

DEBT SUSTAINABILITY ASSESSMENT

Kazakhstan: Public Debt Sustainability Assessment, 2005-2020

1. Based on macroeconomic and fiscal assumptions, the public debt to GDP ratio is expected to increase to 17.6% in 2015 and to 19.0% in 2016. It is projected to fall to 15.0% by 2018 and to 13.9% by 2020, driven by rebounding economic growth.¹ A low debt ratio suggests that public debt is sustainable if government assumptions were to realize. The National Fund of the Republic of Kazakhstan supports the conclusion that the outlook is generally benign.
2. A historical scenario and bound tests were conducted to analyze alternative macroeconomic assumptions, and resilience of the key variables driving public debt dynamics to various shocks. The historical scenario suggests that the baseline assumptions are not overly optimistic. The results of all bound tests suggest that public debt is resilient to a broad range of shocks. Higher real interest rates, lower real GDP growth, or a fiscal negative shock all raise the public debt ratio above the baseline. The combined effect of these shocks raises the debt ratio to 24.6% of GDP by 2020.
3. The impact of the loan for countercyclical support on Kazakhstan's public debt sustainability is assessed by a scenario that reflects an ADB \$1 billion loan disbursement in 2015, jointly with two World Bank loans of \$1 billion in 2015 and \$1 billion in 2016. The joint effect initially raises the public debt ratio to 20.2% by 2016, compared to baseline 19.0%, to then converge to the baseline due to swift amortization and the predominantly benign debt dynamics incorporated in the projections.

¹ The assessment takes into consideration the IMF Article IV external debt sustainability assessment from August 2014.

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(In percent of GDP, unless otherwise indicated)

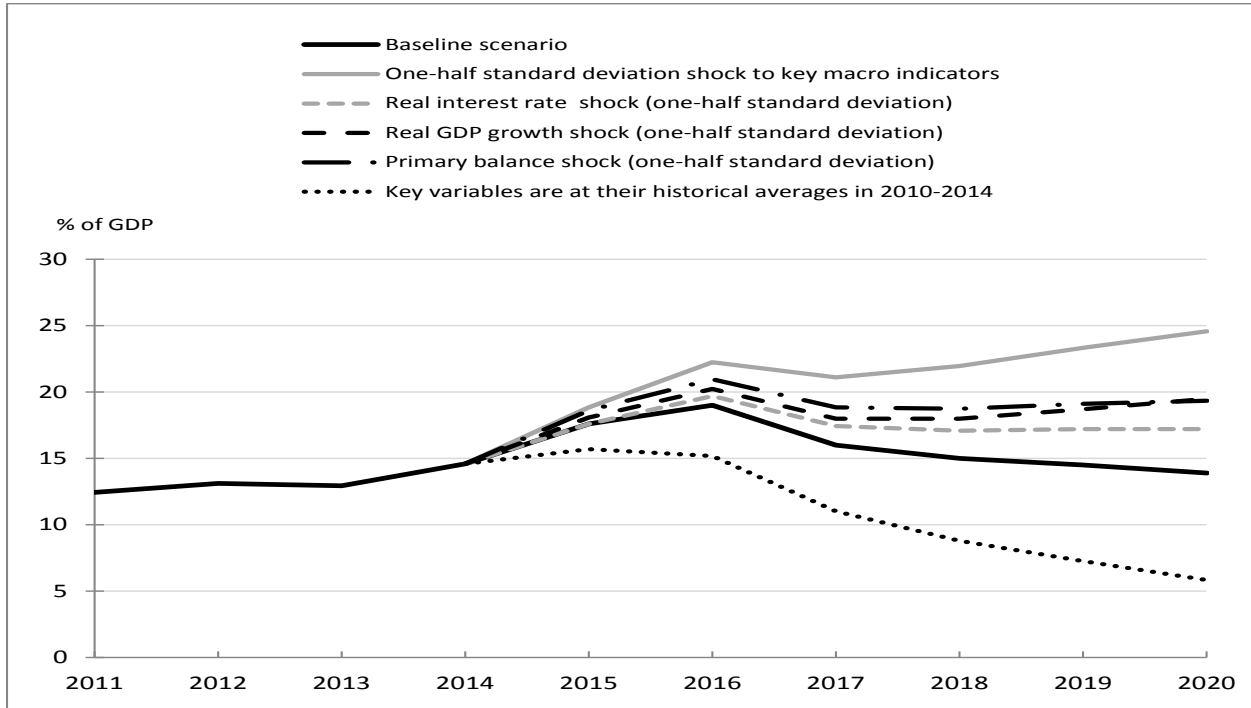
			<u>Actual</u>		<u>Estimate</u>					<u>Projections</u>						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Baseline scenario	7.1	5.9	5.3	6.3	10.2	15.3	12.4	13.1	12.9	14.6	17.6	19.0	16.0	15.0	14.5	13.9
Alternative Scenarios and Bound Tests																
1 Includes ADB loan of \$0.5 billion and WB loans of \$2.0 billion										14.6	18.5	20.0	16.9	15.8	14.9	13.9
2 Includes ADB loan of \$1.0 billion and WB loans of \$2.0 billion										14.6	18.7	20.2	17.1	15.8	14.8	13.9
3 Key variables are at their historical averages in 2010-2014										14.6	15.7	15.2	11.0	8.8	7.3	5.8
4 Real interest rate shock (one-half standard deviation)										14.6	17.6	19.7	17.4	17.1	17.2	17.2
5 Real GDP growth shock (one-half standard deviation)										14.6	18.1	20.2	18.0	18.0	18.7	19.5
6 Primary balance shock (one-half standard deviation)										14.6	18.6	21.0	18.8	18.7	19.1	19.3
7 One-half standard deviation shock to key macro indicators										14.6	18.8	22.2	21.1	22.0	23.3	24.6

Note: The government's spending program is not expected to adversely affect debt sustainability, as a large proportion of the 2015 budget stimulus is devoted to maintain social expenditures and to infrastructure spending, which will improve the capacity of the economy to keep growing in the medium term. Even with a 3.0% increase in government debt in 2015, the debt ratio is projected to return no more than 15% by 2018.

Source: Asian Development Bank

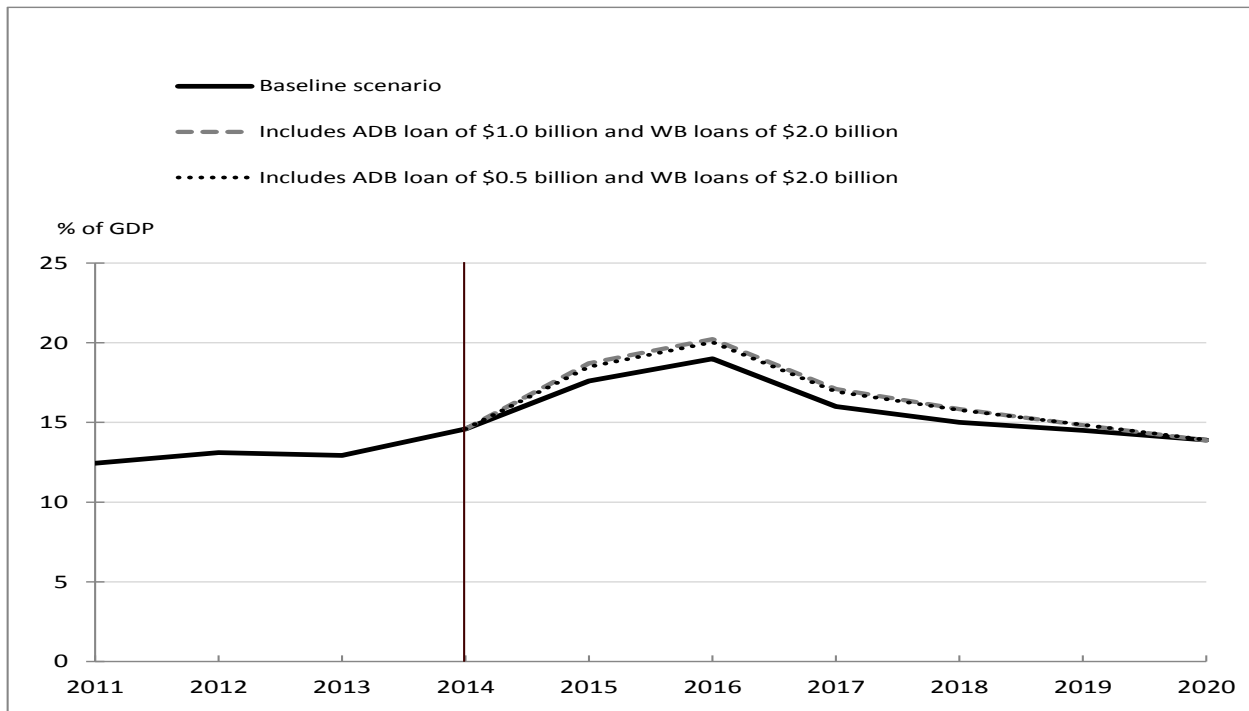
	Actual		Estimate			Projections				
	Average 2008-2012	2013	2014	2015	2016	2017	2018	2019	2020	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
1	Real GDP growth (in percent)	4.9	6.0	4.3	1.9	3.8	3.8	4.1	4.1	5.0
2	Average nominal interest rate on public debt (in percent)	5.8	4.5	5.1	2.9	2.5	2.4	2.9	3.3	3.6
3	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-8.0	-5.2	-2.3	0.3	-1.7	-2.9	-0.2	0.2	1.3
4	Nominal appreciation (increase in US dollar value of local currency, in percent)	-3.5	-2.0	-15.1
5	Inflation rate (GDP deflator, in percent)	13.8	9.6	7.4	2.5	4.2	5.3	3.1	3.1	2.2
6	Growth of real primary spending (deflated by GDP deflator, in percent)	0.9	-1.8	5.2	4.7	7.7	-4.4	4.0	4.0	4.8
7	Primary deficit	-0.1	1.0	0.8	2.0	1.4	1.3	1.3	1.3	1.2

Figure 1: Kazakhstan: Public Debt Sustainability Under Baseline and Alternative Scenarios and Bound Tests, 2014-2020



Source: Asian Development Bank staff estimates.

Figure 2: Kazakhstan: Public Debt Sustainability Under Baseline and Alternative Loan Scenarios, 2014-2020



Source: Asian Development Bank staff estimates.