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KAZAKHSTAN

Country briefing notes

Economic growth strengthened on consumer spending

- Kazakhstan enjoyed more rapid economic growth of 6% in 2013, compared with 5% in 2012. Private consumption was robust, supported by accommodative credit policies for consumers. However, consumer loans by commercial banks increased at the expense of credit extended to small businesses.
- Export earnings were weak on the back of sluggish world demand for metals and subdued domestic oil production that was partly attributed to disruptions at one of the country's large-scale oil fields.
- Strong economic growth has led to job creation, but youth unemployment remains relatively high.
- The economy is projected to grow at a somewhat slower pace of 5.4% in 2014. Newly imposed restrictions on consumer credit could weigh down consumer spending. On the upside, the devaluation of the domestic currency in February could boost export earnings.

Inflation increased

- The inflation rate rose to 5.8% in 2013 from 5.1% in 2012. Price levels increased further by 9.3% in the first quarter of 2014.
- The price rises were partly policy-driven, with an upward adjustment in administered prices in 2013 and a depreciation of the Kazakh tenge in early 2014. Strong agricultural harvest helped offset part of these policy-induced price pressures.

Macroeconomic policy developments

- Public spending on housing and utilities was rationalized, resulting in lower budget deficit of 2.1% of GDP in 2013. However, the impact on lower-income groups should be closely monitored.

- Kazakhstan shifted from pegging its currency to the United States dollar to a multicurrency basket peg that comprises the Russian rouble, the euro and the United States dollar. This change reflects stronger economic linkages between Kazakhstan and the Russian Federation.
- To promote economic diversification, Kazakhstan revised laws related to public-private partnerships (PPPs) to increase the efficiency of public investments. These amendments helped expand the coverage of PPPs and authorized the use of international standards. The Government also launched a programme to diversify exports and boost agricultural output.

Boosting tax revenues

- Since 2002, Kazakhstan has applied a flat income tax rate of 10%. Given that flat rates are regressive and there has been an increase of income inequality in the country, a more appropriate move may be a dual income tax system that imposes increasing marginal rates on income on labour and capital separately.
- Like many other Asia-Pacific countries, Kazakhstan is engaged in corporate tax competition. Nonetheless, several studies show that lower corporate tax rates do not necessarily help to attract more foreign direct investment.

Economic diversification through regional cooperation

- North and Central Asian economies should align their foreign investment strategies more closely with regional cooperation and integration initiatives in order to attract large-scale foreign investment in non-resource sectors, which thus far had been limited.
- Reducing trade costs would help foster intraregional trade. Cross-border and transit transport remains hindered by complex and non-harmonized procedures, as well as by limited cross-border transport infrastructure.
- Governments may consider PPPs with an appropriate risk-sharing and regulatory framework as an option for cost-effective public service delivery. This especially matters for transport networks. Fair competition and better access to finance could foster innovation and entrepreneurship.

Urbanization challenges in North and Central Asia

- Urbanization policies aimed at establishing and maintaining productive, sustainable and inclusive cities are often lacking. By developing growth poles that focus on strategic urban centres and economic corridors, both national and regional economic prospects can be enhanced, including through cross-border trade routes to distant markets.
- North and Central Asia has implemented different approaches for urban development with the aim to improve the capacities of municipal governance systems, such as municipal budgeting and support for social and economic development in urban areas. However, greater opportunities still lie in streamlining policies and creating broader stakeholder engagement.

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