team is in discussions to help the government structure PPPs in toll roads, solid waste, and urban transport solutions. A new advisory investment climate initiative has been launched to assist Central Asian countries, including Kazakhstan, in strengthening transparency of tax systems.

ANNEX III. RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of April 1, 2011)

The European Bank for Reconstruction and Development (EBRD) is the largest investor outside the oil and gas sector in Kazakhstan. As of April 1, 2011 the EBRD's total business volume in Kazakhstan, including co-financing, stood at €10.4 billion, with investments totaling €3.9 billion (both these figures include approximately €1bn in cumulative Trade Facilitation Program turnover). As of April 1, 2011, the EBRD's portfolio in Kazakhstan amounted to €1.8 billion. During 2010, the EBRD signed 21 projects, including regional ones, for a total amount of EBRD finance of €680 million. During the first quarter of 2011, the EBRD signed 5 operations with a total annual business volume (ABV) of €74 million.

In its country strategy, approved in 2010, the EBRD aims to assist Kazakhstan in promoting economic diversification and moving towards a more sustainable model of financial development. The EBRD's main operational objectives for 2011 are:

- **In the corporate sector**, support investment in the manufacturing and the agribusiness sectors to address immediate financing needs, while promoting the modernization and diversification of the economy, best business and environmental practices, and energy efficiency.
- **In the financial sector**, work with the Kazakhstani authorities and other IFIs to strengthen the country's financial sector; re-engage with partner banks; expand the partner banks group; and assist the authorities with resolving the banks' NPL problem and identifying and implementing policy reforms to promote de-dollarization, develop local capital markets, and increase the availability of sustainable local currency financing.
- **In the infrastructure sector**, restructure the national railway company and support its energy-efficiency improvement program; improve the infrastructure in Kazakh municipalities; expand activities into the solid waste and district heating sectors and support municipal sector reform, including innovative methods for developing and financing projects in the water segment.
- **In the power and energy sector**, support clean energy through the provision of financing to modern generating facilities, stemming losses in the distribution segment through rehabilitation of power lines and developing pilot renewable energy projects with private operators (subject to bankability and integrity).

EBRD Portfolio in Kazakhstan: April 1, 2011			
In millions of euros			
Sector Business Group (SIC)		Commitments	Portfolio
Energy	Private	218	174
	State	258	221
FI	Private	1,864	424
	State	0	0
Industry, Commerce &Agribusiness	Private	696	370
	State	42	0
Infrastructure	Private	96	96
	State	680	544
TOTAL		3,855	1,830

Note: * Including € 1bn in cumulative Trade Facilitation Program lines

ANNEX IV. RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of April 1, 2011)

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. In the early years of transition from a centrally planned to a more market-driven economy, ADB focused on efforts to sustain a higher growth rate, promote environmental friendly development, support the private sector, and encourage regional integration.

As of 1 April 2011, cumulative public sector loan commitments to Kazakhstan totaled \$2.25 billion, with \$989 million disbursed. Commitments cover 19 loans in agriculture and natural resources, education, finance, transport and communications, water supply and sanitation, and irrigation. The loan operations were complemented with 64 technical assistance (TA) projects totaling about \$28 million. Kazakhstan is no longer eligible for concessional resources from the ADB's Asian Development Fund.

In recent years, ADB operations focused on water distribution and irrigation, road transportation, budget support, private sector and SME. In supporting the government's State Drinking Water Sector Program, 2002–2015, ADB provided a \$35 million loan in 2004 for basic water supply services and a capacity-building program to improve living/health conditions in Akmola and North and South Kazakhstan. After a slight pause from 2004, ADB's public sector operations in Kazakhstan resumed in 2008 with the signing of the \$225

million loan agreement for the CAREC 1 Transport Corridor project under a \$700 million Multi-tranche Financing Facility (MFF). The Transport Corridor project aims to improve a major transport corridor across Kazakhstan, linking it with its eastern and western neighbors, as well as opening up north-south routes. In 2010, ADB approved 3 loans totaling \$608 million. An SME Investment Program Tranche 1 project to enhance efficiency and competitiveness of the financial sector and SMEs was approved as part of a \$500 million MFF. The other 2 were the CAREC Transport Corridor 1 Tranche 3, and the CAREC Transport Corridor 2 Tranche 1.

In 2009, ADB supported Kazakhstan in mitigating the impact of the global financial/economic crisis with a \$500 million loan. The loan supported the government's crisis-mitigation action plan and the employment-generation program and helped Kazakhstan finance its budget deficit. ADB also approved another loan totaling \$187 million under the MFF for reconstruction of CAREC 1 Transport Corridor (Zhambyl Oblast sections) that year.

Recent technical assistance projects include: (i) preparation of the CAREC road projects in 2009 (\$825,000); and (ii) capacity development to support SME development approved in 2010 (for \$650,000). In 2011, an energy efficiency diagnostic study to identify investment priorities

totaling \$200,000 was also approved. Kazakhstan also participates in a number of ongoing regional TA projects.

Private sector operations of ADB in Kazakhstan began in 2006, and have focused on the banking sector, with 5 private sector financings totaling \$375 million. Past experiences and lessons with the banking sector are being recognized and will need to be addressed and reflected in future operations. Near-term ADB private sector financing prospects are in private infrastructure.

Kazakhstan was one of the 4 founding partners of the CAREC Program in 1997 (together with China, Kyrgyz Republic, and Uzbekistan). Since then, six other countries have joined the partnership, and CAREC-related investments in the partner countries have totaled \$15.3 billion, over the period 2001-2010. Four of the six CAREC road and rail corridors traverse Kazakhstan, and

developing these Central Asian corridors is a priority in achieving the vision of land bridges connecting Europe and Asia.

A new country partnership strategy (CPS) to guide ADB operations during 2011-2015 is being prepared. The CPS proposes to support Kazakhstan to diversify the economy and become more competitive. It envisages to build on the pillars of regional cooperation, private sector operations, inclusive growth, and knowledge exchange. Under the CPS, ADB's support will focus on energy, finance, transport, and urban sectors. Important corporate level cross-cutting themes include regional cooperation, gender, environment and climate change, good governance, and private sector development and operations.

ANNEX V. STATISTICAL ISSUES

(As of May 2011)

I. Assessment of Data Adequacy for Surveillance	
<p>General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are monetary and balance of payments statistics, with remaining deficiencies in national accounts.</p>	
<p>National accounts: The quality of GDP statistics is affected by the limited coverage of small businesses in selected activities such as retail and construction. While some progress has been made in compiling and reporting GDP by final expenditure consistent with output-based measures, dissemination of quarterly GDP series data is conducted on a discrete basis only.</p>	
<p>Government finance statistics: Progress has been made in the classification of the fiscal accounts consistent with the Fund's Government Finance Statistics Manual 2001 (GFSM 2001). However, as a result of the reorganization of the public sector, including the redefinition of budgetary units, difficulties have arisen with regard to the recording and reporting of expenditure arrears. In addition, statistics on the enlarged government (including public enterprises) is not available.</p>	
<p>Monetary statistics: The monetary statistics based on the Standardized Report Forms (SRFs) compiled by the central bank have a few inconsistencies, and a technical assistance mission in January 2009 provided several recommendations.</p>	
<p>Balance of payments: In general, the balance of payments is compiled in concordance with the fifth edition of the Balance of Payments Statistics Manual (BPM5). However, foreign direct investment statistics are not fully in line with the standards set forth in BPM5, as local branch offices of foreign companies operating in the construction sector are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production. In addition, the errors and omissions have been large and increasing. The technical assistance mission in April 2010 addressed these issues.</p>	
II. Data Standards and Quality	
Participant in the Special Data Dissemination System (SDDS) since March 2003. Metadata need to be updated.	Data ROSC published in 2002.

Kazakhstan: Table of Common Indicators Required for Surveillance
(As of May 20, 2011)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo Items	
						Data Quality-Methodological Soundness ⁸	Data Quality-Accuracy and Reliability ⁹
Exchange Rates	05/20/11	05/20/11	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	04/30/11	05/07/11	M	M	M		
Reserve/Base Money	03/31/11	04/27/11	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	03/31/11	04/27/11	M	M	M		
Central Bank Balance Sheet	04/30/11	05/07/11	M	M	M		
Consolidated Balance Sheet of the Banking System	03/31/11	04/25/11	M	I	I		
Interest Rates ²	04/30/11	04/30/11	I	I	I		
Consumer Price Index	04/30/11	05/03/11	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing ³ —General Government ⁴	03/31/11	04/27/11	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing ³ —Central Government	03/31/11	04/27/11	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q1/2011	04/20/11	Q	Q	Q		
External Current Account Balance	Q1/2011	04/30/11	Q	Q	Q	LO, O, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	Q1/2011	04/30/11	Q	Q	Q		
GDP/GNP	Q1/2011	04/30/11	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q1/2011	04/30/11	Q	Q	Q		
International Investment Position ⁶	Q1/2011	04/30/11	Q	Q	Q		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

⁸ Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

⁹ Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.