

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

March 19, 2015

Report No.: 96598

<b>Operation Name</b>	Kazakhstan First Fiscal Management and Resilience Programmatic Development Policy Financing
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Kazakhstan
<b>Sector</b>	Central government administration (100%)
<b>Operation ID</b>	P154702
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN
<b>Implementing Agency</b>	Ministries of Finance and National Economy
<b>Date PID Prepared</b>	March 18, 2015
<b>Estimated Date of Appraisal</b>	May 4, 2015
<b>Estimated Date of Board Approval</b>	June 18, 2015 (tentative)
<b>Corporate Review Decision</b>	TBD

**I. Key development issues and rationale for Bank involvement**

**Kazakhstan has achieved impressive gains in poverty reduction, supported in part by successful management of its extensive oil resources.** A large oil exporter in Central Asia, Kazakhstan has successfully leveraged its oil resources to reduce poverty and increase shared prosperity. The country's real GDP growth averaged 6.5 percent between 2010 and 2013, buoyed by higher oil prices and health growth in the non-oil sector. The Government of Kazakhstan has placed a high priority on prudent fiscal management, and on policy reforms to stimulate growth in the non-oil sector. While the state enterprise sector accounts for a large share of GDP, a number of initiatives have been implemented recently to stimulate private investment, including government support programs providing subsidies and financial support, and flagship initiatives to promote the development of priority industries.

**An adverse global environment has weakened macroeconomic stability and prospects for non-oil growth.** The recent fall in oil prices has affected fiscal and external balances, and put pressure on the exchange rate. Overall GDP growth slowed to 4.3 percent in 2014 due to weaker domestic demand following the devaluation of the tenge in February 2014, the oil price shock during the second half of the year, and weaker external demand by China and Russia for Kazakhstan's crude oil, iron ore, and metal products. The economy is expected to weaken further in 2015; the current account deficit is projected to widen to 4.6 percent of GDP, the non-oil fiscal deficit is estimated at 10.4 percent of GDP, and growth is expected to slow further to 1.3 percent. While the Government of Kazakhstan has responded by reducing current expenditures and implementing a strong fiscal stimulus focused on investment spending, the current crisis presents a strong opportunity to refocus the development agenda on the need to strengthen the non-oil economy.

## II. Proposed Objective(s)

**The Program Development Objective of the proposed DPF series is to support policies aimed at: (i) strengthening macro-fiscal sustainability and public finance management and protecting the vulnerable; and (ii) enhancing the competitiveness of the non-oil economy by improving the environment for the private sector and reducing the role of the state in the economy.** The design of the program reflects the Government's priorities, as stated in the Kazakhstan 2050 development strategy as well as recent initiatives to stimulate private sector investment and reform public administration. The first pillar of the DPF includes fiscal consolidation measures as well as steps to enhance transparency of budget operation, a re-evaluation of the fiscal rule in light of changed external circumstances, revenue mobilization measures and the rollout of an enhanced social protection strategy. The second pillar focuses on a range of measures to enhance the competitiveness of the non-oil economy, including financial sector reforms, measures to improve regulatory governance, the business environment and steps to rationalize the role of the large public sector in Kazakhstan.

## III. Preliminary Description

**The proposed DPF series responds to the Government's request for financing, underpinned by a strong set of policy responses to address the challenges created by an adverse economic environment.** The program includes reform measures related to fiscal management, expenditure efficiency, private sector development, and financial sector efficiency with a view to restoring macro fiscal stability and supporting the growth of the non-oil sectors. World Bank has worked closely with the GoK on a wide ranging knowledge and investment agenda which has resulted in strong analytical work in the areas under consideration and is used to inform the programmatic operation. Reforms are grouped into two broad pillars:

**Pillar I: Strengthening macro-fiscal sustainability and public finance management and protecting the vulnerable.** This supports measures to adjust the fiscal budget to the new reality of lower oil prices and to strengthening macroeconomic and fiscal policies through better information and improved institutional processes. At the same time, lower spending levels are expected to increase efficiency in public spending, and in particular to improve targeting on social protection framework.

**Pillar II: Enhancing the competitiveness of the non-oil economy.** This supports measures that strengthen the financial sector by reducing the high stock of non-performing loans while simultaneously improving the prudential oversight of the National Bank of Kazakhstan; implement a strong legislative agenda to improve the business environment, and rationalize the role of SOEs to create space for private sector led-growth in the non-oil sector.

## **IV. Poverty and Social Impacts and Environment Aspects**

### **Poverty and Social Impacts**

1. The DPF program will likely benefit the poor. Growth rather than distributional changes have been the driven force behind the remarkable poverty reduction in the recent years. This result suggests that the poverty reduction process is closely linked to growth dynamics in the country, and more importantly, that this relationship seems to be symmetric, suggesting that the country's safety nets are not particularly strong. These results are qualitatively consistent with the country's performance in terms of shared prosperity (growth of the bottom 40). While the specific impact of the program is yet to be evaluated, the measures in the DPF are designed to sustain growth and strengthen the country's resilience.

### **Environment Aspects**

The environmental impacts of the Program are likely to be neutral and will be investigated in greater detail as part of project preparation.

### **Tentative Financing**

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	500

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