

**Report No. 12856-KZ**

# Kazakhstan Economic Report

(In Two Volumes) Volume II: Annexes

**July 7, 1994**

Country Operations Division I  
Central Asia, Azerbaijan and Kazakhstan  
Country Department III  
Europe and Central Asia Region

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## CURRENCY EQUIVALENTS

Until November 15, 1993

Currency Unit = Ruble  
1 Ruble = 100 kopecks

After November 15, 1993

Currency Unit = Tenge  
1 Tenge = 100 tiyns

	<u>Period Average</u>	<u>End of Period</u>
	(Rubles/Tenge per US Dollar)	
	<u>Rubles</u>	
<u>1992</u>		
Quarter I	102.4	100.0
Quarter II	94.6	100.0
Quarter III	177.7	254.4
Quarter IV	396.4	414.5
<u>1993</u>		
Quarter I	580.1	684.0
Quarter II	968.1	1060.0
Quarter III	1027.9	1169.0
	<u>Tenge</u>	
Quarter IV	5.5	6.3
<u>1994</u>		
Quarter I	18.5	19.9
Quarter II <sup>1/</sup>	36.2	40.2

1/ As of May 31, 1994.

## WEIGHTS AND MEASURES

Metric System

## GOVERNMENT FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS

AMC	Anti-Monopoly Committee
CBR	Central Bank of Russia
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
EF	Employment Fund
ETF	Economic Transformation Fund
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDP	Gross Domestic Product
GNP	Gross National Product
IEA	Inter-Enterprise Arrears
IMF	International Monetary Fund
MOF	Ministry of Finance
NBK	National Bank of Kazakhstan
NMP	Net Material Product
ODA	Overseas Development Administration
OECD	Organization of Economic Cooperation and Development
PES	Public Employment Service
PF	Pension Fund
PTF	Passenger Transport Fund
RF	Road Fund
SIF	Social Insurance Fund
SBA	Stand-By Agreement
SOE	State Owned Enterprise
SPC	State Property Committee
TA	Technical Assistance
TES	Temporary Employment Schemes
VAT	Value Added Tax

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# ANNEX 1

## RECENT ECONOMIC DEVELOPMENTS

### Introduction

1.1 Kazakhstan has now adopted and begun to implement a comprehensive structural reform program aimed at moving the country toward a market economy. The country's economic reform process, initially began under the former Soviet Union (FSU), was greatly accelerated following the declaration of independence in December 1991.<sup>1</sup> Highlights of post-independence economic reform to date include the liberalization of prices in January 1992; the recognition of private ownership rights in the new Constitution of January 1993; the establishment of a National Privatization Program in April 1993 and the introduction of a national currency in November 1993.

1.2 The immense task of transforming Kazakhstan's economy has only just started. While a private economy is beginning to emerge, macroeconomic developments remain largely determined by the behavior of inherited structures, ranging from state enterprises in production, monopolies in trade, state procurement in agriculture, to directed credits and specialized banks. Furthermore, the price structure that economic agents face is still largely disconnected from the world market.

1.3 The constraints facing the authorities in their efforts to restore stability and growth cannot be underestimated. Production having dropped more than 30 percent since the beginning of the decade, the country has fewer resources available to finance economic restructuring or to provide the level of social protection needed to make the transition politically and socially sustainable. In addition, significant uncertainty exists regarding: (i) prospects for maintaining or restoring some economic links with the rest of the FSU; (ii) the exchange rate's equilibrium level; and (iii) the long term structure of relative prices. It is also the case that notwithstanding its size, Kazakhstan's economic developments are largely influenced by those of its immediate FSU neighbors. Only as Kazakhstan develops independent trading and transport routes and becomes more integrated into the global economy will international markets have a greater influence on the economy.

### Overview

1.4 This Annex reviews salient economic developments since independence, i.e., 1992-1993.<sup>2</sup> Each section seeks to highlight key policy actions as well as their macroeconomic implications. The Annex opens with a review of the major systemic reforms undertaken to transform the economy over time into a market system dominated by private ownership (first section: "Systemic Reforms"). Private activities are beginning to emerge in all sectors; this process is expected to make a quantum leap in 1994 with the roll-out of the National Privatization Program, adopted and prepared in 1993. Further price and trade reforms are still required to allow market signals to come undistorted to economic agents.

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1. Key earlier steps included: (i) increased autonomy for state enterprises under the Law on State Enterprises of 1987; (ii) the devolution of substantial fiscal autonomy to FSU republics in 1990; and (iii) the adjustment of administered prices throughout the Union in January and April, 1991.

2. This Annex refers to the pre-independence period only when required for clarity. For a full account of economic developments before independence, see refer to "Kazakhstan: the Transition to a Market Economy", World Bank Country Study, World Bank, Washington DC, 1993.

1.5 With market reforms only starting to root, it is hardly surprising that macroeconomic developments in 1993 prolonged the trend, observed during previous years, of contraction in production and rapid inflation (as will be seen in the next section: "Production and Prices"). Gross domestic product declined by around 16 percent, following a similar contraction last year, while prices were multiplied over twenty-fold for two years in a row. The disappearance of markets and input sources and the loss of financial support which accompanied the break-up of the FSU caused output to contract sharply throughout 1992-93. An unfavorable swing in the country's terms of trade further depressed domestic income.

1.6 After reviewing developments on the labor market (section on "Labor and Wages"), the next section ("Domestic Income and Expenditures") examines how enterprises, household and the Government contributed and adjusted to the macroeconomic developments described above. The attempt, starting in the second half of 1992, to shield the living standards of the population (or popular resistance to further cuts) from these adverse developments through wage indexation and labor hoarding drained enterprise finances. Severe external terms of trade losses and continued domestic price distortions exacerbated the squeeze. Restrictive as they were, fiscal policies proved unequal to the task of checking monetary expansion fueled by the large bank lending needed to accommodate enterprises' requirements. The relative income gains made by household proved illusory, however, as they were offset by a transfer of wealth in the opposite direction through the inflation tax. Private consumption therefore dropped, although slightly less than GDP.

1.7 Massive inflationary pressures persisted after the monetary overhang inherited from the 1980s that had been eliminated in the first weeks of 1992 and were exacerbated by growing public reluctance to hold on to monetary assets (section on "Money and Credit"). As long as Kazakhstan remained in the now defunct ruble zone, high inflation could be viewed with "benign neglect" -- as it was essentially beyond the control of the country's authorities. The Government could concern itself more with securing the largest possible share of available credit than with the magnitude of its overall expansion. With monetary independence, however, the country now directly confronts the problem of inflation it has become strictly domestic phenomenon that requires home-grown remedies.

1.8 If external transactions with the FSU contracted sharply in 1993, the country started to see the first benefits of its opening to the rest of the world (section on "External Transactions"). Trade expanded briskly, and financial resources under the form of trade credits, official borrowing and foreign investment began to flow in, providing at least partial relief for the cut-off of financing from Russia. After signing a "zero-debt" arrangement with Russia, Kazakhstan was left with a very low level of foreign indebtedness. Assuming progress toward macroeconomic stabilization and a strengthening of market reforms, Kazakhstan may expect that a continued expansion of its trade and financial relations beyond the FSU will ease its way back to growth.

## **Systemic Reforms**

### **Price and Trade Reforms**

1.9 The turning point in the reform process was the elimination of fixed prices for most goods and services in January 1992, and the parallel adjustments of the remaining administered prices (mainly basic food, rents, energy and essential public services -- about 20 percent of consumer goods). Administered prices have been adjusted at regular intervals since, and some have been freed. Retail

prices of petroleum products, for instance, were adjusted in May and August 1993, to reflect the evolution of the price of imported Russian crude oil. Furthermore, with the introduction of new currency, administered prices for energy products, utilities, transport and communications tariffs were raised 1.5-4 times their previous wholesale and retail levels.

1.10 Along with price reforms, the state also started to withdraw from controlling trade. In 1992, the country's system of state orders (*goszakaz*), introduced in late 1991 to replace the dying Union-wide system, still covered the bulk of output. Due to trade disruption and price liberalization, it proved next to impossible to operate, and a much less ambitious "state needs" system (*gosnab*), estimated to cover about 20 percent of output, was put in place, mainly to handle the procurement of goods for use by the administration, army and defense industries and for the fulfillment of bilateral trade agreements. This system and similar ones operated at the local level continues to cover a large proportion of agricultural production (see Annex 2 for a complete assessment of the current trade system).

1.11 Despite these extensive reforms, domestic relative prices remain substantially out of line with what world market pricing or the intersectoral equalization of profit rates would require. While the extent of price administration has been reduced, the Government continued through the end of 1993 to intervene in pricing by, among other means: (i) procuring "state needs" at lower than market prices; (ii) ex ante control of prices of goods produced by "monopolies," (i.e., any enterprise whose regional or national market share exceeds 35 percent); (iii) various forms of export restrictions (export taxes, licenses and quotas) that allow domestic and international prices to diverge; (iv) price directives at state retail outlets; and (v) continued price administration of the essential items referred to in para. 1.9.

## **Enterprise Reform**

### **Emergence of a Private Sector**

1.12 The Government's main strategy vis-a-vis the enterprise sector is to transform it from a state-owned administered one, into one dominated by privately owned capitalist firms, that would operate under competitive market conditions. This would be achieved both through the entry of new firms and the privatization of existing ones. Extensive legal reform and institution building are under way to encourage the emergence of a private sector. The new Constitution, adopted in January 1993, establishes the legal basis for private ownership. This right was confirmed by a law on property adopted in March 1993. Other supporting legislation has been enacted on, inter alia, companies, pledges, leases and bankruptcy. The Government also expects foreign investment to play a major role in the future development of the country (see Box 1.1). In support of this objective, a one-stop system of foreign investment processing and licensing is being made operational, the country has joined MIGA, and new foreign investment legislation was submitted to the fall 1993 session of Parliament.

1.13 Privatization, however, constitutes the main thrust of Government's policy. Indeed, privatization of former state assets has to date been the most significant source of private sector growth. During 1993 only, 1194 enterprises were privatized and 400 new private ventures created.

1.14 New private business has mainly developed in informal trade and services. A number of barriers remain to the entry of more sizable private businesses. The administrative allocation of most credit through directed credit programs, widespread oblast and local control of commercial real estate and the preferential access of producers to inputs for the fulfillment of "state needs" all discriminate against the private sector in obtaining resources. Often also, even so-called privatized enterprises fit more closely

### Box 1.1 Foreign Investment in Kazakhstan

Kazakhstan has begun to attract considerable interest on the part of foreign investors. While most proposals are still at the design and negotiation stage, the country's balance of payments recorded already about US\$ 123 million of foreign direct investment in 1993.

Much of this interest is directed to the oil sector, where the country was able to conclude foreign investment agreements with some major oil companies. To date, about 32 oil and gas fields, with estimated total proven and probable reserves of 2.0 billion tons of oil equivalent (about 60 percent of the country's total remaining identified petroleum reserves), have been offered to potential investors for their participation in development and rehabilitation. The Tengiz and Karachaganak fields represent over 75 percent of the total estimated reserves. For the Tengiz field (60 percent of proven reserves of fields offered for participation), a final agreement, providing for 50/50 joint venture, was signed between Tengizneftegaz (the Kazakhstan production association) and a subsidiary of Chevron. At present, foreign investors are negotiating a 40-year contract for the development of the Karachaganak field (15 percent of total estimated reserves offered for participation). The remaining oil fields offered for participation are small, requiring mostly surface infrastructure development or rehabilitation and institution of secondary or tertiary recovery processes. Foreign operators have expressed substantial interest in these smaller operations as well. In addition, Kazakhstan has entered into a contract with a group of seven major oil and gas companies to explore the Caspian Sea shelf, a relatively underexplored region with high potential for sizable oil discoveries.

The extent to which these agreements will translate into capacity expansion will depend on the capacity of the country to secure for itself a better pipeline connection with Western markets. A consortium led by the Omani Government was formed, with Kazakhstan and Russia as members, to explore ways to finance an export pipeline, but has had limited success to date in finding suitable financing sources and arrangements.

In the rest of the economy, the non-ferrous metal sector is also attracting considerable attention, although firm agreements have yet to be reached. Turkish and Chinese investors are already taking stakes in small-scale trade and light industries. Also, in the banking sector, joint ventures have already been established, including one involving the International Finance Corporation.

The privatization program is expected to give a strong boost to this process through the international tendering of the largest enterprises. A first transaction was concluded with the two-step sales of the Almaty Tobacco Kombinat (ATM) to Philip Morris, USA; the latter acquired a 49 percent stake in the company in October, 1993 and an additional 48.7 percent in January, 1994, for a total of US\$103 million (excluding US\$213 million in new investments pledged by Philip Morris), the remainder belonging to the enterprise workers. Bids are also being evaluated for the Taraganda and Almaty margarine plants and for the Shimkent Confection Plant.

Encouraged by its success, in January, 1994 the government issued a list of 38 firms that it intends to tender internationally in the coming months. The Government is currently recruiting investment banks and similar firms to advise in this process and is hopeful that the tendering of individual firms can proceed expeditiously; at the same time, all concerned realize the difficulties involved: the sale of ATM required the passage of no less than 104 laws, decrees and other regulations.

the definition of self-managed enterprises, since the interests of the workers' collectives and managers (volume of employment, wages and other compensations) supersede the preoccupations of net worth and profit rates associated with private enterprise. Furthermore, de facto monopolies on trucking and warehousing and "business profile" restrictions attached to a substantial segment of already privatized state assets considerably hinder the capacity of private enterprises to operate effectively, let alone profitably.

## Privatization in Industry

1.15 Initial Privatization. Some initial privatization of industrial assets took place between 1991 and early 1993. About 7,000 enterprises (out of a total of 45,000 to 50,000) were formally privatized, representing about 10 percent of state-owned assets and 12 percent of employment. During this initial round of privatization, assets were sold mainly to workers' collectives and managers. Because these sales were often effected under conditions that were opaque and detrimental to the public interest, further divestiture of state in enterprises was halted in February 1993, pending adoption of a comprehensive program by the Government.

1.16 The National Program. A revised National Privatization Program for 1993-95, was approved by the President in April 1993 (see Box 1.2). It is expected to put the process of privatizing non-agricultural enterprises<sup>3</sup> on a more orderly and sustainable footing.

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### Box 1.2: The National Privatization Program

The National Privatization Program calls for a three-pronged strategy involving:

- (i) the rapid sale of small-scale enterprises, such as shops and restaurants, through municipal auctions or tenders of assets against cash and unutilized housing vouchers. To develop competition, wholesale facilities and part of the country's trucking fleet will be subject to segmentation and separate auctions;
- (ii) the mass privatization of about 5,000 medium- to large-scale enterprises (after incorporation as wholly state-owned enterprises) through the auctioning the majority of shares to 50-100 private investment funds in which Kazakhstan's citizens invest non-material points-denominated privatization coupons; and
- (iii) the privatization of very large enterprises (in many instances, in one factory-towns) on a case-by-case basis, with appropriate prior restructuring and changes in the regulatory framework.

The program also includes several other provisions aimed at ensuring that privatization engenders the intended change in economic structures and behaviors. First, all enterprises are to be privatized at the lowest organization unit practicable (e.g., a bakery Kombinate should be broken up into its individual bakery units, rather than sold as one concern). Second, the program envisages that: (i) mass privatization will involve at least 51 percent of the shares of designated enterprises; (ii) no investment fund can acquire of any given firm through the mass auctions more than 10 percent of the shares; and (iii) no more than 10 percent of the shares will be distributed to workers and managers. Finally, to limit dilution of state authority and prevent collusion with prospective buyers, a single authority, headed by a deputy prime minister -- the State Property Committee (SPC) -- was appointed to oversee the whole process.

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1.17 Intense preparation has been undertaken to launch the privatization program in earnest in 1994. By the end of October 1993, pilot auctions of small-scale enterprises had been conducted in six cities, in preparation for the launching of a national roll-out phase early in 1994. In October 1993, the Government passed a decree requesting trucking companies to contribute 20 percent of their trucks to auction, starting in December 1993. Wholesale facilities should be privatized under similar auctions.

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3. Banks are also excluded from this program.

The mass privatization program began with the establishment of Investment Funds in July 1993, followed by the distribution of privatization vouchers to the population, starting in October 1993. Preparation is under way for the conversion of hundreds of firms into joint-stock companies and also for a public information campaign. The first big wave of auctions is planned for March 1994. If the pace of implementation is maintained, mass privatization could be implemented over two to three years. The privatization of very large enterprises began in July 1993, with a first successful tender of a large tobacco firm to Philip Morris. In early 1994, the Government publicized a list of 38 large companies that it intends to put to international tender in the coming months.

### **Privatization and Enterprise Reform in Agriculture**

1.18 Privatization has proceeded more slowly in agriculture than in the rest of the economy. This is due in part to the specific constraints of that sector, some geographical, others legal. Kazakhstan is divided into disparate climatic zones with differing potential for privatization and decentralized production. Production organization ranges from smaller farms and cooperatives in the south to large food processing companies and state-owned grain producers in the north. The introduction of small-scale private farming in irrigation zones in the south may not pose major problems. In the north, however, production is organized around agro-processing industries and services and will necessarily remain more centralized in the short-term. Moreover, the 1993 Constitution provides that land and other natural resources are state properties that cannot be alienated, although leases up to a period of 99 years are allowed. At present, such leases apply only to about 3 percent of agricultural land that is in the hands of some 15,000 newly-established private farms. Kazakhstan has attempted to disband some large scale agricultural enterprises, particularly non-traditional cattle-breeding operations in the steppes. However, due to the unfavorable relative price of livestock, the new owners experienced substantial losses and slaughtered their livestock without private breeding being effectively promoted. Similarly, so far it has proven impossible to efficiently decentralize large agricultural commodity enterprises of 30,000 to 40,000 hectares.

1.19 In light of these difficulties, the Government now emphasizes keeping these large enterprises as going concerns and improving their efficiency through better governance and privatization. It recently began setting up associations of lease farmers and adopted laws allowing privatization of food processing activities, dairy farms and agricultural service establishments, typically by allocating shares to workers. Considerable privatization of state trading and processing companies is already taking place through a process of "corporatization," which involves distributing shares to managers, employers and clients, with the state often taking a minority share. Eleven percent of the land and a substantial proportion of the 1,270 agro-processing companies have been transferred to new cooperatives or small enterprises. These moves are similar to early divestitures in industry and are experiencing some of the same problems. A more rational and transparent privatization process is therefore required in agriculture and agro-processing to ensure the development of competing market alternatives in agricultural input supply, trading, processing and transport.

### **State Enterprise Governance**

1.20 Now that the Government has adopted a realistic and rapid privatization program, its next challenge will be to implement complementary reforms to ensure that privatization translates into increased economic efficiency. This will require a reduction in the role of oligopolistic production and

trade structures (see Annex 2) that allows the private sector to direct resources toward efficient uses and subjects state enterprises to more stringent financial discipline.

1.21 Along with privatization, preparation is under way to rapidly incorporate medium- and large-scale state enterprises as joint stock companies, with corresponding legal status, property rights and functional boards of directors. In addition, the SPC plans to introduce a system to monitor and stimulate the financial performance of state enterprises, with support from a World Bank financed Technical Assistance (TA) loan. The SPC will exercise the remaining state ownership rights, delegating effective ownership back to sectoral ministries only in cases in which important regulations cannot yet be enforced at arm's length.

1.22 The development of state holdings companies, brought to the fore of the Government's strategy by a decree of June 1993, may, if properly applied, constitute another complementary tool to reinforce financial supervision of enterprises. Already over 50 such holding companies, covering hundreds of firms, have been created. Early experience, however, has shown a tendency to use holding structures to establish oligopolistic market structures and dilute state ownership. While the management of these holding companies has emphasized perceived economies of scale, many of these companies in fact constitute local or national monopolies or cartels.

### Privatization in Housing

1.23 At the initiative of oblasts and municipal administrations, housing has also been privatized mainly through housing vouchers schemes. By mid-1993, half the housing stock had been transferred to private hands.

## Production and Prices

### Economic Activity

1.24 The market reforms outlined above have taken place in a difficult economic environment, dominated by runaway inflation and continued contraction in production. Gross domestic product is estimated to have declined by around 16 percent in 1993, following a 14 percent contraction in 1992 (see Table 1.1).<sup>4</sup> This decline is due to three main factors:

- (i) the collapse in foreign trade following the dissolution of the Council for Mutual Economic Assistance (CMEA) and then of the Soviet Union. In addition, the FSU countries' introduction of non-convertible currencies (starting in June 1992, with

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4. Official figures may overestimate production decline because of changing incentives to report statistical data. Under the planning system, producers had an incentive to over-report production figures to get access to additional resources; under the present regime, they would rather under-report to avoid taxation or to divert products from official marketing channels to the growing private markets. This adds to the more intractable question of valuating the loss of that part of output that was validated by the planners but not underwritten by any actual demand. It has been argued that the loss of output measured by FSU statisticians corresponds to a significant deadweight loss, with no commensurate impact on welfare. This controversy cannot be resolved until relative prices are allowed to reveal "spontaneous" preferences. Only then will a recalculation of economic series using such prices as a basis, provide a satisfactory approximation of the actual economic losses incurred in the process of transition.

Table 1.1: Net Material Product by Industrial Origin

	1989		1990		1991		1992		1993(3)	
	Percent of NMP (1)	Growth Rate (2)	Percent of NMP (1)	Growth Rate (2)	Percent of NMP (1)	Growth Rate (2)	Percent of NMP (1)	Growth Rate (2)	Percent of NMP (2)	Growth Rate (2)
<b>Agriculture and forestry</b>	37.4	-10.9	41.9	12.2	34.2	-24.7	30.4	0.5	31.4	-12.1
Agriculture	37.3	-10.9	41.8	12.3	34.1	-25.0	30.4	0.5	31.4	-12.1
Forestry	0.1	-2.4	0.1	-4.9	0.1	112.6	0.0	-20.3	0.0	-50.0
<b>Industry</b>	40.3	3.2	37.0	-14.5	50.6	-13.2	54.1	-23.2	51.1	-19.7
Manufacturing, mining and energy	20.2	1.4	21.0	-20.9	37.1	-4.1	46.4	-16.0	44.3	-18.8
Construction	20.1	5.7	16.0	-8.1	13.5	-25.0	7.7	-43.0	6.8	-25.0
<b>Other</b>	22.4	10.4	21.2	1.5	15.2	1.7	15.4	-15.5	17.5	-3.2
Transportation of goods	8.9	0.6	9.2	3.9	8.1	41.4	7.1	-14.4	6.2	-28.9
Maintenance of roads	0.2	-38.4	0.2	26.1	0.1	22.8	0.3	..	..	..
Communication (material production)	0.4	2.2	0.4	8.5	0.2	8.0	0.6	-14.4	0.4	-44.1
Wholesale trade	0.4	16.0	0.4	8.3	0.2	-42.5	0.4	..	..	..
Retail trade and catering	4.9	10.4	4.4	8.5	3.8	-11.2	3.1	-16.1	3.1	-24.7
Material supply	1.4	43.2	1.3	-25.0	1.5	66.3	3.1	-13.8	2.9	-18.7
Procurement	1.4	19.3	1.4	17.6	0.9	-34.5	0.7	2.0	0.5	-37.0
Information and computing services	0.3	35.9	0.3	14.8	0.1	-20.3	0.1	-17.8	0.1	-18.2
Other branches of material production	4.6	18.9	3.6	-10.8	0.2	-89.1	0.1	0.0	0.0	-16.7
Statistical Adjustment	..	..	..	..	..	..	..	..	4.3	7600.0
<b>Net Material Product</b>	100.0	-0.1	100.0	-0.9	100.0	-14.9	100.0	-14.0	100.0	-14.8

(1) in current prices;

(2) in constant prices (of the previous year); (3) Preliminary.

Source: State Committee of Statistics.

nontransferability of non-cash rubles between republics) and the elimination of state orders disrupted the established supply and marketing arrangements and led to the disappearance of sources of inputs and markets – effects which were magnified by the extreme integration of FSU production and the lack of easy physical access to new markets;

- (ii) the cut-off of resource transfer, first from the Union and then Russia. Although the form of this transfer changed over time, from budget grants under the Soviet Union to correspondent account credit from the Central Bank of Russia (CBR) after independence, its size increased steadily, from an estimated 5 percent of Kazakhstan GDP in the mid-1980s to 10 percent in 1990. It stayed at that level through the first half of 1993, before disappearing entirely during the second half of the year;
- (iii) a deterioration in the terms of trade with the FSU, equivalent to about 5 percent of GDP, caused primarily by discriminatory pricing on the part of Russia (see para. 1.34-1.35). The decline of the international prices of commodities, such as oil and non-ferrous

metals, of which Kazakhstan is a net exporter caused further terms of trade losses, this time in the country's trade with non-FSU partners, representing about 1.4 percent of GDP.

1.25 Although output fell throughout the economy, the pace of the decline varied from sector to sector (see Table 1.1 and Table 1.2). In industry, the decline slowed in 1993, with output shrinking by about 19 percent in 1993, following a 23 percent decline in 1992. There are no signs yet that this evolution may be bottoming out. In manufacturing, the drop in steel ranged from 19 percent to 25 percent, depending on the category of product, compared with declines of 5-6 percent in 1992. Iron ore extraction fell in the same proportion, while chrome ore dropped by 16 percent. Defense industries experienced a 25 percent fall in output in 1993<sup>5</sup>. The decline was even more devastating in chemical and petrochemical industries, where output declined by as much as 50 percent for sulfuric acid and 65 percent for fertilizers, as compared to 17 and 42 percent declines, respectively, in 1992. Reflecting investment contraction, the production of machine tools declined by 18 percent, while that of tractors plummeted by as much as 58 percent.<sup>6</sup>

1.26 The only exception to the downward trend was the non-ferrous metals sector, which took advantage of the prevailing undervalued exchange rate and low energy prices to penetrate Western markets. Lead and zinc performed particularly well, with production expanding by 24 percent and 6 percent, respectively, during the first three quarters of 1993.

Table 1.2: Selected Indicators of Economic Activity (percentage change)

Sector/Product	1992	1993
<b>Industry</b>		
Electricity	-3.8	-6.3
Coal	-2.9	-11.6
Oil	-3.0	1.8
Iron Ore	-19.7	-25.4
Steel	-4.9	-24.9
Zinc <sup>a/</sup>	-12.0	5.6
Lead <sup>a/</sup>	-8.0	19.8
Fertilizers	-42.0	-65.4
Machine Tools	-31.8	-17.6
Tractors	61.0	-57.9
Wood	-21.0	-20.2
Cement	-13.0	-38.4
<b>Agriculture</b>		
Grain <sup>b/</sup>	148.3	-27.3
Livestock		
Cattle	-4.0	-2.0
Pigs	-17.0	-6.0
Sheep and Goats	-5.0	-0.6
<b>Services</b>		
Merchandise Transport	-17.3	-29.7
Passenger Transport	-16.3	-13.6

a/ 9 months of 1993 to 9 months of 1992.

b/ Clean weight, including corn. 148.3% growth in 1992 is mainly a recovery from a 58% drop in production in 1991.

Source: State Committee of Statistics (various publications).

5. Little is known about the military complex, except that approximately 300,000 workers were engaged in the sector before the breakup of the FSU.

6. The decline in demand was even higher and producers of investment equipment in particular accumulated large unsold inventories. Stocks of DT-75M tractors and bulldozers, for example, stood at around 20 and 60 percent, respectively, of annual output in August 1993.

1.27 The decline in construction activities also decelerated in 1993, as most of the drop in public works investment occurred in 1992. Last year, more impact was felt from the fall in housing investment; over the first 9 months of 1993, residential construction dropped 19 percent below its corresponding 1992 level, to a point more than 40 percent below its 1991 level. With reduced building activity, the production of construction materials declined by 38 percent in the case of cement (compared with a 15 percent decline in 1992); bricks by 41 percent (compared with 8 percent in 1992) and prefabricated housing structures by 27 percent (compared with 25 percent in 1992). Wood production declined by 24 percent (compared with 21 percent in 1992), following declines in construction and in paper and pulp production.

1.28 In the energy field, the drop in industrial demand in 1993 caused electric power generation to fall by 6 percent, coal extraction by 12 percent and petroleum and natural gas extraction by 11 and 13 percent, respectively.<sup>7</sup> The Pavlodar refinery having been idle part of the year due to sporadic interruptions of deliveries of Siberian crude oil, refined petroleum production was 9 percent lower than during the same period of 1992.

1.29 The decline in agriculture also accentuated. Agricultural output dropped by around 12 percent in 1993, after remaining stable in 1992, when a bumper grain crop served to conceal problems already at play in the rest of the agricultural sector. In 1993, the grain crop dropped by about a quarter.<sup>8</sup> The early arrival of the winter caused some harvest losses, but lack of inputs, spare parts and fuel appears to be the main factors in the output decline. In 1992, the Central Bank of Russia, through the National Bank of the Republic of Kazakhstan (NBK), extended massive credit to allow grain farmers to import inputs and spare parts from Russia. In 1993, substantial credit was again made available by the NBK to grain farmers, under pressure from peasant unions. However, this credit was extended in Soviet rubles; grain farmers experienced difficulties acquiring imports to be settled in Russian rubles. The cut-off of CBR credit hit agriculture at the critical harvest time, disrupting traditional agricultural supply links and causing interruptions in oil deliveries to Kazakhstani refineries, which in turn resulted in shortages of refined products and procurement difficulties with respect to spare parts for tractors, harvesters and mills.

1.30 The market services sector also felt the consequences of the recession in the rest of the economy, with output declining by about 3 percent in 1993, following a 15 percent decline in 1992. In 1993, freight transport (in tons) decreased by 30 percent (compared with 17 percent in 1992), while the number of passenger-kilometers receded by 14 percent (compared with 16 percent in 1992). Retail trade declined less than other service sectors, reflecting the slightly better resilience of private consumption, compared with other expenditure categories. The overall performance of the service sector would probably look stronger if proper account could be made of the growing informal service sector.

## **Inflation**

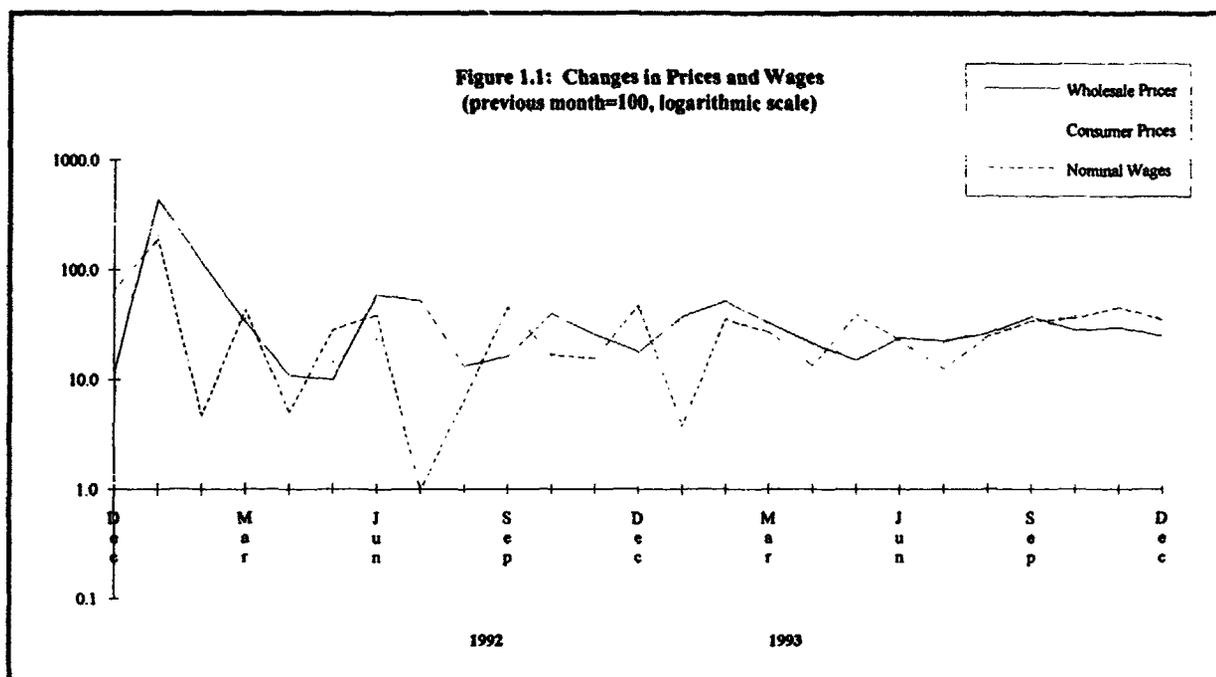
1.31 Kazakhstan was not insulated from the inflation that swept through the FSU in the 1990's. Following decades of price stability, consumer prices shot up by about 150 percent in 1991, then rose

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7. Following an even sharper contraction in coal consumption, coal stocks have been piling up at the Karaganda mines, due to social pressure to maintain output and wages.

8. Some under-reporting of grain reduction probably occurred, due to unreported grain storage on the farms and diversion of output to private markets to avoid the "state needs" system's unremunerative prices.

by more than 20 times for two years in a row, in 1992 and 1993. Until the final breakup of the ruble zone in August, 1993, Kazakhstan was included in the larger monetary zone; price developments during that period cannot therefore be isolated from those of the zone at large. Only after August, 1993, has inflation become a genuinely domestic phenomenon.



1.32 As measured by the evolution of consumer prices, inflation went through essentially four phases, before introduction of the Tenge and the accompanying stabilization program (see Figure 1.1):

- (i) Prior to 1992, administrative controls effectively suppressed creeping inflation. The monetization of mounting enterprise deficits (through the "kartoteka dva" facility) led to an involuntary accumulation of monetary balances throughout the economy – predominately in the form of Sberbank deposits by households. Tentative price reforms conducted under the FSU, particularly in 1991, let off some expansionary steam, but only to a limited extent;
- (ii) In the first weeks of 1992, the accumulated monetary overhang was eliminated through a step-adjustment in the price level that accompanied price liberalization. Prices were multiplied three-fold in January 1992. Price reform was followed by a brief period of credit tightening, with the hope that price adjustment could be limited to a one-shot affair. As a result, monthly inflation declined to a low of 11 percent in August 1992.
- (iii) From August 1992 to July-August 1993, priority shifted from stabilizing inflation to trying to revive faltering output and soften social hardship. The monetization of large budget deficits in Russia and the increasing reliance on directed credits across the ruble zone fuelled an upsurge in inflation, which averaged about 25 percent a month over this period.

- (iv) From August 1993 until November 1993, when Kazakhstan's monetary system was formally separated from Russia's, inflation further accelerated as domestic credit expanded in response to pressures from the enterprise sector, particularly in agriculture. Concomitantly, the loss of correspondent account credit from Russia caused a sharp contraction in imports, adding supply shortages to prevailing demand pressures. Tensions were exacerbated by uncertainties surrounding the fate of the interim monetary arrangements and by the currency run that preceded the demonetization of the Soviet ruble in Kazakhstan and Uzbekistan in November 1993. Monthly inflation was running at about 50 percent a month from mid-November 1993 to mid-January 1994 but has seemed to have abated somewhat since.

1.33 Except for a steeper initial adjustment, wholesale prices followed essentially the same pattern as consumer prices (see Figure 1.1). Wholesale prices multiplied 15 times during the first quarter of 1992, while consumer prices increased by a factor five. This is because wholesale prices started converging toward market clearing levels from a more distant point. There are three reasons for this, all linked to the legacy of central planning. First, under the planning system, a wedge was maintained between wholesale and retail prices as an implicit tax on consumption. Second, prices were set without taking into consideration a return on capital assets. With price liberalization, prices necessarily grew faster in capital intensive industries than in the rest of the economy, and these capital intensive industries are more heavily represented in wholesale than in retail trade. Finally, these capital intensive industries tend to be more monopolistic than the rest of the economy, thus providing their producers with some influence over the price structure. As the impact of the initial step-adjustment faded, wholesale price inflation and consumer price inflation gradually converged to similar orders of magnitude. From December 1992 to December 1993, wholesale price inflation was around 2,300 percent compared with 2,170 percent for consumer price inflation.

1.34 The diverging evolution of export and import prices, observed in 1993, was particularly damaging for the economy. While import unit values rose with domestic prices by an annual average 1,400 percent, export prices lagged behind by a considerable margin, increasing only by an annual average of 1,155 percent. Losses of terms of trade were observed in both the country's trade with both the FSU and non-FSU zone, estimated at 13 percent and 11 percent respectively. Due to the prevailing trade patterns, however, those with the FSU were more painfully felt. As a landlocked country, Kazakhstan has been subject to discriminatory pricing by its neighbors, particularly Russia. Indeed, loss of terms of trade was particularly severe for goods for which Kazakhstan has no alternative market for its production, either for lack of physical infrastructure or because transport costs would price the country out of the world market. In the case of oil, coal and natural gas, which the country both imports from and exports to FSU countries, terms of trade declined between 20 and 30 percent.

1.35 Oil is a case in point. Currently, its inherited industrial and transport infrastructure makes Kazakhstan entirely dependent on Russia for its oil trade and consumption. The absence of an east-west pipeline means that Russia is the only outlet for crude oil extracted in western Kazakhstan; exports to Western markets also need to pass through Russian pipelines; likewise, Russia is the only source of crude oil for the refineries of eastern Kazakhstan, which cater to most domestic consumption. In 1993, Russia exercised the market power associated with being in a monopoly position on the supply side and in a monopsony situation on the demand side, to discriminate between the prices at which it was buying and selling crude oil. In 1993, Kazakhstan sold crude oil to Russia at an average price of ruble 20,663 per ton, while it was paying an average price of ruble 32,334 per ton for its imports, a considerably larger differential than quality differences would justify.

1.36 To non-FSU markets, the country exports mainly commodities, the price of which is subject to world market fluctuations. In 1993, international quotations for its main export commodities, oil and non-ferrous metals declined sharply: -12 percent in the case of crude oil (spot price) and -15 percent for non-ferrous metals.<sup>9</sup> This further aggravated the country's loss of terms of trade.

1.37 As a result, the deflator of value added, which had evolved in tandem with domestic prices until 1992, diverged markedly from the latter in 1993, causing real gross domestic income to fall much more sharply than gross domestic product, i.e., by 23 percent, instead of 16 percent for GDP.

## Labor and Wages

### Population and Employment

1.38 Despite the continued drop in output experienced over recent years, open unemployment has remained marginal. Only an average 0.5 percent of the active population were registered as unemployed in 1993 (see Table 1.3). This reflects developments on the supply and demand sides of the labor market. On the supply side, the growth of the working population tapered off. The positive natural growth rate of 1.2 percent a year has been offset by emigration flows, mainly among the Russian and German nationalities, so that Kazakhstan's total and working age population has stabilized and possibly even declined slightly in 1993.

1.39 On the demand side, employment declined considerably less than output. After shrinking by 1 percent in 1991 and 2 percent in 1992, employment even recovered in 1993. In 1991-92, the contraction in employment had been particularly strong in industry, falling by 8.5 percent over 1992-93,

Table 1.3: Population and Labor  
(in thousands, period average)

	1989	1990	1991	1992	1993
Population	16,456	16,618	16,721	16,892	16,884
Urban	9,394	9,523	9,634	9,713	9,580
Rural	7,062	7,095	7,087	7,179	7,304
Inactive Population	7,253	7,356	7,390	7,524	7,461
Population					
Below working age	5,556	5,573	5,559	5,568	5,565
Early retired	528	549	554	790	766
Above working age	1,818	1,870	1,936	1,999	2,063
<i>Less</i>					
Working					
Below age <sup>a/</sup>	4	5	4	4	4
Early retired <sup>a/</sup>	523	510	533	695	743
Beyond age <sup>a/</sup>	130	131	131	142	195
Active Population	9,203	9,262	9,331	9,368	9,423
Employment	7,467	7,563	7,494	7,356	7,561
Other active population <sup>b/</sup>	1,736	1,699	1,833	1,978	1,824
Unemployment	--	--	4	34	38

a/ Full time equivalent.

b/ Housewives, military, students, etc.

Source: State Committee of Statistics and World Bank staff estimates.

9. Source: World Bank Commodity Price Data, January 1994. The drop in the price of non ferrous metals is due to a large extent to the glut caused by the surge of FSU exports, including from Kazakhstan.

with market services falling by 5.6 percent over the same period (see Table 1.4). In contrast, the agriculture sector appears to have played the role of a labor reservoir. Agricultural employment grew by about 4 percent over 1991-92 and continued to grow in 1993. Nevertheless, government employment appears to have been the main source of employment growth in 1993 rising 7 percent over the first five months of the year, after a 13 percent contraction in 1992, as public administration absorbed graduating students and personnel made redundant in industry.<sup>10</sup>

1.40 Part of the labor retrenchment in industry and market services was achieved through massive early retirement, which increased 70 percent in 1992-1993, compared to 1991. The dramatic rise in the number of people taking early retirement failed to reduce the labor

supply, however, as the early retired moved to other parts of the economy. The low level of pensions, together with the absence of work tests, means that the vast majority of the early retired, as well as a significant portion of the population beyond working age, usually shifts to more menial jobs to supplement their income. Retrenchment also contributed to a movement of population from the urban to the rural sector (see Table 1.3), as number of people made redundant in urban services and industries were forced to return to rural areas in the absence of other means of support in the large cities.<sup>11</sup>

## Wages

1.41 Initial price reform severely cut real wages (see Figure 1.2). To some extent, this was unavoidable. Throughout the 1980s, "real" revenues evolved faster than real production, leaving "forced savings," ostensibly in the hands of households, to exist only on paper. Price liberalization put an end to that illusion. The size of the price adjustment was to a large extent unanticipated in wage contracts, so that real wages dropped sharply during the first month of 1992, reaching a trough at less than half their 1991 purchasing power in April-May 1993. For 1992 as a whole, real annual wages averaged about 30 percent below their 1991 level.<sup>12</sup>

Table 1.4: Employment by Sector  
(annual average)

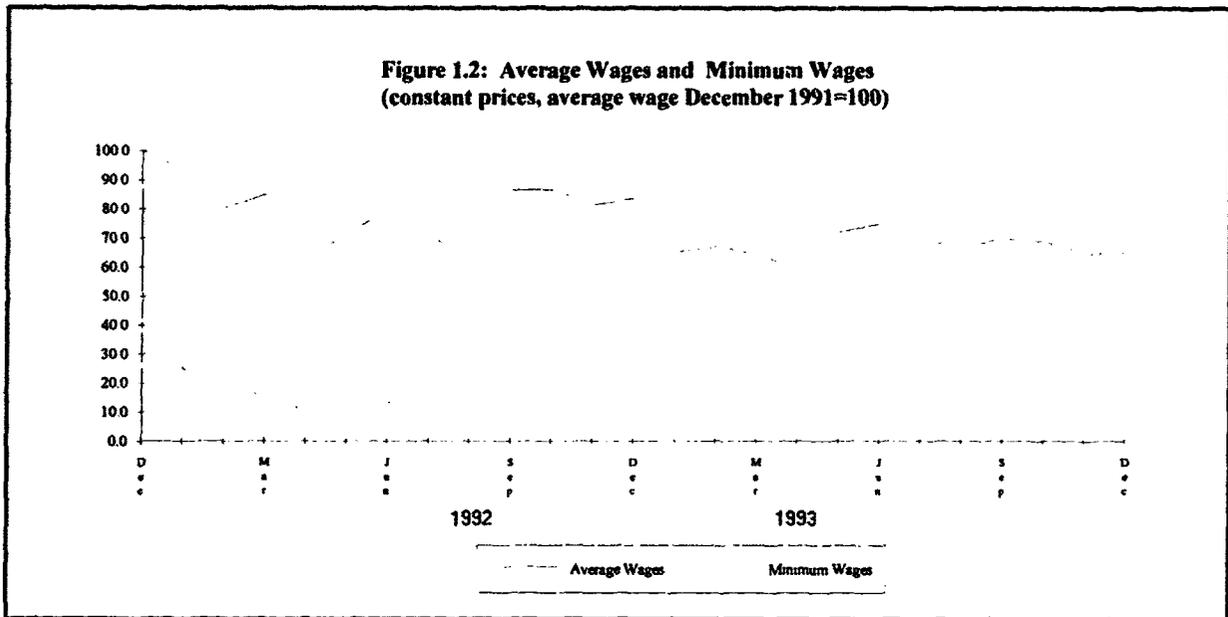
	1990		1991		1992	
	Percent of Total	Growth Rate	Percent of Total	Growth Rate	Percent of Total	Growth Rate
Agriculture	22.8	3.0	23.4	1.6	24.4	2.3
Industry	32.4	1.1	30.8	-5.8	30.3	-3.2
Services	44.8	0.6	45.8	1.3	45.3	-3.0
Total Employment	100.0	1.3	100.0	-0.9	100.0	-1.8

Source: State Committee of Statistics.

10. Government employment includes public administration, military forces, education, health and other social services.

11. For instance, the capital, Almaty, is a closed city where population originating in rural districts (a large fraction of the city's unskilled workers) can reside only as long as they have employment.

12. The increase in the economy-wide index of real wages observed during the fall of 1992 primarily reflects developments in agriculture (see Figure 1.3), where substantial overtime was paid to harvest the bumper crop.



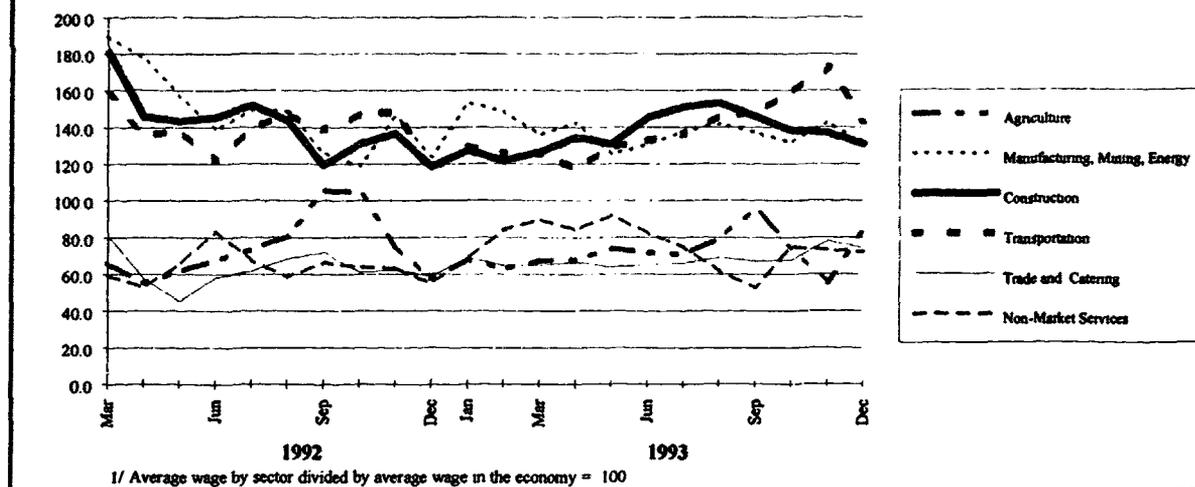
1.42 By 1993, wage setting mechanisms had adjusted to high inflation; backward-looking indexation has now become entrenched in Kazakhstan.<sup>13</sup> Still, owing to the lagged and step-wise adjustment of nominal wages to gradually accelerating inflation, average annual real wages declined by a further 7 percent in 1993.

1.43 The authorities have been concerned that wage indexation may give inflation a momentum of its own and that any acceleration in inflation would "ratchet up" through its impact on wage settlements. The authorities are also concerned that a slow adjustment in inflationary expectations would raise the short-run output costs of disinflation. Accordingly, they have sought to introduce wage control measures. In 1992, the deductibility of wage payments for the purpose of the profit tax was limited to four times the minimum wage. This measure, however, does not appear to have been enforced. In December 1993, the Government instructed enterprises not to extend wages increases in the absence of commensurate output growth. It is too early to tell whether this system, which in theory is easier to administer, will be more effective than the previous one.

1.44 While intersectoral wage differentials appear to have remained relatively stable (see Figure 1.3), intrasectoral differentials have widened considerably (see Figure 1.2). At the end of 1992, the minimum wage was reduced to only about 20 percent of its end-of-1991 level in real terms. Despite occasional adjustments in the minimum wage (the last one in October 1993, at the initiative of Parliament) its purchasing power was further reduced by half by end-1993. Having dropped to 8 percent of the average wage by the end of 1993, the minimum wage has become largely irrelevant to wage setting outside the government sector.

13. Although nominal wage increases overshoot inflation during the second quarter when inflation suddenly abated, during the second quarter, then lagged behind when prices shot up again after July, 1993, Figure 1.1 shows a much closer indexation during the second half of the year.

Figure 1.3: Sectoral Evolution of Wages 1/



## Domestic Income and Expenditures

### Overview

1.45 The reformers correctly anticipated that the main answer to the monetization of mounting enterprise losses and built-up of the corresponding monetary overhang encountered by the FSU in the 1980's laid in reforming price and wage mechanisms. Reform was needed to redistribute income between enterprises and households, as well as within the enterprise sector. The deceleration of inflation in the early months of 1992 appeared to confirm that the deep cuts in real wages and benefits that accompanied price liberalization would indeed reduce enterprise reliance on bank credit.

1.46 In mid-1992, in the face of an abrupt decline in aggregate income, policy shifted

Table 1.5: Summary Income Account of the Different Sectors (in percent of GDP at current prices)

	1992	1993
<b>Households</b>		
Primary Income	39.7	46.7
Transfers (received (+), paid (-))	35.9	31.0
Disposable Income	75.6	77.0
<b>Enterprises</b>		
Primary Income	47.8	48.2
Transfers (received (+), paid (-))	-45.6	-44.9
Disposable Income	2.2	3.3
of which		
Financial Enterprises	16.3	27.0
Non Financial Enterprises	-14.1	-23.7
<b>Consolidated Government</b>		
Primary Income	12.5	5.8
Transfers (received (+), paid (-))	9.6	14.8
Disposable Income	22.1	20.6
<b>Rest of the World</b>		
Primary Income	0.0	0.0
Transfers (received (+), paid (-))	0.1	-0.9
Disposable Income	0.1	-0.9
<b>Gross Domestic Product</b>	<b>100.0</b>	<b>100.0</b>

Source: World Bank staff estimates.

toward protecting real household incomes through labor hoarding and wage indexation. The negative impact of that policy on enterprise profitability was partly offset in 1993 by a reduction in indirect taxes.

This however did not prevent nonfinancial enterprises to move further into the red, their aggregate losses bulging by about 10 percentage point of GDP between 1992 and 1993 (see Table 1.5). Fiscal policies, on the other hand proved unequal to the task of countering the resulting inflationary pressures. Mainly through deep cuts in both consumption and investment expenditures, the consolidated fiscal deficit was brought back from an average of 8 percent of GDP in 1991-92 to about 1.5 percent of GDP in 1993. These amounts, however, paled in comparison to domestic bank borrowing of enterprises: the latter represented as much as 64 percent and 38 percent of GDP in 1992 and 1993 respectively.

1.47 Wage earners' gains in terms of distribution of income - + 7 percent of GDP - proved therefore illusory, being more than offset by monetary erosion. The shift in the primary distribution of income was possible only because inflationary financing accommodated enterprises' bulging deficits. The ensuing inflation generated a flow of resources across sectors in the opposite direction, from households to enterprises this time. Although exact orders of magnitude are hard to establish, the size of this transfer is estimated in Annex 3 at around 12 percent of GDP in 1993. What was gained through transfers of income was therefore lost again immediately through transfers of wealth.

1.48 Developments in 1993 started to show the limits to the practicability of inflationary policies. Such policy can only be sustained as long as the economy, particularly households, is prepared to absorb the liquidity created to support enterprises. The size of the resource transfer that inflation can operate is constrained by the amount of real resources the economy is willing - or forced - to set aside to reconstitute real cash balances eroded by inflation. The stronger the reluctance to generate the necessary savings *ex ante*, the higher inflation will need to reach to extract the said savings willy-nilly. This reluctance did indeed grow in 1993: the private savings rate (the ratio of household savings to household disposable income) dropped by about 10 percentage points (see Table 1.5 and 1.6), under the combined effect of a 20 percent decline in the real disposable income of household, observed in 1993, and of a growing preference for goods over financial assets, as a shelter against the inflation tax.

Table 1.6: GDP by Category of Expenditure

	1992		1993	
	% of GDP (1)	Growth Rate (2)	% of GDP (1)	Growth Rate (2)
1. Consumption	73.5	..	82.7	-15.1
Private	55.4	..	64.3	-12.4
Public	18.1	..	18.4	-23.3
2. Investment	28.3	..	24.0	-27.0
Fixed Investment	21.5	..	17.0	-33.2
Changes in Stocks	6.8	..	7.0	-13.1
3. Domestic Demand (1+2)	101.8	..	106.7	-18.5
4. Exports (Goods)	53.6	..	38.3	-29.5
FSU	34.6	..	23.4	-40.5
Non-FSU	19.0	..	14.9	13.8
5. Final Demand (3+4)	155.4	..	145.1	-20.9
6. Imports (GNFS)	55.4	..	45.1	-30.6
FSU	40.1	..	31.3	-41.6
Non-FSU	15.3	..	13.4	24.8
7. Gross Domestic Product (5-6)	100.0	-14.0	100.0	-15.6

(1) in current prices.

(2) in constant 1993 prices.

Source: State Committee of Statistics, Ministry of Economy and World Bank staff estimates.

Enterprises<sup>14</sup>

## Profitability

1.49 After a brief improvement in early 1992, the financial performance of the enterprise sector plunged back in 1993. Preliminary estimates indicate gross losses of the enterprise sector (excluding NBK) rising from 14 percent of GDP in 1992 to 24 percent of GDP in 1993 (see Table 1.7). These losses were financed mainly through enterprise recourse to the banking sector. Three main factors contributed to the squeeze on enterprise profitability: (i) price developments; (ii) growing labor costs; and more recently (iii) escalating interest charges. Each of these will be examined in turn.

## Relative Prices

1.50 The loss of external terms of trade experienced by Kazakhstan in 1993 adversely affected enterprise profitability. Because it arose primarily from the loss of export revenues (rather than, e.g., from price increases in imported consumer goods), the terms of trade loss mainly affected producers. The impact of this loss explains about over half the decline in enterprise savings in 1993.

1.51 Domestic price distortions also influence aggregate enterprise profitability, although asymmetrically. Sectors, such as agriculture, that faced unfavorable intersectoral terms of trade turned to the banks to finance their losses. Enterprises benefiting from the same distortions preferred to consume the extra income, for example, through employee fringe benefits, than invest them in production or financial instruments carrying an uncertain return.

## Labor Costs

1.52 Wages and Salaries. The share of wages in value added, which had declined - as intended - in 1992, rose in 1993 by about 7 percent of GDP. Labor hoarding caused labor productivity to decline by 12 percent in 1992 and 18 percent in 1993. Real wages (on an annual basis) dipped even further than productivity in 1992. But they remained more sluggish in 1993, in response to the adaptation

Table 1.7: Income Account of the Enterprise Sector  
(in percent of GDP at current prices)

	1992	1993
1. Operating Surplus	47.8	48.2
2. Non-Tax Transfers	-27.0	-24.4
to Households	-27.0	-24.2
to the Rest of the World	0.0	-0.2
3. Gross Profit before Tax (1+2)	20.8	23.8
4. Transfers to Government (net)	-18.6	-20.5
5. Retained Earnings (3+4)	2.2	3.3
Financial Enterprise	16.3	27.0
of which NBK	12.8	23.5
Non Financial Enterprises	-14.1	-23.7
6. Investment	16.9	17.7
Fixed Assets	10.1	10.7
Stocks	6.8	7.0
Gold	0.0	2.7
Other Stocks	6.8	4.3
7. Net Financing Capacity (5-6)	-14.7	-14.4
Financial Enterprise	16.3	24.3
Non Financial Enterprises	-31.0	-38.7
Memo Item		
Terms of Trade Impact	--	-8.5

Source: World Bank staff estimates.

14. This section covers only nonfinancial enterprises. Banking developments are discussed in the next section.

of (implicit) labor contracts to the new inflationary environment (see para 1.41-1.43). Enterprise operating surpluses shrank accordingly.

**1.53**        Non Wage Compensation. As discussed in Annex 4, cash wages are only part of the enterprise workers' total compensation. At present, as in the rest of the FSU, enterprises directly provide considerable social services, which may include housing, day care centers, hospitals, libraries, public transport and sports facilities. A number of enterprises, pushed by their workers' collective, also provide in-kind payments, such as imported consumer goods, that are easier to conceal for tax purposes and distribute operating surplus through a variety of worker bonuses. These benefits added about another 50 percent to cash wages in 1992 and 1993.

### **Finances and Investment**

**1.54**        Profitability decline, along with the uncertain economic outlook and confusing price signals, led enterprises to reduce or delay their investments in fixed assets by a further 10 percent in real terms in 1993. The decline in fixed investment owes more to profit considerations than to financial constraints. While the viability of large segments of the economy, such as agriculture -- to say nothing about their investment capacity -- remained constrained by unremunerative relative prices, other segments found more attractive investment opportunities in the continued (if somewhat slower) build-up in stocks and financial investments abroad. The former would have represented about 4 percent of GDP in 1993.

**1.55**        Until the second half of 1993, enterprises did not seem to have encountered major difficulties in obtaining outside financing. On the contrary, new credit to the enterprise sector ran at levels as high as 8 percent of GDP in 1992 to 46 percent of GDP in 1993, this was more than offset by a slower accumulation of claims on the banking sector in the form of cash, deposit and equity. However, the rollover of interest obligations and the priority given by directed credit programs to financing operating losses diverted available savings from productive investment.

**1.56**        Starting in the second half of 1993, escalating financial charges began to strain enterprise finances. With the gradual tightening of interest rate that accompanied stabilization efforts, the refinance rate of the NBK moved from 12 to 870 percent (effective annual rate) between end-1991 and end-1993.<sup>15</sup> Although no firm number is currently available, this policy may have generated additional (net) interest obligations for the sector, amounting to 5 to 10 percent of GDP for the year as a whole, and substantially more during the last months of the year. The size of the net transfer of resources (net disbursements less interest) available from the banking sector to finance enterprises' operating losses or investment may have shrunk considerably.

**1.57**        Furthermore, if the enterprise sector as a whole also benefited from the inflation tax -- this cannot be said of each enterprise individually. Large interenterprise arrears redistribute this resource transfer across the sector. Enterprises with net claims denominated in domestic currencies (on banks and other enterprises) will lose, while enterprises owing accounts denominated in domestic currency will benefit. Such arrears rose twenty-fold over the first nine months of 1993, up to ruble 1 trillion, or about 17 percent of GDP over that period, indicating fierce competition to capture the inflation tax.

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15. On average, the lending rate on outstanding credits increased less rapidly, due to continuation of subsidized credits. The increase in interest rates affected only new loans, not outstanding obligations.

**Household****1.58 Disposable Income.**

Household purchasing power did not fare as well in the aggregate as wage performances may have led the sector to expect. As measured by the evolution of their disposable income compared to consumer prices, it contracted by 20 percent in 1993 (see Table 1.8), leaving the share of household income in GDP broadly unchanged compared to the year before. Whereas workers' compensations (in cash or otherwise), after the initial hit of early 1992, remained relatively well protected (see para 1.41-1.44), social transfers, particularly pension payments, continued to slide down. The total wage bill declined by about 9 percent in real terms, while pension payments were dropping by 37 percent and the access to family allowances was severely restricted (see para 1.77). In contrast, direct taxes and social security contributions paid by households remained relatively marginal, at slightly less than 3 percent of GDP.

**Table 1.8: Income Account of the Household Sector**  
(in percent of GDP at current prices)

	1992	1993
1. Primary Income (Wages, etc.)	39.7	46.0
2. Transfers (net)	35.9	31.0
Received:		
from Enterprises	27.0	24.2
from Government	11.6	9.6
Paid:		
to Government	-2.7	-2.8
3. Disposable Income (1+2)	75.6	77.0
4. Consumption	55.4	64.3
5. Net Financing Capacity (3-4)	20.2	12.7

Source: World Bank staff estimates.

**1.59 Consumption and Savings.** As noted above, this drop in real income as well as avoidance of the inflation tax caused households to reduce their savings rate (for all practical purpose, money is the only domestic financial asset available to individuals). Private consumption contracted somewhat less in 1993 than other expenditure categories and absorbed a larger portion of GDP than the previous year -- 64 percent in 1993 compared with 55 percent in 1992.

**Consolidated Government****Overview**

**1.60** In 1992-93, following the loss of Union transfers, the Government endeavored to restore its fiscal balance. A restrictive fiscal stance was maintained despite enormous strains caused by the loss of implicit taxes that accompanied price liberalization and increased social pressures to shield some sectors and segments of society from economic hardship.

**1.61** During the last years of the Soviet Union, when Kazakhstan's fiscal operations were part of the larger USSR budget, the country's fiscal situation deteriorated considerably. Overall deficits rose from 3 percent of GDP in 1985 to over 10 percent of GDP in 1990, but were covered by Union transfers. With national independence, these transfers were lost. Faced with this situation, the authorities succeeded in reducing the consolidated deficit (including grants and Kazakhstan's share of the FSU debt) to 1.6 percent of GDP in 1993, from 8 percent in 1991. This allowed a reduction in domestic bank financing from 8 percent of GDP in 1991 to an estimated 1.2 percent in 1993. Measured on a cash basis, and excluding foreign grants, the fiscal performance is even more impressive: the consolidated deficit would

have declined from an estimated 12.9 percent of GDP in 1991 to slightly less than 0.4 percent of GDP in 1993 (see Table 1.9).

**Table 1.9: Summary of Consolidated Government Operations**  
(in percent of GDP at current prices)

	Budget		Extra-budgetary		Consolidated	
	1992	1993	1992	1993	1992	1993
<b>1. Current Operations</b>						
Current Revenues and Grants	24.51	20.51	15.28	14.69	38.82	34.31
Direct Taxes	7.58	6.92	11.51	10.15	19.09	17.06
Indirect Taxes	13.93	8.81	1.49	1.17	15.42	9.98
Non-Tax Revenues	0.86	4.78	1.32	1.31	2.17	6.09
Grants	1.73	0.00	0.41	1.17	2.14	1.17
Intragovernmental Transfers	0.41	0.00	0.55	0.89	..	..
Current Expenditures	24.73	22.48	11.00	10.71	34.78	32.30
Consumption	17.47	16.78	0.61	1.61	18.08	18.39
Interest Payments	2.24	0.11	..	..	2.24	0.11
Domestic Debt	0.00	0.00	..	..	0.00	0.00
External Debt	2.24	0.11	..	..	2.24	0.11
Transfers to Households	3.00	2.94	8.59	6.68	11.59	9.62
Subsidies	1.48	1.76	1.39	2.42	2.88	4.18
Consumer Subsidies	1.48	0.65	1.34	1.05	2.83	1.70
Producer Subsidies	..	1.11	0.05	1.37	0.05	2.48
Intragovernmental Transfers	0.55	0.89	0.41	0.00	..	..
Budgetary Savings	-0.22	-1.97	4.27	3.98	4.05	2.01
<b>2. Capital Operations</b>						
Capital Revenues (Privatization Fund)	..	..	0.05	2.74	0.05	2.74
Capital Revenue Transfers Received	0.05	2.74	..	..	..	..
Capital Expenditures	6.67	2.21	4.75	4.09	11.43	6.30
Capital Revenue Transfers Made	..	..	0.05	2.74	..	..
<b>3. Budget Deficit</b>	-6.85	-1.44	-0.48	-0.11	-7.33	-1.55
<b>4. Financing</b>	6.85	1.44	0.48	0.11	7.33	1.55
Domestic	2.60	1.12	0.48	0.11	3.08	1.23
Banking System	-2.07	-2.09	0.48	0.11	-1.31	-1.98
Other Domestic (residual)	4.66	3.21	0.00	0.00	4.39	-3.21
External	4.25	0.32	..	..	4.25	0.32
Net Borrowing	-3.51	0.32	..	..	-3.51	0.32
Increase in Arrears (+)	4.28	0.00	..	..	4.28	0.00
Debt Deferral	3.49	0.00	..	..	3.49	0.00

Source: Ministry of Finance, IMF and World Bank staff estimates.

1.62 Much of the progress made towards fiscal consolidation is due to (i) restoring financial balance to the social security system in 1992 (in 1991, the Pension Fund alone had a deficit of about 3 percent of GDP); and (ii) considerable retrenchment in public investment. Regular budgetary revenues also remained steady - not a mean accomplishment in comparison to other reforming economies- the

decline in regular tax revenues being offset by nontax revenues, and particularly privatization proceeds in 1993. In 1993, however, the authorities began to experience serious difficulties in collecting social security contributions and customs duties.

1.63 These results are particularly impressive if one considers that the multiplication of extra-budgetary funds and earmarking procedures had considerably reduced the room for maneuver of fiscal policies. In 1993, extra-budgetary funds absorbed about 38 percent of all government expenditures (see Table 1.9). There were seven major extra-budgetary funds at the end of 1993 -- Pension, Social Insurance, Employment, Road, Passenger Transport, Hard Currency and Privatization. In addition, several budgetary funds benefited from special earmarking procedures, including the Economic Transformation Fund, the Entrepreneurship Fund, the Fund for Price Regulation and the Fund for Mineral Resources. In the case of the social security system, separated from the budget in 1991, financial autonomy paved the way for financial balance. However, a number of other government entities succeeded in insulating their funding from the mainstream of fiscal operations in order to escape fiscal stringency. This placed a disproportionate share of the adjustment burden on expenditure programs with less political backing.

1.64 Extra-budgetary funds added also an additional tax burden by imposing their own levies outside the framework of a consistent tax regime. In 1993, revenues collected by extra-budgetary funds added another 15 percentage points of GDP to regular fiscal levies, bringing the total fiscal burden (excluding capital receipts and grants) to 30 percent of GDP.

1.65 Regular budget and extra-budgetary operations are reviewed separately below.

### **Budget Operations**

1.66 Revenue Policy and Performance. The authorities succeeded in averting the losses of fiscal revenues that have plagued a number of formerly planned economies. Despite pressures for tax exemptions and collection difficulties budgetary revenues (current and capital) have increased from 20.5 percent of GDP in 1991 to 22.8 percent in 1992 and 23.25 percent in 1993 (see Table 1.10). The composition of these revenues however has changed dramatically. Tax revenues actually decreased as a share of GDP from 18 percent to 16 percent. But nontax revenues expanded from 2.0 to 7.5 percent over the same period, but mostly in 1994, reflecting mainly the transfer of some of the seignorage accrued to NBK to the Government and the initial receipt of privatization proceeds.

1.67 The decline in tax revenues reflects cuts in tax rates, rather than a loss of control of the tax base, that has been the main source of fiscal difficulties in other reforming economies. The proceeds of internal indirect taxes offer a clear illustration of this. These proceeds had initially expanded from 9 percent of GDP to 14 percent of GDP between 1991 and 1992, owing to the introduction of a value added tax (VAT) and associated excise taxes in lieu of the former turnover and sales taxes. As in other CIS countries, the VAT was introduced at a unified rate of 28 percent. Several ad hoc measures taken in the course of 1992 (exemptions, zero-rating, additional rates, etc.) ended up weakening collection. The standard rate was reduced to 20 percent in the 1993 budget, in line with policies pursued across the CIS. VAT proceeds, as percentage point of GDP in 1993, contracted in the same proportion, i.e from 5.8 to 4.0 percent. Conversely, the increase in excise taxes on vodka and other items in 1993 generated additional revenues of about half a percent of GDP. The most buoyant form of indirect taxes was the special tax on costs of production earmarked for the Investment Fund (later renamed Economic Transformation Fund) introduced in January, 1992. The initial rate of 2.5 percent was increased later

in 1992 to 5 percent. It yielded over 3 percent of GDP in 1993.

1.68 Receipts from customs duties, by contrast, collapsed in 1993 from 2.3 percent to half a percent of GDP, due to exporters moving to barter to avoid export duties and repeated delays in introducing a clear tariff policy proposed uniform tariff on non-CIS imports pending conclusion of intra-CIS discussions on the creation of a customs union.

1.69 Direct taxes followed a similar pattern. Revenues from individual income tax tapered off somewhat in 1992-1993 because real wages dropped and the top marginal rate was reduced from 40 to 30 percent in January 1992. Revenue contraction from the profit tax was much sharper -- from 7.5 to 4.4 percent of GDP between 1991 and 1993 -- reflecting (i) a cut in the standard tax rate to 35 percent in January, 1992; (ii) a further cut to 25 percent in June of the same year; and (iii) declining enterprise profitability in 1993.

1.70 Three features of the tax administration help explain how the authorities have succeeded in maintaining control of the major tax bases. First, the general use of withholding taxes attenuated, at least until the end of 1993, the "Tanzi" effect,<sup>16</sup> commonly experienced by high inflation economies. Withholding, or advance payment, applies to the personal income tax, the

Table 1.10: Budget Operations  
(in percent of GDP at current prices)

	1992	1993
1. <u>Current Revenues and Grants</u>	<u>24.51</u>	<u>20.51</u>
Direct Taxes	7.58	6.92
- on Enterprises	5.11	4.36
- on Individuals	2.47	2.56
Indirect Taxes	13.93	8.81
- Value Added Tax	5.93	4.04
- on International Trade	2.31	0.48
- Other Indirect Taxes	5.69	4.29
Non-Tax Revenues	1.27	4.78
- Transfers from Extra-budgetary Funds	0.41	0.00
- Other Non-Tax Revenues	0.86	4.78
Grants	1.73	6.00
2. <u>Current Expenditures</u>	<u>24.73</u>	<u>22.48</u>
Consumption	17.47	16.78
- Wages	3.21	6.43
- Goods and Services	14.26	10.35
Interest Payments	2.24	0.11
- Domestic Debt	0.00	0.00
- External Debt	2.24	0.11
Current Transfers	3.54	3.83
- Transfers to Extra-budgetary Funds	0.55	0.89
- Transfers to Households	3.00	2.94
Subsidies	1.48	4.76
- Consumer Subsidies	1.48	1.11
- Producer Subsidies	..	4.11
3. <u>Budgetary Savings</u>	<u>-0.22</u>	<u>-1.97</u>
4. <u>Capital Operations</u>		
Capital Revenues	<u>0.05</u>	<u>2.74</u>
Capital Expenditures	<u>6.67</u>	<u>2.21</u>
5. <u>Deficit</u>	<u>-6.85</u>	<u>-1.44</u>
6. <u>Financing</u>	<u>6.85</u>	<u>1.44</u>
<u>Domestic</u>	<u>2.60</u>	<u>1.12</u>
Banking System	-2.07	-2.09
Other Domestic (residual)	4.66	3.21
<u>External</u>	<u>4.25</u>	<u>0.32</u>
Net Borrowing	-3.51	0.32
Increase in Arrears (+)	4.28	0.00
Debt Deferral	3.49	0.00

Source: Ministry of Finance, IMF and World Bank staff estimates.

16. The Tanzi effect refers to the loss of real fiscal resources incurred in a high inflationary environment due to the time lag between the occurrence of taxable events (income, sales, etc) and their assessment. In a number of countries, personal income taxes are assessed on the revenues of the previous year. This base is eroded by inflation; collection delays compound the problem. Withholding taxes, in contrast, allow the government to collect taxes even before the tax base is fully assessed.

profit tax, the tax on enterprise investment income, the tax on security operations, export duties and social security contributions. Expenditures are thus financed by currently accrued revenues, not with revenues accrued in the past. The general use of ad valorem tax rates instead of specific rate also helped protect fiscal revenues from the impact of high inflation.

1.71 The tax system's second feature requires state enterprises to maintain all their accounts and execute all their transactions (except paying wages) with the banking system. While the regulation's counterpart -- the non-convertibility of deposit money into cash -- severely undercuts public confidence in such fundamental institutions as money and banks, it is convenient for tax administration purposes, since it considerably reduces the scope for tax evasion and simplifies tax assessment.<sup>17</sup>

1.72 Finally, decisive measures have been taken in recent years to centralize the revenue collection under the authority of the Ministry of Finance (MOF). By the end of 1992, the tax and customs directorates had been incorporated into the MOF, and that Ministry was assigned overall revenue authority throughout the country. While the functional division of spending assignments and revenue sharing arrangements existing under the FSU have been maintained, these administrative reforms, together with centralizing public accounting and treasury functions in the National Bank, have successfully countered the centrifugal tendencies that have exacerbated fiscal tensions in other FSU countries. The same can be said of the January 1993 Constitution which reasserted central authority over oblasts administrations and gave the central authorities political and administrative backing for imposing financial discipline.

1.73 Expenditure Policy and Performance. Most of the brunt of the fiscal adjustment fell on expenditures. Initially in 1991-92, the authorities managed to contain budgetary expenditures (excluding interest accrued on FSU debt) at about 32 percent of GDP. In 1993, they plunged to 25 percent of GDP. As on the revenue side, this was achieved primarily through administrative measures. In 1992, the MOF introduced a "cash management system" under which expenditure obligations could only be settled under a cash plan agreed with the central bank. Expenditures were therefore sequestered for variable periods of time, providing not only "forced savings" to the budget in the form of payments arrears, but also real expenditure cuts, as delayed expenditures rapidly lost real value in the prevailing inflationary environment.

1.74 Following the trend observed in 1992, government consumption declined by over 23 percent in real terms in 1993. Preliminary estimates suggest that the Government's wage bill would have risen percent of GDP in 1993 despite continued cuts in real wages. Civil servant wages were adjusted only sporadically, in tandem with the minimum wage, and declined in real terms by 29 percent in 1992 (annual average) and by 25 percent during the first 8 months of 1993 (compared to the average of the previous year). But the Government sector was forced to expand its payroll to absorb graduating students and redundant labor from elsewhere in the economy (see para. 1.38). The contraction in consumption volumes fell therefore entirely on expenditures on goods and services, creating severe problems in the operation and maintenance of public services and infrastructure. In the health sector, for instance, wage payments together with bulging fuel expenses for heating and transportation crowded out

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17. This convenience is purchased at the cost of economic inefficiency. The benefits of making the tenge domestically convertible in terms of financial savings mobilization far exceed the fiscal gain derived from its non-convertibility. Moreover, the growth of private activities that cannot be subjected to such requirements is already blunting the policy's practical efficacy.

other demands. In 1993, only 5 percent of the health budget was available for drugs; as little as 1 percent was available for equipment, consumables and repairs.

1.75 Transfers and subsidies, by contrast, would have expanded somewhat between 1992 and 1993 reflecting mainly the transfer of family allowance funding to the regular budget.

1.76 Prolonging the precipitous decline observed in 1992 (estimated at about 50 percent in real terms), consolidated government capital expenditures contracted by a further 53 percent in real terms in 1993, down to 6.3 percent of GDP. In 1993, over 80 percent of those expenditures was carried out by two special funds -- the extra-budgetary Road Fund and the budgetary Economic Transformation Fund (ETF)<sup>18</sup> -- each financed by earmarked contributions. As noted above, earmarking procedures ended up depriving almost completely other sectors from investment resources.

**Table 1.11: Social Security**  
(in percent of GDP at current prices)

	Pension Fund		Social Insurance Fund		Employment Fund		Total	
	1992	1993	1992	1993	1992	1993	1992	1993
<b>1. Current Receipts</b>	7.24	5.24	1.70	1.10	0.31	0.23	9.15	6.57
Direct Taxes (on Wages)	7.24	5.24	1.70	1.10	0.29	0.22	9.23	6.56
Non-Tax Revenues	..	..	..	..	0.02	0.01	0.02	0.01
<b>2. Current Payments</b>	7.30	5.98	1.70	0.96	0.11	0.12	9.11	7.06
Consumption Expenditure	0.38	0.24	0.03	0.02	0.05	0.05	0.46	0.31
Transfers to Households	6.92	5.73	1.67	0.94	0.01	0.01	8.60	6.68
Transfers to Enterprises	..	..	..	..	0.05	0.07	0.05	0.07
<b>3. Deficit (+), Surplus (-)</b>	0.06	0.74	0.00	-0.14	0.20	0.11	-0.14	0.49
Transfers from Budget	0.55	0.89	0.00	0.00	0.00	0.00	0.55	0.89
Increase in Bank Deposits (-)	-0.49	-0.15	-0.00	-0.14	-0.20	-0.11	-0.69	-0.40

Source: Ministry of Finance and World Bank staff estimates.

## Social Security

1.77 Drastic measures have been taken in 1992-93 to bring back the accounts of the social security system into the black (see Box 1.3 for a brief description of the social security system of Kazakhstan). The system had incurred large deficits in 1991, which the Government sought to correct

18. The Road Fund is charged with the development and maintenance of the country's vast road network. The ETF was established to create an independent country and develop a market economy. EFT finances investments for: (i) integrating the national infrastructure (power grid, pipelines, etc); (ii) vertically integrating production at the national (instead of the FSU) level; (iii) converting the military complex; and (iv) completing ongoing capacity expansion projects. The Fund's resources are also used to extend financial support to politically or socially sensitive areas, such as the "city factories" or coal mines. The Fund's resources primarily channeled through commercial banks for two to ten year maturities at interest rates of 2 to 10 percent. Priority is given to four National Programs: (i) nonferrous metals; (ii) food and other consumer goods industries; (iii) transport and telecommunications; and (iv) the energy sector.

through both expenditure cuts and revenue increases. On the expenditure side, the average pension was allowed to drop in the wake of the January, 1992 price reform, to about one-quarter of its December, 1991 level. Sporadic indexation measures have resulted in significant short-term fluctuations in the purchasing power of pensions over 1992-93 (as well as other social benefits) (see Figure 1.4). The trend is nevertheless clear: average pensions benefits further declined in real terms by 32 percent in 1993 (annual average), while (much lower) unemployment compensations were falling by 10 percent. Or, to put it differently, whereas pensions were, on average, on par with wages until 1991, their average level dropped to about 38 percent of the average wage in 1992, and to 28 percent of that level in 1993. Family allowances, for their part, were restricted in 1993 to the lowest 20 percent of income groups. Despite these cuts in benefits, Pension Fund payments decreased only slowly as the Fund had to absorb a sharp increase in the number of workers taking early retirement between 1991 and 1992 (see Table 1.3). Still by 1993, these payments had declined by 2.5 percentage points of GDP, compared to the 1991 level (8.5 percent of GDP).

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### Box 1.3: The Social Security System of Kazakhstan

Kazakhstan's social security and welfare system was developed under the FSU, with heavy reliance on transfers from the Union budget. A national and financially independent system was established in 1991, in the form of pay-as-you-go insurance schemes covering, among other items, old-age, disability and survivors pensions; various family allowances (now transferred to the budget); sick and annual leave and maternity support; and retraining and unemployment benefits. These benefits are provided by three funds (Pension, Social Insurance and Employment Funds) financed by a social security contribution similar to a payroll tax. The Pension Fund is the largest social program, representing about 90 percent of all social security payments. It provides pensions to 18 percent of the population, as well as family allowances through the Insurance Fund (see Table 1.11). As official unemployment is currently low, the Employment Fund was the smallest of the three in 1993, and devoted most of its resources to training, placement and other labor market policies.

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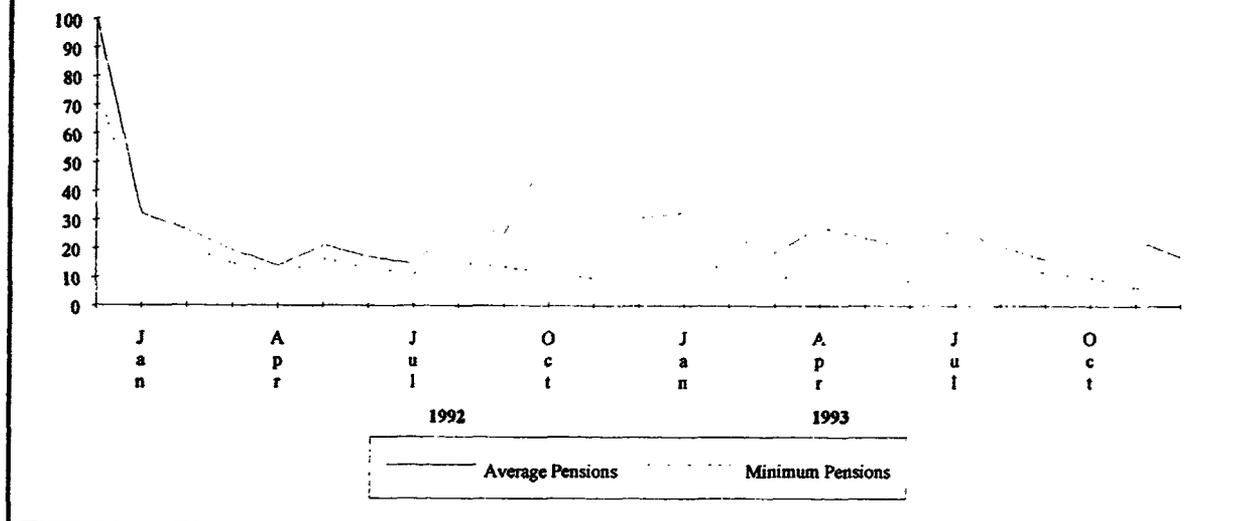
1.78 On the revenue side, employers' contributions were raised in 1992 from 26 percent to 37 percent of wage costs and 1 percent employees' contribution in January 1991. Funding remained precarious though and, in early 1993, the Government had to take over the funding of family allowances. Furthermore, faced with difficulties to collect social contributions, difficulties growing over the course of the year, on the one hand, and pressing demand to adjust pensions, on the other, it was decided to modify the allocation of social security contributions in favor of the Pension Fund (by 7 percentage points). These measures allowed the social security system to run a slight surplus (after budget transfers for family allowances in 1993) during the two years.

## Money and Banking

### Banking Reforms

1.79 Substantial progress has been made in adapting the country's financial system to the needs of a market economy (see Annex 3). Reforms began with converting the FSU banking system into a two-tier banking system, with specialized banks taking over the commercial bank functions of the Gosbank and the Savings Bank pursuing an independent role in mobilizing savings. In 1990, enterprises and cooperatives were allowed to establish their own banks to compete with the specialized institutions. By end-1993, over 200 such banks had been created, sometimes only to provide enterprise treasurers with direct access to central bank credit. At the same time, the authorities began to set up a regulatory and policy framework for efficient financial intermediation through, inter alia, (i) the adoption of new

**Figure 1.4: Average Pensions and Minimum Pensions**  
(constant prices, average pension December 1991= 100)



commercial, central bank,<sup>19</sup> and foreign currency legislation in April 1993; and (ii) the implementation of tighter prudential rules regarding capital adequacy requirements over 1993.

1.80 Payment system deficiencies remain a critical bottleneck. These deficiencies stem from the non-convertibility of deposit money into cash and the under-development of payment instruments, and more generally, from weak contract enforcement mechanisms and the inflationary environment, in which all economic agents have an incentive to delay payment. Weaknesses in data processing capacities and interregional settlement systems aggravate these conditions.

### Interest Rate and Credit Policy

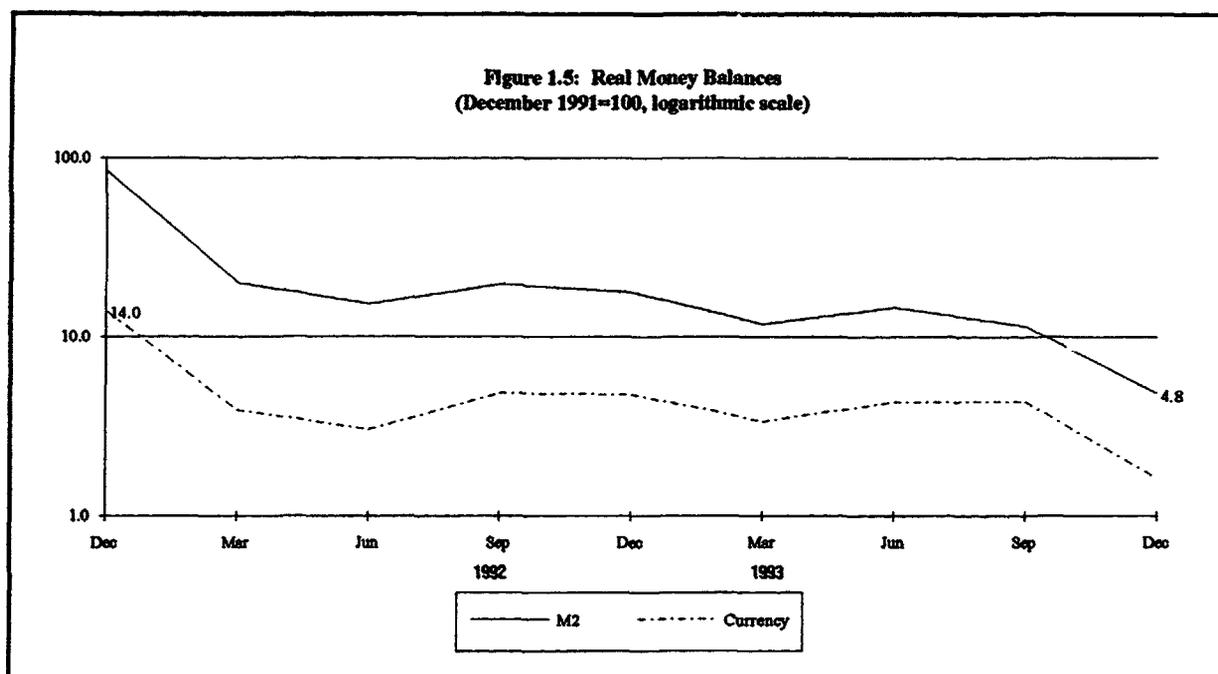
1.81 Interest rate policy was steadily tightened over 1992-93, but the move towards realistic interest rates was more tentative than macroeconomic conditions would have warranted. Within the limits afforded Kazakhstan to pursue independent monetary policies prior to August, 1993, the refinance rate of the National Bank of the Republic of Kazakhstan (NBK) was raised from 65 percent in July, 1992, to 110 percent, then 140 percent in July, 1993 and 170 percent in September, 1993, as the rate of the Central Bank of Russia was adjusted upward.<sup>20</sup> The introduction of credit auctions, starting in the last quarter of 1992, and the elimination of restrictions affecting intermediation margins on commercial banks' own resources and deposits in January, 1993, complemented this gradual move towards more market based lending conditions. In setting policy, the authorities balanced the requirements of monetary stabilization against the political imperatives of maintaining output in sectors of the economy, such as

19. That law provided for the independence of the central bank under the overall supervision of Parliament. Later in 1993, control of NBK was transferred back to the executive branch, where it was felt it would be less subject to political pressures.

20. Equivalent to effective rates of 88, 186, 276 and 390 percent, respectively.

agriculture, where cheap central bank credit substitutes for fiscal subsidies or price reform. Throughout 1993, the NBK continued to direct most of the credit through the five specialized banks (see Annex 3).

1.82 There are indications that credit policy reform may now be gathering pace. With the introduction of the tenge, the central bank took further action to rationalize its interest rate policy. Effective December 3, 1993, the refinance rate of the NBK was aligned with the market rates emerging from the weekly credit auctions, and credit was no longer to be extended below this rate. The refinance rate had risen to around 250 percent by the end of 1993, corresponding to an effective rate of about 870 percent. Unfortunately, the resolve to see directed credits repaid at maturity remains weak. While directed credits to agriculture, overdue from 1992, were forcefully recalled from commercial banks on October 1, 1993, a month later the authorities agreed to defer the 1993 maturities to March, 1994.



### Monetary Developments

1.83 In 1992-93, the banking system remained the major channel by which the vast and growing financing requirements of nonfinancial enterprises were accommodated in 1992-93 (see Table 1.12), financing requirements expanding from 31 percent to 39 percent of GDP over this period (see Table 1.7). In the absence of a commensurate willingness to hold real monetary balances, the banking sector's accommodation of the large financial deficits of nonfinancial enterprises generated an inflationary expansion in the money supply. Until the breakdown of the ruble zone in the middle of 1993, this expansion was nothing more than Kazakhstan's contribution to the much larger monetary expansion -- and inflationary pressures -- that overwhelmed that zone. To some extent, Kazakhstan could consider it with "benign neglect". With monetary independence, the disequilibrium between domestic monetary expansion and demand for real balances in Kazakhstan now fuels a strictly home-grown inflation that is entirely Kazakhstan's responsibility to redress.

1.84 Credit to enterprises was the main cause of domestic credit expansion in 1992-93. The tightening credit policy, described above, succeeded however in slowing its growth rate from 1600 percent in 1992 to 636 percent in 1993. In contrast, the conservative fiscal policy constrained the consolidated government to retrench credit in both 1992 and 1993. In 1992 and to a lesser extent in 1993, the ensuing expansion in domestic credit was partly offset by (i) an erosion in the banking sector's net foreign assets, as banks borrowed from abroad faster than the country built gross foreign reserves; and (ii) a mobilization of non-monetary financing by the banking sector, in the form of equity (recorded under "net other assets" in Table 1.12). This equity came from two sources: (i) the conversion of bank deposits into shares when new banks were created, minimum capital requirement had to be met, or as offsetting balance for low interest loans and (ii) the substantial profits of the sector (particularly those of the central bank, see Table 1.7). These offsetting factors were weaker in 1993 than in 1992. Thus, in spite of tighter domestic credit, the money supply continued to expand at a similar rate in both 1992 and 1993, i.e. 520 percent.

Table 1.12: Monetary Survey  
(end of period, in billions of rubles)

	1991	1992	1993
Net Foreign Assets	-	-213.4	-929.8
International Reserves	0.1	16.4	-39.4
Other Net Foreign Assets	0.1	-229.8	890.0
Net Domestic Assets	85.3	757.2	4285.6
Credit to Government (net)	11.9	-4.0	-288.2
Credit to the Economy	49.0	1049.6	7722.4
Other Assets (net)	15.1	-288.3	-4606.6
Money	85.3	543.8	3355.8
Currency in Circulation	14.0	146.3	1126.5
Deposits	71.4	397.6	1242.6

Source: NBK and IMF staff estimates.

1.85 While the money supply was growing at such a rapid pace, the demand for real balances was actually contracting (see Figure 1.5). There was first a step adjustment, in which the involuntary demand for money (or "money overhang") was eliminated through a step-adjustment in the price level, causing a 75 percent decline in real balances between December 1991 and March 1992. This process did not stop there however. By end-1993, the demand for real balances had contracted again by another 75 percent -- i.e., well beyond the reduction in income experienced over the period. This run out of monetary assets (in domestic currency) should hardly be surprising, if one remembers that, in recent history, monetary assets had first been piling up uselessly during the last years of the FSU, to be then partially frozen with the dissolution of the Soviet Sberbank, taxed away by inflation and sometimes confiscated on the occasion of monetary reforms. During the second half of 1993, uncertainty regarding future currency arrangements grew, as did the fear of the use confiscatory measures similar to those in Russia. The demand for bank deposits was particularly affected owing to enterprises' growing resistance to the nonconvertibility of their deposits into cash and also to a widespread belief that a more depreciated conversion factor would be used for deposits than for cash when the new currency was introduced. Enterprises also could invest their excess liquidity in deposits abroad -- a facility they made abundant use of in 1992-93. As a result, the share of deposits in broad money declined from 85 percent at the end of 1991 to 56 percent at the end of 1993, bringing the outstanding amount of bank deposits down to less than 3 percent of (monthly annualized) GDP in December 1993.

1.86 The conversion of the ruble into tenge (at an uniform conversion rate of ruble 500 tenge) was performed smoothly. Whether this will restore a degree of confidence in monetary assets is as yet unclear. Public fear that the conversion would involve confiscatory measures seemed to be confirmed

when limits were placed on the amount of cash that could be converted, the balance being deposited in "frozen accounts" pending a determination of the "legitimate" source of those funds. If such measures have limited monetary policy purpose, they provide a clear signal to the public that the authorities are prepared to tamper not only with the "real" value of their debt obligations (through inflation), but also with their face value. If it is to hold cash, the public should be entitled to expect that if such claims are created by "fiat", they will not be extinguished in the same fashion.

## **External Transactions**

### **External Policies**

1.87 Exchange Rate. During 1992 and much of 1993, Kazakhstan's exchange rate policy was caught between the centrifugal forces pulling the FSU apart and the official objective of maintaining or reconstructing a common monetary area between FSU countries. After repeated failures to recreate a common currency zone, it became clear to the authorities that their continued participation in a ruble zone, even a "new style" one, was incompatible with the independent pursuit of economic stabilization. This prompted the introduction of the tenge in November 1993.

1.88 Between independence and August 1993, the country retained the same currency as Russia, although its exchange rate and trade policies increasingly deviated from Russia. Whereas Russia had introduced a depreciated "market" exchange rate at around ruble 100 to the dollar, starting in January 1992, Kazakhstan continued to apply the previous commercial exchange rate of ruble 1.7 to the dollar. Starting in April 1992, the Russian "market" rate was introduced side by side with the commercial rate for purposes of calculating the export surrender requirement. On July 1, 1992, the country followed Russia's move to adopt a unified official exchange rate ascertained by the Central Bank of Russia on the Moscow Interbank Foreign Currency Exchange. This rate was applied for all official and accounting purposes. The Foreign Currency Law, adopted by Parliament in April 1993 confirmed that "the rate of exchange between the currency of the Republic of Kazakhstan and other currencies is determined by the National Bank on the basis of foreign exchange market developments" (Art. 8., loose translation). Reflecting market developments, this exchange rate depreciated from ruble 138.9 to the dollar at the end of July 1992 to ruble 987 per dollar at the end of July 1993.

1.89 The emergence of a more depreciated Kazakhstani deposit ruble was made official in July, 1993. Beginning in June 1992, the Central Bank of Russia restricted the convertibility of the ruble within the FSU by imposing limits on bilateral correspondent account balances. In the case of Kazakhstan, however, these limits did not become binding until late spring, 1993, when the Russian authorities stopped providing overdraft facilities to Kazakhstan. A separate Kazakh deposit ruble was acknowledged by the NBK at the end-of-July 1993, trading at a premium of 30 to 40 percent over the Russian Ruble. Its exchange rate was finally set at Kazakhstani ruble 1.49 to the Russian ruble for the purpose of calculating export surrender requirements.

1.90 Kazakhstan also opened its own foreign exchange auction, the Foreign Currency Exchange of the Republic of Kazakhstan, in June 1992. The size of this market has remained relatively small. Turnover peaked at around US\$12 million during the month of November 1992, but diminished steadily thereafter as the NBK stopped providing foreign exchange to the auction in an effort to build up foreign reserves. Transactions were eventually suspended between August 1993 and end-November 1993.

1.91 After the demonetization of Soviet ruble banknotes in Russia in August 1993, Kazakhstan underwent an interim period, during which it continued to quote the Moscow rate as its official rate without having access to Russian rubles. Repeated official efforts at reconstituting a "new style" ruble zones proved unsuccessful, primarily because Kazakhstan and the Russian Federation were unable to reach common ground on the latitude that the former would retain in its economic policy if such a zone were to be created.

1.92 With the introduction of the tenge, Kazakhstan returned to a market based exchange rate, determined at weekly fixing sessions of the foreign currency exchange. The currency was converted at a rate of 1 tenge for 500 ruble and was introduced on the foreign exchange market at tenge 4.68 per dollar in late November 1993. At the end of 1993, it was trading at tenge 6.30 per dollar. Turnover averaged around US\$ 7.5 million per week until the end of 1993.

1.93 Payments and Trade Regulations. Ever since the breakup of the FSU, interrepublican trade has been plagued with payment problems. This was initially due to crippling difficulties in routing payments through the centralized correspondent accounts of CBR. More recently, with the disappearance of that system, there have been difficulties settling transactions between multiple and nonconvertible currencies through the underdeveloped nostro-vostro accounts. Furthermore, while access to imports is relatively unrestricted, exports remain subject to an intricate system of export licenses and quotas, surrender requirements and export taxes designed to direct supplies to the domestic market. Until the end of 1992, external trade remained dominated by the vicissitudes of the "state orders" system with FSU countries. Its successor, "the state needs" system, still covers a substantial portion of Kazakhstan's traditional trade with the FSU (see Annex 2).

1.94 Kazakhstan has supported efforts to reduce the trade barriers that have sprung up throughout the FSU since the early 1990s. Together with Armenia, Belarus, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Uzbekistan and Ukraine, it signed an Economic Union Treaty in September 1993. The Agreement still remains to take effect. In January, 1994, Kazakhstan entered into an Economic Union with Uzbekistan; they were later joined by the Kyrgyz Republic. That Union became effective in early February 1994, with the abolition of customs tariffs on bilateral trade. Trade among the countries, however, continues to be hindered by export controls on most important traded commodities.

### External Trade and Payments

1.95 Reflecting the disarray in interstate trade and payment arrangements, Kazakhstan's external trade volume has contracted since the beginning of the decade and trade has been redirected toward non-FSU countries. This situation was exacerbated in 1993, when the country lost access to Russia's financial support while experiencing a major terms of trade shock. Despite the drop in imports, the country's trade balance move from a US\$100 million surplus, equivalent to 1 percent of GDP, in 1992 to a US\$540 million deficit in 1993, equivalent to 5.3 percent of GDP (see Table 1.13).<sup>21</sup> This is

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21. These numbers are at best indicative, and are subjected to an unusually large margin of error. Bank staff estimates of the balance of payments contain a large "errors and omissions" item. The latter can be interpreted as a plausible approximation of the level of capital flight (at least in terms of trend), but may also include other transactions, current as well as in capital, not recorded elsewhere. Figures regarding transactions with the FSU are not strictly comparable with those for transactions outside the FSU, as a considerable portion of the former continue to be performed considerably below world market (continued...)

the result of diverging trends in the country's transactions inside and outside the former Soviet Union. They are reviewed separately below.

### **Interrepublican Transactions**

1.96 In 1992, Kazakhstan's imports from FSU countries, primarily Russia, held steadier than exports to these countries, causing the FSU current account deficit to widen from 3.5 percent of GDP in 1991 to over 5.5 percent in 1992. Given an overall decline in FSU demand, available export potential was redirected to domestic uses or to more profitable non-FSU markets. At the same time, Kazakhstan's overdraft on its correspondent account at CBR provided import financing amounting to about 11 percent of the country's GDP. Beyond financing its own imports, the country was able to run a net creditor position in inter-enterprise arrears among FSU countries.

1.97 FSU trade deteriorated considerably in 1993. Import and export volumes both dropped by about 41 percent. The decline in FSU terms of trade reduced the country's import capacity by about 30 percent. The loss of external finance further undercut that capacity: although in the first half of 1993, Kazakhstan was still able to draw ruble 300 billion from its correspondent account overdraft facility with the CBR, this facility was terminated in July 1993, forcing the balance of payments between the two countries into balance. The concomitant decision to route all bilateral settlements through correspondent accounts instead of the single correspondent account operated by CBR in principle liberalized payment arrangement. In practice, the commercial banks' lack of technical expertise has tended to hinder payments considerably.

1.98 The monetary reform undertaken by the Russian Federation in August 1993, which severed Russia's monetary system from that of other members of the defunct rouble zone,<sup>22</sup> exacerbated these difficulties. The resulting constraints on monetary convertibility complicated the settlement of trade imbalances within the FSU, especially the clearing of multilateral balances. The large capital outflow observed under "errors and omissions" in 1993 reflects (i) the resulting difficulties in repatriating export proceeds; and (ii) the reluctance of exporters to part with their Russian ruble earnings while uncertainty persisted about Kazakhstan's future monetary arrangements (and the fear that any reform would involve confiscatory measures). The decline in imports would have been even sharper had Kazakhstan not been able to build up interenterprise arrears towards its FSU partners, estimated at ruble 344 billion on a net basis at the end of 1993 (the gross amount may be ruble 1 trillion higher).

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21.(...continued)

prices. The balance of payments is therefore separated into an FSU account in Russian ruble and a non FSU account in US dollars.

22. Contrary to a common perception, the payment paralysis cannot be attributed to the impossibility of settling transactions in Soviet ruble. Most countries have to pay for their imports in foreign currencies. The present difficulties appear to have been due instead to: (i) the reluctance of exporters to repatriate export earnings in view of lingering uncertainty regarding Kazakhstan's monetary arrangements, particularly in the wake of the August, 1993 monetary reforms in Russia; (ii) the easy credit policy pursued by the NBK which allows exporters to pay their domestic costs by obtaining bank credit, rather than converting export proceeds (hence making them available to importers); and (iii) the absence of a well functioning foreign exchange market where the exchange rate for the Russian ruble would be allowed to clear existing demand and supply of Russian ruble.

Table 1.13: Balance of Payments

	Non-FSU		FSU		Consolidated	
	1992 (in millions of US\$)	1993	1992 (in billions of Rubles) <sup>a/</sup>	1993	1992 (in millions of US\$)	1993
Exports	1489.0	1529.0	419.7	2209.3	4196.7	3922.6
Imports	960.8	1269.3	486.5	2950.9	4099.5	4466.4
Trade Balance	528.2	259.7	-66.8	-741.6	97.2	-543.8
Non-Factor Services	-137.0	-105.1	-15.2	-37.3	-235.0	-145.5
Resource Balance	391.2	154.6	-82.0	-778.9	-137.8	-689.3
Net Factor Services	-175.0	-46.3	0.0	0.0	-175.0	-46.3
Receipts	0.0	0.0	0.0	0.0	0.0	0.0
Payments	175.0	46.3	0.0	0.0	175.0	46.3
Government Interest	175.0	11.0	0.0	0.0	175.0	11.0
ROE Interest	0.0	19.3	0.0	0.0	0.0	19.3
Other Payments	0.0	16.0	0.0	0.0	0.0	16.0
Net Current Transfers	52.0	65.0	17.9	50.8	167.5	120.0
Current Account Balance	268.2	173.3	-64.1	-728.2	-145.3	-615.6
Net Direct Investment	100.0	123.0	0.0	0.0	100.0	123.0
Net Long-Term Credits	-205.0	406.3	0.0	-9.8	-205.0	395.7
to Government	-275.0	33.2	0.0	0.0	-275.0	33.2
Disbursements	163.0	32.2	0.0	0.0	163.0	32.2
Repayments	438.0	-1.0	0.0	0.0	438.0	-1.0
to Rest of Economy	70.0	373.1	0.0	-9.8	70.0	362.5
Disbursements	70.0	422.4	0.0	-9.8	70.0	411.8
Repayments	..	49.3	0.0	0.0	0.0	49.3
Capital N.E.I.	0.0	-146.8	0.0	27.7	0.0	-146.8
Extraordinary Financing	608.0	0.0	-169.0	343.8	7.6	372.5
Debt Deferral (by Government)	273.0	0.0	0.0	0.0	273.0	0.0
Increase in Arrears	335.0	0.0	-169.0	343.8	-265.4	372.5
by Government	335.0	0.0	0.0	0.0	335.0	0.0
by Rest of Economy	0.0	0.0	-169.0	343.8	-600.4	372.5
Errors and Omissions	-518.2	-189.8	-3.9	-204.0	-346.3	-170.6
Capital Account Balance	-15.2	192.7	-172.9	67.3	815.5	-165.0
Overall Balance	253.0	366.0	-237.0	-598.2	-589.0	-42.0
Change in Net Foreign Assets	-253.0	-366.0	237.0	313.0	589.0	42.0
Change in Net Reserves <sup>b/</sup>	-253.0	-366.0	0.0	0.0	-253.0	-366.0
Gross Reserves <sup>b/</sup>	-253.0	-454.0	0.0	0.0	-253.0	-454.0
IMF Credit	0.0	88.0	0.0	0.0	0.0	88.0
Correspondent Accounts	0.0	0.0	237.0	300.0	842.0	408.0

a/ Russian rubles, after August 1993. Exchange rate for current transactions 1992=155; 1993=923.

b/ Excluding gold.

Source: World Bank staff estimates.

## Transaction with Other Countries

1.99 In contrast, trade with countries outside the FSU expanded at a brisk pace throughout 1992-93. Among those countries, China has emerged as the leading partner, both for imports and exports. Much of this trade is conducted through barter. The volume of exports to non-FSU markets rose by 15 percent in 1993. A diversion of supplies from less remunerative FSU markets and the

undervaluation of the exchange rate both contributed to this performance. Food commodities and non-ferrous metals posted particularly good performances, while oil exports remained constrained by the lack of access to Western markets. Imports grew even more strongly, with a 32 percent increase between 1992 and 1993. As a result, the country's surplus on its trade balance with countries outside the FSU declined by as much as US\$270 million. Staff estimates of the balance of payments include a large residual element of unidentified outflows. It is believed that part of this amount comprises capital flights, but a certain amount of unidentified imports may also be included. These two elements (resource balance plus errors and omissions) were in deficit by about US\$150 million in 1992 and 1993.

### Foreign Assets and Debts

1.100 The financing of the country's growing trade deficit was facilitated by the mobilization in 1993 of export credit lines of about US\$420 million extended by countries such as Germany, Turkey, Austria, Pakistan and Israel. The opening up of country to foreign investors started to yield substantial benefits, with net foreign direct investment (FDI) rising to US\$123 in 1993. In addition, foreign investors paid various bonuses recorded under "unrequited transfers" in the balance of payments (see Box 1.1). In contrast, the only disbursements of official financing came "below the line" from the International Monetary Fund, with a US\$88 million dollar equivalent purchase under the Systemic Transformation Facility in August 1993 (25 percent of the country's quota).

1.101 Kazakhstan managed to maintain an overall balance surplus with the convertible currency zone in 1992 and 1993. This, and the accumulation of domestically produced gold, allowed the country to build up its gross foreign reserves (net of commercial banks' foreign assets) from US\$211 million at the end of 1992 to an estimated US\$718 million at the end of 1993, equivalent to about 2 months of identified imports, which provided Kazakhstan with a reasonable financial cushion to back the introduction of its own national currency.

1.102 In 1993, the country signed a series of intergovernmental agreements regarding the settlement of correspondent accounts among FSU countries. In the most important with Russia, the two countries agreed to convert Kazakhstan's outstanding balances on its correspondent accounts at CBR at the end of December 1992 and the end of June 1993 (estimated at ruble 547.6 million) into US\$1,250 million intergovernmental debt, carrying an interest rate of Libor plus 1 percent, --maturing in year 2000, with a two-year grace period. The country signed similar agreements over the summer of 1993 with Kyrgystan, Uzbekistan, Tajikistan and Georgia. In September 1993, Kazakhstan also signed the "zero-option" agreement with Russia, which transfers to the latter Kazakhstan's share of the former Soviet Union's assets and liabilities.<sup>23</sup>

1.103 At the end of October 1993, the country's official (or officially guaranteed) debt disbursed and outstanding, undertaken by the Government of Kazakhstan or the National Bank, was estimated at US\$1,671 million. This includes the different lines of credit and the IMF purchase mentioned above. The World Bank also extended two loans to Kazakhstan in 1993, a Rehabilitation Loan in an amount of US\$180 million, and a Technical Assistance Loan in an amount of US\$38 million, but these became effective only in the last days of the year and disbursement was made in 1993. The present level of international indebtedness remains low by international standards, but to guard against any potential

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23. Kazakhstan rescheduled US\$273 million to US\$608 million share of the FSU debt service obligations due in 1992, and accumulated arrears for the remainder.

excess, the Ministry of Finance was given sole authority to undertake all foreign borrowing and to provide credit guarantees in the name of the Government, effective January 1, 1994.

Table 1.14: Economic Indicators for Selected Countries

	Real GDP Growth (annual growth rate)			Inflation Rate (annual average)			Unemployment Rate (percent of labor force)		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Kazakhstan	-8.5	-14.0	-15.6	96.1	1,400.0	1,400.5	0.1	0.5	0.5
Russia	-9.0	-19.0	-12.0	93.0	1,354.0	947.6	0.1	0.8	1.5
Belarus	-1.8	-10.0	-15.0	81.8	1,450.0	1,000.0	..	2.0	2.0
Ukraine	-11.0	-14.0	-15.1	91.2	1,445.3	4,875.9	0.3	0.3	0.3
Uzbekistan	-0.5	-9.6	-3.2	98.2	803.4	1,014.7	..	1.0	1.5
Poland	-7.6	1.5	4.5	70.3	43.0	37.0	11.8	13.6	15.4
Hungary	-10.2	-4.4	1.0	35.0	23.0	16.0	8.0	14.0	18.0
Albania	-27.7	-9.7	3.6	35.5	225.9	91.4	14.4	25.8	40.2
Bulgaria	-11.7	-7.7	-4.0	338.5	77.2	45.2	12.0	15.0	16.5
Romania	-13.7	-15.4	-5.0	165.5	210.0	295.8	3.0	8.4	9.6

Source: World Bank.

## Conclusions

1.104 The different formerly planned economies have adopted different policy courses. Kazakhstan closely followed the policies of the Russian Federation, with similar results in terms of growth, inflation and open unemployment (see Table 1.14). Developments in Poland and Hungary, which initiated reforms earlier on, indicate that the benefits of sustained structural reform, economic restructuring and restrictive macroeconomic policies appear after a few years of effort and indeed hardship. In both economies, production declines are now bottoming out and inflation is declining. The economic tailspin experienced by Ukraine, and the prolonged instability in countries like Romania, confirm that the pain of not reforming is little than the medication.

1.105 The challenge facing Kazakhstan is to restructure the productive sector and integrate Kazakhstan into the world market while maintaining social consensus for the reforms. In promoting the restructuring of the productive base, the Government urgently needs to address the array of constraints facing individuals and enterprises and to develop an environment conducive to the development of markets. This requires the removal of trade, price and credit distortions, the promotion of effective enterprise restructuring and the development of an adequate social safety net to protect those most adversely affected by restructuring.

1.106 Interventions in the price, trade and distribution system to promote the emergence of a competitive market. Enterprise restructuring is considered in Annex 3. Particularly, attention is paid to the role of the financial sector and the Government in promoting 'effective' restructuring by increasing corporate governance and restructuring enterprise financial liabilities. Beyond privatization, enterprises face the difficult task of increasing efficiencies and achieving profitability. Annex 4 considers the design

of the social safety net and its role in sustaining the reform program. The fiscal constraints discussed in Annex 1 suggest that the Government faces a number of difficult policy trade-offs in sustaining a minimum standard of living for all groups in Kazakhstan within binding resource constraints. Annex 5 considers the policy trade-offs discussed in the report in the context of the overall resource envelope and suggests likely reform path and economic scenario. The key policy choices facing the Government are analyzed and the Bank's policy recommendations are presented.

## ANNEX 2

### TRADE AND DISTRIBUTION

2.1 After the initial elimination of price controls, price liberalization slowed in 1993. The previous year, significant progress had been made in dismantling the former command system and reducing state control over trade. Partial price liberalization was accompanied by regular adjustments in administered prices and scaling back state control over trade and markets; and the state order system (*goszakaz*), introduced in late 1991, was replaced by a much less ambitious "state needs" system (*gosnub*), covering significantly less economic output.

2.2 Despite these 1992 initiatives, significant elements of the former command system remain. Confronted with increasing concern about contracting economic activity, lack of critical inputs and potential enterprise closures, in 1993 the Government reasserted control over a significant proportion of internal and external trade. Partial domestic market liberalization, the external trade regime and the non-neutral implementation of regulations, taxes, etc., have sustained distortions, inhibited resource reallocation and prevented the emergence of areas of comparative economic advantage.

2.3 Removing price controls is a necessary but not sufficient condition for the market to work and prices to clear supply and demand. Other distortions and interventions, including current state, oblast and city regulations, prevent the emergence of competitive markets and restrict the movement of resources to their most efficient uses and also need to be removed. The state needs system, price administration, anti-monopoly pricing policy and export controls directly hinder markets. Indirectly, the market is prevented from developing through state interference in trade among regions and enterprises, the allocation of supplies, market entry restrictions, and state influence over critical inputs, such as (subsidized) credit.

#### Domestic Markets

##### Administered Prices

2.4 In November 1993, prices of approximately 20 percent of goods in the average consumption basket remained administered. These items included some types of bread, macaroni, baby food, creme of wheat, energy products, oil, gas, oil products, electric energy, railway transport, bus passenger transport, running water, housing rentals, communal services and imported medication. To prevent speculation when the *tenge* was introduced in mid-November 1993, the Government temporarily reintroduced price controls on other essential consumer goods (milk products, sugar, salt, meat, soap). Generalized profit margin controls were also temporarily introduced on all enterprises, regardless of their market share<sup>1</sup>. Both these restrictions were removed in January 1994, after the initial uncertainty surrounding the introduction of the new currency had dissipated.

2.5 The minimum consumption basket with these price controls was estimated at around the minimum wage in the third quarter of 1993. The 'effective' subsidy implicit in these price controls is much smaller, since fixed price products are not always available in state shops. There are substantial

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1. See section below on anti-monopoly pricing for discussion of margin determination.

differentials between state shop, collective market and free market prices. While prices in state shops are generally lower, the range of available products is less and the quality is typically lower (see Table 2.1).

2. By April, 1994 the list of goods remaining subject to direct price control under the direction of the State Pricing Committee had been reduced to: (i) fodder; (ii) coal (differentiated between Karaganda and Ekibastuz coal); (iii) electric and heating energy; (iv) oil products - gasoline, diesel fuel and mazut; (v) bread and bread products; and, (vi) millet. Furthermore, control of natural gas prices had be shifted local administrations and liquified gas prices were subject to 'negotiation' with a 25 percent profit mark-up constraint to prime cost. Electricity prices continued to be differentiated by user: enterprises and households.

3. In addition, the price of municipal services were controlled by local administrations. While before April 1, 1994, these prices were controlled at the Republican level, local governments were now responsible for setting tariffs for all municipal services including housing rents, urban transport and gas prices. Wholesale coal and gas prices continued to be determined at the republican level, through an averaging of domestic and import costs, but local authorities were able to regulate the retail price of these products to final consumers.

Table 2.1: Retail Prices on Alternative Almaty Markets, October 1993 (in rubles per kg)

Food	Free Market	Farmers Market	State Shops
Tomatoes	700-1000		420
Cucumbers	500-1500		700;746
Potatoes	300-600		400;420
Onion	350-800		500
Carrot	400-800		400;406
Beets	400-800		330;350
Reddish	500-1000		450
Egg plant	500-1000		550
Cabbage	400-800		520;550
Pepper (sweet)	600-1000		520;555
Garlic	1000-2000		900;1300
Apples	1000-3000		
Pears	800-2000		
Grapes	2000-3000		
Lemon (piece)	1000-3500		
Raisins	5000-6000		
Apricots	3500-8000		
Nuts	6000		
Meat:			
- beef	1800-4000	2350	2425
- lamb	2000-4000		667
			(II. categ)
- horse meat	6000		
- pork	4000-5000		
Horse sausage	6000-9000		
Sausage	4000-6000	4250	
Egg	900-1200		
Honey	10000	8000	
Chicken	5000-10000		1800
			(I. categ.)
			1725
			(II. categ.)
Milk	600		190
Sour cream	2500-6000		845
Cottage cheese	1500		
Butter	5000-6000	3565	
Vegetable oil	2000		1800

Source: Ministry of Economy.

### The Impact of Subsidies on Prices

2.6 The Government has used a combination of direct consumer and input and output producer subsidies to support administered prices. Consumer subsidies have been used extensively to support direct price controls. In 1993, the largest budget financed consumer subsidies were for bread, milk and meat. Just under 0.7 percent of GDP was allocated to consumer subsidies in the 1993 budget. An additional 1 percent of GDP was used to subsidize imports through the extra-budgetary Hard Currency Fund. Export price controls also provided an indirect implicit subsidy to domestic consumers of some exportables.

2.7 Input subsidies have been used to lower production costs, thereby indirectly lowering final prices. In 1993, direct producer subsidies of around 4.3 percent of GDP were allocated through the general budget. Additional producer subsidies of around 0.7 percent of GDP were extended through the Passenger Transport and Employment Funds. The largest expenditures on input subsidies were for fodder and diesel. Non-essential goods and services, such as circuses and cinemas, also received input subsidies. Output subsidies included those for transportation, heating and housing and for a range of agricultural products delivered under the state needs program.

### Consumer Subsidies

2.8 In calculating consumer subsidies, average costs are estimated at each step of production. The subsidy is the difference between the regulated retail price and cost. Average costs are 'agreed' with the State Pricing Committee after negotiation with producers and fixed profit margins are then applied at each level in the marketing chain. The agreed costs are not sensitive to regional or enterprise variations or to unit costs of multiproduct firms.

2.9 To determine the bread subsidy, for example, costs are calculated for: (i) wheat producers, who are granted a uniform farm-gate price across the country; (ii) distribution and storage; (iii) flour milling and bakery; and (iv) retail outlets. Bakeries then receive a subsidy covering the costs of each step in this chain, which allows retailers to supply bread at the same price all over the country (see Table 2.2).

2.10 Price fixing at the retail level affects the process of price formation throughout the economy and affects resource allocation in perverse ways. Up to August 1993, the price of one ton of bread was ruble 13000 at the retail level, while ex-factory wholesale costs were ruble 56600 per ton. The subsidy per ton was ruble 46100. Following adjustments in September, wholesale costs were estimated at ruble 223860 per ton, with a subsidy of ruble 170230 per ton. While the subsidy as a percentage of actual costs declined slightly, the subsidy became more important in vertical price formation. The retail price of bread was not sufficient to cover the costs of the grain. Bread became a cheaper food supplement for animals than grain.

Table 2.2 Prices and Subsidies for Grain, Flour and Bread

	Retail prices Jan./Aug. '93	Retail Prices Sept./Dec. '93
Volume of bread and bakery products sold at regulated retail prices (Thousand tons)	1060	449
Average purchase price of grain used for production of bakery products (Rubles/ton)	9400	53250
Costs of purchasing, storage, processing and profit margin (15%)(Rubles/ton)	8800	41390
Milling costs for processing 1 ton of grain into flour;	10600	12490
Costs of 1 ton of flour	32560	129360
Costs for bakery, including profits (20% profitability) Rubles/ton	27800	124060
Average wholesale price of 1 ton of bread without VAT	56600	223860
Average regulated retail price per ton in rubles	13000	69400
As above, but without 10% VAT and 12% trade discount	10500	53630
Subsidy to cover the price difference for bread and bakery products (Rubles/ton)	46100	170230

Source: Ministry of Economy, Republic of Kazakhstan.

2.11 In response to mounting fiscal costs and anomalies in the pricing structure, in March 1994, the Government removed the bread subsidy and strengthened the delivery of welfare benefits to those most in need.

### Producer Subsidies

2.12 Producer subsidies have also been used extensively. Agricultural subsidies paid at the producer level are designed to lower producer costs and thereby stimulate agricultural production. Some of these subsidies are linked to inputs, such as mixed feed and diesel, others to output. The fodder subsidy is the most important. Throughout 1993, it was increased as a percentage of production costs in an attempt to offset rising fodder prices and keep agricultural input prices low. Of less financial importance -- although politically significant -- is the use of the agricultural diesel subsidy.

2.13 Output subsidies were also used in 1993 to encourage the delivery of products under the State Needs system (see Table 2.3). The per ton subsidy was set on March 15, 1993, and was not changed throughout the remainder of the year.

**Table 2.3: Subsidies for Agricultural Products Delivered Under State Needs Quota in rubles per ton, October, 1993**

Vegetables in green houses	152 000
Milk, first category, basic fat	19 000
Poultry, Live	60 000
Sheep and goat	13 100
Pigs, live	76 400
Cows, live	30 800
Other animals, live	10 000
Breeding cattle, first class	43 100
Eggs, 1000 units	1 800
Eggs for breeding	2 000
Fish products from industrial production	10 000
Wool, washed	785 000
Fish of natural origin	79 000

Source: Ministry of Economy.

2.14 Oblasts are also permitted to lower some prices that have been fixed at the national level and to fix prices for other products, provided they have sufficient budgetary resources to cover these interventions. Bus fares and milk prices are examples of prices commonly affected by oblast interventions. Price differentials are supported by oblast needs requirements and oblast imposed restrictions on transport and trade with other regions. Oblast administrations are allowed to impose additional requirements on producers to deliver to certain enterprises or retail outlets within the oblast. These requirements are typically applied to agricultural products. Producers of important manufactured products are also subject to these directives.

### Monopoly Price Control

2.15 The Anti-Monopoly Committee (AMC) has also been used heavily to control prices in the economy. While in principle, AMC pricing policy is intended to prevent abuses of monopoly power, in fact, it has been used as an instrument of social policy (to protect consumers from the impact of price rises) and anti-inflationary policy. In September 1992, the Government decided to limit profit margins for monopoly enterprises as a means of regulating prices. The use of fixed profit margins in the calculation of AMC regulated prices, however, has perpetuated 'cost-plus' pricing behavior in the economy and insulated some enterprises from the need to adjust.

2.16 Current monopoly legislation classifies enterprises as monopolies if their market share amounts to 35 percent or more of either national or oblast markets. This definition covers a large proportion of the economy. It is estimated that up to 75 percent of total industrial production is subject to either national or oblast level AMC control. Sectors under monopoly control include basic energy, electric energy, most raw material and most oblast transport networks. Many of these monopolies are not 'natural' monopolies characterized by large economies of scale, but rather are the product of regulatory or other artificial barriers. In some instances, the depreciated exchange rate and relative price structure is such that monopoly enterprises are protected from external competition.

2.17 The profit rate is defined as the mark-up on the full costs of production. Enterprises submit their cost calculations to the AMC, which then checks the cost calculations and agrees on a selling price. Mark-up rates range up to 60 percent, with an average for all sectors of around 30 percent. There does not appear to be a clearly defined rationale for the difference in mark-ups across sectors. The AMC needs to agree to any price change. In exchange for off-setting preferential treatment, oblast or City administrations also urge monopolies to sell some output to special groups at lower prices than agreed with the AMC. Specific consumer groups, like veterans and pensioners, typically benefit from such arrangements through special shops.

### The State Needs System

2.18 Although state orders have been abolished, the Government still influences prices and the flow of goods and services in the economy. A State Needs system was designed to replace state orders. The new system covers normal state procurement and is used to ensure the delivery of key consumption goods to the population and of product to meet bilateral trade agreements (see below). The estimated direct product coverage of State Needs (20 percent on average) is much smaller than that of the State Order system (about 70 percent). However, the sectoral volume covered by State Needs varies greatly

Table 2.4: State Orders and State Needs

	1990 State order			1991 State order			1992 State needs			1993 State needs		
	quantity set	quantity delivered	%	quantity set	quantity delivered	%	quantity set	quantity delivered	%	quantity set	quantity delivered	%
Grain	16400	14758.1	90.0	14700	3232.2	22.0	10000	13027.2	130.3	7000	3672	52.5
Oil seeds	170	151.4	89.1	153	70.1	45.8	107	70.1	65.5	79	-	-
Sugar	1200	1033.7	86.1	1200	616.2	51.4	840	441.3	52.5	665	59.8	9.0
Potatoes	508.9	571.1	112.2	540	358.8	66.4	180	261.3	145.2	150	44.5	29.7
Vegetables	748.7	676.1	90.3	770	454.1	59.0	101.5	309	304.4	160	51	31.9
Tobacco	4.8	4.7	98.0	6	4.6	76.7	4.6	3.7	80.4	3.5	-	-
Fibre cotton	97	101.9	105.1	90.0	94.1	103.5	65	75.5	116.2	63	58.6	93.0
Cattle & poultry	1522.6	1844.4	121.1	1515	1551.4	102.4	1056	930.7	88.1	876.4	606.8	69.2
Milk	3102.8	3294.1	106.2	3230	2924.9	90.6	2260	2132.3	94.3	2100	1798.3	85.6
Eggs	2318.5	2573.1	111.0	2430	2355.7	96.9	1704	1660.4	97.4	1600	1193.9	74.6
Wool	59500	60166	101.1	56000	58893	105.2	39201	42326	108.0	39000	20476	52.5
Caracul	1530.7	1583.7	103.5	1600	1434.4	89.7	1120	1053.5	94.1	1000	520.7	52.1

Source: Ministry of Economy

across sectors. Up to 70 percent of agricultural production continues to be covered by state needs requirements.

2.19 Compliance with the state need is encouraged though (i) a 5 percent fine on the value of undelivered product; (ii) restriction of output subsidies to products delivered to the state (see Table 2.3); (iii) preferential credit, supply of critical inputs (fodder, diesel, mixed feed, land, buildings, raw materials, etc.), access to export licenses and tax exemptions. Of these, the provision of subsidized credit, either through directed schemes, working capital allocations or the Economic Transformation Fund, has been the most important.

2.20 The market for products under the state need system does not function freely and prices are not clearing supply and demand. While state need prices are 'negotiated', the state has actively used all the above incentives to buy at prices below those prevailing in alternative domestic or foreign markets. In a similar fashion to the determination of monopoly prices, estimates of production costs and appropriate profit or mark-up margins are used to determine the 'negotiated' price.

2.21 Despite the explicit and implicit penalties for non-compliance with state requirements, deliveries under the state need system continue to fall short of targeted levels (see Table 2.4). Many producers, such as farmers, are building up inventories or storing their production (e.g., grain) as a hedge against inflation. Similarly, both farmers and enterprises are increasingly diverting output to free markets, where returns are higher.

2.22 Producers find it more profitable to supply free markets, even when prices are occasionally lower. During a period of high inflation, delays in the payments system of up to two months present a large real loss to suppliers, many of whom are therefore prepared to accept a discount on current period cash sales. Similarly, the non-convertibility of account currency with which state purchases are paid provides an additional incentive to accept a discount for deliveries to the free market.

2.23 The combination of administered prices, monopoly price control, the state needs system and oblast interference results in segmented markets. Price differentials between neighboring oblasts for some agricultural products may go as high as 100 percent and with the exception of grain, agriculture prices vary significantly among oblasts.

2.24 Alternative market channels are becoming more important. Private retail trade is starting to emerge in flea markets, farmers' markets and commercial corners in state shops. Development of these alternative market channels should be encouraged as individuals respond to the incentive structure presented by the existing institutional framework and attempt to maximize income. *Flea* markets selling both imported and locally produced goods have expanded rapidly and offer a much wider set of products than in state shops. Transactions costs, however, remain high, as wholesalers are not generally involved.

2.25 Farmers markets have also grown rapidly as workers offer partly processed produce, like meat, butter and cheese. At the moment, high transaction costs are involved, since relatively small quantities are transported to the market and fixed costs are not shared with other farmers. In contrast, growth in commercial corner trade has been less rapid. Private individuals rent out corners in state shops and sell products on a commission basis. The products sold in these corners are typically privately imported by individuals on specially arranged air tours. Transactions costs are therefore high. Each

individual only imports about 80 Kg of goods per trip, and the goods are typically purchased at the retail level, which is more expensive abroad than purchasing wholesale.

2.26 Despite the emergence of these other market channels, most enterprises and even Ministries continue to support small shops to provide consumption goods -- mainly food -- to their workers. Small shops typically offer products delivered through the state needs channel and products acquired by enterprises at below cost or through barter. A number of enterprises are undertaking barter trade to supply workers with durable consumer goods. During shortages of main food items, it is believed these shops distribute product on the basis of seniority.

### External Market

2.27 Significant trade liberalization has occurred in Kazakhstan. Up to 1992, the state orders covered domestic, inter-CIS and foreign trade. The export license and quota system applied to almost 200 items, including all important energy products and metals, foodstuffs and cereals and other consumer, industrial and construction products. Export licenses for 'products of state significance' were restricted to state trading companies and producers.<sup>2</sup> In contrast, import arrangements were more liberal, with only a few products subject to licensing arrangements.

2.28 The coverage of export licensing and quota procedures was narrowed substantially in February 1993. The scope of bilateral trade agreements with other FSU republics was also reduced. For example, between 1992 and 1993, the number of products covered by the bilateral trade agreement with the Russian Federation was reduced by around 60 percent. Coverage of trade in industrial machinery, consumer products and foodstuffs was eliminated with the agreement primarily covering trade in core raw materials, energy products, wool, cotton and grain. The number of products subject to fixed prices under bilateral trade agreements was also decreased substantially.

2.29 Of most significance was the agreement under which Kazakh oil exports into the Russian system in the west and Kazakh imports of crude oil from Siberia to its oil refineries in the east would both be priced on par with Russian domestic prices. While the price of Kazakhstan's imports evolved with Russian prices throughout 1993, it proved impossible to ensure that Russian refineries met their commitments concerning the prices of Kazakhstan's exports.

2.30 Now that indicative trade lists have replaced obligatory lists, most transactions should occur on a voluntary basis at freely negotiated prices. However, the government retained the right to introduce mandatory contracts for individual state enterprises and joint stock companies in order to meet commitments under bilateral trade agreements. The state needs system provided the mechanism with which to meet these commitments, and Kazcontract (the former Ministry of Material Resources), a financially independent joint-stock company, was made responsible for fulfilling interstate trade agreements. Again, preferential credits and quota restrictions have allowed Kazcontract to buy the relevant product at below market prices.

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2. These included oil and oil products, natural gas, ores and concentrates, rolled ferrous and non-ferrous metals, alumina, ferro-alloys, cast iron, rolled ferrous and non-ferrous scrap, precious and rare metals, precious stones, grain, cotton, wool, caviar, mineral fertilizers, Tibetan medical products and medicinal vegetable products.

## **Export Controls**

2.31 The Government has continued to operate an intricate system of export controls through quotas and licenses to attain several objectives. First, to 'protect republic resources' through beggar-thy-neighbor policies in response to the disruption in economic activity and trade within the FSU. Second, to sustain price differentials between domestic and non-FSU markets and between local and FSU markets where price controls still exist (e.g., energy products). And third, to ensure sufficient supply of goods to domestic markets. Operating in a similar way to the former *Gosplan*, the Ministry of Economy, in conjunction with other ministries estimates of domestic 'needs' for particular goods and issues quotas and licenses for production in excess these domestic requirements. Although shortages may not exist at the national level, oblasts can also impose license restrictions if regional deficits exist.

### **Export Quotas**

2.32 For the export of goods of national importance, both a quota and a license is required. The number of items subject to quota was reduced from around 90 in 1992, to 34 in 1993. Remaining quotas essentially relate to raw materials and cover approximately 20 percent of domestic production. Quotas are mainly allocated by the Ministry of Foreign Economic Relations<sup>3</sup> to (i) Kazcontract to fulfill bilateral trade agreements; (ii) other trade organizations; and (iii) specific enterprises. Oblast administrations also have a limited capacity to allocate quotas. Distribution at the oblast level appears to be determined by regional interests, often in exchange for commitments by enterprises to import goods in short supply locally.

### **Export Licenses**

2.33 Export licenses were also applied to an additional 61 types of goods in 1993, down from over 100 in 1992. The number of goods subject to license requirements was again lowered to 35 at the beginning of 1994. The distribution of licenses is being centralized in the Ministry of Foreign Economic Relations, although oblasts retain the right to issue licenses on items not subject to quotas. Despite the reduction in the number of goods subject to license control, it appears that the layers of procedures and approvals required to get export license approval have increased. Concern over low prices received for exported hides in 1992, for example, prompted the Ministry of Economy to intervene and begin approving prices on hide export contracts in 1993. Each of these layers of required approvals -- oblast, national volume and price -- make it more difficult and costly to engage in cross-border enterprise to enterprise trade.

### **Export Taxes**

2.34 Exports taxes (or duties) averaging 15 percent were applied to 145 products in 1993, ranging from 1 to 30 percent<sup>4</sup>. Export taxes were reduced further in early 1994 to an average rate of 7 to 8 percent. Initially, export taxes were only applied to exports to non-FSU countries, but were

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3. The Ministry of Economy was initially responsible for allocating quotas, but this function was handed back to the Ministry of Foreign Economic Relations in the second half of 1993.

4. In 1993 export tax rates were 1 percent for fully processed products, 2 percent for electronics, 10 percent for fertilizer, 25 percent for raw materials and non-ferrous metals and 30 percent for oil crude and derivatives.

extended to all FSU destinations in the second half of 1993. Export taxes were payable mostly in foreign currency; on average, 44 percent of hard currency earnings were taxed away or subject to mandatory surrender in 1993. An average 18 percent hard currency customs tax was transferred to the Republican Hard Currency Fund and 2 percent to local currency funds. Of the remaining foreign exchange earnings, 20 percent was subject to mandatory conversion at the NBK and 10 percent was to be converted through a commercial bank. There were no restrictions on the use of the remaining 56 percent of hard currency earnings, although permission from the NBK was required to deposit money abroad.

2.35 A windfall profit tax of 20 percent on crude oil exports was also established in the 1993 Budget Law. The base was the profit realized on the difference between the world price at which exports are conducted and the domestic price of crude oil.

2.36 Imposition of the export tax resulted in underinvoicing exports which, together with the less-than-100-percent-surrender requirement, prompted large informal capital outflows. Capital flight of several hundred million US dollars may have occurred in 1993 in response to these factors and to the unstable monetary situation in Kazakhstan before the introduction of the tenge. Recognizing the distortionary impact of the customs tax and the disincentive effect of mandatory conversion at below market exchange rates<sup>5</sup>, the Government made all export taxes payable in domestic currency as of January 1, 1994. The surrender requirement was raised to 50 percent (to be sold on the Foreign currency auction market) when the tenge was introduced, and regulations were put in place requiring immediate and full repatriation of all export proceeds.

## Other Interventions

### Export Monopolies

2.37 Entry to, and competition in, the export of eighteen 'strategic goods' exports has also been restricted by the Government's decision to limit export rights to seven designated trading companies from January 1994 onwards. These trading organizations, such as Kazcontract, are joint stock companies formed out of the previous ministerial trade and distribution organizations that underpinned former *Gosplan* arrangements. Essentially parastatals with state and labor ownership, these organizations have continued to pursue state interests with the assistance of directed credit and other implicit benefits. While these monopolies have been created with the intention of obtaining better control over the supply of foreign exchange, they are (i) precluding the emergence of more efficient marketing and distribution structures; (ii) providing monopoly rents to a select few, which may not necessarily be remitted to the state; and (iii) lowering returns to producers and thus inhibiting the reallocation of resources in the economy to their most efficient uses.

### Other Interventions

2.38 Exports are also subject to the value-added tax (VAT), ranging from 10 to 20 percent. VAT applies to exports to FSU republics who apply VAT on their own exports. In a similar fashion,

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5. Until the introduction of the tenge, the NBK was converting export surrender receipts at the official Moscow interbank ruble exchange rate. This was at a substantially lower rate than that of the Kazakh-ruble exchange rate in Kazakhstan.

excise taxes are applied to exports to FSU countries, ranging from 20 percent (jewelry) to 90 percent (alcohol).

2.39 Finally, AMC pricing control extends to the price producers are permitted to charge for exports. The excess export price, above the agreed AMC domestic price, is to be refunded to the state. This provides little incentive to export and essentially ensures that producers' first priority remains with domestic markets, where risk is lower. Importantly, this requirement helps maintain price differentials between domestic and foreign markets.

### **Import Controls**

2.40 There are few import regulations. Importables are affected by import taxes ranging between 0.5 percent and 21 percent. Many exceptions exist, granted by the NBK and the Ministries of Finance, Foreign Economic Relations and Foreign Affairs. Kazakhstan currently has limited customs enforcement capacity. Import tax rates were increased in early 1994 to between 0 and 50 percent, with an unweighted average of 13 percent. The VAT base was also extended to cover imports from non-FSU countries in early 1994. Some additional import excise taxes apply to a small list of goods such as cars, alcohol, jewellery and furs.

### **Import Licenses**

Import licenses were required for 5 items in 1993. They were required for the importation of: (i) industrial wastes; (ii) fertilizers; (iii) pesticides and herbicides for agriculture; (iv) diamonds and other jewellery; and (v) some types of medicines. The list was altered slightly in early 1994. Licenses no longer were required for the importation of diamonds and jewellery, while licenses are now required for (a) baby food imports and (b) explosives. Furthermore, some additional medicines were added to the list following the importation of below standard drugs from China in 1993.

### **Export and Import Tax Exemptions**

A number of significant export tax, import tax and surrender requirement exemptions were granted in 1993. In the August to December, 1993, period there were 26 enterprise specific exemptions granted by the President. All exemptions were removed by Presidential decree at the beginning of 1994. As at the end of April only one exemption had been granted.

## **The Impact of the Regulatory Environment on the Operation of Markets**

2.41 Government interventions have restricted the development of competitive markets and the growth of an efficient sizable private sector. Resources are being diverted into obtaining administrative assistance and access to licenses, inputs, credit, etc., rather than into productive activities. Distorted price signals are providing misleading signals to producers, constraining new investment, or are promoting new investment in unproductive, primarily rent-seeking, activities, which is slowing economic restructuring.

2.42 High profits are being made by a few with privileged access to resources at the expense of others and the state. Instead of earning income through productive economic activity, individuals may be better off exploiting the present system of regulations, i.e. rent-seeking. For example, profits are

being made through the purchase and sale of state orders at below market prices, the receipt of export quotas and licenses for internationally tradeable commodities, illegal trade, under- and over-invoicing, favorable access to subsidized credit and access to export credit lines. Similarly, those who still have the power to channel the flow of products, direct and subsidize credit and accept bribes for licenses and permittances are benefitting under the current regime.

**2.43** The limited use of the technologically advanced and efficient commodity exchange market in Kazakhstan illustrates current incentives to drive economic activity underground, into less efficient activities. The computerized commodity exchange network linking 17 oblasts allows for real-time distribution of information, lowers search and transactions costs and reduces the danger of a breach of contract. Despite simultaneous trading in each oblast, these commodity exchanges experience only marginal activity, with traders preferring to operate in less transparent markets where the likelihood of being caught for unfulfilled state need supply is significantly less.

**2.44** The current incentive structure favors informal private activities rather than strengthening a formal private sector. Wholesale trade is nearly completely dominated by state enterprises, while expansion of private activities is hindered by administrative decisions to provide licenses, grant access to land, retail space, etc. Nevertheless, private sector activity and trade in informal markets has expanded rapidly. This represents an optimal response of individuals to the existing incentive structure and should be encouraged by the Government. However, transactions costs are high and overall economic efficiency is lowered by these traders being forced to operate in fringe or non-transparent markets. The Government therefore needs to address a number of these restrictions or shortcomings in the current policy framework and promote the development of competitive markets.

### **Increasing Efficiency and Developing Competitive Markets: Policy Options**

**2.45** To ensure the efficiency of resource use and reduce the length of the transition, the Government urgently needs to accelerate price liberalization, reduce its involvement in the allocation of goods and services in the economy, promote the development of competitive markets and liberalize the external trade regime. In particular, the Government needs to reduce its direct involvement in price and volume decisions (see Table 2.5).

**2.46** Offsetting adjustments in the social safety net need to accompany these price reform measures in order to minimize the impact on vulnerable groups of increases in utility tariffs and the removal of price subsidies. The best alternative is to replace product related consumer subsidies with targeted transfer payments to these vulnerable groups. A second best alternative in the short-run is to limit access to subsidized consumer goods to this group. Such a targeted system seems possible in Kazakhstan, as consumers are registered and special shops are available which already supply subsidized products to veterans and pensioners.

**2.47** To offset the social impact of reducing consumer subsidies, particularly on bread, the Government is considering several alternatives. These include cash compensation to the bottom 20 percent of the population for the increase in the price of bread; coupons for purchasing a specified quantity of bread at a subsidized price at state stores; or subsidies for only the lowest quality of bread (generally consumed by the poor), leaving better bread to be sold at market prices. During a period of high inflation, a coupon arrangement that supplies goods to the poorest has been shown elsewhere in the world to be the most effective delivery mechanism.

**Table 2.5: Key Internal and External Market Intervention in Kazakhstan As at November 1993**

Internal		External	
Pricing	Quantities	Pricing	Quantities
(i) Price Administration (20% of consumer basket)[supported by consumer and input and output producer subsidies)	(i) State needs (coverage 20% on average, 70% of agriculture)	(i) Distribution of export license subject to price approval	(i) Distribution of quotas and licenses restricted to trade beyond state or oblast needs -- linked to bilateral trade agreements
(ii) Anti-monopoly pricing regulations (Coverage, 75% of industrial production)	(ii) State oblast and city directives and restrictions on direction of trade	(ii) Imposition of anti-monopoly pricing control to exports	(ii) Quota control over strategic exports
(iii) "Negotiated" prices under state needs system			(iii) Monopoly rights allocated to former state trading organizations

2.48 These reform measures primarily affect those goods subject to direct price administration. However, as discussed above, a significant proportion of economic activity is subject to other forms of price control -- namely, anti-monopoly pricing regulations and the state needs system. Urgent liberalization in these areas is also required to support the Government's stabilization objectives and allow an efficient pricing structure to emerge.

### Anti-Monopoly Pricing

2.49 The Anti-Monopoly Committee should place more emphasis on developing competitive markets, breaking-up existing non-natural monopolies and eliminating the *ex-post* abuse of monopoly power, rather than the *ex-ante* control of prices. The 35 percent market coverage definition should be restricted to the national market and oblast AMC's should be abolished as separate functional identities. Restricting AMC coverage to the national market would substantially reduce the number of enterprises subject to AMC price supervision.

2.50 The focus of AMC price regulation should shift from *pre-approval* of prices to *ex-post* checks on excessive pricing and monopoly profit taking. The current production cost basis for calculating prices is no longer appropriate in a market economy in which prices are determined by border prices and opportunity costs. Furthermore, in the *ex-post* assessment of monopoly prices, sufficient allowance needs to be made for depreciation and the use of own capital land and natural resources. Depreciation allowances have been grossly understated and profits overstated in 1993. For instance, asset values have rapidly eroded despite the 27- to 30-fold increase in the book value of productive in January 1993; this only accommodated previous inflation; no further adjustments were made throughout the remainder of 1993.

**2.51** Prices based on the present method of cost calculation are also misleading because interest rates are only taken into account on borrowed capital, not on own capital. The capital costs of predominately self-financed enterprises are therefore under-rated. Furthermore, debt financed enterprises that receive preferential interest rates only account for actual repayments paid to the lender. As this is lower than the opportunity costs of the capital in the economy, 'cost prices' do not reflect the 'real costs' of production.

**2.52** A similar problem arises with land valuation. Since there is currently no market for land, cost calculations only account for the marginal land tax imposed on land users. This is of particular importance to agriculture, since prices based on these cost calculations exert false signals with respect to needed changes in agricultural production patterns. The economic cost of natural resource use also remains understated at current prices.

**2.53** While the Government is rightly concerned about potential abuse by monopolies, international experience suggests that policies which protect monopolies from competition lead to high cost producers and higher prices. Lack of competition allows enterprises to freeze cost and production patterns and resist the introduction of new technologies, since there is less pressure to adjust. Allowing monopolies to charge costs plus a fixed margin, as currently practiced, further reduces incentives to adjust and leads to an upward bias in prices, since all cost increases are passed through to the final product price.

**2.54** AMC legislation should be quickly revised to change coverage, operational focus and method of calculating prices. The AMC should also be given sufficient power to break-up existing monopolies into the smallest possible functional units. Administratively granted monopoly rights should be withdrawn immediately and new entrants encouraged.

### **State Needs**

**2.55** The current state needs system is distorting prices and influencing production patterns in the economy. Combined with the existing method of cost-plus pricing, the subsidy network is freezing production and consumption patterns, thus delaying necessary adjustment in the economy. Government influence over the direction of trade should cease by restricting state purchases solely to the Government's normal procurement needs. The states' capacity to influence prices should also be curtailed and all transactions should be undertaken at free market prices. The use of administrative favors in 'negotiating' prices should stop. The purchase of essential consumption goods at below market prices and sale through state shops to the general population should also cease. The social welfare objectives of the existing system can be met more efficiently through a targeted benefits system.

**2.56** The sale of product to the state should be entirely voluntary. Remaining restrictions on who to sell to and penalties for non-compliance with non-market state purchases should be removed.<sup>6</sup> The use of 'incentives' to ensure product supply to the state should be prohibited, as these simply represent a non-transparent transfer of income between different groups in society. The payment of subsidies for delivering state needs products at below market prices should also be abolished.

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6. Clearly, normal penalties for non-compliance under standard commercial contracts should remain and be enforced.

**Other Directives**

2.57 Other state, oblast and city restrictions on trade are inhibiting the flows of goods in the economy and slowing the development of efficient markets. Accordingly, the ability of oblast and city administrations to impose output directives, oblast needs requirements and trade restraints on enterprises should be abolished in parallel with curtailing the state needs system.

**External Market Reform**

2.58 The external regime restricted the development of exports in 1993. Export quantity restrictions slowed the shift of resources into activities in which Kazakhstan has a comparative advantage and inhibited the development of an outward orientated growth strategy. Other interventions distorted price signals. The undervaluation of the exchange rate provided many exporters with windfall gains, while producers competing with imports received effective protection from foreign competitors. Export liberalization will help bring the exchange rate back to equilibrium and remove the need to regulate exports.

2.59 The Government has recognized these problems and intends to undertake major reform in the external sector in 1994. On the price side, the number of products subject to export taxes were reduced in early 1994. Remaining export taxes are to be phased out over 1994 and replaced with a comprehensive natural resources taxation system in early 1995. Anti-monopoly pricing restrictions on export prices were abolished in January 1994.

2.60 On the volume side, the coverage of export quotas was to be reduced from 34 to 6 types of goods in the middle of 1994. The Government commenced auctioning and tendering 30 percent of export quotas in March 1994, and regular monthly auctions are envisaged throughout the remainder of the year.<sup>7</sup> The coverage of export licenses is expected to remain at 35 throughout the remainder of 1994. Although the Government is currently considering a significant reduction in 1995.

2.61 To support these initiatives, further reform is desirable in the operation of bilateral trade agreements, the allocation of remaining export quotas and licenses and the role of monopolies in trade.

**Bilateral Trade Agreements**

2.62 While significant adjustments have already occurred in relative prices, further upward price adjustment to world levels is required for a number of Kazakhstan key exportables -- namely, energy products, minerals and grain. If Kazakhstan were able to obtain world prices for its exports to the FSU by 1995, terms of trade would improve by around 14 percent and add about US\$500 million annually to the trade balance. Therefore, the Government should urgently remove remaining obstacles to these price adjustments. The removal of barriers to free trade may be accelerated by the free trade zone that the Government is seeking to establish with Uzbekistan and other Central Asian partners. Specifically, the removal of domestic administered price controls and AMC pricing restraints on exports

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7. Auctions are open to both residents and non-residents, while tenders are restricted to residents. Various restrictions and qualifying criteria apply: tender entrants must supply documentation about potential contracts with foreign parties, the use of the proceeds, and the type of equipment, etc., they intend to purchase with the hard currency.

should accelerate this process. However, the state also needs to stop influencing prices through the state needs system and bilateral trade agreements.

2.63 The mandatory purchase of products at below market prices through the state needs system to fulfill bilateral trade agreements is distorting incentives. As the state needs system is curtailed, remaining requirements on producers to supply state trading organizations to meet bilateral trade commitments should be removed. Trade agreements with partners who themselves have artificially repressed domestic price structures lowers returns to Kazakh producers and thus reduces the incentive to export. Enterprise profitability is affected and distorted price signals prevent the shift of resources into areas of comparative advantage.

### **Quotas and Licenses**

2.64 The Government should phase out the remaining 30-35 export licenses over the second half of 1994. License administration and allocation should be centralized and the oblasts' right to issue licenses should end, thus reducing their capacity to use access to export licenses to influence economic activity. To reduce transactions costs, however, regional administrative capacity to issue licenses on instruction from the center should be retained. Similarly, remaining quotas should be phased out over the second half of 1994, and the granting of quotas to state monopoly producers re-examined.

2.65 During the transitional phase-out period, the Government should increase the volume of quota subject to auction or tender and introduce the auctioning of licenses. This ensures that (i) the state receives its fair share of the remaining economic rent in the export of some of Kazakhstan internationally tradeable commodities and (ii) all enterprises -- state and private -- have access to licenses and quotas.

### **Trade Monopolies**

2.66 Trade monopolies should be resisted. In particular, the monopoly granted to seven quasi-state trading organizations to export some of Kazakhstan's key 'strategic goods' should be immediately abolished. This restriction not only inhibits the development of an efficient internal market in those products, but also allows the extraction of above normal profits by these trade organizations.

2.67 Finally, the Government should remove value added taxes on exports. Application to exports makes them more expensive in foreign markets, thus reducing Kazakhstan's competitiveness.

## **ANNEX 3**

### **ENTERPRISE AND FINANCIAL SECTOR REFORM**

**3.1** In the face of large output declines, only limited effective enterprise restructuring has occurred to date. Despite notional transfer of ownership of a number of enterprises and an acceleration in the privatization program, incentives to restructure remain weak. State intervention in markets, slow price liberalization and continuation of directed credit schemes continue to distort price incentives and have 'locked in' a large proportion of the existing economic structure. Otherwise nonviable enterprises have been kept alive through domestic protection, subsidized inputs and the direct channeling of bank credit with little financial restriction.

**3.2** The enterprise sector has experienced continued sharp declines in output in response to both long-term structural adjustment needs and short-term frictions. Many enterprises have started to react to prices, sell part of their output in free markets, trade with hard-currency countries, seek better financial performance, etc. The composition of output has changed and some reallocation of idle resources, including labor, is beginning to occur. Nevertheless, large scale restructuring has not yet commenced. Only a few major enterprises have laid off large numbers of employees, rid themselves of social assets or reallocated productive assets to new uses. Instead, a massive reallocation (and arguably, concentration) of wealth is occurring, in the sense of control over these assets and the appropriation of the benefits derived from them.

**3.3** The introduction of the tenge and adoption of a stabilization program in late 1993, however, is already showing signs of pressuring enterprises to adjust. Further price liberalization and reduction in the role of the state should facilitate restructuring. Many firms are expected to become unviable as relative prices adjust, subsidies are wound back, competitive pressures increase and the volume and allocation of credit becomes market based. The relationship between enterprise owners, managers, employees and banks will therefore need to change; new production technologies, business methods and management styles will need to be adopted.

**3.4** To facilitate these adjustments, the Government needs to (i) develop a policy environment conducive to restructuring; (ii) remove non-core functions and liabilities from the enterprise sector; (iii) promote the efficient allocation of credit; (iv) tighten financial governance over those enterprises remaining in state hands; (v) address the future of the largest loss-making enterprises; (vi) develop a strategy for removing and funding social services currently provided by enterprises; and (vii) ensure the provision of an adequate social safety net to capture displaced workers and protect vulnerable groups affected by the adjustment. This Annex considers the first four issues, while the following Annex examines the social questions. A brief review of developments in the enterprise sector precedes discussion of these four policy issues.

## Recent Developments

### Enterprise Sector

3.5 Industrial sector output contracted by 15 percent in 1992 and by a further 27 percent in the nine months to September 1993. The decline in 1992 was most severe in food processing--27 percent. Light industry fell by 21 percent and heavy industry by 11 percent. Subsector variation was more significant. For example, the 1992 decline in heavy industry varied from only 4 percent in non-ferrous metals to 27 percent in chemicals. Similarly, the decline in output had a differential geographical impact on economic activity in Kazakhstan. Heavy industry, for example, declined by up to 25 percent in some oblasts, while rising by 10 percent in others. Oblast-level changes in machine building varied from a 34 percent rise to a 62 percent decline.

3.6 These changes in output have not generally been accompanied by corresponding adjustments in assets. For example, of 70 large mining and metallurgical enterprises, none have been liquidated to date despite the fact that at least four lay idle for most of 1993. Similarly, despite operating at around 50 percent capacity, only one of the 55 state-owned machinery producers was under pressure to close-down late in 1993.

3.7 The declines in output have been accommodated, in part, by changes in labor demand. While employees have not been fired, they may only work a few days a week at reduced wages. This allows workers to continue to have access to benefits such as social services, enterprise in-kind and welfare payments and housing. These benefits were estimated at around 40 percent of total wage and transfer income in 1993.<sup>1</sup> Many state enterprises, however, have reduced employee numbers through natural attrition, hiring freezes, the transfer of employees to less distressed firms in the same enterprise group and the use of incentives, such as fixed wage sums.

3.8 Given existing accounting standards it is impossible to thoroughly assess the financial performance and economic efficiency of enterprises. This is due to (i) inappropriate accounting practices, such as the inclusion of most financial and in-kind payments to workers (other than wages up to four times the minimum wage) as a use of profits rather than as a component of costs; (ii) insufficient depreciation allowances during a period of high inflation; (iii) widespread misreporting to avoid taxes or to engage in rent-seeking activities. Enterprises are keeping some output off their books to reduce reported profits, generate cash revenue, engage in hidden barter or to use that output for side payments in kind; (iv) the confusion of prices (cash versus account rubles/tenge, the implicit exchange rate between Russia and Kazakhstan in account rubles, official versus market exchange rates, etc.); and (v) the array of implicit taxes and subsidies in the system. In addition, the virtually free use of land represents a large subsidy to most state enterprises.

3.9 Nevertheless, reported accounts suggest that enterprise financial performance varied significantly in 1993, with some enterprises experiencing large losses. Many enterprises experienced severe liquidity problems in 1993 despite large transfers through credit subsidies and the non-payment of dividends to the state. While primarily determined by the sharp contraction in demand, these liquidity

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1. Non-wage transfers from enterprises to workers were estimated at around 2700 billion rubles, or 19 percent of GDP, in 1993.

problems were compounded by problems in both the internal and inter-republican payments system and restrictions on the use of account and cash rubles/tenge.

3.10 Confronted with liquidity difficulties and further declines in output, many enterprises became reliant on the Government for financial support in 1993. In parallel with the market interventions discussed in Annex 2, credit allocation was used to sustain output, support subsidies and finance operating deficits of the enterprise and agricultural sectors. Directed credit through the NBK was the primary instrument used by the Government.

### Financial Sector

3.11 The limited reorganization of the banking system that has occurred to date has allowed the Government to channel resources to specific uses in a similar manner to that under former *gosplan* arrangements.<sup>2</sup> The system is still dominated by the five specialized banks inherited from the socialist period, accounting for 77 percent of loans outstanding in September 1993. The two largest, Agroprombank and Turanbank, accounted for 56 percent of the total (see Table 3.1). There are now around 200 commercial banks. Most were established by corporatized enterprises to obtain access to the NBK credit window and to obtain some control over timing and float of payments. These banks have effectively operated as treasuries, or "cash desks", for their enterprise-owners. Most banks, including the specialized banks,<sup>3</sup> are owned by state enterprises and are organized as joint-stock companies. About 50 of the banks are predominately privately-owned, but together they account for a negligible market share.

Table 3.1 Loans Outstanding by Commercial Bank by Sources of Funds  
(Rubles billion)

	12/31/91		12/31/92		9/31/93	
	total/%		total/%		total/%	
<b>AGROPROMBANK</b>	25.2		450.7		1826.1	
NBK	14.5	57.5	315.0	69.9	1139.6	62.4
Deposits	10.7	42.5	135.7	30.1	686.5	37.6
<b>TURANBANK</b>	10.8		188.5		865.4	
NBK	5.6	51.9	134.5	72.9	442.6	51.2
Deposits	5.2	48.1	51.0	27.1	422.8	48.8
<b>KREDSOTZBANK</b>	6.3		79.1		369.8	
NBK	2.4	38.1	29.4	37.2	232.4	62.7
Deposits	3.9	61.9	49.7	62.8	137.4	36.3
<b>ALEMBANK</b>	0.5		44.7		602.6	
NBK	0.1	20.0	5.7	12.8	14.9	2.3
Deposits	0.4	80.0	39.0	87.2	587.7	97.7
<b>SBERBANK</b>	0.8		7.3		88.6	
Deposits	0.8	100.0	7.3	100.0	88.6	100.0
<b>OTHER COM'L BKS</b>	12.1		195.8		1090.2	
NBK	7.1	58.7	138.5	70.8	763.7	70.1
Deposits	5.0	41.3	67.3	29.2	326.5	29.9
<b>TOTALS</b>	55.7		966.1		4842.7	
NBK	29.7	53.3	623.1	64.5	2593.2	53.5
Deposits	26.0	46.7	350.0	35.5	2249.5	46.5

Note: Deposits include interbank borrowing and own resources.

3.12 Household deposits still play a negligible role in financing, having been eroded by the price liberalization shock. Combined deposits of the enterprise and the household sectors accounted for around 45.5 percent of all funding sources as at the end of September 1993.

3.13 Despite the emergence of non-specialized banks, banking practices have changed little in the new environment. These non-specialized banks have become entirely dependent upon direct centralized credit from the NBK. Centralized credit accounted for 97.5 percent of the newer non-

2. For a more extensive discussion of the different forms of ownership in question, see "Kazakhstan: The Banking Sector at a Crossroads: A Blueprint for Reform," Report No. 11866-KK, World Bank, September 9, 1993.

3. With the exception of the Savings Bank (Sberbank), which remains 100 percent state owned.

specialized banks' total lending as of end-September, 1993, compared with 53.5 percent of total resources for the banking system as a whole. These new banks have become more dependent on centralized credit since the end of 1991, when 59 percent of resources were sourced through the NBK. New banks received 41 percent of all NBK directed credit resources<sup>4</sup>. While in part, it may have been more efficient for the NBK to allocate credit directly to bank affiliates of enterprises, this relatively large allocation is somewhat surprising, since the combined portfolio of these new banks only accounted for 23 percent of all loans. These newer banks have therefore functioned in much the same manner as banks under the former system and are entirely dependent on the centralized credit allocation process for survival.

3.14 No real market criteria was applied to the allocation of credit; the process has essentially been an ad hoc response to specific demands. Resources were credited to NBK correspondent accounts of participating commercial banks for specific credit programs on designated dates. Although most of the credit programs initially provided for loans of three months maturity, the largest program, for working capital replenishment, involved a two-year loan to participating banks for on-lending to enterprises. Depending upon the particular program, the allocation of directed credit followed an essentially political process carried out through the Ministries of Economy and Finance, oblast Administrations and -- for agricultural credits -- the Ministry of Agriculture. Parliament sets the overall envelope for the year's program, in loose consultation with the NBK. Applications for credit<sup>5</sup> are requested and filed with the appropriate ministerial branches at the oblast level, then screened and passed on, with appropriate recommendations, to the federal level. Final approval is given by the Cabinet of Ministers and transmitted to the NBK for execution. Banks are only permitted to add a 3 percent margin to the lending interest rate determined by the NBK, and the loans are reputedly not guaranteed by the state.<sup>6</sup>

3.15 A range of directed credit programs were used in 1993 with multiple objectives (see Table 3.2). The working capital replenishment exercise and inter-enterprise arrears settlement (IEA) exercises undertaken in March, and in the third quarter of 1993, respectively, were intended to relieve liquidity problems and cover operating deficits in the enterprise sector. Undertaken in conjunction with similar exercises in the Russian Federation, these credits were designed to address the stock of outstanding enterprise liabilities and restructure enterprise accounts. However, the allocation of the working capital program appears to have been based heavily on the same technical coefficients used to allocate credit under the former system:<sup>7</sup> no attempt was made to net out IEA's; credit was provided with no requirement to improve efficiencies or restructure; and nearly all enterprises were given access to the facility, irrespective of need.

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4. These new commercial banks also purchased an additional 86.8 billion rubles -- approximately 3.2 percent of NBK resources -- through the credit auction process over the same period.

5. Only state enterprises can participate in the directed credit program. They may also receive funds through their commercial banks from enterprise deposit resources, but indications are that the beneficiaries of directed credit do not avail themselves of such resources on a regular basis because, among other things, they are far more expensive.

6. The extent of state guarantee is unclear. Some loans are apparently explicitly guaranteed while others arguably carry an implicit guarantee.

7. In 1993, crop loans to state and collective farms used the same "technical coefficients" associated with financing input requirements for different types of crops as those used under the old system.

Table 3.2: CENTRALIZED CREDIT RESOURCES FROM THE NBK 1993 ALLOCATIONS (billion rubles)

Program (Uncompounded Interest Rate)	Agro-prom	Turan	Kredsotz	Alem	Other Commercial	NBK/Other	Total
Working Capital Replenishment (25%)	35.4	162.2	40.4	1.6	150.9	--	390.6
Critical Needs Financing(65%)	205.8	89.7	23.5	0.9	9.1	--	328.9
Settlements of Inter Enterprise Assets (65%)	63.5	52.0					115.5
Financing of Spring-Agricultural Inputs(65%)	306.8	4.4	1.4	0.3	39.1		352.0
Harvest Credits (65%)			0.5		298.6		299.1
Financing of Pharmaceutical (65%)						8.0	8.0
Procurement of Grain by Kazkhleb.(140%)						140.0	140.0
Procurement of Other Agricultural Produce(140%)				0.1		27.8	27.9
Energy Enterprises Kaznefte Products(140%)		60.0			46.9		106.9
Financing of Trade Organizations(140%)	3.2	2.3	118.9		111.2		235.6
Direct Credits to Oblasts (65%-170%)	21.2	63.2	18.1	6.4	215.9	46.4	371.1
Credits to Government						219.5	219.5
Extension of 92 Credit	244.2			4.4	12.6	21.8	283.0
Other Assets					345.0		345.0
Total	880.1	433.8	202.9	13.6	1060.1	632.7	3223.2
Auction Credits					86.8		
Directed and Auction Credits							3310.0

Source: NBK

3.16 Inter-enterprise arrears were financed directly through the IEA exercise and indirectly through the fungibility of the other credit schemes. A large proportion of the arrears build-up was caused by enterprises producing for inventory, the lack of financial governance in state enterprises, arrears in FSU trade, continued operation of nonviable enterprises, or by enterprises facing other constraints imposed by the state needs system, pricing policies, etc. The twenty-fold nominal increase in IEA's over the first 9 months of 1993, or around 17 percent of GDP, effectively represented enterprise recourse to near-money as a means of financing.

3.17 The IEA credit program also failed to address the flow issue in the enterprise sector. Enterprises obtaining such financing used it neither to retire their (interest-free) payables nor to repay in full the banks through which it was channelled. Enterprises faced few sanctions for non-payment, and little incentive to repay in the prevailing inflationary environment, in which repayment delays of up to two months reduced the real value in half.

3.18 The liquidity injection was also expected to alleviate delays in domestic and inter-republican payments. These delays in payment processing following the dissolution of the former *Gosbank* network, along with increased exposure risks inherent in the newly emerging financial system and infant correspondent account banking relationships (domestic and inter-republican) increased enterprise financing requirements sharply. At the core of the inter-republican payments difficulties in the second half of 1993, however, was the contraction in structural trade deficit financing undertaken by the Russian Federation. Domestic payment difficulties re-emerged in the fourth quarter of 1993 in response to liquidity problems in banks following the enforced repayment of some 1992 credits provided through the NBK. After failing to reclaim payments from clients, banks were left short of liquidity, thus temporarily freezing the payments system.

3.19 Other credit programs were specifically targeted to support the Government's pricing, subsidization and state needs policies. In particular, the 'spring planting credit' was extended, primarily

through Agroprombank, to finance marketing requirements under the state needs program. The harvest credit and agricultural procurement credit for potatoes, fruits and vegetables were also extended in connection with the pricing and procurement needs of the state needs program. Surprisingly, these credits were extended through the non-specialized banks. However, these credits continue to go to the same state and collective farms previously supported under the former system, thus locking in the same inefficient factor relationships and providing little incentive for reform. Although the spring works and harvest credits were due for repayment in December, 1993, the NBK rolled these credits over into March 1994, in response to the poorer than expected harvest and resulting lower returns to producers.

3.20 Specific credits were also extended to major marketing organizations -- Kazkhleboprodukt (grain credit) and Kazneftelprodukt (energy credit) -- to meet bilateral trade agreement commitments and to cover the procurement of inputs for the state needs system at below market prices. The 'critical financing needs' program was designed to provide ten-month financing for the import of critical raw material inputs, mainly from Russia.

3.21 A separate oblast credit scheme was also employed during 1993. While the exact purpose is unclear, it would appear that the channelling of financial resources from NBK oblast branches to commercial banks in the same oblasts allowed the devolution of some credit allocation responsibility to oblast administrations.

3.22 The other primary source of subsidized credit has been resources channelled through the budget-funded Economic Transformation Fund. Funded by a 5 percent turnover tax, the Fund, administered through the Ministry of Economy, had just over 500 billion rubles at its disposal in 1993 (approximately 3.3 percent of GDP). The allocation of these funds reflects a transfer of resources among enterprises through the state. The resources were primarily allocated to enterprises for new investment purposes and for infrastructural investment.<sup>8</sup> Loans were granted through this facility for up to 10 years at nominal interest rates of between 2 and 10 percent.

### Transfers in the Credit System

3.23 Most of these directed credits were allocated at the NBK rediscount rate, which was held below market interest rates and a positive real rate for most of the period. While the NBK discount rate was successively raised from 65, to 110, to 140 percent in July and then further, to 170 percent in September, the average interest rate on all outstanding centralized credit through the period to September 1993, was 52 percent (or a corrected 66 percent -- see Box 3.1). This compares with an average annual inflation rate of 1500 percent in 1993.

3.24 These highly negative real interest rates represent a large transfer of resources to the enterprise sector through the grant element implicit in the lending terms. Assuming the interest charged on a 3 month maturity should at least maintain the real value of the claim, an annual interest rate of 66 percent represents a real transfer from creditor to debtor of 43.2 percent at the prevailing annual inflation rate of 1500 percent; a six-month maturity, 68.2 percent, and twelve months, 88.9 percent of the face

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8. See discussion in Annex 1 for explanation of objectives and purposes of the ETF.

value.<sup>9</sup> The implicit subsidy, or capital transfer, inherent in these negative real interest rates increases with the length of maturity. Incentives to prolong repayment have therefore been large in the prevailing inflationary environment. Indeed, with the exception of the working capital credit, all credits were extended at various stages throughout the year through to December, and some subsequently rolled into March.

3.25 Because of the intrinsic subsidies associated with directed credits and weakness of banking supervision, many such credits are diverted from their intended beneficiaries or uses. Current banking practices not infrequently divert ostensibly directed centralized resources to private borrowers, with bankers "taking back" as much as 25 percent of the face value of the loan.<sup>10</sup> Other mechanisms used to increase the 'effective' cost of borrowing include the enforced purchase of insurance cover for the value of the loan (up to 5 percent), the requirements to re-deposit up to 20 percent of the borrowed funds with the lending bank at punitive rates and the obligatory purchase of shares in the bank to meet capital adequacy requirements. Through these mechanisms, banks are capturing some of the scarcity rents associated with heavily underpriced credit resources.

3.26 The same phenomenon occurs at the enterprise level itself, with some NBK-supported bank financing going to finance the kind of 'rent seeking' behavior discussed in Annex 2, and other speculative activities.

3.27 The concessional interest rates and roll-over policy employed since the beginning of 1992 provided an effective way of transferring resources to the enterprise and agricultural sectors to cover operating inefficiencies and policy interventions. Price controls, unremunerative state needs procurement and low prices associated with barter arrangements have not permitted enterprises to cover their costs. Rather than financing these cost differences through the budget, the Government has obliged the financial sector to absorb them through negative real interest rates and unpaid loans. The banking system has functioned more as a mechanism for the transfer of the inflation tax to the enterprise sector than as a financial intermediation system. The household sector has therefore been obliged to pay for presumably lower prices of consumption goods through higher inflation taxes.

### **Estimates of the Transfer to Enterprises**

3.28 There are two approaches to estimating the size of this implicit transfer between lenders (households) and borrowers (enterprises). The first, outlined in Table 3.3, estimates the impact of the

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9. This can be seen as follows. Assume the borrower takes out a loan of 100 units at an annual interest rate of 52 percent and that the annual inflation rate is 1500 percent. If the borrower sets aside 10.1 units and uses them to purchase a basket of goods, the value of these goods will be 152 units at the end of the year, sufficient to pay off the principle and interest of the loan. This leaves a grant component of 89.9 units.

10. This is called a "hat" in local terminology.

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#### **Box 3.1: Corrected Annual Interest Rates**

Soviet accounting practice, adopted by the Kazakh authorities, compounds the quoted annual rate on a monthly basis. Thus, if the quoted (annual) rate is 120 percent, this is charged at 10 percent a month compounded for the period of the loan. The "real" annual rate is thus 213.8 percent. For lower rates, divergences are relatively small, so that a 25 percent quoted rate works out to a corrected rate of 28.1 percent.

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inflation tax on household savings deposits and cash balances,<sup>11</sup> while the second quantifies the size of the implicit subsidy on the stock of directed credit in 1993.<sup>12</sup> The two alternative approaches yield estimates of the implicit subsidy of between 11.9 and 13.5 percent of GDP in 1993, representing a substantial net transfer from households to the enterprise sector.

3.29 These flows have not been evenly distributed among enterprises. While many enterprises have strongly benefited from the subsidized directed credit programs, others have been entirely excluded. The private sector in particular is being crowded out by the directed credit mechanism (see Table 3.4). The bulk of directed credit appears to be going to the largest and probably least profitable borrowers. For the eleven largest (industrial) enterprise debtors of Turanbank, for example, centralized credit virtually was the only source of funding. Banks are not committing enterprise and household deposits to loans that would be non-performing under most criteria.<sup>13</sup> Instead, deposit resources are being steered at the margin to less risky uses.

TABLE 3.3: Estimate of the Inflation Tax Transfer to the Enterprise Sector in 1993

	Household Deposits + Cash (r/bn)	Inflation Rate (%)	Inflation Tax (r/bn)	Nominal GDP (r/bn)	Inflation Tax/GDP (%)
Dec. 1992	169	—			
Jan. 1993	204	32.9	55.6	3578	1.55
February	246	31.9	65.1	4677	1.39
March	297	33.0	81.2	6165	1.32
April	376	21.4	63.6	7417	0.85
May	475	16.1	60.5	8533	0.71
June	601	17.9	85.0	9970	0.85
July	742	21.8	131.0	12070	1.09
August	916	29.1	215.9	15490	1.39
September	1131	29.0	265.6	19862	1.34
Oct. (est)	1239	25.0	282.8	24679	1.14
Nov. (est)	1358	25.0	309.8	30663	1.01
Dec. (est)	1488	25.0	339.5	38099	0.89
TOTAL			1955.6		13.53

Source: IMF, NBK and Mission Estimates

Table 3.4: Commercial Bank Lending by Types of Borrower<sup>1</sup>

	Dec. 31, 1991		Dec. 31, 1992		Sept. 30, 1993	
	a <sup>2</sup>	%	a	%	a	%
State Enterprises	48.8	88.9	905.3	94.4	4497.9	94.6
Cooperatized Enterprises	4.0	7.3	37.9	4.0	154.5	3.2
Private Enterprises	0.2	0.4	9.1	0.9	84.4	1.8
Individuals	0.003	-	0.6	0.1	6.4	0.1
Others	1.9	3.5	5.9	0.6	10.9	0.2
TOTALS	54.9		958.3		4754.0	

<sup>1</sup> Excluding loans made by Sberbank

<sup>2</sup> a: Rubn;

11. This approach assumes: (a) the principal holders of cash are households, given (i) the virtual non-existence of non-cash transactive is available to the household sector and (ii) the continuing illegality of the use of cash (except for wage payments) by the enterprise sector, and (b) the budget is largely in balance. Household balances are assumed to be Sberbank balances, plus household commercial bank deposits (which were a relatively constant 15 percent of total deposits during 1993) plus 75 percent of cash in circulation.

12. Assuming the average maturity of the 2.3 trillion rubles of directed credits in 1993 was six months, the total grant to enterprises is estimated at 68.2 percent, or rubles 1561 billion (see footnote 9). In addition, the grant component associated with the rubles 261 billion of 1992 credits must also be added. If these 1992 credits are repaid by the end of 1993, the 25 percent interest rate would yield a grant component of at least 90 percent, or 235 billion. Combining the grant elements associated with the 1992 and 1993 credits yields rubles 1,796 billion, or approximately 11.9 percent of GDP.

13. Of Turanbank's outstanding loans to its 11 largest borrowers of rubles 260 billion, only rubles 15 billion (less than 6 percent) was financed by ordinary deposits at the end of September, 1993. This was despite the fact that Turanbank's ratio between deposits to centralized resources was around 50/50. It further suggests that Turanbank may consider enterprises receiving directed credit as uncreditworthy and (apparently assuming an implicit Government guarantee on these loans) is not prepared to commit other enterprise deposit resources (including those of the enterprises receiving NBK support) to uses from which they may not be recoverable.

## Enterprise Restructuring

3.30 Despite acceleration of the privatization program, the net effect of continued state intervention, large implicit transfers in the credit system and the crowding out of private borrowers has been to restrict the development of competitive markets and reduce incentives to restructure. These measures sustained the existing economic structure in 1993, but will not lead to a private economy with sufficient competition and developed markets.

### Box 3.2: Forms of Enterprise Restructuring.

The Government can either adopt a 'neutral' or 'proactive' approach to enterprise restructuring. Proactive restructuring may be undertaken by either the state or future owners and be either 'reductive' or 'additive' in nature.

- (i) 'Neutral' measures include changes in ownership, governance, management, procurement, marketing and organizational structures. These measures may not substantially change the balance sheets of enterprises and can be achieved at limited cost in a relatively short time. Foreign technical advice and training may greatly assist this process.
- (ii) 'Reductive' measures reduce the accumulated burdens of enterprises, typically through the reduction of actual or contingent liabilities on enterprise balance sheets. These primarily include financial debts; liabilities related to past and present environmental pollution; and social liabilities related to the operation of social services, excess employment and eventually, severance payments. These burdens often need to be restructured or removed in order for firms to become financially sound and economically efficient. In a number of cases, some reductive measures might be undertaken before privatization in order to give the firm a positive value necessary to attract investors.
- (iii) 'Additive' measures add new assets to enterprise balance sheets. This may involve investment in new equipment, new working capital and, in a broader sense, human capital. Investment in such new tangible and intangible assets often requires substantial new funding. As these investments are frequently large and pre-determine the business of the enterprise for a long time, additive measures are better undertaken after privatization by the new private owners.

3.31 Tightening credit associated with implementing the stabilization program is expected to heighten financial discipline on enterprises. The 'credit squeeze' is expected to accelerate adjustment towards the end of the second quarter and in the third quarter of 1994. The enterprises that might emerge can be grouped as follows:

- (i) Commercially viable, with access to financial markets on their own account to raise restructuring resources;
- (ii) Economically efficient (at "shadow prices") but in financial distress due to state pricing, unfavorable state needs requirements or the burden of providing non-commercial functions requested by the state. For such firms, it is critical for the government to adopt policies that allow them to become profitable and liquid through adequate price/cost margins;
- (iii) Economically viable but financially distressed. These enterprises require restructuring, mainly through "neutral" and "reductive" measures involving downsizing, debt restructuring, removal of social assets, etc. Also in this category are enterprises that are

not currently economically efficient but that could become efficient at the new set of relative prices with appropriate 'additive' restructuring investments;

- (iv) Inefficient, with these enterprises, restructuring investments would make no economic sense and they should be liquidated as promptly as possible; and
- (v) Not economically viable, but required to keep operating for reasons of the state.

3.32 To date the Government has taken a largely passive role towards restructuring (see Box 3.2). The strategy has involved simply privatizing enterprises after corporatization and some segmentation. The new owners then become responsible for undertaking any further restructuring. The Government's minimal role is a step in the right direction, since enterprise restructuring is economically more efficient if it is driven by financial profit and risk considerations of enterprise owners, managers, and creditors. Wherever possible, privatization should precede restructuring, so that decisions on future structure and operation can be made by stakeholders with assets and human capital at risk.

### **Conditions for Effective Restructuring**

3.33 In addition to establishing a stable macroeconomic environment (see Annex 5) and increasing financial discipline (see below), the following are key steps in promoting restructuring:

#### **Establishment of Undistorted Markets and Prices**

3.34 Transfer of ownership will be insufficient in itself to generate effective restructuring if the broader policy environment is incompatible with the development of competitive markets. As discussed extensively in Annex 2, the Government needs to complete liberalization of domestic and external markets and stabilize prices. As relative and absolute prices adjust to their 'true' economic or scarcity value, enterprises will need to economize on the use of resources.<sup>14</sup> In particular, much restructuring effort will need to be directed to raising energy efficiencies; releasing under-utilized commercial land and reallocating it to more efficient uses; raising vertical integration to reduce transport needs and, in the longer run, controlling pollution.

#### **Creation of a Conducive Legal and Business Environment**

3.35 As markets are liberalized, property rights need to be enhanced and a more conducive business environment developed. Existing economic legislation needs to be strengthened to meet the needs of a market economy. Administrative control over the use of commercial and wholesale space needs to be removed. Important new laws on foreign investment, lease and pledges need to be passed with priority, as does a practical bankruptcy law and related implementation procedures. Enforcement of these new rights and the effective implementation of new measures to make land use rights more secure and transferable requires strengthening the legal profession and court system. By reducing rent-seeking possibilities, market liberalization should also enhance the security of property and contractual rights.

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14. This includes the efficient use of financial resources and capital.

## The Removal of Non-Core Functions and Other Liabilities

3.36 Enterprise viability will also be constrained by the financial burden of non-commercial activities, maintenance of Government employment objectives, non-profitable production or sale of goods under state instruction, or the imposition of large pollution liabilities. Removal of these liabilities should improve the prospects for all enterprises, particularly those falling into categories (ii) and (iii) above.

### Non-Core Functions

3.37 Non-commercial functions either need to be removed from enterprises or explicitly funded through state subsidies.<sup>15</sup> The continued provision of these non-commercial activities -- primarily social service functions, such as education, day-care, medical, recreation, etc. -- places an implicit tax on enterprises. Financial viability will be improved if the financial responsibility for these functions are taken out of the enterprise sector and provided by the state through other means. Similarly, financial viability will be enhanced if enterprises are no longer implicitly bound by labor retention constraints. The Government urgently needs to develop an adequate social safety net in order to facilitate the required labor 'shake-out' in the enterprise sector. The proactive removal of these obligations should make enterprises more attractive to potential buyers and promote faster adjustment in the enterprise sector. In the case of very large firms, non-commercial requirements imposed by the state should be stipulated in so-called 'performance contracts,' which should tightly define enterprise service requirements and outline the extent of state compensation for these activities.

### Environmental Liabilities

3.38 Uncertainty about potential environmental liabilities also needs to be removed. The Government needs to develop and implement transparent policies on pollution and environmental control, particularly on liability for past and future pollution. In many cases, potential environmental liabilities represent a significant contingent cost which may adversely affect the valuation and financial viability of an enterprise. Substantial costs will be involved in reducing emissions, cleaning up wastes that have accumulated in the past, and compensating for (or repairing) damage to human health or nature caused by past or current pollution.

3.39 The Government should consider the approach taken by the Czech Republic, which assumed responsibility for all past pollution. In such circumstances, privatization sale prices would not be discounted for uncertainty surrounding environmental liabilities caused by past operation of an enterprise. All future pollution, however, including the cost of upgrading pollution control methods to the standards determined by the state, should explicitly become the enterprises' responsibility. In special circumstances, the state may negotiate to transfer liability for past pollution to enterprises during the privatization process. An Environmental Fund may be established to undertake clean-up of past pollution; its primary source of funding should be a percentage of privatization receipts, since sale prices include an implicit premium for transferring environmental liability to the state. See Annex 6 for a full discussion of these issues.

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15. See Annex 4 for a discussion of the removal and funding of social assets currently provided by enterprises.

### Efficiency in the Allocation of Credit

3.40 Enterprise restructuring requires an efficient banking system to provide most restructuring finance. Optimal use of financial resources requires that interest rates reflect the true economic cost of capital and that banks lend on the basis of financial viability and justifications provided in loan proposals. To facilitate this process, the Government has decided to move away from directed credit allocation to an auction system.<sup>16</sup> Interest rates will be allowed to reach positive levels in real terms and the NBK rediscount rate will be aligned with the auction rate. As directed credits are phased out and prices and markets liberalized, NBK credit auctions are to increase to 35 percent of central bank credit in the first quarter of 1994; 50 percent in the second quarter; and 75 percent in the fourth quarter.

3.41 As pressure to restructure enterprises increases in 1994, the authorities will face a difficult challenge in holding the expansion in credit to benchmarks set by the stabilization program. The 'flow' issue can only be successfully met with the development of a modern and efficient banking system, increased financial discipline and governance in the enterprise sector and debt restructuring, including removal of some of the largest loss-makers from the financial system.

3.42 The Government hopes to promote an efficient financial market by establishing a core group of international standard banks, developing an efficient domestic payments system and, as soon as possible and, introducing international banking techniques and skills throughout the sector. A phased increase in international supervision techniques is expected to facilitate the emergence of the core group of banks that will form the basis for the new financial system. The regulatory framework was strengthened in the first quarter of 1994; licensing requirements for new banks and exposure limits for single borrowers, shareholders and employees were tightened.

### Long Term Capital

3.43 The availability of new resources to the enterprise sector to restructure will be constrained over the short-term. Retained earnings growth will continue to be restricted by the overall economic environment, and bank funding will be restricted by the limited domestic deposit base. The shift to positive real interest rates will initially result in a negative flow of resources from the enterprise to the financial sector. This may be expected to change over the longer term as monetary stabilization promotes increased savings, and enterprise profitability is restored. The primary source of additional resources in the short run will continue to be the Government budget. Additional resources may be sourced through foreign borrowing.

3.44 The development of a capital market, which can mobilize significant domestic resources suitable for long-term investment will take some time. The absence of long-term financing, however, may restrict restructuring and productive investments in retooling, plant and equipment. The Government is considering what role it should play in the interim while long-term capital markets are developed.

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16. Until August, 1993, centralized credit was auctioned at a single market-clearing rate for three- and six-month money. Only those banks with capital-to-asset ratios of 5 percent were admitted to the auction. This excluded the specialized banks, whose capital asset ratios -- not including deductions for bad debts -- averaged one percent. In mid-August, lower and higher bounds were set on the basis of bids, with dutch auction rates being set between these limits. In September, these rates were between 20.8 and 23.3 percent a month (as compared with a monthly inflation rate of 29.1 percent) for three-month money, and between 20.8 and 23.0 percent for six-month money.

Many countries have set up venture capital funds to provide both loans and equity injections to privatized enterprises. Potentially developed with the assistance of the International Development Institutions, such funds would provide post-privatization assistance to enterprises on commercial terms. State involvement in these funds should not preclude the development of a private market for long-term capital.

3.45 In parallel, the Government should consider reorganizing the Economic Transformation Fund (ETF) to function in the short run as a provider of long-term capital to SOE's remaining in the hands of the state. The public infrastructure investment functions of the ETF should be removed and placed under the control of the MOF or MOE. The balance of the ETF should be channelled through some type of development fund to provide enterprises with long-term financing at commercial interest rates, with the principal indexed to inflation. Access to these funds would depend upon restructuring plans. The redesigned development fund should be temporary and eliminated once the banking system begins meeting this long-term capital need. This may be expected to be in 4 to 5 years.

3.46 In addition to existing funds of around 2.5 percent of GDP currently allocated to the ETF, additional resources from the budget of 0.25 percent of GDP in 1994 rising up to 1 percent by 1997 may be required to set up both the proposed venture and development funds. Foreign credit lines may also be considered as a source of funds.

### **Improving Financial Governance**

3.47 Improving financial discipline will be more problematic. At the institutional level, enactment of a revised bankruptcy law will assist banks by allowing foreclosure and the sale of assets. However, an increase in financial discipline is constrained by past lending practices and Kazakhstan's limited expertise with commercial based lending in the new environment. Currently, the responsibility for credit allocated through directed credit schemes -- accounting for 54 percent of all outstanding loans -- remains unclear. The Government should consider assuming explicit responsibility for all existing directed credits made under its instruction. Liability for non-directed credit should remain with the banks. In many instances, banks have simply operated as cash windows for Government policy. While notionally making these loans, bankers have tended to assume an implicit Government guarantee on directed credits and have assumed little responsibility for collection or for ensuring efficiency in the use of those credits. Similarly, borrowers have interpreted these credits as an extension of Government policy and have not felt under an obligation to repay, a situation compounded by the NBK's continued rolling-over of the repayment of these credits.

3.48 At the same time that the real value of the potential bad debt portfolio associated with directed credits is being eroded by inflation, the lack of financial discipline in the system may create moral hazard problems as credit tightens. The phased withdrawal of directed credits and shift to market based lending practices should partly address this issue.<sup>17</sup> However, along with reducing the state's role in markets, removing social assets from enterprises and settling other liabilities, the Government needs to make it clear that privatization involves the transfer of financial accountability. Banks will need to make loans on the basis of economic viability and repayment capacity and enterprise owners and managers will need to be responsible for financial governance at the enterprise level.

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17. In the short-term, however, it is likely that banks will still be subject to shareholder, local and central Government, and potentially 'mafia' pressures.

3.49 A larger problem will be improving governance in state enterprises. This can be done by establishing (a) new systems of accounting, financial reporting and financial monitoring; (b) corporatization; (c) strengthening supervisory boards through appropriate appointments and training; and (d) introducing performance contracts and similar instruments to clarify and compensate for non-commercial obligations of the enterprise. The government can constrain state enterprises to a specified operating budget by setting clear operating objectives and defining by contract the level and purpose of state transfers for non-commercial operations. This approach is necessary for those enterprises identified in (v) above. Additional state financial obligations should be restricted to exceptional cases where investment in new assets during restructuring may be justified.

### **Addressing the Problem of Large Loss-Makers**

3.50 Financial sector efficiency will be improved and the banking system released to assist restructuring of the enterprise sector if the burden of the largest loss-makers in categories (iii) and (iv) are removed from the banking system. Banks carrying a number of bad loans on their books that have not been provisioned tend to behave differently from healthy banks, in that they will continue to lend to heavily-indebted enterprises in the hope of recovering earlier loans and will do so whether private or state-owned. Moreover, their lending margins will be raised wherever possible to provision bad debts, a policy that will penalize and crowd out healthy borrowers. For this reason, it is desirable to remove a number of these large loans from banks' books at the outset.<sup>18</sup>

3.51 The largest loss-makers (up to about 30 or 40 enterprises) need to be identified and transferred to a special Rehabilitation Bank or Fund established for this purpose. The subsequent restructuring and transfer of financial resources to the largest distressed enterprises would then be controlled by this 'Bank'.<sup>19</sup> To restructure the debts of these enterprises and to financially sustain the enterprises until their restructuring bears fruit, the Rehabilitation Bank would receive funds directly from the Government and would require close supervision by the Ministry of Finance. Foreign donors may also provide some funding for this facility. Preparation and implementation of restructuring plans for the largest distressed enterprises would be done by the enterprises themselves, as well as by their holding companies or associations, but always under the strict control of the SPC as owner of such state property. Technical support would be provided by the SPC, branch ministries and, potentially, by a new Restructuring Advisory Agency. In the case of some particularly weak enterprises, the restructuring effort would consist mainly of liquidating most or all parts of the enterprises.

3.52 Restructuring distressed small and medium sized enterprises that are potentially economically viable may be supported by the establishment of a Restructuring Advisory Agency or Productivity Organization, which would provide technical support. This agency could form the locus for foreign and local advisory teams. The preparation and implementation of the restructuring plans would be done largely by the enterprises and their owner(s), with technical advice from this specialized advisory body. In view of their large number and the time needed for restructuring to generate recovery, some liquidity support might be warranted for such enterprises to remain viable in the short-term.

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18. See World Bank's Financial Sector Report, No.11866-KK for a full discussion of this issue.

19. Responsibility for existing loans and ongoing working capital commitments to these enterprises would be removed from bank books and placed in the rehabilitation bank.

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**Box 3.3: Enterprise and Bank Restructuring in Slovenia.**

In a similar fashion to Kazakhstan, Slovenia is transforming state and collectively managed enterprises into Joint Stock Company and selling their shares, in part against vouchers. The resulting improvements in governance, however, have not been sufficient in many cases to bring about the desired restructuring in a short time. Many loss-making or insolvent enterprises are not saleable without some prior restructuring. The authorities have therefore started a number of initiatives aimed at simultaneously restructuring banks and enterprises. In particular, the state has created an enterprise restructuring unit, a rehabilitation bank and initiated subsectoral restructuring plans.

(i) Enterprise Restructuring Unit. The key objective of this unit is to restructure and privatize enterprises within two years. Distressed enterprises can be voluntarily submitted to this 'Development Fund', which considers their viability. Worker collectives must surrender ownership to the Fund and a new Supervisory Board is appointed by the Fund, privatization agency and main creditor banks. If, the Fund believes that the enterprise is viable, it will undertake restructuring and privatization; otherwise it will liquidate the enterprise. The Fund does not generally focus on product and market development, quality improvements or long-term investments. Instead, the Fund uses specialized staff and consulting firms to negotiate debt restructuring exercises with banks, undertake organizational and management changes, segmentation, divestiture of non-essential assets and reductions in workforce. In some cases the Funds provides working capital, funded from privatization proceeds. The social impact of each enterprise restructuring exercise is coordinated with the Ministry of Labor, with the state often assuming the costs of lay-offs.

The Fund initially accepted some 100 enterprises, with an average of 550 employees. Together these enterprises accounted for 15 percent of the industrial workforce. Segmentation raised the number of firms to 150. By end of 1993, 10 percent of enterprises had been liquidated, 20 percent privatized and 30 percent of the workforce had been laid off. The Fund has, however, encountered some difficulties with banks that have sought generous bail-outs under the scheme. Funding of the Agency has been constrained by the limited receipt of privatization revenues. The temporary nature of the Funds, involvement with enterprises has made it difficult to recruit and motivate good staff and enterprise managers.

(ii) Rehabilitation Bank The authorities have activity restructured the two main banks in Slovenia, accounting for about 60 percent of all problem loans, and transferred ownership to the state. Some losses were written off against shareholder capital; the remaining capital was bought by the Bank Rehabilitation Agency (paid for by giving former bank shareholders debt of this Agency). The debts of the largest loss-makers are being removed from these bank portfolio's and exchanged for bonds in the Agency. The Government is limiting its support to debt relief and labor rehabilitation. Debt relief is tied to satisfactory restructuring and privatization plans, suspension of dividends, restriction on wages and a ban on the transfer of assets to third parties. Enterprises are expected to privatize and borrow commercially for new investments. Only in a few cases of large labor dislocation in depressed regions (based on narrowly defined criteria) is additional exceptional Governmental financial support to be provided to phase-in the adjustment.

(iii) Restructuring Remaining State-Owned Sectors. A few subsectors are not expected to be privatized but include some of the largest loss-makers. The state is establishing restructuring plans on a subsectoral basis. Some of the enterprise bad debts in this group are to be replaced with state bonds.

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### The Financing Needs of Enterprise Restructuring

3.53 In addition to the issues identified above, the speed of restructuring may be constrained by the availability of financing. Direct enterprise financing needs suggested by the above discussion include funding the proposed Rehabilitation Bank and related debt work-out in the financial sector; funding the Productivity Organization; short-term liquidity support to distressed small and medium sized enterprises undergoing restructuring; and explicit funding for the continued operation of non-commercial activities. Other, indirect financing needs include the costs of operating social assets removed from enterprises; costs of severance payments, retraining, unemployment and other additional welfare benefits, the costs associated with the loss of downstream jobs; reductions in tax revenues in case of closure and the potential cost to the Government of assuming responsibility for past environmental damage.

3.54 Comparisons with other transitional economies may provide a useful benchmark on expected financing needs. Poland and Slovenia serve as useful examples, having taken an approach to privatization and restructuring similar to Kazakhstan's (see Box 3.3 and Annex 6 for a brief discussion of each country). In Poland, the interest costs of servicing the funds used to recapitalize the seven major banks with an estimated bad debt portfolio of around 40 percent is estimated on the order of 0.10-0.18 percent of GDP per annum. A comparable figure for a similar exercise undertaken in Slovenia was estimated at around 1.6 percent of GDP. In Poland, direct loans and grants to help large loss-makers restructure are expected to amount to between 0.3 and 0.5 percent of GDP over the mid-1990's. The Polish authorities imposed a budget ceiling for this type of assistance of about 0.15 percent of GDP in 1993. The authorities in Slovenia allocated around 0.3 percent of GDP to plan restructuring and provide technical assistance. Social safety net financing requirements are considered in Annex 4.

3.55 The Polish and Slovenian examples suggest that enterprise restructuring financing needs may vary greatly. Since financing demands will clearly exceed resources, allocation of funds to each competing purpose will depend on the total financing envelope available to the Government and on policy trade-offs. Although a significant proportion of these demands will be able to be met by reallocating existing expenditures within the budget, direct trade-offs will need to be made with respect to the timing of environmental clean-up, the coverage of retraining programs while structural unemployment predominates over the next 5 years, the coverage and level of the social safety net, etc.

3.56 The majority of these financing needs should be met by allocating some proportion of privatization receipts. While future flows are uncertain, it would be reasonable to assume a steady flow of receipts to the Government from the sale of large natural resource industries and from the general privatization program. Additional resources should also be released through reallocation of producer subsidies and transfers currently being directed to the enterprise sector through the 'national economy' allocation in the budget. This is discussed more extensively in Annex 5.

3.57 For the less important distressed firms, funding for restructuring investments would normally be provided by commercial banks on strictly commercial grounds. These firms might also receive funds for "reductive measures" (debt restructuring, severance pay, environmental clean-up, etc.) from governmental sources. Since only limited new investment is expected to be funded by retained earnings, new investments in the commercial sphere will have to be financed by commercial banks, possibly with some refinancing from development banks which, in turn, may refinance from credit lines of foreign donors.

## **ANNEX 4**

### **SOCIAL PROTECTION**

#### **Introduction**

**4.1** Social protection must play a key role in the structural transformation process. As the economy is restructured, unemployment will rise even further, real wages (including non-wage benefits) will continue to decline, general subsidies will be further withdrawn and enterprise social services further scaled back or eliminated. In the short-term, these measures will inevitably lower the average standard of living and increase the number of vulnerable people in Kazakhstan. Already, basic social services are suffering the effects of fiscal stringency; without a viable social safety net to catch people falling below the poverty line and a strategy to ensure delivery of primary services, the sustainability of the entire reform program will be threatened.

**4.2** The Government's capacity to manoeuvre its way through the sometimes harsh consequences of the transition, is constrained however by the need to stabilize the economy through fiscal and monetary contraction and to urgently accelerate enterprise reform. Public expenditure efficiencies must increase in an environment of weak output growth. Although renewed growth is expected toward the end of the nineties, in 1997, real GDP is projected to remain below its 1993 level.<sup>1</sup> The Government cannot protect existing income levels. As discussed in Annexes 2 and 3, the removal of price distortions, reduction of excess labor and divestiture of non-core functions from the enterprise sector must all be accelerated for reform of the population to bear fruit. At the same time, the Government must protect the most vulnerable segments of the population if social and political cohesion is to be sustained during transition (see Box 4.1).

**4.3** In balancing potentially conflicting reform objectives, the Government must prepare: (i) to handle a sharp increase in unemployment as restructuring intensifies; (ii) protect sustainable minimum benefit levels; (iii) protect basic social services, such as primary health, nutrition and basic education; and (iv) maintain essential social services divested by enterprises. This annex assesses alternative policy options available to the authorities in addressing the system of cash benefits. Issues arising in the health sector and in enterprise divestiture of social services are also discussed.

#### **Overview of the System of Cash Benefits**

**4.4** Kazakhstan inherited an array of benefit programs from the FSU that provide mostly cash and some in-kind benefits. The main programs are pensions, unemployment benefits; various child allowances; and sick leave and maternity benefits (see Box 4.2). Financing responsibility for these programs is currently divided among: (i) extra-budgetary funds, such as the Pension, Employment and Social Insurance Funds (through payroll tax contributions); (ii) local oblast budgets through local taxes and levies; and (iii) the central budget (through general government revenues) - which, despite the other financing sources, explicitly underwrites all social expenditures.

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1. The compression is sharper when compared with 1990. In 1997, real GDP and per capita income is estimated at 61 and 58 percent, respectively, of their 1990 levels.

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**Box 4.1: Profile of Vulnerability in Kazakhstan**

Prior to the breakup of the FSU, the people of Kazakhstan were generally considered to be relatively well off compared to the other Soviet republics of Central Asia. Average per capita income stood at about US\$2470 and social indicators were high by both western standards and relative to the rest of Central Asia. Some poverty and relative deprivation did exist under the former system, however, with about 15 percent of the population falling below a Union-wide poverty line of ruble 75 in 1989.

Analysis of poverty typically proceeds on the basis of a pre-determined poverty line, which may be drawn in either relative (e.g., 40 percent of average wage) or absolute (based on subsistence minimum basket) terms. Given the sharp compression in real income, during the transition an absolute poverty line is considered the most appropriate benchmark for Kazakhstan. Tentative estimates of the cost of a minimum subsistence basket in Kazakhstan were around ruble 10600 in August, and ruble 17000 in October, 1993.

From the point of view of policy makers, a profile of which groups are vulnerable and an analysis of the depth of poverty are more important than headcounts. The results of the Family Budget Survey from the first half of 1993 suggest that the bottom two deciles of Kazakhstan's population fell far below minimum subsistence level. In March 1994, the level of the minimum pension and minimum wage were significantly below the official poverty line. Likewise, the food share in total expenditures is as high as 60 percent for pensioners and students and exceeds 45 percent for most of the rest of the population.

Broadly speaking, the groups most at risk of poverty are pensioners; the disabled, the unemployed; large families; and households with a single breadwinner. Some employed workers (especially those subject to the widespread practice of unpaid leave) also have incomes below the poverty line. It is important to appreciate differences among social groups in Kazakhstan that arise from, e.g., differences in the extent of extended family support and private inter-household transfers. Ethnic differences also play a significant role. Finally, it must be stressed that the profile of poverty is actively changing and is likely to continue to shift as adjustment proceeds.

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## Benefit Levels

4.5 As fiscal expenditure demands increase over the next 3 to 4 years, along with unemployment and other vulnerabilities to poverty, the Government will need to carefully appraise the social protection system to ensure that an adequate minimum benefit level is financed, and also that these fiscal resources are used efficiently.<sup>2</sup> Real benefit levels have been drastically compressed in recent years: in 1993 average pensions had fallen to around 23 percent of 1990 per capita consumption. The government needs to identify sustainable benefit level and to protect it against both real declines and the elimination of other transfers, particularly subsidies, which erode beneficiaries' standard of living.

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2. Adequate financing of social protection has been made more difficult by the Government's decision to reduce employer and employee contributions to the Pension and Social Insurance Funds at the beginning of 1994.

Efficiencies may be generated by reconsidering eligibility criteria for a number of benefits and, over the longer term, by increasing targeting and means testing.

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#### **Box 4.2: Financing Social Insurance in Kazakhstan**

In Kazakhstan, social insurance schemes consist primarily of (i) the Pension Fund (PF), which covers the payment of long-term social insurance for old-age retirement, survivor's and disability insurance; (ii) the Employment Fund, out of which unemployment benefits and employment programs are financed; and (iii) the Social Insurance Fund (SIF), which makes payments for short-term social insurance needs, such as sick leave and maternity leave. An extra-budgetary fund, the SIF, is administered by trade unions for enterprises on a regional basis.

Until the end of 1993, social insurance payments were funded by a 37 percent payroll tax on the wage bill of all enterprises (including collective farms) and private sector employers, with a marginal 1 percent contribution from employees. Of these revenues, 80.5 percent was allocated to the PF and the remaining 19.5 percent to the SIF.

At the beginning of 1994, the Government reduced the payroll tax and removed the 1 percent employee contribution. In late-1993, revenues were reallocated in response to the withdrawal of SIF funding of sanatoria and rest homes. Currently, the PF receives 90 percent of all revenues, the SIF, 10 percent. At present, the PF is not treated as a social insurance mechanism although social assistance payments, in the form of family allowances, are partly financed out of the PF. Revenue collection responsibility is being shifted to the Ministry of Finance (MOF) and the PF is no longer managed as a separate extra-budgetary fund.

In the medium-term, putting the PF on a social insurance basis would require a sharper distinction between social insurance contributions and general government revenue, and the development of individualized contributions.

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4.6 In theory, Kazakhstan's benefit structure has been pegged to the minimum wage. In practice, however, the minimum wage was equal to only about 8 percent of the average wage at the end of 1993 and by March 1994, stood at only 12 percent of the poverty line. Despite this, the minimum wage is still used as a numeraire in wage setting, particularly in the public sector, where wages are typically set as multiples of the minimum. Some cash benefits are also directly linked to minimum wage level. In addition, to provide enterprises in financial difficulty have sometimes put workers on forced leave on minimum wage. To provide adequate minimum benefits, payments must be linked to minimum subsistence level, not minimum wage. Also, new methods of public sector wage determination should be introduced that are not rigidly tied to movements in the minimum wage but instead reflect conditions in the labor market, as well as individual performance.

#### **Eligibility**

4.7 Different cash benefits have different eligibility criteria. A broad distinction can be drawn between social insurance and social assistance. In Kazakhstan, pensions and unemployment benefits have, at least in theory, an important element of social insurance -- an individual's entitlement depends upon work history and the existence of past contributions, although benefits levels are not determined by the

amount of the individuals past contributions. Social assistance on the other hand, is primarily motivated by concern about poverty. At present, Kazakhstan's social assistance is often granted on a categorical or universal basis, regardless of a person's capacity to be self-sufficient without it. The current system of social protection is characterized by extensive "special privileges," directed toward particular groups, e.g., people who had "special war duties" and "pensioners with special merits." Obviously, ranging from free denture to free sanatoria (vacations), important social policy objectives may justify income support for such groups, but even so, the system could certainly be rationalized and targeting strengthened.

4.8 While time factors limit the immediate feasibility of certain approaches to quantifying social assistance, in the medium term, it is important to consider various options that would strengthen targeting mechanisms. For instance, the Government may wish to establish a means-tested minimum cash benefit of last resort to prevent people from falling into poverty. Box 4.3 briefly highlights relevant factors in the design of medium-term approaches to targeting, focusing upon individual assessment.

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**Box 4.3: Strengthening Kazakhstan's System of Social Assistance: Medium Term Targeting Options**

In the medium term, targeting options include means-testing; social worker evaluation; and nutritional status/risk. Assessment of individual or family "means" will generally depend upon access to income, assets and other socio-economic goods and services. These include: (i) wages, bonuses and overtime pay; (ii) net income from self-employment and returns from savings and investments; (iii) social insurance and social assistance payments; (iv) ownership of a dacha (kitchen garden); the value of produce from a dacha or vegetable plot; possession of running hot water, electricity, gas.

At present, Kazakhstan relies upon income-testing techniques that are limited to formal cash earnings. More sophisticated targeting mechanisms cannot be introduced until administrative capacity is strengthened. Kazakhstan's social assistance offices already have a well-developed information collection system that furnishes data about, e.g., the geographical distribution of the handicapped and single mothers with large families. It could be expanded to include other relevant data; the benefit calculation processes could be simplified and improved; and aspects of rate calculation and payment processes computerized.

As informal sector activity becomes more pervasive, systems for monitoring incomes of social assistance clients should be developed. Bank records and identification of large assets (such as expensive imported cars) could be used. Selective and random intensive checks would be also useful. Penalties could include forfeiture of assistance, fines and imprisonment for non- or incorrect declaration of income/assets. The degree of verification required would depend largely on the type of targeting mechanisms used. Generally, the more complex the mechanism, the more sophisticated the verification system required.

In the short-term, categorical and self-targeting approaches could continue to be used. An increased role for family allowances is envisaged in Kazakhstan -- albeit as a categorical program complemented by individual assessment. A limited number of in-kind social programs appear to be a sensible targeting option in some situations, e.g., nutrition programs for pregnant women, and subsidizing the lowest quality foods that are consumed by the poor.

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4.9 Further measures could generate significant gains in administrative efficiency and horizontal equity (treating individuals in similar income positions equally). Rates of social assistance should be set so that people in similar circumstances of need will receive similar levels of social assistance, regardless of the factors that gave rise to their current vulnerability. Work history or other past circumstances, such as marital status should be ignored. The best approach would be to standardize a limited number of benefit types to promote equity, ease of administration and fiscal restraint. In the medium-term, the various social pensions and benefits could be combined into a single social assistance benefit, set above the poverty line and allocated on a means-test basis.

### Unemployment Benefits

4.10 Under the Soviet system, employment was guaranteed and money wages were low and relatively equal. Labor compensation bore little relation to productivity. Overstaffing was widespread, estimated to be around 20 to 30 percent. Enterprises were instruments of state social policy, as well as productive entities. With the transition to a market economy, the characteristics of enterprises and the labor market will necessarily change. In particular, enterprises will need to minimize costs and utilize labor efficiently. In the short-run, this is expected to cause a sharp increase in unemployment, with labor being reabsorbed only in the longer term. As enterprises respond to the new incentive structure, unemployment will shift from short-term frictional, to longer-term structural unemployment, placing different demands on the social protection framework.

4.11 In Kazakhstan, as in other former Soviet republics, to date the brunt of adjustment in the labor market has been felt in real wages, while employment levels have remained relatively steady. As discussed in Annex 1, while average real wages in 1993 have fallen to around two-thirds of their end-1991 level, registered unemployment affected only an average 0.8 percent of the workforce over the year.<sup>3</sup> Open unemployment, at around 1.0 percent at the end of 1993, is also low, relative to the decline in output over the period. Total unemployment exceeds registered unemployment. This is because an individual who is not eligible for unemployment benefits, such as new entrant to the labor market, has no incentive to register. Similarly, negative social status attaches to being openly unemployed.

4.12 Despite cheap credit provided to sustain output in 1993, many enterprises were forced to reduce the hours employees worked, even if they did not separate them outright. Underemployment is thus significant, as many workers have been forced to take unpaid leave or work fewer hours. Although exact numbers are unknown, in July 1993 about 200 enterprises were engaged in such practices, involving about 132,000 workers: about 1.8 percent of the labor force. As credit availability becomes much tighter, enterprise layoffs and closures are expected to accelerate.

4.13 The reluctance of enterprises to completely sever employees in part reflects the large non-wage compensation component of the labor relationship. Traditionally, workers in Soviet enterprises and collective farms received a significant share of compensation in non-cash form -- through access to highly

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3. To date, the unemployed have been predominately women and youth (70 percent). About one third are classified as skilled: Non-manual workers, specialists and managers account for 25, 10 and 1 percent of the unemployed, respectively. About one third have more than ten years work experience. Over half of the unemployed live in urban areas. The average duration of unemployment is increasing. The proportion of unemployed out of work for more than six months rose from 10 percent in 1992 to 19 percent in 1993. Regional concentrations in industry imply corresponding variations in unemployment across the country.

subsidized housing, stores, vacations, child care, etc.. Severance pay requirements may also deter outright separations.<sup>4</sup>

4.14 Enterprise social services need to be transferred to the state or other providers to allow necessary closures and layoffs to take place. The portion of non-money benefits in average labor compensation is expected to diminish fairly rapidly over the next few years, from over 40 percent of total wage and transfer income in 1992, to around 25 percent in 1997. As in-kind benefits fall, (real) wage compensation may need to rise in relative terms by around 15 percent over the 1993-97 period. Nevertheless, the combined wage and benefits package could decline by around 9 percent over the period to 1997.

4.15 The shift from non-wage to wage compensation is to be encouraged, since cash compensation gives individuals greater sovereignty over their spending decisions and allows enterprises to focus on their productive activities. It will also increase the tax base for purposes of payroll contributions. However, where enterprises withdraw from public-good functions, such as education and child care, it will be necessary for governments (typically, local authorities) to continue to provide them on a largely tax-financed basis.

4.16 It is inevitable that high levels of unemployment will accompany transition and structural change in Kazakhstan, given prior overstaffing, large output falls and the structural changes associated with adjustment. Based on assumptions in this report about levels of output growth and the pace of restructuring, unemployment could reach 10 percent by end 1995 and 12 percent by the end of 1997.<sup>5</sup> In addition, the duration of unemployment could increase significantly if longer-term unemployment outweighs the rate of reabsorption in the emerging private, service and exportable sectors. If only 2 percent of the unemployed are assumed to find jobs each month, by 1997 there may be up to six times as many long-term unemployed as short-term (defined as less than six months) (see Figure 4.1). This pattern of labor market dislocation is similar to that experienced in Eastern Europe with similar economic and social structures, as well as in industrial countries (see Box 4.4).

4.17 The perceived role of the Employment Service extends beyond benefit support, to job counselling and information services, training and retraining, organizing temporary employment schemes and job creation. The potential contribution of these public sector undertakings in the contemporary Kazakh context should be critically reviewed. A basic point is that none of these activities can create jobs in a stagnant economy, evaluations of similar efforts in industrial countries have shown mixed results. In Kazakhstan, serious resource constraints (both financial and institutional) must also be taken into account.

4.18 The perceived role of the Employment Service is perceived to extend beyond benefit support, to job counselling and information services, training and retraining, organizing public works schemes and job creation. The potential contribution of these public sector undertakings in the contemporary Kazakh context should be critically reviewed. A basic point is that none of these activities can create jobs in a stagnant economy, and that evaluations of such efforts in industrial countries have

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4. Enterprises are required to pay two months full salary to employees as severance pay.

5. The broad trends are summarized in Annex Table 5.2. After 1994, hidden unemployment is assumed to move into the open and output per worker is expected to grow.

shown mixed results. In Kazakhstan serious resource constraints (both financial and institutional) also have to be taken into account.

4.19 Key issues regarding proactive labor market measures include: (i) identification of target groups; balance between different types of programs (mass lay-offs, training, job counselling, etc.); (ii) how programs should be delivered; and the role of the private sector. While training and providing labor market information may help to facilitate labor mobility, such measures are a spearhead for tackling mass unemployment. Other relevant factors here include wage policies; housing constraints and restrictions on internal migration. In areas of high unemployment, vacancies that do arise are likely to be quickly filled without the assistance of the employment service. The Public Employment Service's (PES) first priority should be to pay out unemployment benefits in an efficient way. This is not to deny any role for proactive activities, but it should be indicated that in themselves, these measures cannot generate employment.

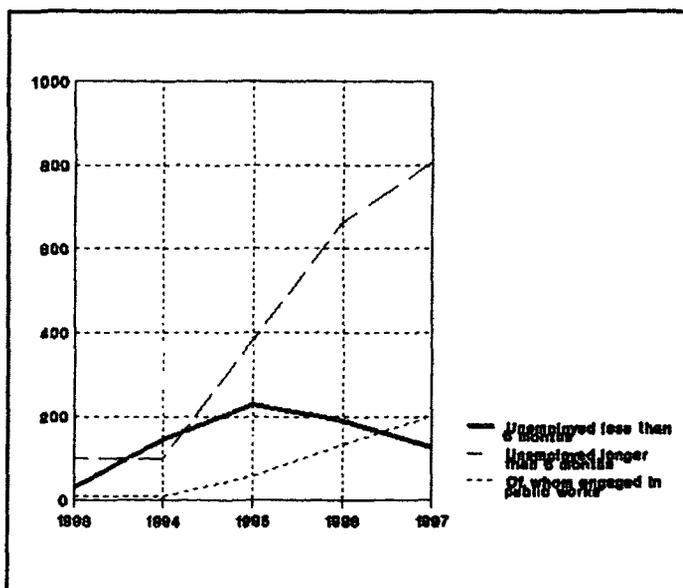


Figure 4.1: Projected Trends in Unemployment

4.20 In the light of the foregoing, the Government needs to determine:

- (i) an adequate level of unemployment benefit that is consistent with both minimum income needs and fiscal constraints;
- (ii) the form and level of assistance for the long term unemployed;
- (iii) the role and scope of proactive programs, including training and temporary employment schemes; and,
- (iv) institutional requirements to deliver unemployment benefits and labor market programs to increasing numbers of people.

4.21 The Employment Service and mechanisms to finance unemployment benefits and labor market programs were established in 1991. An extra-budgetary Employment Fund was established to finance unemployment benefits, job placement facilities, training and job creation facilities. In addition, a large part of the fund has been used to finance aid to migrants. Financed through a 2 percent payroll tax, the fund was established as a form of social insurance that link to entitlement of past contributions. However, significant expenditures have not been consistent with this purpose - in particular, the financing of migrants' expenses. Both state and private employers are required to contribute to the fund, although agricultural enterprises and institutions financed directly from the state budget are exempt. In the event of a revenue shortfall, Employment Fund expenditures would be covered by a direct budget transfer.

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**Box 4.4: The Unemployment Experience of Central and Eastern Europe**

The unemployment experience of Eastern Europe over the period of economic reform reflects clear patterns that are relevant to Kazakhstan. Beginning in 1990, most countries experienced a sharp increase in the unemployment rate - up to a high of 16 percent in both Bulgaria and the former east Germany in August, 1993. Initially, firms retrenched labor slowly, relying on attrition (e.g., retirement and resignations) to reduce their labor forces. Over time, as access to credit and government financial support was reduced, the pace of layoffs accelerated. By 1993, in all countries except the Czech republic, the rate of unemployment had converged at around 15 percent of the labor force. Often, those who became unemployed were marginal workers or racial minorities.

Also, in all countries except the Czech Republic, more than a third of registered unemployed have been without work for more than a year. The long-term unemployed have become increasingly discouraged from seeking work and there have been significant flows out of the labor force, reducing the stock of openly unemployed. In most countries in transition, there has remained a relatively stagnant unemployment pool.

In the Czech Republic, unemployment remains surprisingly low - below 4 percent. This is attributed to the rapid growth of private sector activity and to large movements out of the labor force, driven in part by very restrictive eligibility requirements for unemployment benefits.

Eastern European labor markets have been characterized by significant regional mismatches, reflected in large dispersion in regional rates of unemployment. Poorly functioning housing markets have also been a major obstacle to labor mobility. These rigidities are worse where employment losses have been concentrated by the regional structure of production.

The rising number of unemployed has increased total expenditure on labor market programs and has significantly changed the composition of Government expenditures. Expenditures on labor market programs in the countries of Central and Eastern Europe have increased from 0.5 percent of GDP in 1990, to around the OECD average of 2 percent in 1992. The share of unemployment benefits in these expenditures has increased between 1990 and 1992 from 58 to 85 percent in Poland; from 34 to 70 percent in Hungary; and from 32 to 62 percent in Bulgaria.

Source: Blanchard, Commander and Coricelli (1993)

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**Benefit Level**

4.22 If an employee is made redundant, the worker is initially entitled to two months severance pay from the employer. If registered, the unemployed worker is then entitled to unemployment benefits for a period of six months, payable by the extra-budgetary Employment Fund. An individual's unemployment benefit is based on previous earnings. Various indexation rules have sought to preserve the real value of benefits; average unemployment benefits were around 40 percent of the average 1992-1993 wage.

4.23 Given the parsimonious level of unemployment benefits, the Government should seek to protect its real level over the transition period. Operationally, the minimum unemployment benefit, on a per beneficiary basis, should be held at around three times the poverty line over the 1994-97 period; this level is incorporated in the report's fiscal projections.

## Eligibility

4.24 At the end of eight months,<sup>6</sup> an unemployed person becomes ineligible for unemployment compensation and becomes dependent upon access to other benefits or the support of family networks. As currently designed, there is no government support for the unemployed beyond eight months. The projected emergence of long-term structural unemployment suggests that benefit assistance for the long-term unemployed needs to be urgently developed. Income support for the unemployed above the minimum subsistence level should be continued beyond six months.

4.25 Clear rules governing continued income support for the long-term unemployed need to be established, either through the Employment Fund or social assistance programs. To the extent that the Employment Fund is consistent with the insurance character of the unemployment benefit program, it may be preferred. At the same time, complementary measures may be required to avoid work disincentives and welfare dependency and to encourage demoralized people to engage further in skills training or to try to obtain labor market experience. In particular, the benefit program may need to be augmented by temporary employment schemes and works and training programs. Participation in such programs may be used as a condition of benefit receipt after, e.g., 12 months.

4.26 Assuming the long-term unemployed receive the same level of benefit as the short-term unemployed, staff estimates suggest that unemployment compensation expenditures may escalate from negligible levels in 1992 to around 1.5 percent of GDP by 1995, and to 2 percent by 1997. Benefit expenditure demands associated with the assumed rise in long-term unemployment will increase from zero in 1993, to 0.8 percent of GDP in 1995, to 1.6 percent in 1997. Expenditures related to short-term benefit payouts will increase from negligible levels in 1993 to 0.5 of GDP in 1995 before declining to around 0.3 percent of GDP in 1997 as increased momentum in the economic recovery translates into a slowdown in labor retrenchment.

## Temporary Employment Schemes

4.27 When appropriately managed, temporary employment schemes (TES) have elsewhere proved to be a useful transitory labor market program. TES can absorb excess labor, sustain or develop work habits and can effectively help implement an economy's public investment program. Box 4.5 summarizes relevant international experience and lessons to be borne in mind in designing TES for Kazakhstan, including the need to set an appropriate wage rate and ensure sufficient organization and management capacity. To the extent that labor is substituted for machinery in the maintenance of some public investment, no net economic losses will be associated with the program. For the economy as a whole, at high levels of unemployment, the shadow price of unskilled labor is effectively zero. TES may play an important role in alleviating regional pockets of high unemployment that are likely to emerge across the country. Under the unemployment and benefit assumptions discussed above and the simulations presented in this report, involving 25 percent of the long-term unemployed in TES by 1997, would impose an additional cost of around 0.1 percent of GDP.

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6. Two months are covered by severance pay and six months by unemployment benefits.

## **Training**

4.28 Retraining the unemployed is also expected to play a role as the economy restructures and labor demand adjusts to the new set of relative prices and comparative advantage in the economy. In the short-term, training may play only a limited role, since the labor market is constrained on the demand side by lack of job opportunities. Critical issues to be addressed include the need for labor market demand to drive training and the respective roles of the public and private sectors in provision and financing. Over the next two years, the need for training may be limited as large-scale structural unemployment outweighs frictional unemployment retraining needs.

## **Financing**

4.29 These labor market programs will add extra funding demands of over 2 percent of GDP over the 1994-1997 period. The picture is further complicated by an expected decline in the revenue base as unemployment rises and payroll contributions fall. In the context of the overall fiscal envelope, the Government may reallocate fiscal expenditures to cover the Employment Fund's shortfall (see Annex 5 for a discussion of the trade-offs). This may be supplemented by an increased revenue collection effort specifically related to Employment Fund operation.

4.30 Currently, the effective tax base of the Employment Fund is constrained by limited coverage of enterprises liable to pay Employment Fund contributions and, within that group, low compliance rates. In particular, the Employment Fund covers only 50 percent of the economy's wage fund and of this, there is only 80 percent compliance. The Fund's coverage should be broadened to include agricultural enterprises and the Government should pay payroll taxes to cover civil servants directly employed through the budget.

4.31 To improve compliance rates, information exchanges between the various state agencies responsible for revenue collection must be improved. Finally, because the Employment Fund has some characteristics of a social insurance scheme, the Government could consider a modest, e.g., 1 percent complementary contribution to be levied directly on employees.

## **Institutional Capacity**

4.32 Adequate administrative capacity must be developed to cope with benefit and service delivery. As the number of registered unemployed rapidly increases, more strain will be put on the recently established PES. Ensuring adequate capacity to deliver benefits to the unemployed, as well as managing the proactive employment programs discussed above, raises issues of staffing, technology and policy priorities that cannot be fully addressed in this Annex.

4.33 In August 1993, the PES had 2500 people working in 300 offices throughout the country. While the present ratio of staff to unemployed (1:15) is comparable with Northern Europe, expected increases in unemployment will sharply increase staff workload and create pressure to train more staff to deal with the unemployed. The PES is currently hampered by the lack of a national computer network for the registration and de-registration of jobseekers and jobs. In addition to paying benefits, PES will need to play a leading role in developing proactive programs, including ways to deal with mass layoffs and TES. To this end, with foreign assistance the PES is currently computerizing its information systems and setting up staff training.

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**Box 4.5: The Role of Temporary Employment Schemes**

Temporary Employment Schemes (TES) are programs intended to provide work for unemployed people. Such schemes typically involve unskilled work, generally (but not necessarily) aimed at creating basic infrastructure, with participants paid below local wages rates. TES can be contracted out to the private sector (as under the Bolivian Social Fund) or delivered by public agencies (as in Chile). This box briefly summarizes some key lessons that have emerged from experience with TES and highlights their potential role in Kazakhstan.

TES can have a mixture of goals, including alleviating poverty and promoting growth. Those which focus on relieving poverty are likely to be labor intensive, whereas programs that make growth a priority apply a cost-benefit rationale to output. While there may be tradeoffs, these goals are not mutually exclusive, especially since the assets created by the projects (roads, bridges etc.) generate increased economic efficiency.

It could be argued that in Kazakhstan TES should be regarded primarily as a means of alleviating poverty. TES can be significant in self-targeting. Since the cost of participating can be assumed to be an increasing function of income, only people with a reservation wage less than the offered wage will volunteer. There is ample evidence from South Asia that relief work can protect the rural poor from the impact of a sudden contraction in real income. This may be particularly relevant in Kazakhstan, where information problems make identifying the poor through alternative means (e.g., means testing) difficult.

Chile in the 1980s offers an interesting case of a country resorting to TES on a massive scale to alleviate the social costs of adjustment. At their height, up to 13 percent of the workforce was engaged in such schemes. Evidence suggests that participation was progressive: 71 percent of participants came from the bottom two income percentiles. Wages were below the minimum rate, with projects financed by the central government and managed by municipal authorities. Some programs required that labor costs be at least 80 percent of total project costs, thereby encouraging labor intensity.

TES are not without their problems and limits. International evidence shows low transition rates from TES schemes to regular jobs. In addition, management capacity to run the programs effectively on a mass scale may be difficult to find in Kazakhstan. Finally, in choosing a project, policy-makers face a trade-off between the objectives of producing valuable output and maximizing the number of jobs.

Sources: Graham 1991, Grosh 1992, Ravallion 1992.

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## Pensions

4.34 Pension payments represent the largest social security expenditure in Kazakhstan. A large and growing number of people are entitled to pensions in Kazakhstan. There were an estimated 3 million pensioners at the end of 1993; demographic projections suggest there will be about 3.2 million by 1998, representing almost 18 percent of the total population. Public pension expenditures in Kazakhstan are relatively high, running at an estimated 9.5 percent of GDP in 1993 -- about two to three times the share spent in other countries of comparable per capita income.

4.35 Broadly speaking, labor pensions are paid to everyone with a sufficient work record (normally 15 years for women and 20 for men) who has reached pension eligibility age. Formally, women qualify at 55 and men at 60. As noted in Annex 1, however, numerous exceptions provide for early retirement, so that about one third of pensioners are below these ages. Elderly people who, for whatever reason, lack the pre-requisite work history receive social pensions that have tended to remain at levels far below the minimum subsistence level.

4.36 A significant proportion of pensioners -- over 37 percent in 1993 -- are recorded as engaged in full time work. Nonetheless, for a majority of the elderly, the fortnightly pension benefit is their only regular source of income.

4.37 The level of pension benefits is based on previous nominal earnings. As inflation eroded the real value of these benefits, different rules have been applied to raise the real level of benefits over the past two years. Pension were formally indexed to movements in the minimum wage in 1993. Average pension rates have fluctuated significantly relative to past earnings. Over the course of 1993, the average pension ranged from twice to only 20 percent above the minimum pension (see Figure 4.2). In line with unemployment benefits it is recommended that pension payments be linked to the poverty line and held constant in real terms over the transition period. Currently, the average pension is around 30 percent of the average wage, slightly over 200 percent of the poverty line.

4.38 Several additional policy options may reduce fiscal costs while preserving a sense of fairness in the pension system and serve the long-term objective of linking past contributions and benefits received. These are considered below.

- (i) Flat rate indexation. Whatever indexing system is adopted to replace the current ad hoc approach will have a critical impact on real pension expenditures. In contrast to flat rate increases in July and September 1993, percentage recalculations in October 1993 and March 1994 benefitted individuals on higher pensions. Flat rate indexation, adjusts the minimum pension every quarter according to movements in an index of consumer prices. All pensions above the minimum would, for the time being, receive the same nominal amount, compressing the pension structure. Since the average pension stood only 20 percent above the minimum by the end of 1993, the incremental impact of such a rule would not be large. Flat rate indexing should be viewed as a short-term measure to ensure that minimum pensions are kept above the poverty line.
- (ii) Reducing pension payments to people who work. It can be argued that public pensions should not be paid to the significant number of pensioners who continue to earn money from work, especially in light of the current low ages of pension eligibility and the numerous categories entitled to even earlier retirement (see (iii) below). This also applies to people who receive disability pensions but whose ability to work is not in fact significantly impaired (an estimated one-third of *Class III* disabled people work). The restriction could only be justified, however, if pensions are at least as high as minimum subsistence, so that pensioners are not forced to additional work in order to survive. Moreover, in the short term, it is difficult to introduce complicated schemes whereby benefits would taper off to avoid work disincentives. On balance, therefore, the preferred option might be to institute a threshold of allowable earnings above which all pension payments are withdrawn. Alternatively, people earning more than the threshold amount could be entitled to, e.g., half their pension.
- (iii) Gradually increasing the average pension age. As mentioned above, people in Kazakhstan are pensionable at a relatively young age (as in all FSU countries) and there are a multitude of categories for even earlier pensions. These latter provisions were designed largely to effectively increase labor compensation in unpleasant or especially difficult occupations under a regime where nominal wages were not allowed to diverge

much. With the shift to a well functioning labor market, the rationale for early pensions disappears.

- (iv) **Rationalize the old-age pension system.** Many of the foregoing recommendations would simplify the present system by reducing the number of exemptions, special cases, etc. and would also likely generate administrative savings.

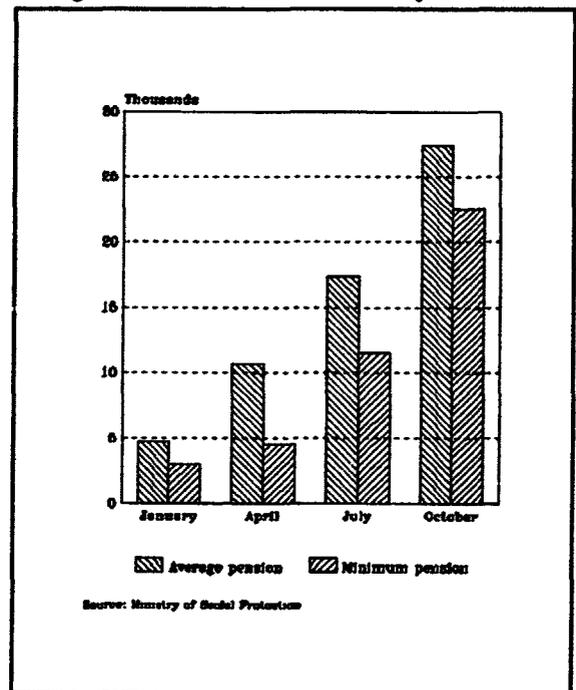
4.39 The foregoing options seek to reduce current expenditures. In addition, the Government could augment Pension Fund resources. In particular, a co-contribution of, e.g., 2 to 3 percent of the cash wage could be justified as strengthening the sense of individual entitlement. Measures should also be taken to improve taxpayer compliance, which appears to be running at little more than 50 percent.

4.40 The longer-term pension structure needs further consideration. In redeveloping a link with past earnings, the Government needs to choose between a state-operated social insurance scheme, in which benefit payouts reflect contributions, and a dual system, in which the state pays a minimum basic social security pension out of general budget revenues and individuals supplement their pension through savings in a private scheme. In either case, the development of a private pension market should be encouraged with fiscal benefits following in the medium- to long-term.

Figure 4.2: Average and Minimum Pension Payments, 1993

### Social Assistance

4.41 While Kazakhstan inherited an array of "social assistance" programs, the most important cash benefit is the family allowance. In a context of rapid change and drastic declines in real wages, the welfare of many families with working members has been adversely affected. Family allowances are a potential instrument to reach these households. Kazakhstan inherited a fairly extensive system of child allowances and family benefits, although benefits levels have traditionally been low. Subsidies and price controls on basic goods and services have traditionally played an important role in ensuring minimum levels of welfare. A shift toward a more targeted system of social assistance is needed. In the medium term, means testing could become a central feature of social assistance (see Box 4.3).



## Family Allowances

4.42 The level of real expenditure on family allowances was more than halved between 1992 and 1993, due partly to the reduced number of eligible beneficiaries and also failure to fully index benefits to price rises. The Government has attempted, without success, to maintain the real level of benefits, which are linked to the minimum wage. Most recently, in October 1993, the rates of family allowance were more than doubled, to ruble 7,000 a month for children under 3 years and to ruble 5,000 for children aged 3 to 18. Staff fiscal projections provide for the restoration of family allowance expenditures to their 1992 levels by 1995. It is recommended that family allowances continue to be means-tested and that the emphasis be on maintaining the real level of benefits.

4.43 In 1992, family allowances were universal and were directed to 6.5 million children. In 1993, income testing reduced the number of benefit recipients by more than two-thirds. The relative importance of different types of child benefits has also changed, to the advantage of single mothers and disabled children (refer Figure 4.3).

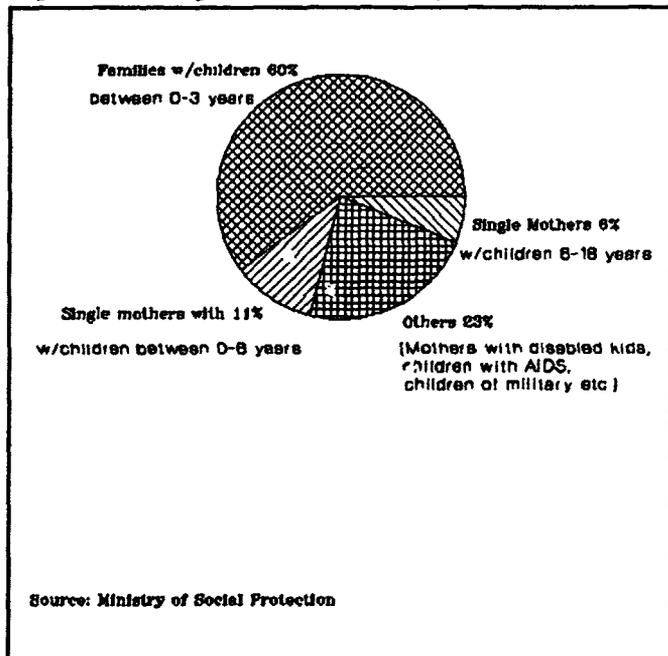
4.44 The system of means testing family allowances employs a fairly liberal threshold. In October, 1993, a typical family of two adult wage-earners and two children, aged 3 to 18, would have a cut-off point of ruble 80,000 a month. However the average income at that time would have been below the cut-off point - about ruble 74,000. If means testing is to be effective, the income threshold needs to be reduced relative to average family incomes. The family allowance targeting mechanism used by the government is a simple "cliff edge" (versus a "free area") means test, which gives a family just under the cut-off a disincentive to earn additional income and a family just above the cut-off point an incentive to reduce its income (work effort) so as to qualify for family allowance.

### Policy Options

4.45 Given the difficulties of introducing new forms of targeted cash assistance in the short run, as well as the attractiveness of directing support to families with children, consideration should be given to bolstering the real level of child benefits. Indexation rules could be introduced that link the level of benefits to movements in a consumer price index. At the same time, it would be desirable to simplify the existing system of child allowances and differentiate payment levels based on the number of children (which tends to be associated with poverty elsewhere in the FSU) rather than their age, focusing on need.

4.46 In the medium term, the development of means testing based on actual family income would remove disincentives to families moving into a higher income group. Given adequate institutional capacity, this may involve a

Figure 4.3: Expenditures on Family Allowances, 1993



system with a free area (the existing system) as well as an appropriate taper, rather than cliff-edge benefit withdrawal.

4.47 Another option is to replace the existing array of family allowance payments with a single rate-per-child family allowance payment system with appropriate add-ons, depending on child and/or family characteristics. This allowance could be targeted to household income in a more precise way than is currently the case for the basic family allowance. Also, the basic and add-on rates could be adjusted quarterly according to changes in the consumer price index.

### Consumer Subsidies

4.48 In Kazakhstan, as elsewhere in the FSU, low money wages were tied to controlled prices for basic goods and services. The Government is now committed to reducing the level of subsidies and targeting social assistance. Cash payments are generally preferable to in-kind payments because they allow people to make their own consumption decisions, minimize market distortions and improve budget transparency. Nevertheless, it is critical that vulnerable groups be protected against unaffordable price rises for basic goods, especially when the institutional capacity to introduce specific cash compensation is limited. It is therefore essential that the Government assess the impact of subsidy removal on the standard of living of the poorest groups offset it and by simultaneously adjustment in the level of benefit payments. Otherwise, some minimum subsidies will need to be maintained and some aspects of the existing system of in-kind payments retained in the short-term.

4.49 It is important to differentiate among types of subsidies, according to their likely distributive impact. Food, particularly bread and meat, absorb the largest consumer subsidies. The subsidies are universal to the extent that all Kazakhs have access to these goods at low prices. At the same time, the incidence of subsidy expenditure appears to be progressive, insofar as poor households tend to direct a larger share of their expenditures to these basic food products. For example, households in the bottom three income deciles consume more bread and vegetable oil, in kilograms per capita, than the top 10 percent.

4.50 In the short-run, the Government should consider continuing to provide some key in-kind payments, since these are not subject to erosion of their real value and in some instances may be easier to target. In-kind assistance is provided through the Republican budget, as well as by rations, municipalities, oblasts, enterprises, charities and international non-government organizations.<sup>7</sup> The in-kind coal subsidy, in particular, should be continued, since the program is already targeted and the rates and quantities vary by category (e.g., for single mothers and the disabled). Although targeted cash compensation would, if it were feasible, represent a preferable approach, it is not feasible in the short term. In the medium term, the development of methods of individual assessment would minimize leakage to the non-poor encountered in the current scheme.

4.51 In contrast, instituting expenditure thresholds (utility expenditures as maximum proportions of income) to cushion the impact of price liberalization of utilities on poor families should

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7. It is difficult to assess how the varying resource positions of different oblasts contribute to variations in per capita social assistance across the regions in the country. The issue of regional equity in providing social assistance requires further investigation.

be reconsidered. Available evidence suggests that this program may be mis-targeted, as most of the rural poor do not enjoy access to central heating. Moreover, the upper threshold figure of 30 percent creates disincentives for families to be cost conscious about utilities -- and richer households receive absolutely higher levels of subsidy.

## Health<sup>8</sup>

### Health Status Trends

4.52 Health status indices improved steadily in Kazakhstan during the 1950s and 1960s but have remained relatively unchanged over the past two decades. Life expectancy is now 64 years for men and 73 for women. As in western countries, the leading causes of adult mortality are cardiovascular and respiratory diseases, cancer and accidents. The higher prevalence of infectious disease, such as hepatitis A and TB, account for substantial excess morbidity and mortality. Premature mortality in men and, to a lesser extent, women, is in part due to excessive use of alcohol, cigarettes and a diet high in saturated fat.

4.53 The infant mortality rate is high, at 24 per 1000 live births (1992), with large regional variations (a rate of 44.7 was recorded for one small community outside Almaty during 1993). Over half of all infant deaths occur within the first week, reflecting the lack of necessary supplies to cope with complications of pregnancy or delivery and the poor health of many pregnant women (poor nutrition, multiple abortions and, possibly, the reported prevalence of anemia). The high initial infant mortality rate is also explained by the prevalence of acute respiratory tract infections among infants and the lack of technology to assist low-weight babies.

4.54 Maternal mortality is high by international standards (averaging 80 per 100,000), with over 30 percent of deaths caused by complications relating to abortion. Abortion remains the most common method of family planning, with less than a quarter of women of reproductive age using reversible contraceptives.

4.55 Evidence from the Almaty and Ust-Kamenogorsk regions suggests that ill health associated with poverty and poor living conditions are on the increase. In Ust-Kamenogorsk, the incidence of lice and scabies, venereal diseases and TB has risen over the last two years. In Almaty, there has been a substantial rise in the incidence of hepatitis A and TB. The people of Kazakhstan are clearly vulnerable to outbreaks of infectious diseases and the government is in a poor position to arrest any further decline in health status.

### Health Systems Operation

4.56 The health sector in Kazakhstan exhibits most of the structural and institutional problems of the former Soviet health system, including too many hospital beds<sup>9</sup>, competent but sometimes

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8. This section draws heavily upon an Overseas Development Administration report of February, 1994.

9. In 1992, it was estimated that there were 228,000 inpatient beds for a population of just over seventeen million (13.4 per 1000), and 42,235 doctors (1 per 329 people).

inappropriate care and a lack of basic drugs and equipment. The allocation of resources for health care is still based primarily on Soviet "norms" related to bed and physician numbers per 1000 population. Length of in-patient stay averages about 12.5 days, double the OECD average. The primary care system is well developed and provides comprehensive access, high coverage and frequent surveillance, with high child immunization compliance rates when vaccine is available. Nevertheless, there is a tendency to prescribe quite complex interventions for mild conditions that, by western standards would not merit hospital admission or treatment.

4.57 The health sector is facing significant problems that require further analysis and government action, including the inadequacy of the health care budget and problems in assuring quality of care and reducing preventable deaths. Immediate difficulties stem from lack of drugs and essential supplies, and there are also medium-term structural problems.

4.58 Estimates suggest that public resources available for health care have declined by almost 40 percent in real terms since 1990. Escalating energy costs continue to make a large dent in the health budget: over 80 percent of the budget is now spent on staff salaries and utilities. In Ust Kamenogorsk, the wage share had fallen from 55 percent in 1990 to 39 percent in 1993, rendering medical salaries the lowest of any profession in the region. A surgeon in the oblast referral hospital earns only US\$10 per month, nurses earn T60 (US\$5) per month. In addition, there is an acute lack of resources for consumables, equipment and maintenance. Financial allocations for non-salary recurrent costs have been tightly squeezed. As a result, many hospitals are dilapidated and suffer from acute supply shortages that seriously compromise the ability of health institutions to practice even basic infection control.

4.59 The Ministry of Health's response has been to encourage reductions in both bed numbers and staff. Since whole institutions are not being closed, however, it is unlikely that these reductions will produce significant savings. More reformist Regional Administrations favor a more radical approach to resource shortages, involving changing the pattern of service and more attention to cost-effective care.

4.60 Responsibility for health care financing rests largely with the regions. The central government only finances the national referral hospitals, research and training. The federal government publishes a notional budget for the health sector, which breaks down the budgetary oblast and by line item. Unfortunately, this is not an accurate indicator of the actual health budget at the regional level. Data on actual spending on health services is extremely difficult to obtain, not least because of rapid rates of inflation.

4.61 Analysis of the notional federal budget published by the government does at least provide some idea of budget trends. In 1993, budgeted finance for health services at federal and oblast level totalled 2 percent of GDP. While the share of public finance allocated to the health sector has apparently stood up well, the purchasing power of the health budget has declined dramatically. The notional budget for health services in 1994 indicates overall per capita spending of only US\$15, compared to an estimated per capita expenditure of US\$30 in 1990.<sup>10</sup> The 1994 level is similar to the per capita health spending in Kenya.

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10. These figures should be treated with caution, since they are distorted by huge shifts in exchange rates.

### Enterprise Divestiture of Social Assets

4.62 The magnitude of state enterprise provision of social services is unclear. It appears that enterprises spend about one-third of the expenditures on public social service<sup>11</sup> Goscomstat data suggests that enterprise allocations to the Social Funds that finance social activities amount to about 18 percent of the amount spent on wages and bonuses in 1992.<sup>12</sup> Enterprise visits suggest that official data may be unreliable to the extent that social assets (such as vacation homes) *de facto* financed by the enterprise, are not accounted for. Moreover, the foregoing averages conceal likely variations among types of firms (larger industries tend to have more facilities) and types of settlements. In cities such as Almaty, Shimkent, Kostanai and Pavlodar, enterprises deliver 10-25 percent of available social services. In "one-company towns," enterprise provision is typically of greater significance relative to municipal provision. Kazakhstan has a large number of such towns, often founded in the steppe near mineral deposits or around remote state farms.<sup>13</sup>

4.63 Continued enterprise responsibility for financing and providing social services is undesirable for several reasons:

- (i) The operation of social assets contributes to the negative net present value of an enterprise. This affects a potential investor's valuation of the enterprise, as well as future profitability of established enterprises relative to new companies unencumbered by such activities.
- (ii) Enterprises are typically more efficient if their focus is primarily confined to core productive activities. Similarly, social services are typically provided better by specialist operators (either public or private).
- (iii) Labor mobility may be inhibited by service provision tied to employment or, in a number of cases, by length of employment (the latter is important, in that waiting lists are used to allocate enterprise social goods, such as housing). However, rules about access by former employees and their families vary. Often, previous employees retain rights accrued as members of the firm's workforce. The *propiska* system of residence permits also limits mobility and needs to be urgently abolished in order to promote a well functioning labor market.
- (iv) As credit constraints on enterprises tighten, it is likely that their social activities will be cut back. Orderly divestiture arrangements are therefore required to ensure continued access to basic social services for large proportions of the population.

4.64 It is clear that enterprise withdrawal from social activities will have potentially large fiscal implications. The exact size of the additional burden, however, is difficult to ascertain. In order to

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11. See Annex 4.1 for a fuller discussion of the issues involved.

12. This is somewhat less than the 40 percent revealed in Russian enterprise surveys in the Moscow region; see Commander and Jackman (1993).

13. For instance, East Kazakhstansky copper - chemical kombinant performs all of the public social functions in the township Ust-Talkova.

minimize potential fiscal costs, protect against adverse declines in the standard of living and prevent a sharp depreciation in the provision of primary health and education services, the Government needs to develop a consistent approach to the divestiture of social assets currently operated by enterprises.

4.65 The first step is to distinguish between different types of enterprise social activities. Those which are effectively "fringe benefits", like sanatoria and cultural facilities, should be readily divested. In principle, housing should be privatized (through either transfer or sale to incumbent tenants). Continuing uncertainty about tenure and future taxation and maintenance liabilities could cause some problems in privatizing housing, however. Basic social services that generate large positive externalities should be handled differently. Immediate discontinuation of these services could threaten Kazakhstan's impressive achievements in literacy and health care. For example, in Djambul and Ust-Kamengorsk, the transfer of enterprise social services to local authorities would more than double expenditure demands on the municipal budget. It is therefore important that the central government provide, at least during a transitional period, financial support which will assure continued provision of basic social services, such as child care, education and health care.

4.66 The process of enterprise divestiture has significant implications for municipal management and financing. There are substantial differences in regional fiscal situations. In the more advanced Northern and Eastern parts of the country, oblast budgets do not depend heavily on central transfers, whereas the Western and Central regions do. The situation also varies within oblasts. Financing is likely to be even more difficult in one-company towns, where enterprise divestiture is likely to coincide with the collapse of the local tax base. A transparent system of intergovernmental transfers would greatly facilitate orderly transfers. Grants could be made to local authorities based on a formula that takes account of the incremental responsibilities being assumed in defined areas. This should be supplemented by an increased local tax effort.

4.67 A distinction should also be made between ownership, management and financing of social services. A social facility may be owned by one agency, operated by another and financed by a third party or parties. For example, the municipality may contract out the provision of kindergarten services to an enterprise that previously financed and provided the facility and parents may be asked to cover a portion of the costs through user fees. It may also be desirable to separate social assets from enterprises in the course of clarifying and reviewing the firm's assets and employment. Preferably, this should be done before corporatization, but should not be allowed to become a time-consuming process that risks delaying privatization. The possibility of windfall gains and "spontaneous privatization" of potentially profitable activities (e.g., sanatoria) should be guarded against by rules providing for procedures such as fair valuation. Transfers should be undertaken on a competitive basis, through, e.g., the auction scheme for small scale privatization.

## **ANNEX 5**

# **THE MEDIUM-TERM OUTLOOK FOR KAZAKHSTAN'S ECONOMY**

### **Introduction**

5.1 Those who design and implement economic policies in Kazakhstan face the difficult task of simultaneously trying to accomplish four broad economic objectives. These are: (i) halting the decline in economic output and restoring economic growth; (ii) bringing inflation under control, (iii) implementing structural and institutional reforms to continue the transition to a market-oriented economy that is more closely integrated into the world economy; and (iv) providing an adequate social safety net during the transition period. In many respects, these objectives are mutually reinforcing. In the longer run, certainly, progress in any one of these areas will make it easier to succeed in the others. But in the shorter run, the measures that promote any one of these four objectives may conflict with what is needed to promote the others. In particular, the conflicting demands and policy trade-offs must be taken into account when budgetary decisions are made.

5.2 This Annex outlines a medium-term (1994-1997) macroeconomic framework for Kazakhstan. Taking into account multiple objectives and policy trade-offs, the framework outlines a pattern of development that could be both feasible and desirable. The specific estimates, however, should not be taken as either forecasts of what will happen or targets for what should happen. Instead, they are best understood as approximate mid-points of ranges for the basic economic magnitudes -- if the indicated assumptions and exogenous conditions are realized.

5.3 Even under the best conditions, there are important limitations on the use of economy-wide macroeconomic models. There are additional problems in transition economies because institutions and policies are changing in ways that make the past a poor guide to the future (even in areas when comparable data may be available). Also, in Kazakhstan, there continues to be substantial uncertainty about some of the basic economic measures (e.g., GDP, the GDP deflator and interrepublican trade and payments). In addition, the simulation for 1994-1997 is based in part upon estimates of the 1993 outcome which need to be updated as more complete information becomes available. Finally, some information for the initial months of 1994 indicate substantial departures from previously expected trends (e.g., tax collections and the real exchange rate). If these trends continue, it will be necessary to make changes in the assumptions upon which the medium-term simulation is based. However, although the illustrative numbers would be different, the basic issues of economic policy and economic management would be the same. Indeed, the conflicts and policy trade-offs discussed in this Annex would become even more intense.

### **The Situation at the Beginning of 1994**

5.4 Most enterprises and state agencies have been slow to undertake economic restructuring and instead have turned to the Government for protection and financial support. This should not be surprising. At best, restructuring is a painful process that will involve downsizing or closure of some facilities, with accompanying unemployment. Economic reform held out promises of greater economic efficiency from improved resource allocation. But, in the face of a massive decline in output, these

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**Box 5.1: The Macroeconomic Framework**

The macroeconomic framework presented here is based upon a "sources and uses of funds" accounting method, which integrates into a consistent framework (i) government finances (regular budget plus the main extra-budgetary funds); (ii) balance of payments; (iii) monetary system accounts; (iv) an account for the rest of the economy (enterprises and households); and (v) main magnitudes from national income accounts. The rest of the economy account is divided into "enterprise" and "household" sub-sectors insofar as data permit. This is possible for current transactions but is seriously incomplete where capital flows are concerned. Especially in a situation where even roughly comparable data are available for only a short historical period (e.g., "actual" 1992 and "estimated" or "preliminary" 1993), and where these economic and financial statistics are undergoing revisions to improve their usefulness, this consistency framework helps make the best use of the limited data available.

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promises of future benefits have not been convincing, especially for those who attribute the present unsatisfactory economic situation to the initial economic reform efforts rather than to the abrupt breakdown of the previous political and economic order and the time it will necessarily take to construct its replacement. The threat of restructuring is particularly worrying for communities that depend upon one or only a few large enterprises.

5.5 One important factor discouraging more rapid restructuring is fear of unemployment. The previous system provided substantial security and equity for most citizens; a job was considered to be a "right." Significant economic restructuring will inevitably be accompanied by equally significant increases in open unemployment. However, an adequate social safety net for the unemployed -- especially the longer-term unemployed -- is not yet in place. Loss of one's job is especially feared in the FSU, where employees of large enterprises have depended on the enterprise for much more than just a cash wage; non-wage benefits may include the distribution of consumer goods, highly subsidized housing, and access to social facilities, such as health care and nursery schools. Moreover, even if jobs were available and the "propiska" constraints on internal migration were eliminated, labor mobility is limited for a variety of reasons (e.g., multiple earner households and the shortage of housing).

5.6 Another obstacle to industrial restructuring is uncertainty about how it can be done. If an enterprise is not simply to be closed down, it is necessary to (i) identify a product or products that can be profitably marketed; (ii) obtain the training, technology and capital equipment necessary to produce the new or improved products; and (iii) mobilize the required financial resources (for operating costs while restructuring programs are being developed and implemented, the costs of financial restructuring, the costs connected with severance of surplus labor, and the costs of new plant and equipment). None of these steps is simple. When major restructuring is involved, the workers, the managers, banks and other creditors, shareholders in privatized firms, and the community all have interests which must be considered. Managers and new entrepreneurs wishing to undertake new investments face uncertainties as a result of changing relative costs and prices. Relative prices are particularly unstable under conditions of high inflation. Although gradually moving toward international levels, relative prices and costs in Kazakhstan are still very different from what they are in market economies. Producers of tradeable goods, either for export or in competition with imports must worry about further major changes in the real exchange rate. Competitive markets, along with the related distribution and information systems, are still in their infancy. The elimination of subsidies is changing relative prices. And despite a large revaluation during 1993, the exchange rate continues to be substantially undervalued, distorting the price and cost signals normally expected from "world prices."

### Outlook for Output and Employment, 1994-1997

5.7 The large declines in output and consumption since 1990 have resulted more from the collapse of the old political and economic order than from specific new economic reform measures. It will take time to develop the new, market oriented economy. Most of the reform -- in the sense of developing the necessary new legal and regulatory framework, the attitudes and the market infrastructure for a competitive market economy -- is still to be accomplished. The solution to the present economic distress is to move ahead with building the new economic order without losing sight of the economic, social and political complexities of the task.

5.8 Restructuring Kazakh enterprises so that they can efficiently produce the goods and services demanded in domestic and export markets will take some years to accomplish. Consequently, one cannot reasonably project a rapid recovery in output. It should be possible, however, to stop the past sharp declines in total output. Unless this can be done, it will be increasingly difficult to preserve the political consensus and social stability needed to implement a sustained reform program. Partial rebuilding of interrepublican trade (on the basis of national currencies and flexible exchange rates) should help stabilize output by providing both access to imported inputs and markets for exportable outputs. Rapid growth of trade with the rest of the world, along with investment in and expanding output from the energy sector, will also help offset declines in some other areas.

5.9 Table 5.1 summarizes what appears to be a realistic scenario for the 1994-1997 period. Further declines in industrial activity (especially manufacturing) seem unavoidable as industrial restructuring takes place. Industrial output is assumed to drop by 12 percent in 1994, with further but smaller declines in the following two years and recovery beginning only in 1997. The true economic cost of these declines in industrial activity, however, will be less than the numbers suggest. Much of the manufactured output being eliminated would have only added to unwanted inventory accumulation. Although there was a large drop in 1993, a modest further decline in agricultural output is projected for 1994, in part reflecting input supply problems. No improvement is assumed before 1997. The sector, and particularly the livestock subsector, are likely to go through a period of difficulty and uncertainty as the adjustment to prices and subsidies is likely to be particularly important for the agricultural sector. Along with petroleum production and some other export activities, the services sector is expected to lead the recovery, even though it will initially be held back by tight controls on budgetary expenditures for government services. Although the demand for many services depends upon growth in other sectors, value added in distribution and financial activities are likely to show relatively strong growth.

**Table 5.1**  
Estimated and Assumed Changes in Real Output by Sector  
(percentage)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Value added in:					
Agriculture	-15.0	-4.0	0.0	0.0	2.0
Industry	-20.0	-12.0	-6.0	-1.0	5.0
Services	<u>-7.0</u>	<u>-6.0</u>	<u>0.0</u>	<u>3.0</u>	<u>6.0</u>
Total GDP	-15.6	-7.5	-2.2	0.3	3.9
Index of Real GDP	100.0	92.5	90.5	90.7	94.3

Source: Preliminary estimates for 1993 and Bank staff assumptions for 1994-97 simulation.

5.10 The result of these sectoral growth rates would be some further reduction in total output in 1994 and 1995, an almost stable GDP in 1996, and recovery in all sectors in 1997. GDP, however, would probably not recover its 1993 level until 1998. This medium-term scenario underlies the macroeconomic framework discussed on the following pages. It is, of course, not intended as a forecast of what will necessarily take place, but rather represents what we judge to be a realistic base for thinking about macroeconomic policies and economic management issues in the next few years as Kazakhstan passes through what are likely to be the most difficult years in its transition to a market-oriented economy and to a renewed and more satisfactory pattern of economic growth.

5.11 At the end of 1993 open unemployment was estimated at about 78,100, or about one percent of the labor force of 7.56 million. But a large number of workers, while not formally counted as unemployed, were working only part time or were temporarily furloughed. The potential labor shedding is very high. In 1990, many enterprises were substantially over-manned. Since then over-manning has increased. The 35 percent decline in output during 1990-1993 has been accompanied by underemployment and real wage reductions, rather than open unemployment. A sharp rise in transitional unemployment is an unavoidable part of the economic restructuring. The macroeconomic framework assumes that open unemployment will rise to 12 percent by the end of 1996. Since overmanning is much greater than 12 percent, this estimate assumes that many workers will be maintained on payrolls while restructuring takes place and that others will find new and more productive jobs in expanding activities. The assumed trends are summarized in Table 5.2.

Table 5.2  
Estimated and Projected Employment, Unemployment and  
Output per Worker  
(Annual averages except where indicated)

	1993	1994	1995	1996	1997
Labor force (thousands)	7,531	7,597	7,662	7,728	7,794
Unemployed (thousands)	60	230	613	854	935
% Unemployed--Average	0.80	3.04	8.00	11.05	12.00
% Unemployed--December	1.03	6.00	10.00	12.00	12.00
GDP per employed worker					
1993 rubles (tenge)	3,835	3,600	3,679	3,782	3937
Change from prior year %	-15.9	-6.1	+2.2	+2.8	+4.1

Source: Bank staff estimates and simulations.

5.12 Many of those who will become openly unemployed have been either underemployed or were producing goods that could not be sold and only added to inventory accumulation. Measured in terms of loss of marketable output, the economic cost of future unemployment should not be large. It is more a change from hidden to open unemployment. In 1992 and 1993, the costs of growing hidden employment took the form of declining labor productivity, declining real wages for all workers, and reduced gross profits and gross savings for the enterprises concerned.

5.13 The macroeconomic projection assumes that much, but not all, of the hidden unemployment will be brought into the open and that an adequate system of unemployment compensation will be put in place. These are preconditions for economic restructuring and will support the process by encouraging labor to be reallocated to more productive activities and by removing the cost of unemployment compensation (a burden which should be borne collectively) from the finances of individual enterprises. As indicated in Table 5.2, output per employed worker should be increasing after 1994. Nonetheless, neither the social cost nor the budgetary costs of open unemployment should be underestimated. Since the economic restructuring process will take several years, many of the those who lose their jobs cannot be expected to find new ones in the short-term. Therefore 4, an essential part of the economic program must be an adequately financed social protection system to deal with long-term unemployment.

### Bringing Inflation Under Control

5.14 The rate at which it will be feasible to bring monetary expansion -- and hence, inflation -- under control depends heavily upon six factors, four of which can be conveniently summarized in the four principal asset accounts in the monetary survey: (i) the change in international reserves; (ii) the change in net domestic credit to the Government; (iii) the change in credit to the rest of the economy; and (iv) the change in "net other accounts." Together, these four accounts determine the total change in monetary liabilities. The two remaining factors link the expansion in monetary liabilities with the rate of inflation: the ratio of money to GDP (or its reciprocal, the income velocity of money) and changes in real output.

5.15 Table 5.3 summarizes a projection of monetary survey data that, in the Bank staff's judgement, represents about as rapid a reduction in inflation as may be consistent with credible values for these six variables if balanced attention is to be given to the full range of economic policy objectives. The implicit targets for bringing inflation under control are reducing the monthly rate of inflation to 7 percent a month by December 1994; to 5 percent a month by December 1995; to 3 percent a month by the end of 1996, and to 1 percent a month at the end of 1997. Considerations affecting each of these six factors are discussed below.

5.16 Increases in net international foreign exchange reserves (including gold from domestic sources) are projected to average US\$300 million annually in 1994-97 (see Table 5.3). At the end of 1993 the gross gold and foreign exchange reserves of the NBK were estimated at 2.52 months imports. While it is clearly desirable for Kazakhstan to build up its international reserves, the opportunity costs of doing so need to be considered. In the projections, the NBK's gross reserves (including gold) increase to 3.24 months imports by the end of 1997. Particularly in 1996 and 1997, the projected increases in foreign exchange reserves may preempt a larger share of the limited expansion in monetary system assets than is consistent with the targets for bringing inflation under control. In 1996 and 1997 the increase in net international reserves would account for, respectively, 62 percent and 108 percent of the expansion in monetary liabilities that seems consistent with the indicated reductions in the rates of inflation.

5.17 Regarding banking system financing of the budget deficit, in the accompanying projection, monetary system financing for the (consolidated) budget is held to 1.0 percent of GDP throughout the 1994-97 period. The case for the this ceiling rests on a judgment as to the desirable balance between raising taxes, cutting expenditures, and the various possibilities for deficit financing. It also assumes that the burden of subsidies to enterprises in financial distress is shifted from the banking system to the budget (where subsidies would be transparent and should be conditioned on preparation and implementation of restructuring programs).

5.18 Banking system credit to the rest of the economy (measured by the credit/GDP ratio) would continue to decline substantially during 1994-97. This measure of the stock of credit relative to the level of economic activity falls from 12.4 percent of GDP at the end of 1993 to 8.6 percent of GDP at the end of 1997 (see Table 5.3). A substantial decline in this ratio seems an almost unavoidable part of the stabilization plan as long as the demand for real cash balances is not increasing (or the velocity of money is not decreasing). Such a tight credit program would doubtless put heavy pressure on the cash flow position of enterprises. While the positive side of this is that it tends to force the issue of shedding redundant labor and undertaking restructuring, the negative side is that it may leave potentially viable

**Table 5.3**  
**Monetary Survey**  
(Actual December 1993 and Projected December 1994-1997)

	Actual 1993	Projected 1994	Projected 1995	Projected 1996	Projected 1997
<b>Stocks at year-end (million tenge)</b>					
Net foreign assets	-1,860	-8,473	615	47,791	116,653
Net domestic credit					
To government (net)	-576	4,721	20,550	48,269	87,855
To rest of economy	15,445	121,113	233,591	330,880	378,315
Net other accounts	-6,297	-58,705	-139,761	-242,737	-346,174
Total Assets = Liabilities	6,712	58,656	114,995	184,202	236,649
Notes in hands of public	2,253	19,690	38,613	61,870	79,492
Deposit money	4,459	38,966	76,381	122,333	157,157
<b>Flows during the year (million tenge):</b>					
Net international reserves	1,788	5,679	11,993	43,014	56,033
(in million US\$)	638	152	166	432	458
Net domestic credit					
To government (net)	-568	5,297	15,829	27,719	39,586
To rest of economy	13,346	105,668	112,479	97,288	47,436
Net other accounts	-8,941	-64,787	-84,021	-98,856	-90,647
Total Assets = Liabilities	5,624	51,857	56,280	69,165	52,408
Notes in hands of public	1,961	17,437	18,924	23,256	17,622
Deposit money	3,652	34,421	37,356	45,909	34,786
<b>Stocks at year-end (percent of annual rate of GDP in December):</b>					
Net foreign assets	-1.50	-0.78	0.03	1.40	2.66
Net domestic credit					
To government	-0.46	0.44	0.97	1.42	2.01
To rest of economy	12.44	11.16	10.98	9.70	8.64
Net other accounts	-5.07	-5.41	-6.57	-7.12	-7.90
Total Assets = Liabilities	5.40	5.41	5.40	5.40	5.40
Notes in hands of public	1.81	1.81	1.81	1.81	1.81
Deposit money	3.58	3.58	3.58	3.58	3.58
<b>Flows during the year (percent of annual total GDP):</b>					
Net international reserves	6.24	1.07	0.76	1.55	1.42
Net domestic credit					
To government	-1.98	1.00	1.00	1.00	1.00
To rest of economy	46.58	19.95	7.11	3.51	1.20
Net other accounts	-31.20	-12.23	-5.31	-3.57	-2.29
Total Assets = Liabilities	19.63	9.79	3.56	2.50	1.32
Notes in hands of public	6.84	3.29	1.20	.84	0.45
Deposit money	12.75	6.50	2.36	1.66	0.88

Notes: Bank staff estimates for 1993 (based on monetary data provided by NBK) and Bank staff simulations for 1994-1997. Numbers may not add exactly because of rounding. December stocks as a share of GDP were calculated using estimates of the annual rate GDP for December. The stock for "net other accounts" includes all other asset and liability accounts; these estimates are strongly influenced by bank "profits" from high nominal interest rates (which are assumed to be added to capital and reserves) and, in the case of the figures on stocks, by the offsets to the revaluation of net foreign assets due to exchange rate changes. In the stock figures "net foreign assets" includes substantial long-term liabilities; in the flow data only international reserves are included and the change in long-term liabilities is part of "net other accounts."

enterprises either without means to survive while they are putting restructuring plans together, or without the financial means to implement their plans once they have been formulated. The simulated macroeconomic framework makes it clear that enterprises will become increasingly dependent upon their own cash flow as a source of capital (see Table 5.18). This will require reducing real labor costs. Enterprises are expected to reduce expenditures on social facilities (as these responsibilities are shifted to local authorities) and to shift many unnecessary workers from their own payroll to government unemployment compensation or temporary employment programs. But, in addition, supplementary financial support for enterprise restructuring should be available through the budget, but access to this "safety net" for enterprises should be conditional upon preparation and implementation of enterprise restructuring programs.

5.19 Changes in the "net other accounts" entry in the monetary survey are mainly the result of banking system profits being added to capital and reserves (plus, in the stock but not in the flow accounts, an adjustment to offset revaluation of net foreign assets due to exchange rate changes). These banking system "profits" are largely interest earned on the expanding stock of credit. In the case of the NBK, the "profits" represent seignorage rather than ordinary commercial profits. Part of this central bank profit is transferred to the budget and part is added to NBK capital and reserves (where it finances the increase in net international reserves). In the case of the commercial banks, large "profits" are reported as a result of lending rates which are high in nominal terms -- even though they may still be negative in real terms and thus not enough to maintain the real value of the capital on loan. However, interest rates charged by commercial banks are now close to the rate of inflation. Most, if not all, of the interest income which results really represents a return of capital rather than being "income" in the usual sense. The Bank staff's simulation assumes that nominal interest rates will move to levels which are moderately positive in real terms, and that the "profit" generated by high nominal interest rates will be added to the capital and reserves of the commercial banks concerned. Thus, in the accompanying Monetary Survey (Table 5.3), "net other accounts" appears as a large "negative asset" which allows for a higher level of net domestic credit than would otherwise be possible.

5.20 As individuals have sought to minimize forced savings and the burden of the inflation tax, the ratio of money to GDP (including both banknotes and deposit money) has fallen sharply -- from 80 percent at the end of 1991 to a little more than 5 percent at the end of 1993. An important issue is the extent to which this increase in velocity (or decline in real cash balances or drop in money supply as a share of GDP) will be stabilized and then reversed as inflation is brought under control. Changes in velocity are notoriously difficult to predict, especially when large changes in the rate of inflation are accompanied by variations in the availability and cost of credit and in the institutional structure of the banking system. The move to lending rates which are positive in real terms will, assuming deposit rates are substantially lower, be a strong incentive for enterprises to "economize" by reducing deposit balances which are financed by borrowing. In addition, the expected improvement in the efficiency of the clearing system should significantly reduce the financial resources now tied up in deposits awaiting clearing. These factors will tend to increase money velocity (reduce deposits as a share of GDP) and thus will be an offset to the reduction in velocity that would normally be expected to accompany bringing inflation under control. Balancing these considerations, the monetary survey projection in Table 5.3 assumes that the velocity of deposit money (and hence the stock of deposit money as a share of GDP) will remain

constant at the December 1993 level.<sup>1</sup> The velocity of currency is also assumed to be constant. Banknotes are assumed to stay at about 1.8 percent of GDP. It seems unlikely that individuals will wish to hold more than the minimum cash balances needed for transaction purposes, at least until close to the end of the simulation period when inflation should be more under control and the inflation tax should be significantly reduced.

5.21 The projected changes in real output were discussed above. In most normal situations, growth in real output (accompanied by nearly constant income velocity of money) would permit some monetary expansion, even though prices were almost stable. However, monetary management in Kazakhstan will have to take into account the likely further decline or stagnation in real output during 1994-1996.

5.22 The targets proposed for bringing inflation under control -- reducing monthly inflation rates to no more than 7 percent in December 1994, 5 percent in December 1995, 3 percent in December 1996, and 1 percent in December 1997 -- will require a radical change from past policies regarding net domestic credit. Perhaps the main question to be asked about the accompanying projection of the monetary survey is whether the projected restrictions on credit to the enterprise sector (the "rest of the economy") will be economically and socially acceptable. Credit policies must be tight enough to provide strong pressures for inefficient and loss making firms to undertake restructuring. But these firms must not be so hard pressed that the impact upon output and employment becomes so severe that the credit policies are reversed and the effort to bring inflation under control is at least temporarily abandoned. Moreover, the repeated "clearance of arrears" undermines the financial discipline needed in a market economy.

5.23 Some flexibility in credit to the enterprise sector could be obtained by sacrificing part of the projected increase in international reserves in favor of a greater expansion of credit to the enterprise sector. In the simulations this is particularly the case in 1996 and 1997. A decrease in reserve accumulation would have to be accompanied by an increase in net imports in order to provide the additional real resources needed to keep inflationary pressures in check. More generally, the balance of payments outlook is sufficiently favorable -- if problems related to the production and export of petroleum are resolved -- that Kazakhstan could think in terms of a moderately greater use of external resources than is indicated in the simulations. This would mean a somewhat larger current account deficit financed by a somewhat smaller reserve build-up and/or greater foreign borrowing.

5.24 Now that most interest rates are at or near the rate of inflation, borrowing from commercial banks will not provide a net transfer (net lending less interest payments) to the enterprise sector as a whole.<sup>2</sup> In each of the years 1994, 1995 and 1996, the projected December-to-December

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1. Insofar as enterprise deposits might vary from the assumed level, the change would be expected to result in an equivalent variation in credit to the enterprise sector; thus such variations in the velocity of deposits would not affect the extent to which the enterprise sector was able to use bank credit to finance payments to others.

2. The relationship between net transfer, growth in the stock of debt, and interest rates is easily seen from what happens when all interest payments are capitalized, but otherwise net lending is zero. Under these conditions the stock of debt will grow at a rate equal to the interest rate. However, if nominal interest rates are equal to or greater than the rate of inflation, the stock of credit outstanding will have to grow more rapidly than the rate of inflation for there to be any net transfer. The targets for bringing inflation under control imply, however, that the stock of credit must grow at a lower rate, thus making a negative net transfer unavoidable and adding to the liquidity problems of the enterprise sector.

increase in prices is more than the projected increase in the stock of credit during the same period; this indicates that, if real interest rates are positive, then the net transfer to borrowers from commercial banks will be negative.

5.25 As an alternative to providing directed credits through the banking system, the budget can and should provide support for specific enterprise restructuring plans. As discussed in Annex 3, budgetary financing will be required for a Rehabilitation Fund which will undertake restructuring of some of the largest enterprises. Loss making enterprises that need subsidies while restructuring plans (including downsizing and liquidation) are put into effect should not go to the commercial banks for this type of financing. At market interest rates, the net transfer would quickly become negative and thus add to the borrower's financial difficulties; the probability of default would be very high. Such loans would further weaken the portfolios of the lending banks and inhibit the development of a sound commercial banking system. Insofar as financial subsidies to support restructuring may be necessary (especially for the larger enterprises and those in single enterprise communities), they should come from budgetary resources rather than the banking system. In the past, open ended subsidies have been provided by directed bank credits at concessional interest rates; these should be completely eliminated. Where necessary for economic or social reasons, the appropriate replacement is grant finance from budgetary resources. But such grants should be conditioned upon preparation and implementation of restructuring programs that would, in a reasonable period, eliminate the need for such subsidies.

### **The Consolidated Government Budget**

5.26 Fiscal management in Kazakhstan has usually been analyzed on the basis of trends in the general government budget. Although this budget includes both local authorities and the central Government, it leaves out the extra-budgetary funds. This omission could be justified if one could safely assume that the extra-budgetary accounts would, as a group, be balanced and if, in addition, there were no need to consider questions of reallocation between the general budget and the extra-budgetary accounts. At present, however, neither of these conditions is fulfilled. There are major policy issues, particularly with respect to the social protection funds, which need to be considered as part of the budgetary review process. Moreover, the extra-budgetary accounts make major additions to the levels of taxation and expenditure, so general fiscal policy issues cannot be adequately considered without taking them into account. For these reasons, and also for reasons of administrative efficiency, the main extra-budgetary accounts recently have been placed under the control of the Finance Ministry. Although the new arrangements were effective as of April 1994, official budget data are not yet available in the form of consolidated accounts. However, in the accompanying macroeconomic framework we have included estimates for the extra-budgetary accounts, as well as for the general government budget. Table 5.4 presents the traditional general government budget, Table 5.5 presents a consolidation of eight important extra-budgetary accounts, and Table 5.6 combines the two into a consolidated Government budget.

5.27 The consolidated budget finances a wide range of expenditure programs, but for our purposes it is convenient to consider four broad classes of expenditures: (i) general Government administration; (ii) capital expenditures (including capital transfers to enterprises engaged in directly productive activities, as well as investments in economic and social infrastructure); (iii) social protection (including consumer subsidies); and (iv) economic subsidies to enterprises (including expenditures for traditional producer subsidies and the proposed economic restructuring safety net for enterprises). As the tax burden on enterprises and households is already substantial, the need for expenditures in these four

**Table 5.4**  
**General Government Budget (Estimated 1993 and Projected 1994-97 as percentages of GDP)**

	Estimate 1993	Projected 1994	Projected 1995	Projected 1996	Projected 1997
<b>Current revenues and grants</b>	<b>20.51</b>	<b>21.28</b>	<b>22.60</b>	<b>23.81</b>	<b>25.30</b>
Direct Taxes (base)	6.92	6.64	6.64	6.64	6.64
Indirect Taxes (base)	8.81	12.91	12.91	12.91	12.91
Non-Tax revenues	4.78	5.37	2.05	1.50	0.83
Short-fall in 1994	0.00	-3.64	0.00	0.00	0.00
Additional Tax Effort	0.00	0.00	1.00	2.76	4.92
<b>Current expenditures</b>	<b>22.48</b>	<b>24.31</b>	<b>24.05</b>	<b>25.26</b>	<b>24.64</b>
Base consumption	16.78	14.44	14.44	14.44	14.44
Add'l. social expenditures	--	--	0.50	1.00	1.50
Interest on domestic debt	0.00	0.00	0.00	1.12	0.69
Interest on external debt	0.11	0.69	0.69	0.69	0.69
Transfers to households	2.94	3.43	1.50	1.50	1.50
Consumer subsidies	0.65	0.50	0.50	0.50	0.50
Producer subsidies	1.11	2.69	2.69	2.69	2.69
Add'l. restructuring subsidies	--	0.50	0.50	0.25	0.00
To extrabudgetary funds	0.89	2.15	3.27	3.11	2.67
<b>Budgetary saving</b>	<b>-1.97</b>	<b>-3.03</b>	<b>-1.46</b>	<b>-1.45</b>	<b>0.66</b>
<b>Capital revenues</b>	<b>2.74</b>	<b>1.78</b>	<b>1.53</b>	<b>2.01</b>	<b>1.94</b>
<b>Investment Expenditures</b>	<b>2.21</b>	<b>4.20</b>	<b>4.20</b>	<b>4.45</b>	<b>4.95</b>
Base expenditures	--	3.95	3.95	3.95	3.95
Additional for restructuring	--	0.25	0.25	0.50	1.00
<b>Deficit (+) and its financing</b>	<b>1.44</b>	<b>5.45</b>	<b>4.13</b>	<b>3.89</b>	<b>2.35</b>
Arrears Clearance Costs	--	2.28	0.99	--	--
<b>Adjusted Deficit Financing (+)</b>	<b>1.44</b>	<b>7.73</b>	<b>5.13</b>	<b>3.89</b>	<b>2.35</b>
Borrowing from banking system	-2.09	1.00	1.00	1.00	1.00
Other domestic sources	3.21	1.89	0.99	1.12	0.31
External borrowing (net)	0.32	4.84	3.13	1.77	1.04

Source: Bank staff estimates and simulations. Grants are included in non-tax revenues. Official data for 1993 provide a functional, but not an economic, classification of budget expenditures. For 1993 the economic classification has been estimated on the basis of the proportions in the March 1993 budget proposal; the resulting figures may be substantially revised when the economic classification of actual expenditures becomes available. Note also that the distinction between producer subsidies and consumer subsidies is not conceptually clear and seems to be based upon whether the subsidy is made at an early or late stage in the production process. Data on deficit financing by source are taken from the monetary accounts and the balance of payments, with "other domestic sources" calculated as a residual.

areas must be balanced against the objective of keeping the tax burden under control. At the beginning of 1994, the tax burden was significantly eased. The enterprise wage tax was reduced from 37 percent to 30 percent of the wage fund in covered activities and the employee contribution of 1 percent of wages was abolished. Although the reduction from 37 to 30 percent has eased the financial burden on enterprises, it also complicates future fiscal management. Even after the cut in the tax rate, the wage tax

will still be, in terms of the financial resources mobilized, the most important tax in the country (with collections estimated at over six percent of GDP in 1993). Assuming the effective collection ratio (tax collected/tax due) is not significantly affected by the lower rate, the loss in revenues in 1994 is expected to be equivalent to 1.6 percent of GDP -- which is about 6 percent of consolidated Government tax receipts. This loss was only partially offset by the increase in the tax rates on enterprise profits that also became effective in 1994.

Table 5.5  
Consolidated Extra-budgetary Funds (Estimated 1993 and Projected 1994-97 as Percentages of GDP)

	Estimate 1993	Projected 1994	Projected 1995	Projected 1996	Projected 1997
Current receipts	14.69	14.33	15.22	15.64	15.56
Direct Taxes	10.15	9.71	10.04	10.75	11.18
Base collections	14.69	9.07	8.93	8.76	8.74
Improved compliance	--	0.64	1.11	1.99	2.44
Indirect Taxes	1.17	0.00	0.00	0.00	0.00
Non-Tax revenues	1.31	1.30	1.30	1.30	1.30
Extra-budgetary Grants	1.17	1.17	0.62	0.49	0.42
Transfers from budget	0.89	2.15	3.27	3.11	2.67
Current expenditures	10.71	10.74	11.60	11.98	11.87
Consumption	1.61	1.52	1.00	0.89	0.82
Transfers to households	6.68	7.88	9.30	9.80	9.76
Consumer subsidies	1.05	0.00	0.00	0.00	0.00
Producer subsidies	1.37	1.34	1.30	1.30	1.30
Extra-budgetary fund savings	3.98	3.59	3.62	3.66	3.69
Capital revenues	2.74	1.78	1.53	2.01	1.94
Capital expenditures	3.87	3.59	3.62	3.66	3.69
Regular investments	3.87	3.59	3.59	3.59	3.59
Temporary employment program	--	--	0.03	0.07	0.10
Transfers to budget	2.74	1.78	1.53	2.01	1.94
Surplus (+) or Deficit (-)	0.11	0.00	0.00	0.00	0.00
Borrowing from banking system	-0.41	0.00	0.00	0.00	0.00

Source: Bank staff estimates and simulations. This table consolidates data for the Pension Fund, the Social Insurance Fund, the Employment Fund (including estimated social assistance or unemployment benefits for the long-term unemployed), the Road Fund, the Passenger Transport Fund, the Hard Currency Fund, the Privatization Fund and data on extra-budgetary external grants. Transfers from the budget are projected at a level sufficient to reduce their net deficit to zero. (Consequently all deficit financing is included in Table 5.4.)

5.28 Trade-offs between the tax burden and expenditures need to be carefully considered. The accompanying projections are a start, but conclusions must be tentative until a more complete analysis can be done, particularly of expenditure requirements for investments in economic and social infrastructure and the costs of maintaining an adequate safety net for enterprises, as well as for individuals and households. In addition, in the absence of an appropriate capital market, the government must be expected to provide some capital transfers to, or to guarantee foreign borrowing by, directly productive activities. In making the present projections it was assumed that all borrowing in the name of the

Government of Kazakhstan is included in the budget, but that government guaranteed external borrowing would not be passed through the budget unless the resources were to be used to finance social and economic infrastructure normally provided by the public sector. It is assumed, however, that part of the budgeted level of investment expenditures would be used for capital transfers to help finance investments of industrial and agricultural sector enterprises that were undertaken as part of an approved restructuring program.

**5.29**        How the budget projections were made. The projections in Table 5.4 for the general Government budget are based in large part on expenditure and tax policies that were contained in the budget that was worked out in connection with the IMF Stand-By Arrangement (SBA) approved in January 1994. However, as the present simulation assumes higher inflation during 1994 than had been contemplated in the January SBA, we have taken the shares of GDP, rather than the nominal amounts, from the general government budget prepared in connection with the SBA. The shares of GDP taken from the January SBA budget include those for base direct tax revenues, base indirect tax revenues, grant receipts, budget consumption expenditures (excluding those for social services previously provided by enterprises), transfers to households (after 1994), consumer subsidies and base producer subsidies. These figures indicate what would happen if the tax and expenditure policies in the January 1994 SBA were successfully implemented; these receipts and expenditures are then projected to continue at the same level (as shares of GDP) as in the January 1994 program.

**5.30**        New estimates were made for transfers between the general budget and the extra-budgetary funds (based upon the analysis of the latter which is summarized in Table 5.5). Some additional amounts (identified as "Additional for Restructuring" in Table 5.4) were added to both producer subsidies and capital expenditures. Budgetary consumption was increased by an amount rising from 0.5 percent of GDP in 1995 to 1.5 percent of GDP in 1997 as an allowance for the additional expenditures that will result from the transfer of some social expenditures from enterprises to local authority budgets. A substantial "additional tax effort" was added which seemed necessary to finance the projected expenditures while still holding the overall deficit to a manageable level. Receipts from non-tax revenues depend primarily upon the trend in central bank "profits" which are remitted to the budget. As the rates of inflation and monetary expansion are reduced, budget receipts in the form of NBK "profits" will decline dramatically. This decline in what could be considered as "inflation tax revenues" may amount to 4.5 percent of GDP between 1994 and 1997, and accounts for much of the need to increase revenues from conventional taxation. To take into account the disappointing trends in tax collections in the first part of 1994, an adjustment for "possible revenue shortfalls" in 1994 was also included. The budget deficit, the deficit financing and interest on government debt were independently estimated by the Bank staff. The budget estimates in the macroeconomic framework simulations do not include government interest payments on its debt to the central bank, or interest earned on government deposits at the central bank, on the assumption that these flows would be exactly offset by changes in NBK "profits" remitted to the Treasury.

**5.31**        The projected consolidated budget. Table 5.6 summarizes a consolidated government budget that attempts to balance expenditure needs in the four expenditure classes mentioned in paragraph 5.27 with the need to keep the total tax burden under control. The most difficult year is 1994. The January SBA program included a sharp reduction in general government consumption expenditures which may not be easy to implement. (As indicated on Table 5.4, these consumption expenditures fall from an estimated 16.8 percent of GDP in 1993 to only 14.4 percent of a smaller GDP in 1994.) The clearance of arrears in April-May may add another 2.3 percent of GDP to consolidated government expenditures

**Table 5.6**  
**Consolidated Government Budget (Estimated 1993 and Projected 1994-97)**  
 [Regular budget and extra-budgetary funds; as percentages of GDP]

	Estimate 1993	Projected 1994	Projected 1995	Projected 1996	Projected 1997
<b>Current revenues and grants</b>	<b>34.31</b>	<b>33.45</b>	<b>34.55</b>	<b>36.34</b>	<b>38.19</b>
Direct Taxes	17.06	14.53	17.17	18.77	20.28
Indirect Taxes	9.98	11.09	13.41	14.30	15.38
Non-Tax revenues	6.09	6.67	3.33	2.80	2.13
External Grants	1.17	1.17	0.62	0.49	0.42
<b>Current expenditures</b>	<b>32.08</b>	<b>35.17</b>	<b>33.38</b>	<b>34.14</b>	<b>33.84</b>
Consumption	18.39	15.96	15.94	16.32	16.75
Interest on domestic debt	0.00	0.00	0.00	1.12	0.69
Interest on external debt	0.11	0.69	0.66	0.67	0.66
Transfers to households	9.62	11.31	10.80	11.30	11.26
Consumer subsidies	1.70	0.41	0.50	0.50	0.50
Producer subsidies	2.48	4.52	4.49	4.24	3.99
1994 arrears clearance costs	--	2.28	0.99	--	--
<b>Budgetary saving</b>	<b>2.01</b>	<b>-1.72</b>	<b>1.16</b>	<b>2.21</b>	<b>4.35</b>
<b>Capital revenues</b>	<b>2.74</b>	<b>1.78</b>	<b>1.53</b>	<b>2.01</b>	<b>1.94</b>
<b>Investment expenditures</b>	<b>6.08</b>	<b>7.79</b>	<b>7.82</b>	<b>8.10</b>	<b>8.64</b>
<b>Deficit (+) and its financing</b>	<b>-1.33</b>	<b>-7.73</b>	<b>-5.13</b>	<b>-3.89</b>	<b>-2.35</b>
Borrowing from banking system	-1.98	1.00	1.00	1.00	1.00
Other domestic sources	2.99	1.89	0.99	1.12	0.31
External borrowing (net)	0.32	4.84	3.13	1.77	1.04

Source: Bank staff estimates and simulations. Table 5.6 consolidates the budgetary data in Table 5.4 with the information on extra-budgetary funds summarized in Table 5.5. Intergovernmental transfers between the budget and the extra-budgetary accounts are excluded from the data in Table 5.6.

during this year. On the revenue side, tax collections in the initial months of 1994 were running well below expectations. The projections of the 1994 general Government budget that were made when the SBA was being prepared assumed that the extra-budgetary funds would, as a group, be in balance and thus would not add to the need for the Government to borrow from the banking system. However, this assumption now seems doubtful for two reasons. First, the revenues going to the extra-budgetary funds have been significantly reduced by the cut in the wage tax from 37 percent to 30 percent. Second, the original estimates did not adequately take into account the likely increase in unemployment and in expenditures by the Employment Fund. Taken together, these factors suggest a large increase in the consolidated budget deficit in 1994. With the addition of 2.3 percent of GDP as the estimated cost of the arrears clearance in 1994, even holding the consolidated deficit to 7 to 8 percent of GDP is likely to require considerable effort.

5.32 The extra-budgetary funds which are consolidated in Table 5.5 include the Pension Fund, the Social Insurance Fund, the Employment Fund (including new programs to assist the long-term unemployed), the Road Fund, the Passenger Transport Fund, the Privatization Fund, and until it was

abolished at the end of 1993, the Hard Currency Fund. The consolidated extra-budgetary funds budget summary also includes an account for external grants which are not included in the budget. Receipts from the sale of some goods provided by grant assistance are transferred to the budget as non-tax revenues "from foreign economic activities." The overall position of these extra-budgetary accounts is determined largely by what happens in the three social protection funds (the Pension Fund, the Social Insurance Fund and the Employment Fund).

5.33 One approach to fiscal management would be to say that the extra-budgetary funds, as a group, should be in balance. A number of potential policy options, set forth in Annex 4, could directly increase revenue receipts in these funds. In practice, a policy of "balanced accounts" for the social protection funds is likely to mean that benefit levels would be reduced to the point that they could be fully financed from expected revenues from the wage and employment taxes. However, a more desirable approach would be to try to balance the conflicting objectives by looking at the consolidated government budget as a whole, with transfers between the general government budget and the social protection funds if this was what resulted from the desirable compositions of consolidated expenditures and consolidated revenues. Thus, one would balance the needs for social protection expenditures with those in other areas, as well as with the need to control both the tax burden and the total deficit.

5.34 Expenditures for social protection. Expenditures for social protection, including consumer subsidies and other transfers, are summarized in Table 5.7. In 1994 these expenditures are expected to fall by 3 percent in real terms, but still increase somewhat as a share of GDP (because real GDP declines by 7.5 percent). Pension and unemployment compensation payments account for this increase. Even as a share of GDP, there is expected to be a decline in consumer subsidies and other transfers to households (including those from the Social Insurance Fund). However, the reduction in universal consumer subsidies is expected to be accompanied by a shift to more targeted subsidies and income transfers.

5.35 Total social protection expenditures are projected to gradually rise to 13.4 percent of GDP in 1997. The increase in unemployment benefits alone is expected to be 1.9 percent of GDP, and accounts for over 90 percent of the growth in this measure of total social protection expenditures. This projected budget for unemployment compensation assumes that (i) registered unemployment will gradually rise to 12 percent of the labor force (see Table 5.2); (ii) that benefits cover the long-term unemployed as well as those unemployed for six months or less; and (iii) that the average payment per beneficiary is held constant in real terms at a level equal to 36 percent of the average cash wage in 1993. As a

Table 5.7  
Social Protection Budget (as percentage of GDP)

	1993	1994	1995	1996	1997
Total Social Protection	11.32	11.82	11.83	12.86	13.36
Pension Fund transfers to households	5.73	6.64	7.30	7.32	7.18
Social Insurance transfers to households	0.94	0.77	0.72	0.72	0.69
Consumer subsidies & other transfers	4.64	3.93	2.00	2.00	2.00
Unemployment benefits	0.01	0.47	1.28	1.76	1.88
Temporary employment program additional payments	--	--	0.03	0.07	0.10
Add'l social expenses	--	--	0.50	1.00	1.50
Index of total expenditures in real terms	100.0	97.0	95.7	105.1	111.7

Source: Bank staff estimates and simulations. The estimates for unemployment benefits assume benefits will be paid to long-term unemployed, although under present law unemployment compensation is limited to the first six months of unemployment.

large part of labor remuneration is traditionally in the form of bonuses and non-cash benefits, the projected unemployment benefit is only about 20 percent of total wages-plus-benefits in 1993.

5.36 The social protection budget in the medium-term simulation includes provision for the additional costs of a modest temporary employment program in which the average wage would be 25 percent greater than the unemployment benefit. The number of unemployed involved in the temporary employment program is, in the projections, assumed to gradually rise to 25 percent of the long-term unemployed. The size of the program should, however, depend largely upon the opportunities for using the unemployed to carry out useful temporary employment works. It is assumed that the non-wage costs of the program will be covered out of the existing budget for investment expenditures. A temporary employment program should be prepared, with its actual scope to be determined in the light of experience. For individuals who have been receiving unemployment benefits for an extended period (e.g., 18 to 24 months), it might be desirable to limit benefits to those who are enrolled in the temporary employment program. This recognizes the need to provide benefits for those suffering from structural and long-term unemployment, while at the same time avoiding continuing to pay benefits to those who in fact are unwilling to accept a regular job. The relatively modest level of unemployment benefits, relative to the average effective remuneration (about 20 percent of wages-plus-benefits), provides a strong incentive for the unemployed to seek regular employment.

5.37 The projected growth of Pension Fund expenditures in 1994-1997 reflects in large part the changing age structure of the population. While total population is assumed to grow at 0.86 percent per annum, the population eligible for pensions is projected to grow at 1.71 percent per annum. The average benefit level is held constant in real terms at the 1993 level. This level is equivalent to about one-fourth of per capita consumption in 1990, and must be seen as a very modest, if not parsimonious, level for a society in which most elderly people have few, if any, assets and no other source of retirement income. While household savings deposits at one time had been an important form of financial assets (and were still equivalent to about 25 percent of GDP at the end of 1991), as a result of inflation the real value of these deposits has shrunk to insignificance. Generally without other assets (except in some cases housing), retired households are practically totally dependent on their state pensions. Looking at all forms of projected revenues and expenditures, however, it is not possible to see how the average pension benefit could be increased significantly above the presently projected level. Given the reduction in the wage tax from 37 to 30 percent (along with elimination of the 1 percent additional tax previously paid by employees), even with substantial improvement in taxpayer compliance, the revenues of the Pension Fund will not be sufficient to finance even the proposed modest level of benefits. The deficit in the Pension Fund will have to be covered by transfers from the general government budget, averaging about 1.4 percent of GDP in 1994-1997. Thus, the tax reductions effective at the start of 1994 have changed the Pension Fund from one which might have run a modest surplus, to one which will run a substantial deficit.

5.38 The expenditures of the Social Insurance Fund are assumed to drop substantially as it reduces and then stops financing sanatoria visits. A sharp reduction in SIF's expenditures became inevitable when, in the last quarter of 1993, its share in the wage tax was reduced from 19.5 percent to 10 percent. The subsequent reduction in the wage tax further reduced its resources. However, if the sanatoria programs are totally eliminated, it would be possible to maintain all the other cash benefit programs at their 1993 levels (in real terms) and still run a modest surplus. The simulations assume that this surplus (projected to average 0.3 percent of GDP in 1994-97) would be available to finance other social protection programs.

5.39 In summary, the budget for social protection is tight -- especially given expectations regarding the level of old age pensions and the past absence of any significant unemployment. But even the levels projected will be manageable only if other expenditure categories are kept under tight control and, even then, only if tax revenues can be increased substantially (see paras. 5.52-5.53 below).

#### 5.40 Consolidated government capital expenditures.

Capital spending has been one of the most severely reduced consolidated government budget items in the last few years, dropping from 11.4 percent of GDP in 1992 to an estimated 6.1 percent in 1993. The deterioration in social and economic infrastructure is a growing source of concern. In present circumstances, increasing investment in economic infrastructure clearly complements rather than competes with, investments in directly productive activities. Deteriorating economic

infrastructure will frustrate the economic output targets unless investment expenditures in key sectors can be restored. Moreover, in the absence at a long-term capital market, there is an equally urgent need to expand capital transfers to directly productive activities in order to support economic restructuring programs.

5.41 Starting from the low 1993 base, the projected 1994-1997 consolidated budget would provide for a substantial recovery in government financed investments in real terms. The index of real investment expenditures is projected to increase by 22 percent over the period, 1993 to 1997. Investment expenditures, however, would still be well below 1992 levels. To meet priority needs and still keep within this budget will require careful balancing of the competing needs of the different infrastructure sectors, as well as of the need for some capital transfers to support the investment portions of agreed enterprise restructuring programs. However, enterprises will have to finance most of their investment expenditures out of their normal cash flow, including depreciation allowances, supplemented in some cases by external equity and loan financing. Banking system credits are not expected to play a significant role because they are mostly very short-term working capital credits, and partly because the net transfer from these credits is likely to be negative. While a negative net transfer is normal on a long-term commercial loan, the grace period and maturity must be sufficiently long to permit the loan to be serviced from the increased output which results from the investment. This is clearly not the case with commercial bank credit in Kazakhstan. And the development of a capital market which mobilizes significant domestic resources suitable for financing long-term investment is likely to take some time. While capital transfers from the Government will inevitably be a small part of total investment, they are still likely to be an essential part of economic restructuring for some distressed enterprises that are unable to finance necessary new investment from depreciation allowances, retained profits and external sources.

5.42 The projected resources available for capital expenditures consist of the amounts in the 1994 budget estimates plus an amount for additional investment in industrial restructuring that Bank staff

Table 5.8  
Capital Expenditures (as a percentage of GDP)

	1993	1994	1995	1996	1997
Total resources available for capital expenditures	6.08	7.79	7.79	8.04	8.54
Base expenditures in regular budget	2.21	3.95	3.95	3.95	3.95
Additional investment in restructuring	--	0.25	0.25	0.50	1.00
From extra-budgetary resources	3.87	3.59	3.59	3.59	3.59
Index of total expenditures in real terms	100.0	95.0	101.6	108.7	122.0

Source: Bank staff estimates and simulations.

believe would be both desirable and feasible within the overall consolidated fiscal program. This latter amount rises from 0.25 percent of GDP in 1994 to 1.0 percent by 1997. While capital transfers to public enterprises that are expected to remain in the public sector can be made as equity investments, those to directly productive enterprises that have been privatized or are in the course of privatization would normally be made as loans on commercial terms. Although budgetary capital transfers are already usually made as loans, these loans have been made at such low nominal interest that inflation has converted them into near grants. As directly productive activities financed by government loans should be both economically and financially viable, these loans should be made at positive real interest rates. However, such loans should normally have relatively long grace periods and maturities, and have the principal (rather than the interest rate) indexed for inflation. Doubtless some enterprises will need subsidies in addition to loans on commercial terms, but these needs should be treated separately and are discussed below, under the heading, "Producer Subsidies and Restructuring Subsidies".

5.43 With the very limited capital expenditures budget, it would be highly desirable to reduce, if not eliminate, the degree of "earmarking" that now exists. The needs met by the Road Fund are no doubt very important, but nonetheless the projects financed from the Road Fund should be tested against alternative uses of the same resources. Only as specific investment programs and projects are prepared in the areas that are candidates for budgetary resources will it be possible to make specific project, sector and sub-sector allocations. The Kazakhstan authorities have taken a major step in this work by preparing investment programs for four key areas -- fuel and energy, transport and communication, metallic minerals, and food and other consumer goods. But even within these priority sectors, the overall budget constraint means that it will be necessary to review proposals against alternative demands. The global estimates for budgetary capital expenditures in the macro framework, however, represent an amount which seems reasonable in relation to other elements of the program. If there is sufficient flexibility for reallocation between sectors and objectives, a budgetary capital expenditures program of this magnitude should at least meet the highest priority needs over the next few years. While government guaranteed external borrowing by enterprises engaged in directly productive (rather than infrastructure) sectors is considered non-budgetary, both these guarantees and any budgetary allocations should be based upon careful analysis of the economic and financial feasibility of the projects concerned.

#### 5.44 Producer subsidies and restructuring subsidies.

As discussed in Annex 2, a wide range of subsidies remain in the Kazakh economy. Many of these are implicit in the prevailing price and credit system, and need not be financed by the budget. Even when included in the budget, there are problems of distinguishing between "producer" and "consumer" subsidies as well as problems of classification between subsidies and transfers. The budget data on subsidies are further confused by the shift of subsidies from the

monetary system to the budget. This shift is most clearly seen with the April-May clearance of arrears, for which the financial responsibility rests with the Finance Ministry rather than with the monetary

Table 5.9  
Budget for Subsidies to Enterprises (as percentage of GDP)

	1993	1994	1995	1996	1997
Total resources available for subsidies to enterprises	2.48	6.80	5.48	4.24	3.99
Subsidies in regular budget	1.11	2.69	2.69	2.69	2.69
Subsidies in extra-budgetary accounts	1.37	1.34	1.30	1.30	1.30
Additional subsidies for restructuring	--	0.50	0.50	0.25	0.00
1994 arrears clearance cost	--	2.28	0.99	--	--
Index of total expenditures in real terms	100	256	207	163	159

Source: Bank staff estimates and simulations.

authorities. The Government has also indicated its intention to shift subsidies to enterprises from the credit system (where they usually take the form of interest rates which were far below the rate of inflation) to the budget, but this has not yet been fully implemented. For all of these reasons it is difficult to make comparisons between the estimates for 1993 and the projections for 1994-97.

5.45 Producer subsidies from the extra-budgetary accounts have in the past been small. In 1992 they consisted only of limited subsidies from the Employment Fund to enterprises, to enable them to maintain employment levels. In 1993, the Passenger Transport Fund came into existence with its own tax base; while it could result in a substantial addition to total subsidies, this extrabudgetary fund is locally administered and good data on receipts and expenditures are not available. While the regular budget may appear to include a substantial increase in producer subsidies in the 1994 estimates, this is believed to be the result of where and how subsidies are classified rather than a real increase. There will be, however, a major increase in producer subsidies in 1994 as a result of the clearance of arrears. Our estimates of a cost of 2.3 percent of GDP in 1994 and 1.0 percent of GDP in 1995 are based on the following assumptions: (i) agricultural sector net arrears to enterprises amount to 10 billion tenge and none of this will ever be repaid, (ii) industrial sector arrears to enterprises and to the Finance Ministry also amount to 10 billion tenge, but half of this will be repaid (with interest) at the end of the three-month period specified in the relevant decree, and (iii) to the extent of 10 million tenge, payments to the net creditors will be made in the form of dollar denominated government bonds which will be redeemed in 1995 (and whose redemption will involve additional costs due to interest and exchange rate indexation equivalent to 1.0 percent of GDP in 1995).

5.46 Available information does not make it possible to accurately project the need for subsidies to support enterprises while restructuring plans are being prepared and implemented. Given the tight budgetary situation, the need for restructuring subsidies will have to be met largely by reallocating the producer subsidies which are already in the budget. Consolidating regular budget and extrabudgetary accounts, these amount to 4.0 percent of GDP in the 1994 (see Table 5.9). Because the need for restructuring subsidies is likely to be substantial and it will take some time to reprogram the existing producer subsidies, the budget projections prepared for the Bank staff's macro framework provide some additional funds for restructuring purposes. Additional financing, on the order of 0.5 percent of GDP, might be required in 1994 and 1995. This would be consistent with the level of budgetary support provided in a number of Eastern European economies in transition. The amount would be phased down in 1996 and phased out in 1997, since reprogramming of other producer subsidies should meet the need by that time.

5.47 Although this quantification of the need for restructuring subsidies is clearly tentative and subject to revision, there can be little doubt that this kind of assistance will be needed. It also seems clear that it would be better to provide the necessary subsidies through budgetary grants rather than bank credit, since it will be impossible to develop a healthy commercial banking system (and useless to attempt any serious financial sector reform) if banks continue to make loans to enterprises which, in reality, require subsidies to avoid immediate collapse. Moreover, with interest rates near the rate of inflation, short-term bank credits will not result in effective subsidies to the borrowers unless the latter default on their obligations. While questions can always be raised about the capacity of any public agency to "pick winners" (and losers), at least in the case of the larger enterprises, there is no real alternative in Kazakhstan. Particularly where there are whole subsectors that need to be downsized, the approach to restructuring needs to be on a subsector basis. Even in highly industrialized market economies with sophisticated capital markets, experience indicates that the Government generally gets involved when

major corporations are concerned (and local governments may get involved even when smaller enterprises are concerned). During 1992 and 1993, the Government provided large subsidies to enterprises through directed credits; although classified in the budget as investment expenditures, additional subsidies were provided by loans from the Investment Fund which were made at interest rates far below the rate of inflation.

5.48 Just as there must be a safety net for individuals and households, there must also be a safety net for distressed enterprises. However, an effort should be made clearly to separate "bankable" operations from those that are, or should realistically be expected to become, subsidies. "Bankable" operations should be financed by long-term capital resources on commercial terms. In contrast, assistance to distressed enterprises should be: (i) financed from the budget, (ii) provided on a grant basis (or, for activities expected to remain in the public sector, an equity basis), and (iii) always conditioned upon the preparation and implementation of an agreed restructuring program (which in some cases will necessarily involve difficult decisions to down-size or liquidate the enterprise concerned). To attempt to tighten bank credit without such a safety net for distressed enterprises is not really credible. The economic, social and political pressures to use bank credit to "bail out" distressed firms will almost certainly overwhelm the intentions of those trying to implement a tighter monetary policy. When subsidies are given in response to political pressures, inadequate attention is likely to be given to preparing and implementing the necessary restructuring plans, and the likely result will be a continued "bailing out" of distressed firms and a worsening macroeconomic situation.

#### 5.49 Consolidated budget expenditures.

As a share of GDP, consolidated budget expenditures are expected to increase between 1993 and 1994 (see Table 5.10). However, several things should be noted about this increase: (i) in real terms expenditures increase by only 4 percent, and this increase follows a 30 percent decline between 1992 and 1993, (ii) when one looks at expenditures in real terms excluding the costs of arrears clearance, there is a small further decline in 1994, and (iii) the increased expenditures are largely for transfers to the rest of the economy rather than for expenditures involving the use of real resources by the government. In particular, consumption expenditures are expected to decline from 18.7 percent of GDP in 1993 to only 15.0 percent of GDP in 1994.

Table 5.10  
Total Expenditures (as percentage of GDP)

	1993	1994	1995	1996	1997
Social Protection	11.32	11.73	11.83	12.86	13.36
Capital expenditures	6.08	7.79	7.79	8.04	8.54
Restructuring and producers' subsidies	<u>2.48</u>	<u>6.80</u>	<u>5.48</u>	<u>4.24</u>	<u>3.99</u>
Sub-total for above "3 objectives"	19.88	26.32	25.10	25.14	25.88
Consumption expenditures	18.67	15.96	15.44	15.32	15.25
Interest payments	<u>0.11</u>	<u>0.69</u>	<u>0.66</u>	<u>1.78</u>	<u>1.34</u>
Total expenditures	38.38	43.05	41.20	42.24	42.48
Index of expenditures in real terms					
Including clearance of arrears	100	104	100	105	109
Excluding clearance of arrears	100	98	98	105	109

Source: Bank staff estimates and simulations. Note that data for 1994-97 are not comparable with data for 1993 because of the additional expenditure responsibilities that are shifted to the budget beginning in 1994. The index of expenditures in real terms excluding clearance of arrears only partially compensates for this shift.

5.50 In the projected expenditures for 1994-97, 60 percent of government expenditures are related to the three areas discussed above -- social protection, capital investments (including some capital

transfers to directly productive enterprises) and producers' subsidies (which should be increasingly reprogrammed to support restructuring objectives). The remaining nearly 40 percent consists mainly of consumption expenditures (for general administration, law enforcement, defense, health, education and culture). While interest on government debt grows as a share of GDP, the increase is offset by some further decline in consumption expenditures. The use of real resources by the Government is much less than the figures for total expenditures would suggest. Except for investments in economic and social infrastructure, and for social services previously provided by enterprises, all the expenditures for the "three objectives" represent transfers to the rest of the economy which will finance consumption and investment by households and enterprises.

5.51 The simulated trend in total government expenditures involves a modest decline, from 43.0 to 42.5 percent of GDP, between 1994 and 1997. The most important factors tending to increase government expenditures are the growth in unemployment compensation benefits and the transfer of social functions from enterprises to local authorities. Both of these changes will reduce financial pressures upon enterprises. The most important factor leading to a decrease in government expenditures is the assumed non-repetition of the arrears clearance process. Significant changes in the level of other expenditures are not projected; the projected increase in interest costs is offset by reductions in expenditures for consumption. In terms of fiscal management, this is an ambitious target -- especially in 1994. A significantly more restrictive expenditure program seems neither desirable nor realistic; significantly less restrictive program would compromise the objective of bringing inflation under control.

#### 5.52 Consolidated budget revenues and deficit financing.

Even the restricted expenditure levels summarized above will require a large increase in tax revenues if they are to be carried out while reducing the budget deficit to levels consistent with a progressive reduction in the rate of inflation. The required "tax effort," to be implemented over the 1994-97 period, is estimated at about 7.4 percent of GDP. (See Table 5.11.) About 2.4 percentage points might come from improving compliance with the wage tax (which deteriorated in 1993 and early 1994). Another nearly 5.0 percentage points would have to come from other additional "tax effort" (improved administration, higher rates or new taxes). By any standard, this is a very ambitious target. The need for such a large increase in revenues over

the coming years reflects partly the need to make up for the decline in the wage tax rate at the beginning of 1994 (which reduced revenues by about 1.6 percent of GDP). However, a more important factor is the expected decline in non-tax current revenues in the form of NBK "profits" (see table). This decline

Table 5.11  
Budget Revenues and Deficit Financing (as share of GDP)

	1993	1994	1995	1996	1997
Total consolidated budget expenditures	38.38	42.96	41.20	42.24	42.48
Total revenues from taxes	27.05	25.62	30.59	33.07	35.65
From existing system	27.05	24.98	28.49	28.31	28.30
From wage tax administration	--	0.64	1.11	1.99	2.44
From other additional tax effort	--	--	1.00	2.76	4.92
Non-tax current revenues	7.26	7.84	3.96	3.28	2.54
(of which NBK profits)	(n.a.)	(4.92)	(1.60)	(1.05)	(0.38)
Capital revenues	2.74	1.78	1.53	2.01	1.94
Budget deficit (+) & deficit financing	1.33	7.73	5.13	3.89	2.35
Borrowing from banking system	-1.98	1.00	1.00	1.00	1.00
Other domestic borrowing	2.99	1.89	0.99	1.12	0.31
External loans (net)	0.32	4.84	3.13	1.77	1.04

Source: Bank staff estimates and simulations. Note that data for 1994-97 are not comparable with data for 1993 because of the additional expenditure responsibilities that are shifted to the budget beginning in 1994.

is perhaps better thought of as a decline in the receipts that can be expected from the "inflation tax" -- which are collected in the form of NBK "profits" transferred to the budget. It is really seignorage on the expansion of the money supply. Over the next four years the decline in potential budget receipts from the "inflation tax" will amount to about 4.5 percent of GDP.

**5.53** The best ways to increase tax receipts can only be determined after reviewing the present system, so that consideration can be given both to the structure of the tax system and to strengthening tax administration. As existing tax rates are generally high, first attention should be given to improving compliance with the existing tax laws rather than to further increases in tax rates. Work has been initiated on an appropriate system of natural resource taxation; these taxes are a way of sharing with the whole economy the large "economic rents" that will be created as Kazakhstan's natural resources are exploited. Also, a substantial portion of the employed population does not now contribute to the social protection funds; as discussed in Annex 4, consideration should be given to how they can be brought into the system. Tax exemptions could be greatly reduced and employees, as well as employers, could contribute to the Pension and Employment Funds. A range of tax reform possibilities should be considered, with particular attention to how the growing private enterprise sector of the economy would be most appropriately taxed.

**5.54** In the simulated macroeconomic framework the consolidated budget deficit declines from about 7.8 percent of GDP in 1994 to 2.8 percent of GDP in 1997. This would permit borrowing from the monetary system to be limited to no more than 1.0 percent of GDP. Additional domestic resources could be mobilized by non-bank domestic borrowing (which averages 1.1 percent of GDP annually in simulations for 1994-97). The domestic borrowing in 1994 is taking the form of dollar denominated one year bonds issued in connection with the clearance of arrears. Borrowing could also be done using short-term Treasury notes or similar paper. Both types of instruments could contribute to developing the financial sector, as well as providing resources for the budget. Market determination of the interest rate on short-term Treasury notes would be a useful indicator for interest rates. Net external borrowing to finance the budget deficit is projected to decline from nearly 5.0 percent of GDP in 1994 to 1.0 percent of GDP in 1997. This decline in net foreign borrowing reflects both the growth in repayment obligations and, because it is measured as a share of GDP, the revaluation of the tenge that can be expected to accompany growing monetary stability.

### **The Balance of Payments and External Finance**

**5.55** Trends in the balance of payments. Although there are some important uncertainties, Kazakhstan's balance of payments prospects for the medium-term are generally good. With extensive natural resource wealth in metallic minerals, coal and petroleum, it has an unusually favorable resource base. However, its landlocked position in Central Asia makes it necessary to have durable trade and transit agreements with its neighbors. A major uncertainty is how the country's petroleum wealth can be brought to the world market, since the present dependence upon Russia leaves Kazakhstan in a weak position. The capital account as well as the current account benefits from the country's natural resource wealth. Not only will there be a large inflow of direct foreign investment, but international lenders will look more favorably upon lending to Kazakh borrowers because of the country's strong export potential and expected creditworthiness.

5.56 Basic data on the balance of payments outlook are provided in Table 5.13, including separate current accounts for FSU and non-FSU transactions. Table 5.12 provides a summary which consolidates flows with FSU and non-FSU trading partners and looks at annual averages for the four year period, 1994-97. The average annual resource balance deficit is \$1.0 billion, and the average annual current account deficit is \$1.3 billion, during the period. These averages, however, conceal the facts that (i) the deficits are initially entirely with the FSU area while there are surpluses on non-FSU current transactions, and (ii)

there is a gradual change during the period, with the growth of a current account deficit on non-FSU transactions being offset by a decline in the deficit with FSU partners. Because the outflows from interest payments on external debt and profit remittances on direct foreign investment are growing over the period, consolidated net factor service payments are about US\$700 million in 1997 (compared to the period average of US\$443.1 million). However, because of the strong trade performance, the consolidated current account deficit in 1997 is projected at nearly US\$100 million less than the average for the four-year period. The average current account deficit of 5.4 percent of GDP in 1994-97 is above the level that can normally be sustained by a country whose external financing consists of loans on commercial terms and direct foreign investments. However, this comparatively high deficit figure partially reflects the undervaluation of the tenge in the initial years. At current prices and exchange rates, the current account deficit is declining during the period and is down to 3.7 percent of GDP in 1997.

5.57 Direct foreign investment, primarily in the petroleum sector, plays a major role in the capital account. The expected inflows rise from US\$330 million in 1994, to US\$912 million in 1997. The average annual inflow during the four-year period is US\$608 million. The capital account is summarized in Table 5.14. When trade credits and M&LT loans are combined, net borrowing is expected to average around US\$840 million annually. The only exceptional financing in the projection takes place in 1994 and consists of an inflow in the form of deferred principal repayments on the state loan from Russia that is more than offset by a projected reduction in interrepublican arrears. The projection includes an average of about US\$80 million annually in "errors and omissions;" this is an allowance for unrecorded capital flight. However, holding capital flight to this level depends upon both the reasonable success of the stabilization effort and having domestic interest rates that offer an adequate return to savers. The development of a domestic market for dollar denominated bonds could offer an attractive alternative to capital flight.

5.58 The BOP simulations suggest a very comfortable build-up in Kazakhstan's foreign exchange reserves during the next several years. Including gold from domestic sources, increases in net foreign exchange reserves would average over US\$300 million annually during 1994-1997; net international reserves would rise from an estimated \$721 million at the end of 1993 to a projected \$1,928

Table 5.12  
Current Account Annual Averages

	1994-1997 Annual Average (in millions of US\$)	Average Annual as percentage of GDP
Merchandise exports	7,467.9	31.1
Merchandise imports	8,230.2	34.2
Trade balance	-762.3	-3.2
Net non-factor services	-237.9	-1.0
Resource balance	-1,000.2	-4.2
Net factor services	-443.3	-1.8
Net current transfers	142.5	0.6
Current account balance	-1,300.9	-5.4

Source: Bank staff estimates and simulations. Shares of GDP reflect relative undervaluation of the tenge in earlier period, and are higher than would be the

**Table 5.13**  
**The Balance of Payments (Estimated 1993 and Simulated 1994-1997, in millions of US\$)**

	1993	1994	1995	1996	1997
<b>Non-FSU Current Account</b>					
Exports (merchandise)	1,529.0	1,770.0	1,977.0	2,195.0	2,811.0
Imports (merchandise)	1,269.3	1,434.3	1,593.0	1,771.0	2,092.0
Trade balance	259.7	335.7	384.0	424.0	719.0
Non-factor services (net)	-105.1	-157.0	-174.4	-193.9	-229.0
Resource balance	154.6	178.7	209.6	230.1	490.0
Net factor services	-46.3	-175.0	-232.2	-415.5	-637.7
Factor income	0.0	43.0	40.1	43.4	56.7
Factor payments	46.3	218.0	272.3	458.9	694.4
Budget interest payments	11.0	11.5	61.3	106.8	149.0
Other interest payments	19.3	57.5	65.9	88.1	105.8
Profit remittances	16.0	149.0	145.1	264.0	439.6
Net current transfers	65.0	80.0	20.0	20.0	20.0
Current account balance	173.3	83.7	-2.6	-165.4	-127.7
<b>FSU Current Account</b>					
Exports (merchandise)	2,393.6	4,139.2	4,522.9	5,900.3	6,556.3
Imports (merchandise)	3,197.1	5,411.1	5,902.7	7,082.4	7,674.3
Trade balance	-803.5	-1,271.9	-1,379.8	-1,182.1	-1,078.0
Non-factor services (net)	-40.4	-41.0	-44.7	-53.7	-57.8
Resource balance	-843.9	-1,312.9	-1,424.5	-1,235.8	-1,135.8
Net factor services	0.0	-86.0	-83.9	-78.4	-64.3
Factor income	0.0	0.0	0.0	0.0	0.0
Factor payments	0.0	86.0	83.9	78.4	64.3
Net current transfers	55.0	85.0	115.0	115.0	115.0
Current account balance	-788.9	-1,313.9	-1,393.4	-1,199.2	-1,085.1
<b>Consolidated current account balance</b>	<b>-615.6</b>	<b>-1,230.2</b>	<b>-1,396.0</b>	<b>-1,364.6</b>	<b>-1,212.8</b>
<b>Consolidated Capital Account</b>					
Direct foreign investment	123.0	330.0	345.0	844.0	912.0
Government M&LT loans	33.2	598.8	684.0	492.2	337.2
Disbursements	32.2	598.8	684.0	735.0	588.0
Repayments	-1.0	0.0	0.0	242.8	250.8
ROE Trade credits	362.5	365.2	362.5	290.0	232.0
Disbursements	422.4	461.8	520.0	520.0	520.0
Repayments	59.9	96.6	157.5	230.0	288.0
Exceptional Financing	780.5	-62.2	0.0	0.0	0.0
Debt deferral (government)	0.0	86.0	0.0	0.0	0.0
Increase in arrears (ROE)	372.5	-148.2	0.0	0.0	0.0
Correspondence accounts (government)	408.0	0.0	0.0	0.0	0.0
Capital not elsewhere included	-146.8	0.0	0.0	0.0	0.0
Errors and omissions	-170.8	-100.0	-80.0	-80.0	-60.0
Capital account balance	981.6	1131.8	1311.5	1546.2	1421.2
Change in foreign exchange reserves	366.0	-98.4	-84.5	181.6	208.4

[ + indicates increase; excludes increases in gold reserves estimated at \$250 million annually]

Source: Ministry of Economy and Bank staff for 1993 estimates; Bank staff simulations for 1994-97. The large increase in the dollar value of FSU trade in 1994 reflects the real appreciation of the ruble and tenge rather than increases in the volume of trade. Volumes are in fact expected to decline somewhat. The appreciation of the real exchange rate, average 1994 over average 1993, reflects developments in 1993. By December 1993 the Kazakh ruble/tenge had appreciated 75 percent in real terms compared with the average for the year; no further appreciation is assumed between December 1993 and December 1994.

million at the end of 1997. The increase in gross reserves would be somewhat greater, primarily because of assumed IMF drawings in 1994 and 1995. In terms of months of import coverage, the central bank's gross foreign exchange reserves, including gold, rise from the equivalent of 2.5 months imports at the end of 1993 to 3.24 months imports at the end of 1997. As noted in the discussion of the monetary survey, the projected increase in reserves is particularly large in 1996 and 1997, and could be a source of some flexibility in designing the financial programs for those years.

5.59 More generally, the favorable balance of payments and reserve situation offers a margin of comfort for the economic managers who, in most other areas, face extremely difficult problems. The nation's gold and foreign exchange reserves are intended for use when unforeseen difficulties arise and are there to be drawn upon to protect other aspects of the economic program. By maintaining a flexible exchange rate, with the level fixed in the auction market, the authorities can choose to enter the market to buy for reserves or can leave the foreign

exchange in the market, where the increased supply should have the desired effect on the exchange rate and the level of imports. Also, should the enterprise sector need a somewhat higher level of trade credits to help finance the industrial restructuring effort, the country should be creditworthy for the increased level of external borrowing. Since lenders will probably ask for government guarantees on such lending, it will be important that the Ministry of Finance develop procedures for the necessary technical and financial reviews. Given the favorable longer-term outlook for Kazakhstan's balance of payments, the effectiveness with which external financing is used will be more important than the precise level of external financing. This will be true for both creditworthiness and economic growth.

5.60 Despite the large nominal devaluation, in real terms there was a strong appreciation of the Kazakh currency during 1993. The index of the real exchange rate (see Table 5.16) appreciated by 176 percent between December 1992 and December 1993. While the nominal rate will of course respond to fiscal and monetary management and to expectations regarding future policies, over the medium term

Table 5.14  
Capital Account Annual Averages

	1994-1997 Annual Average (in millions of US\$)	Average Annual as percentage of GDP
Direct foreign investment	607.8	2.5
Net government M&LT borrowing	528.1	2.2
Net trade credits (ROE)	312.4	1.3
Exceptional financing (1994 only)	-15.5	-0.1
Errors and omissions	-80.0	-0.3
Capital account balance	1,352.7	5.6

Source: Bank staff estimates and simulations.

Table 5.15  
Net International Reserves (in millions of US\$)

	Net Foreign Exchange	Gold	Total
Stock at end of 1993	449.0	272.2	721.2
Increase in 1994	-98.4	250.0	151.6
Increase in 1995	-84.5	250.0	165.5
Increase in 1996	181.6	250.0	431.6
Increase in 1997	208.4	250.0	458.4
Stock at end of 1997	656.1	1,272.2	1,928.3

Source: Bank staff estimates and simulations.

some further appreciation of the real exchange rate seems likely. Reversing the trend in 1993, the real exchange rate depreciated in the first five months of 1994. The projections for the macroeconomic framework assume that this will be reversed in the second half of the year, so the real rate will be the same in December 1994 as it was in December 1993. A renewal of real exchange rate appreciation is expected in 1995 and 1996, as both the

determination to achieve financial stabilization becomes clearer, as domestic relative prices move closer to those of Kazakhstan's trading partners, and as market exchange rates come closer to purchasing power parity for tradable goods. Trends in the real exchange rate have a major influence on the interpretation to be given some of the economic indicators in the macroeconomic framework. For example, although the import coefficient declines from 44 percent of GDP in 1993 to 30 percent of GDP in 1997, this is more than fully explained by the change in the real exchange rate. In volume terms the framework projects a 16 percent increase in imports accompanied by a modest decline in GDP.

Table 5.16  
Index of real exchange rate (1993=100)

	1992	1993	1994	1995	1996	1997
Index of real exchange rate:						
Annual average X-rate	[na]	100	140	190	232	253
December X-rate	64	175	175	210	253	253
Dec.-to-Dec. change (%)	--	176%	0%	30%	20%	0%

Source: Bank staff estimates and simulations.

### Investment and Consumption; Enterprises and Households

5.61 An overview of the origin and use of resources. Table 5.17 summarizes the projected origin of real resources (from production and net imports) and the use of real resources (for consumption and investment) in the Kazakh economy. This table brings together what has been discussed earlier about trends in output, the balance of payments and the consolidated government budget. Taken together, these determine the trends in real resources that will be available for the rest of the economy (enterprises and households). A projection of self-financed investment expenditures by the enterprise sector is added. The remaining real resources are what will be available for private consumption.<sup>3</sup> The implications for households and enterprises are then examined in more detail with the help of an analysis of the flows of funds for households and enterprises (Table 5.18).

5.62 Although total output changes only slightly between 1994 and 1997, there will be large shifts in how this output will be used. Thus, by 1997, the level of fixed investment expenditures

3. In preparing the simulations for the macroeconomic framework, desirable levels of enterprise investment and household consumption are initially taken as targets. Thus, it is only true in an algebraic sense that resource use by the "rest of the economy" is a residual depending upon the total available and what the government takes. The process of using the flows of funds approach to prepare a macroeconomic framework involves making repeated iterations until one arrives at estimates for households, enterprises, the budget, the balance of payments, the monetary accounts, and total output which appear to be feasible, desirable, and internally consistent.

**Table 5.17**  
**The Origin and Use of Real Resources**  
 (Estimated 1993 and Simulated 1994-1997)

	1993	1994	1995	1996	1997
<b>A. At constant 1993 prices and exchange rates (in millions of tenge)</b>					
Gross Domestic Product	28,654	26,514	25,932	25,999	27,006
Resource Balance	-1,931	-2,337	-2,372	-2,271	-1,816
Exports (merchandise)	10,987	10,680	10,988	11,718	13,304
Imports (merchandise)	12,510	12,526	12,835	13,427	14,480
Non-factor services (net)	-408	-491	-525	-563	-640
Total Expenditures	30,585	28,851	28,303	28,270	28,823
Consumption expenditures	23,708	22,535	22,187	21,761	21,611
Government	5,270	4,280	4,182	4,325	4,544
Rest of economy (households)	18,439	18,255	18,005	17,436	17,317
Investment expenditures	6,877	6,317	6,116	6,509	6,962
Fixed investment	4,871	4,726	5,468	5,989	6,718
Inventory investment	2,006	1,591	648	520	243
Domestic Saving	4,946	4,113	3,887	4,796	5,787
<b>B. Volume Indices (1993=100)</b>					
Gross Domestic Product	100.0	92.5	90.5	90.7	94.3
Exports (merchandise)	100.0	97.2	100.0	106.7	121.1
Imports (merchandise)	100.0	100.1	102.6	107.3	115.8
Non-factor services (net)	100.0	120.4	128.7	138.2	157.1
Total Expenditures	100.0	94.3	92.5	92.4	94.2
Consumption expenditures	100.0	95.0	93.6	91.8	92.2
Government	100.0	81.2	79.4	82.1	86.2
Rest of economy (households)	100.0	99.0	97.6	94.6	93.9
Investment expenditures	100.0	91.9	88.9	94.6	101.2
Fixed investment	100.0	97.0	112.3	122.9	137.9
Inventory investment	100.0	79.3	32.3	25.9	12.1
Domestic Saving	100.0	83.2	78.6	97.0	117.0
<b>C. Percent Share of GDP (from data in current prices)</b>					
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
Resource Balance	-6.7	-8.0	-5.6	-3.6	-2.0
Exports (merchandise)	38.3	41.8	29.8	29.1	28.9
Imports (merchandise)	-43.7	-48.4	-34.3	-31.8	-30.0
Non-factor services (net)	-1.4	-1.4	-1.0	-0.9	-0.9
Total Expenditures	106.7	108.0	105.6	103.6	102.0
Consumption expenditures	82.7	84.0	84.6	82.1	80.6
Government	18.4	16.0	15.9	16.3	16.8
Rest of economy (households)	64.3	68.1	68.6	65.8	63.8
Investment expenditures	24.0	24.0	21.0	21.5	21.4
Fixed investment	17.0	18.0	18.5	19.5	20.5
Inventory investment [excl. gold stocks]	4.3	4.2	1.4	1.1	0.1
Monetary gold [in international reserves]	2.7	1.8	1.1	0.9	0.8
Domestic Saving	17.3	16.0	15.4	17.9	19.4

Source: Bank staff estimates and simulations.

(measured in 1993 prices) is projected to be about 40 percent above the levels of 1993 and 1994.<sup>4</sup> Several factors will tend to slow the pace at which investment by enterprises will recover -- the inevitable uncertainties, the short time horizon that is typical when inflation rates are high, and difficulties in mobilizing long-term capital. However, investments in the energy sector and also the high financial rates of return like on investments in energy-saving equipment will work in the opposite direction. Thus the projections provide for a relatively strong recovery in the real level of fixed investment. The increase in fixed investment as a share of GDP is less dramatic than the increase in fixed investment at constant prices because the prices of investment goods are expected to decline relative to consumer goods. This movement in relative prices reflects the expected gradual revaluation of the tenge combined with the larger weight of imports in investment expenditures, and also the expected rise in the relative prices of foodstuffs and other agricultural products (as Kazakhstan prices move more in line with world prices). Inventory investment has been relatively high in the last few years, but annual additions to inventory should decrease sharply as credit becomes tighter, inflation is slowed and restructuring enterprises stop producing goods for which they have no market.

5.63 The real resources needed to increase fixed investment and consumption would come from (i) the large projected decline in inventory investments, (ii) the projected decline in government consumption, and also from (iii) some further decrease in household consumption. Per capita private consumption as measured in the national accounts has already fallen drastically since 1990. With that year as "100," the index had fallen to 58 by 1993. A further drop to 53 (in 1997) is implied by the macroeconomic framework. Given the likely trends in output during the restructuring process, and the need to increase fixed investment, it does not seem possible to reverse this declining trend in private consumption before 1998. Although greater use of external borrowing (combined with a larger trade deficit) provide some flexibility in economic management, any such additional external resources should be devoted to assuring adequate levels of expenditures for restructuring and investment rather than to maintain temporarily higher levels of household consumption. However, the fact that average per capita consumption by households is likely to decline further before beginning to recover adds to the importance of the social protection programs and the provision of an effective safety net for those most adversely affected by the economic restructuring process and other vulnerable groups.

5.64 Household disposable income. Table 5.18 summarizes the estimated 1993 and projected 1994-1997 flows of funds for the household and enterprise sectors. This table serves a number of purposes. The flow of funds account accounts for the large differences between the factor incomes ("wages and other factor income" for households, "gross profits" for enterprises) and the disposable incomes of the household and enterprise sectors. It shows the origin of savings by households and enterprises. And the consolidated capital account shows how these savings, along with borrowing from the monetary system and from abroad, are used for the real and financial investments of these sectors. Given the recent "liquidity squeeze" upon the enterprise sector, and the need for relatively tight credit policies to bring inflation under control, it is particularly important to analyze how the projected level of fixed investment by enterprises could be financed. One element missing from the capital account is

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4. It may be noted that fixed investment in Kazakhstan, measured as a share of GDP and taken relative to other countries, does not seem particularly low in 1993 and 1994. However, these investment coefficients (of 17 percent and 18 percent) reflect the relatively high prices for investments goods and services compared to many consumption goods and services. Expenditures data for Russia, which are available in international as well as internal prices, suggest that the internationally comparable investment coefficient for Russia in 1991 and 1992 was about half of that shown by data in internal prices. Similar data are not available for Kazakhstan, but a similar problem clearly exists.

investment in the enterprise sector financed by capital transfers from the consolidated government budget. The available budgetary data do not permit a clear separation between capital transfers and real investments, so investments in the enterprise sector that will be financed by budgetary capital transfers are reported as part of government investment rather than enterprise investment.

5.65 Although wages and other factor income received by households total 46 to 48 percent of GDP, household disposable income is expected to be in the range of 65 to 74 percent of GDP. The difference is explained by three factors. The most important is non-wage labor income, including cash bonuses, heavily subsidized housing, distribution of goods, and social services provided by enterprises. In Table 5.18, these non-wage forms of labor income are combined under the heading "non-wage transfers" from enterprises to households. The second, but increasingly important, factor consists of transfers from the Government to households through social protection programs. The third factor is the simple fact that in Kazakhstan the burden of direct taxation falls almost entirely upon the enterprise sector. The projections assume that there will be a gradual shift from non-wage to regular wage payments for labor. Thus, enterprise to household transfers are expected to decline, from an estimated 24.2 percent of GDP in 1993, to around 10 percent of GDP in 1997.<sup>5</sup> The pace at which this change in labor remuneration takes place will depend in part upon the speed with which social services and facilities now provided by enterprises are taken over by the local authorities. Because the latter will have to levy user charges or raise taxes to cover the costs of providing these services, this is likely to be a gradual process. However, most enterprises are expected to find themselves in a financial position where they have to cut down on non-wage benefits for their employees. Moreover, the government has recently limited the size of an enterprise's "consumption fund" (which is the source of much of the non-wage labor income) to a maximum of 20 percent of the enterprise's gross profits; this will make a decline in these benefits necessary even when reductions are not being forced by the liquidity situation of the enterprises or the management's desire to improve profits.

5.66 Real wages are commonly measured by deflating the average cash wage by an index of consumer prices. This measure, however, has two serious limitations as an indicator of effective household income in Kazakhstan. First, it excludes the relative large share of labor remuneration that is not in the form of cash wages. Second, it fails to take into account the "forced savings" (in the form on increased nominal money holdings) that accompany inflation. As indicated by Table 5.19, the simulations suggest that, when 1997 is compared with 1993, there will be a rise in real cash wage as commonly defined -- but that this will be more than offset by the decline in the other forms of labor remuneration. Primarily because "forced savings" by households will decline as inflation slows, the decline in the index of household consumption is only about one-third the decline in the index of wage plus non-wage labor income. The forced savings effect would be particularly important in 1994, as "forced savings" by households in the form of increased nominal money holdings would drop from 12.7 percent of GDP in 1993 to only 6.2 percent of GDP in 1994. In the following years "forced savings" would continue to decline, and would be less than one percent of GDP in 1997 (see Table 5.18). The reduced rates of inflation, however, are preconditions for reducing "forced saving" and freeing this part of labor income for consumption or voluntary savings.

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5. There is a substantial margin of error in these estimates of non-wage transfers because they are not directly measured, but can only be indirectly estimated as that amount which would make household disposable income equal to the total of consumption and household savings. It will be noted that in the simplified model used, all non-governmental consumption is assumed to be by households, and all non-governmental investment is assumed to be by enterprises. Presently available information on financial flows between households and enterprises is not sufficient for a more complete analysis.

**Table 5.18**  
**Flows of Funds for Households and Enterprises**  
 (Estimated 1993 and projected 1994-1997, as percentages of GDP)

	1993	1994	1995	1996	1997
<b>A. Disposable Income of Household Sector</b>					
Sources of disposable income					
Wages and other factor income	46.0	47.8	47.7	46.7	45.9
Non-wage transfers from enterprises	24.2	17.5	14.8	11.8	9.9
Government transfers to households	9.6	11.3	10.8	11.3	11.3
less Direct taxes paid by households	-2.8	-2.4	-2.4	-2.4	-2.4
Disposable income of households	77.1	74.3	70.9	67.4	64.7
Uses of disposable income					
Household consumption	64.3	68.1	68.6	65.8	63.8
Household "forced savings" (money holdings)	12.7	6.2	2.3	1.6	0.8
<b>B. Disposable Income of Enterprise Sector</b>					
Sources of disposable income					
Gross profits (including depreciation)	48.2	48.3	44.9	43.8	43.2
Interest from government and abroad	0.0	0.3	0.2	1.3	0.9
Less non-wage transfers to households	-24.2	-17.5	-14.8	-11.8	-9.9
Less regular budget direct taxes	-4.4	-2.4	-4.7	-5.6	-6.7
Less extrabudgetary direct taxes	-10.0	-9.7	-10.0	-10.7	-11.2
Less non-tax government revenues	-6.1	-6.7	-3.4	-2.8	-2.1
Less factor payments to abroad	-0.4	-1.5	-1.0	-1.2	-1.7
Disposable income of enterprises	3.2	10.8	11.2	12.8	12.5
Uses of disposable income					
Enterprise savings	3.2	10.8	11.2	12.8	12.5
<b>C. Consolidated Capital Account for the "Rest of the Economy"</b>					
Sources of capital					
Household savings (money only)	12.7	6.2	2.3	1.6	0.8
Enterprise savings	3.2	10.8	11.2	12.8	12.5
Loans from monetary system	46.6	19.9	7.1	3.5	1.2
Balance of payments capital flows	9.3	3.2	2.9	3.8	3.3
Total capital sources	71.8	40.1	23.4	21.7	17.8
Uses of capital					
Investment financing	15.3	14.4	12.0	12.5	12.1
fixed investments	8.3	8.4	9.5	10.5	11.2
inventory investments (including gold)	7.0	6.0	2.5	2.0	0.9
Increase in money holdings	19.6	9.8	3.6	2.5	1.3
Increase in bank capital and reserves	31.2	12.2	5.3	3.6	2.3
Purchase of assets from government	2.7	1.8	1.5	2.0	1.9
Net lending to government	3.0	1.9	1.0	1.1	0.3
Total capital uses	71.8	40.1	23.4	21.7	17.8

Source: Bank staff estimates and simulations. Except for investment financing and the net flow between enterprises and households ("non-wage transfers from enterprises/to households"), all entries in this table are counterparts of entries in the economic management accounts previously discussed (budget, balance of payments and monetary survey).

**5.67 Enterprise disposable income and saving.**

Gross profits, including depreciation, but excluding interest income from government and abroad, are expected to average about 45 percent of GDP over 1994-1997. Although this will be a decline from the 1993 level, enterprise disposable income is expected to increase, mainly as a result of declines in non-wage transfers to households. Although gross profits of 45 percent of GDP may seem high when compared to market economies, this figure is quickly eroded because "quasi-wages" are treated as a charge to profits rather than as a cost, and because almost all direct taxation falls on enterprises, rather than on households (see Table 5.18). Although they have not been important in the past, profit remittances on direct foreign investments and interest payments on external borrowing will become more important in the future. After these deductions, enterprise disposable income and saving are expected to be around 11-13 percent of GDP during 1994-1997. Bearing in mind that depreciation allowances (usually inadequate because of inflation) are included in these figures, this 11 to 13 percent of GDP figure is in fact a very modest level of enterprise disposable income. Note also that the scenario assumes that all enterprise profits are assumed to be available for reinvestment (rather than distributed and then used to finance consumption). Even with all earnings reinvested, it is clear that the enterprise sector will face a tight financial environment in the coming period.

**Table 5.19**  
**Trends in Real Wages and Household Consumption**  
**Index (1993 = 100)]**

	1993	1994	1995	1996	1997
Index (1993=100)					
Cash wages	100.0	102.5	105.0	107.5	110.0
Cash plus non-cash labor income	100.0	88.5	86.4	83.8	82.0
Household consumption	100.0	99.0	97.6	94.6	93.9

Source: Bank staff estimates and simulations.

**5.68 The consolidated capital account.** In Table 5.18, this account shows the sources and uses of capital for the household and enterprise sectors (which together are conventionally labeled "the rest of the economy"). However, the account is basically an account for the enterprise sector and is primarily intended to show how that sector can obtain the resources needed to finance the indicated levels of fixed and inventory investments. In this simplified account, household sector flows are limited to the change in money holdings by households (which is taken as both the measure of household saving and the use to which these savings are put). Total capital sources and uses drop rapidly in the initial years -- from 72 percent of GDP in 1993 to 40 percent in 1994 and to 23 percent in 1995. These changes, however, are basically no more than the consequences of the projected rapid decline in the rate of inflation.

**5.69** Table 5.18 shows where and how the enterprise sector can obtain the financial resources needed to finance investment expenditures equivalent to about 14 percent of GDP in 1994 and 12 percent of GDP in 1995-97. (As indicated earlier, these figures somewhat understate the actual levels of real investments by enterprises because they exclude investments to be financed by capital transfers from the consolidated government budget.) Enterprises, like households, will benefit from the decline in "forced saving" resulting from the need to hold higher nominal money balances. This saving will be more than

offset, however, by the decline in credit from the monetary system.<sup>6</sup> While the resources should be there to finance the levels of investment indicated in Table 5.18, the financial situation of the average enterprise will remain tight. And, necessarily, a good many enterprises will be worse off than the average and are likely to encounter serious financial difficulties. The economy cannot afford to lose the output and employment opportunities provided by firms which could be made economically viable within a reasonable period and at a reasonable cost. Consequently, the enterprise safety net, discussed earlier, will have to be put in place promptly if pressures to provide continuing "bailouts" (probably in the form of a return to directed credits) are to be successfully resisted.

### Summary and Conclusions

5.70 The macroeconomic framework discussed in this Annex has attempted to outline a feasible path among the sometimes conflicting policy objectives and structural obstacles that confront Kazakhstan's policy makers. The suggested path will not always be an easy one to follow. It recognizes that (i) a good deal of economic restructuring will have to take place before satisfactory growth is renewed; (ii) this restructuring process will doubtless be accompanied by rising open unemployment; and, (iii) although the previous economic system broke down quickly, it will take time to build the institutions, structures and infrastructure needed for Kazakhstan to have a properly functioning competitive market economy. Thus output is not expected to begin to grow again until 1997.

5.71 When compared with 1992 and 1993, much more restrictive policies regarding credit to enterprises are needed to bring inflation under control. However, if these policies are to be durable, a safety net for distressed enterprises will be required. Banking system credit should not be used to provide subsidies to distressed enterprises (as has been done in the past through directed credits at negative real interest rates). To do so would delay developing a sound commercial banking system without really meeting the restructuring needs of the enterprises concerned. Instead, necessary subsidies for restructuring should be provided through the budget and should be conditioned upon the design and implementation of agreed economic restructuring programs (including, in appropriate cases, downsizing and liquidation).

5.72 Serious problems of budgetary management involving extrabudgetary funds as well as the regular budget, need to be addressed. The reduction in the wage tax at the beginning of 1994 has changed the Pension Fund's position from moderate surplus to significant deficit. The decline in the "inflation tax," while much to be desired, will significantly reduce budget receipts in the form of NBK profits. Unemployment compensation needs will grow rapidly; assistance will have to be provided for the long-term unemployed and for this purpose, a temporary employment program seems desirable. Expenditures will also grow because of the need to finance the safety net for distressed enterprises; given the overall budget constraints, most of its financing will have to come from reprogramming existing producer subsidies. The budget for capital expenditures also needs to be enlarged. In addition to financing public sector social and economic infrastructure, given the limited development of capital

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6. If, from loans from the monetary system, one deducts the increase in money holdings and the increase in bank capital and reserves (which in the simulation model are equal to the "profits" resulting from the high nominal interest rates), then it is seen that on a net basis the rest of the economy is financing the banks rather than the banks financing the rest of the economy. The banks, of course, use these resources to finance lending to the government and the increases in international reserves.

markets, it will be necessary to continue to provide some capital transfers to support economically and financially viable restructuring investments in industrial and agricultural activities.

5.73 Meeting these expenditure requirements will only be possible if there is a substantial increase in government revenues. The projections indicate that the cumulative increases in tax revenues should amount to 7 to 8 percent of GDP over 1994-1997 period. This estimate assumes that the very substantial consumption expenditure reductions foreseen in the 1994 budget estimates will be achieved. Such a large increase in tax revenues is necessary mainly to offset the decline in receipts from the "inflation tax" and from the decrease in the wage tax at the start of 1994. A full study of the taxation system is needed, looking at tax administration and compliance as well as at tax incidence and rates. Only if these increases in tax collections are realized will it be possible to both finance essential expenditures and hold deficit financing from the central bank to the targeted 1.0 percent of GDP.

5.74 The balance of payments outlook is quite favorable. In a generally very tight economic situation, at least in 1996 and 1997 there is some flexibility in the extent to which external resources are drawn upon (through a higher trade deficit accompanied by more external borrowing and perhaps more modest increases in international reserves). As a land-locked country, adequate trade and transit agreements with Kazakhstan's neighbors will be needed if its export potential is to be realized. Export credits are likely to become an important form of capital inflow; arrangements need to be made to see that government guarantees on these credits are given only for activities that promise to be economically and financially viable.

5.75 The macroeconomic framework simulations indicate that, given the delayed recovery in economic output, some further decline in household consumption will be unavoidable if the resources are to be found to finance the economic reconstruction and investment expenditures essential to the restoration of economic growth. Given the declines in output and real income since 1990, attention should be given to steps which can increase the efficiency with which the economy's limited resources are used. Areas of particular concern are more efficient tax and expenditure policies in the public sector and the development of more competitive markets and more meaningful price signals in directly productive industrial, agricultural and commercial activities.

## ANNEX 6

### ENVIRONMENTAL ISSUES IN PRIVATIZATION AND RESTRUCTURING<sup>1</sup>

6.1 Kazakhstan has major environmental problems. They are due to the heavy industry and resource extraction orientation of much of its industry, the "virgin lands" mentality pursued in the past, and the FSU legacy of uneven standard enforcement. Environmental risks relate to both past pollution and future problems related to high levels of on-going pollution. Kazakhstan's ability to address these problems is heavily constrained by the financial constraints imposed upon the economy during the transition. Environmental awareness will increase as the population becomes better informed and privatized enterprises become more conscious of financial risks and potential costs related to adverse public relations.

6.2 The full extent of Kazakhstan's contingent and actual pollution problem is unclear. However, what is known suggests that Kazakhstan has substantial problems on an international scale. Kazakhstan has long been regarded as a "virgin land" -- a vast and sparsely populated territory, with little agricultural potential in many areas. The impact of pollution on human welfare therefore appeared lower than in many other FSU republics. The Aral Sea and the Semipalatinsk nuclear test site are the most visible manifestations of this policy. The enormous chimney tailings and waste piles of mines and factories in the steppes also bear testimony to this approach. Moreover, while the FSU exhibited a complex system of rigid environmental standards, enforcement was frequently compromised to achieve output targets, minimize costs, or ensure employment.

6.3 As a result, Kazakhstan has many enterprises that are prone to major pollution. Within the industry sector, for example, mining and metallurgy alone accounts for approximately 15 percent of industrial output and chemicals 6 percent. A high percent of the power and heat generation is based on coal, often with a high sulfur content. Kazakhstan still produces some 350,000 tpy of asbestos, and has used it liberally in construction. Pesticides and fertilizer have been used heavily in the production of cotton and grain on relatively poor soils.<sup>2</sup>

#### Restructuring and the Environment

6.4 Environmental issues are relevant for privatization and restructuring for several reasons.

- (i) Privatization and restructuring presents opportunities to address environmental problems. During the privatization process, enterprises are analyzed; contracts are written between the state and future owners; enterprise operations and facilities are modified; and the policy and legal environment of the enterprise sector is adjusted. All these steps offer the chance to include an environmental view.

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1. This section benefitted from Olav Kjørven, "Environmental Liability and Privatization -- Economic and Environmental Implications of Different Liability Systems", the World Bank (draft, 12/1992) and "Privatization Operations and the Environment -- Issues and Possible Solutions", Environmental Sourcebook Update, the World Bank (draft 10/1993).

2. Pesticides and fertilizer usage has dropped significantly in 1992 and 1993 as agricultural subsidies and returns to farms have fallen sharply.

- (ii) Environmental issues may stand in the way of privatization and restructuring. The necessary assessments may delay divestiture or urgent restructuring; uncertainty about potential environmental liabilities (costs related to either remedying the past or those associated with current and future pollution) may prevent some privatizations; and, the introduction of tight environmental standards may make some enterprises unviable.
- (iii) Privatization implies the separation of the enterprise owner and regulator. This requires different policy and enforcement mechanisms. On the one hand, private owners may be more profit oriented to the detriment of nature and health. On the other, new private owners often bring new technologies and management methods which are 'cleaner'. Moreover, they may have less influence than state firms on the administration, and thus less success at softening their environmental constraints.

6.5 The fundamental issue is: "How soon should Kazakhstan become how clean?". This relates both to the clean-up or containment of past pollution, and the reduction of on-going pollution. Decades of pollution and insufficient pollution-control investment can not be rectified quickly. Environmental policy initiatives need to be consistent with the overall financial constraints of the Government and be sensitive to the financial difficulties enterprises are facing during the transition. Under the former system, the state as the owner of enterprises accumulated the savings from avoiding pollution control. This suggests that enterprises do not have this implicit 'environment' saving or transfer, built into their current financial structures. Making enterprises pay for remedies to all their past pollution therefore, does not appear appropriate, and would severely reduce their competitiveness with new entrants and foreign competitors.

6.6 The extent of environmental damage, and production technologies used in a large percentage of Kazakhstan's processing industries suggests that pollution abatement and clean-up policies may have a significant impact on the competitiveness of enterprises. Clean-up and containment costs, compensation payouts for past pollution damages and the requirement to invest in new 'cleaner' production technologies are all potential liabilities confronting enterprises. Liability for these potential costs needs to be clearly defined in the privatization and restructuring process.

6.7 The legal responsibility for past pollution in Kazakhstan is currently unclear. Wide divergences between proclaimed standards and actual enforcement practices under the former regime, and the ongoing changes in Kazakhstan's economic and social legislation, add to this uncertainty. A clear policy and legal framework, and the institutional capacity to enforce it fairly and efficiently, remain to be established.

### **International Examples**

6.8 The responsibility for pre-privatization pollution varies between countries. In some, for example, the United Kingdom and Brazil, the current owner alone bears full responsibility for past and current pollution. In others (e.g., the United States and the Western part of Germany), both the former and the current owner are responsible for past pollution. Some economies in transition have adopted similarly harsh policies in principle, but allow negotiated exceptions on an ad hoc basis (e.g., Poland), or as a systematic option in privatizations (e.g., in the Eastern part of Germany). This can be problematic if it leads to hidden waivers for certain investors, or if it looks like a continuation of past latitude in enforcement. In yet other countries, such as the Czech Republic, the state explicitly assumes the responsibility for all pollution that had occurred under its ownership. While this results in a major

financial burden for the state, this approach assumes that the privatization price of an enterprise would otherwise contain a discount for these costs, plus an additional margin for the related uncertainty.<sup>3</sup>

### **Suggested Policy Approach for Past Pollution**

**6.9** Given the need to improve enterprise governance and attract foreign investment, Kazakhstan should consider the adoption of the approach taken by the Czech Republic. While bound by the financial constraints imposed by the other costs of the transition, this approach would remove investor uncertainty about potential environmental liabilities from past operations. Such an approach would not, however, preclude the possibility of including in some privatizations explicit contractual obligations of future owners specific remedial measures to clean-up or contain past pollution. Contracts in these special cases should include a time-bound plan of specified actions, provisions for monitoring and penalties, and potential financial compensation by the state if environmental obligations greatly exceed agreed expectations. Such arrangements can be efficient, especially in cases where the buyer possesses superior technologies and know how for such measures, or where it would be difficult to bring other contractors for the Government into the same site to undertake these measures once the new private owners had began operations.

**6.10** While a clear policy framework is still being developed, the Kazakh authorities could follow the principle that such contractual clean-up obligations be a rare exception under the mass privatization program, but are more generally considered in case-by-case privatizations. The potential for such contractual arrangements has been one of the reasons for classifying some economic branches like mining and metallurgy as 'special enterprises' under the case-by-case privatization program.

**6.11** To pursue such a policy, elaborate the necessary standard contract formulas, and write individual contracts, close cooperation should be established between the SPC and the Ministry of Ecology and Bioresources.

### **Policy Approach for Future Pollution**

**6.12** While the state should assume responsibility for past pollution, enterprises should be responsible for future pollution. Governments are sometimes tempted to keep standards, or their enforcement, lax while privatizing enterprises and then tighten standards or enforcement later once investors have locked themselves into the investment. Such policies, however, can seriously jeopardize a country's future credibility with investors. It is therefore important that the authorities urgently review their environmental standards and enforcement practices, and then set unambiguous, realistic, and enforceable standards that give investors certainty. Enterprises would then be responsible for upgrading their pollution control methods to the necessary standards. The enterprise sector can explicitly be given a certain number of years to reach compliance with particular standards, or the standards themselves can rise over time on a pre-announced schedule. For a few critical pollutants, regional differences could potentially be built into the system, so as to account for population density, local atmospheric conditions, etc.

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3. Such a premium could include insurance cover for contingent environmental liabilities.

## **Environmental Audits for Privatization and Restructuring**

**6.13** For some enterprises that are either in pollution-prone industries, or are heavy polluters, environmental audits are recommended as part of the privatization and restructuring plans. Such audits would establish the "baseline" status (current pollution levels, past pollution, and potential future damage arising from past pollution); recommend remedial options and their timetable; and, estimate their costs. These audits may focus on past pollution ("liability audits"), or on future pollution and compliance with standards.

**6.14** For some pollution prone industries, the Government might review the policy and enforcement framework for that sector independently. Such sub-sectoral reviews may look at the policy and legal framework, relevant environmental standards, expected restructuring and investment in the subsector, the impact of pollution in the subsector, remedial options and the institutional monitoring and enforcement capacity.

**6.15** Environmental control could be given additional "teeth" through more open communication with the public. For example, one could make available to, and discuss with, the public the terms of reference for the environmental audits, the findings of these audits, and the relevant contractual arrangements made with respective enterprises and their owners. The possible delays in privatization and restructuring which may result, would be justified in sensitive cases. International donors often require public transparency in cases of large investments in pollution-prone enterprises.

## **The Funding of Environmental Measures**

**6.16** The ability of both the Government and the enterprise sector to address environmental issues will be constrained by their ability to mobilize resources. While the Government clearly has discretion over the timing of pollution clean-up exercises, it should start to develop the necessary institutional structure to address these issues and identify potential sources of funding to cover its environmental liabilities. The Government should consider the establishment of a special environment fund with the objective of cleaning up past enterprise pollution. Among the funding sources to consider include: special 'pollution' taxes or levies (especially on pollution-prone industries and their clients); bond issues; general budget revenues; privatization revenues; and foreign donors.

**6.17** If the Government pursues the Czech approach, and assumes responsibility for all past environmental damages then the primary source of funding should be from privatization revenues. The higher divesture prices include a premium for the states acceptance of the environmental liability. Some percentage of privatization receipts should be channelled through the national budget to the Fund. The general budget is constrained, and the issue of bonds is constrained by limited domestic savings and an underdeveloped capital market. The fund may be supplemented by appropriately designed pollution taxes and by foreign donor financing. Large-scale donor credit or grants could help finance specific expenditures, or as a general contribution to the fund.

**6.18** Enterprise financial liabilities in this area should be treated like a normal operating expense affecting profit and losses. Enterprise funding should therefore be entirely internally driven. If the state wishes to accelerate improvements in pollution control it may consider providing enterprises with special incentives. Some countries give special depreciation allowances or matching grants for pollution-control investments. These incentives have a direct budgetary impact, and need to be

considered in the context of the overall budgetary envelope. In the short-run, other priorities in Kazakhstan suggest that the state has limited capacity to provide such fiscal incentives (see Annex 5). Donor-funded credit lines for general enterprise restructuring or new investments could give special consideration to environmental impacts and remedies.

### Recommendations

- 6.19 (i) Clear policies and priorities for clean-up and on-going pollution need to be established, based on a comprehensive environmental review. The priorities should take into account: the levels of past and present pollution, the impact risks, and the financial and economic cost of remedies.
- (ii) Given the characteristics of Kazakhstan's industry, the state should adopt the Czech approach to dealing with past pollution by assuming all liability. Specific enterprise exceptions may be negotiated on a case by case basis. Enterprises should be solely responsible for future pollution and upgrading technologies to meet environmental standards.
- (iii) Realistic environmental standards need to be set, announced, and enforced. They should be phased in along pre-announced timetables. Either industries could be given a fixed number of years to meet the standards, or the standards themselves could be tightened over time along a pre-determined schedule. In the meantime, enforcement capacity needs to be enhanced. Firms should be given time to adjust, but there should be no doubts about the Government's determination to enforce the standards. Having such a system in place would also make it easier to reject investors' requests for indemnification against any future tightening of pollution standards -- such "grandfathering" could easily freeze inadequate present standards.
- (iv) The funding of remedies for past pollution needs to be arranged. A special environment fund could be set up funded primarily from privatization receipts. Enterprise financing should be considered a normal operating expense.
- (v) The limited funds set aside for environmental remedies need to be used efficiently. They would be used for compensating victims of past pollution; paying contractors for clean-up or containment; compensating enterprises in part for remedies of their past pollution; or facilitating pollution control investments by state and private enterprises. Donor assistance should be sought for establishing the policies, organization, procedures, systems, etc., for administration of such an environment fund.
- (vi) Further donor assistance could help the Government with a comprehensive environmental review; review of policies, legislation, and environmental quality standards; writing of relevant standard contract clauses and individual contracts for privatization; drafting terms of references for clean-up contractors; environmental audits of privatization and restructuring candidates; and strengthening of environmental enforcement capabilities.

## **ANNEX 7**

### **ENTERPRISE AND FINANCIAL RESTRUCTURING IN POLAND**

**7.1** Given the similarities in many of the transition issues confronting Poland during its transition to a more market based economy and those in Kazakhstan this annex considers the Polish approach to restructuring of the enterprise and financial sector. A number of the policies being pursued in Poland are equally applicable to, and have been recommended for, implementation in Kazakhstan.

#### **The Economic Context**

**7.2** Poland's long recession bottomed out in 1992 as private sector growth started to offset the continued decline in the SOE sector. The public sector deficit remained high in 1992, at 6-7 percent of GDP, in response to heavy social expenditure demands (unemployment stood at 14 percent of the workforce) and tax mobilization problems (arrears, evasion, low profits). Annual inflation had been lowered from several hundred percent to around 43 percent in response to the tight credit policies pursued by the Polish authorities. Government borrowing to fund the fiscal deficit however, had reduced the amount of bank credit available to the enterprise sector.

#### **The Enterprise Sector**

**7.3** In a similar fashion to SOE's in Kazakhstan, Polish SOE's enjoyed easy access to credit and state subsidies before 1992, independent of profitability. The tightening in credit in 1992 and shift in Government policy towards a no bail-out stance, however, started to harden SOE budget constraints. This change in policy was accompanied by an extensive institutional strengthening program in the banking system which lead to more prudent lending decisions being taken by the banks. Enterprise governance, however, continued to remain weak. Only slow progress has been made on corporatizing and privatizing enterprises. Lacking an advocate for capital, and suffering from strong worker influence, SOEs have tended to pay high wages, dissipate their capital, and delay decisive restructuring. While the SOE sector has attempted to intensify its use of resources (X-efficiency), it has not yet begun to reallocate assets and human resources (allocative efficiency). Uncustomed to the new business environment, and confronted with hardening budget constraints, a number of SOEs experienced liquidity difficulties and began running arrears with banks and the tax authorities in 1992.

#### **The Banking System**

**7.4** These problems adversely affected the financial sector. Failures started to occur among the 80 private banks. As the quality of SOE lending deteriorated, the portfolio's of the nine state-owned banks worsened. To cover the inevitable losses, banks began charging wide spreads between average lending and deposit rates -- as much as 35-40 percent on short-term activities. This, however, accelerated disintermediation in the financial system as sound borrowers were penalized by these rates and depositors were discouraged. Through the use of its shareholder power, the Government instructed each of the nine state banks to develop a debt work-out department. Effective restructuring of individual debts will,

however, take some time. The deterioration in bank debt portfolios' has inhibited the implementation of improvements in banking regulations.

### **The Polish Government's Policy Initiatives**

**7.5** In response to the slow progress in restructuring, the Polish authorities have stepped up their efforts at promoting rapid adjustment in the enterprise and financial sectors. In particular, simultaneous enterprise and bank restructuring is now being pursued through a combination of traditional and specially designed mechanisms. The include:

#### **Court-Led Restructuring (Bankruptcy or Conciliation)**

**7.6** Under Poland's Bankruptcy Law, insolvent enterprises can be brought under court-led bankruptcy or conciliation procedures. However, as the procedure is cumbersome, the courts are inexperienced in these matters, and professional liquidation specialists to be entrusted by the courts are limited, this mechanism has proved ineffective at accelerating rapid restructuring.

#### **Creditor-Led Restructuring (through Conciliation)**

**7.7** A special law with only temporary validity for three years was introduced to allow for conciliation between creditors and debtors. The new procedures may apply to up to 2000 loss-making firms. In contrast to court-led conciliation under Poland's Bankruptcy Law, the new law assigns a greater role to creditors, rather than to courts and court-appointed specialists. Moreover, it triggers conciliation earlier to help avoid liquidations that would be socially and politically disruptive.

- Conciliation can be conducted by any bank holding at least 10-20 percent of a firm's liabilities (or by the Industrial Development Authority), provided that creditors with at least 50 percent of the firm's liabilities consent to the agreement. While the new procedures streamline the restructuring exercise it is unclear to what extent non-consenting creditors will appeal to the courts, again burdening the judicial system. Any creditor may also go to court if the firm fails to comply with the agreed restructuring plan, or it does not agree to a plan in the first place.
- The state banks are to be recapitalized under the program to withstand the impact of the conciliation process. In an effort to avoid moral hazard problems and a softening in bank lending practices, the recapitalization exercise is to be undertaken *ex ante* on the entire non-performing loan portfolio of the state banks, based on external portfolio audits. This presumes that the state as owner can make sure that the recapitalized banks will not become complacent; that the portfolio audits have a sound information base; and that the state, with donor support, can bear the cost of recapitalization. The state will also forgive its own outstanding tax and other claims on firms under conciliation on a *pari-passu* basis. The program does not recapitalize banks outside of the nine major state banks.
- Creditors that hold a major percentage of a firm's debt may also swap their claims into shares. As most debts are held by the state owned banks this may affect the speed of the privatization program. Whether these state banks are better than a privatization agency

at selling the shares later to the private sector, is not evident. The banks might, however, be more effective than the state in exercising governance before privatization. Firms need not be private, or undergo privatization as part of the restructuring plan, to enjoy debt relief from their creditors.

- The banks need to be technically able and motivated to efficiently carry out conciliation. Unlike the banks in Kazakhstan, the main banks are not owned by their borrowers. As state banks, however, they might suffer from governance problems akin to other SOE's. Two of the nine banks are to be privatized at the outset of the conciliation program, while the others are to be sold only within three to five years. In the interim, the state has instituted supervisory boards, profit-related bank manager bonuses, and options for the managers to buy bank shares at a discount upon privatization, as a means of creating an appropriate incentive structure for management.

### **Owner-Led Restructuring or Liquidation**

7.8 As the owner of state firms, the Government may initiate restructuring, recapitalization, sale, or liquidation to settle debts. The problem is that governments often find it difficult to impose painful restructuring on enterprises and regions, and to resist pressures for generous relief. Moreover, the bail-out of some state firms may lead others to expect similar treatment, and thus to act accordingly. The Polish authorities, however, consider continued state assistance unavoidable for some large loss-makers for which restructuring or liquidation is economically or politically very difficult. While it may have been desirable to reduce the moral hazard problem by pre-selecting a limited number of firms, the Government has preferred to leave the selection open for political flexibility.

7.9 Nevertheless, other rules have been designed to limit moral hazard problems and contain the budgetary impact. First, efforts have been made to make the receipt of government subsidies for restructuring unattractive to firms and banks. For example, firms have to divest all their non-productive assets, introduce supervisory boards, and assure the Government that the subsidies are not being used to pay off other creditors' claims. The banks have to either sell their loan claims to the state at, presumably, a secondary market price, or, agree to the state representing their claims in debt restructuring. Second, each proposal for budget support has to be approved by the Council of Ministers. In restructuring negotiations utilizing budgetary funds, the Industrial Development Agency, which is already in existence, is to play a key role. As an incentive, the agency is permitted to retain for its own funds the firms' repayments of the budget funds. Third, a strict ceiling on the amount of resources used for such restructuring purposes has been included in the budget law.

### **Management Company Led Restructuring and Privatization**

7.10 Poland has pioneered a special mechanism for using management contracts in SOE restructuring. It aims at (a) ensuring that a management company is properly motivated to maximize the profitability and value of the firm's equity, (b) linking privatization to restructuring for improved governance in the longer term, and (c) selecting the best qualified management company.

7.11 The key features of this approach may be summarized as follows. Management companies bid for the right to manage a firm, undertake its restructuring, and privatize the operation over a period of, at most, four years. Each bidder indicates how high she believes the market value of the firm will increase throughout the period of her management. The contract is awarded to the bidder who

promises the highest future market value. This winning bidder initially pays a deposit of 5 to 10 percent of that amount. The management team then reorganizes the firm with a view to maximizing its privatization value, and seeks buyers. After selling the majority of the firm's shares for the Government, the management company receives as a premium 70 percent of the difference between the actual sales price and the management company's original bid price. The management company also has the right to purchase the firm at its original bid price. If the management company had bid and managed well, the premium should cover expenses.

7.12 A major problem with this approach is the large uncertainty about developments between the initial bid and the end privatization, which may be years later. Significant uncertainty surrounds the returns to the management company. Not only is an upfront deposit required, but significant human resources need to be committed for an extended period of time. Management companies may even incur a loss if the final privatization price falls short of its initial bid. This level of risk may account for only eight such management contracts being signed by late 1993.

## ANNEX 8

# APPROACHES TO RESTRUCTURING SOCIAL ASSETS AND LIABILITIES IN THE ENTERPRISE SECTOR

### Introduction

8.1 A legacy of the Soviet past is the extent to which state enterprises in Kazakhstan own, operate, and finance social facilities. Although such practices vary widely in the 'West' and 'Far East', the prevalence of a wide variety of social services in medium and large sized enterprises in Kazakhstan is uncommon in market economies. Many of these facilities are not only made available to current employees, retirees, and their families, but also to other local citizens at no, or low, cost. In addition, larger firms often invest in social assets, such as bus fleets or theatres, that are then operated by the municipalities.

8.2 The existing patterns of social service provision and transfers by enterprises is no longer appropriate in the emerging, market-based economy. The actions and objectives of enterprise managers and state authorities are expected to diverge as state enterprise managers enjoy increasing autonomy and enterprises are privatized. Increased domestic and international competition, the reduction in Government transfers and tightening budget constraints, are expected to force enterprises to restructure in order to raise efficiency and adapt to the rapidly changing environment. This will require an assessment of the viability of non-commercial operations, and in many instances the separation of these functions from the core activity of enterprises. Many enterprises have already begun reducing their social liabilities and the provision of social services. Enterprises have sought to transfer social facilities to municipalities, privatize or close some activities, minimize investment and maintenance in these facilities, implement user charges, and limit access to outsiders. In contrast, while managerial accountability is low and privatization is pending, other enterprises have continued to keep investing surplus liquidity in additional social assets for personal benefit.

8.3 Enterprises need to divest social assets and reduce social liabilities to be competitive in the new environment. As enterprises rid themselves of social liabilities and assets, the burden will fall on the Government and municipalities. The Government therefore needs to develop a coordinated

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#### Box 8.1: Social Sector Terminology

'Social liabilities' in a narrow sense, are enterprise obligations to make future social payments. The main items are pension and social insurance claims. Severance payments for excess employees may be considered as a contingent social liability.

'Social assets' are commonly fixed assets of enterprises that provide social services like health care, child care, and housing.

'Social benefit payments' by enterprise are non-wage transfers to current and former employees. These include, the subsidy element in the provision of low-priced goods, bonuses, pension, insurance, and severance payments.

All three items impose costs on an enterprise. These 'social costs' include the maintenance, depreciation, interest and operating costs of social assets; provisions for social liabilities; and, the payment of non-wage bonuses and in-kind subsidies. As long as an enterprise remains liable for these costs they will affect the financial performance of an enterprise. The negative net present value of these future costs will therefore enter potential investor's calculations of the value of an enterprise for sale.

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strategy to the process of separation, future provision and funding of these activities, and where appropriate, enterprise compensation for continued operation of non-commercial activities.

### The Significance of Firms' Social Assets and Liabilities

8.4 The magnitude and nature of social assets and liabilities of state enterprises in Kazakhstan is hard to assess from the available data.

Table 8.1: Non-Productive Fixed Assets in 1991 and 1992 (in percent)<sup>a/</sup>

	Fixed Assets end 1991		Investments 1992		Fixed Assets end 1992	
	Share of Total Non-Prod.	Share of State Sector <sup>b/</sup>	Share of Total Non-Prod.	Share of State Sector	Share of Total Non-Prod.	Share of State Sector
Municipal Services	11	92	11	88	12	91
Health Care	10	93	7	91	10	93
Education	5	96	9	96	6	96
Other	11	82	14	58	11	68
Non-Housing	37	90	41	82	39	86
Housing	63	78	59	70	61	73
Non-Productive	100	82 <sup>c/</sup>	100	75	100	78
Non-Productive		31		21		25

Source: Goskomstat

a/ Fixed assets at book values, before depreciation.

b/ State organization and state enterprises.

c/ The same source mentions a conflicting figure of 90 percent.

8.5 "Non-productive" assets accounted for 31 percent of all capital assets in Kazakhstan by end 1991.<sup>1</sup> Of these non-productive assets, 63 percent were housing. So-called municipal services (in part for housing maintenance) accounted for 11 percent, followed by education with 10 percent, health care 5 percent, and others 11 percent. State enterprises and state organizations owned 90 percent of all the non-productive assets.<sup>2</sup> The split between these two owners is not known.

1 Similar book values for end 1992 appear more distorted, because of the effect of inflation.

2 An additional 2.1 percent was owned by kolhoses and 1.7 percent by cooperatives. Individuals owned 6.3 percent, mainly in the form of housing. The share of non-state involvement is growing. In 1992, non-state units accounted for 25 percent of all new investment in the non-productive sphere.

8.6 The construction of social assets slowed down drastically in the early nineties. Compared with the average of 1986-90, construction in 1992 in volume terms (beds, seats, square meters, etc.) dropped by 63 percent for kindergartens, by 43 percent for hospitals, by 50 percent for schools, and by 38 percent for apartments. "Non-productive" investments accounted for only 21 percent of all new fixed investments in 1992, but for 36 percent of all decommissioned fixed assets. As a result, the share of non-productive in total assets dropped in 1992 from 31 percent to 25 percent.

8.7 Many of the social investments are funded through enterprise Social Fund's. In 1992, 11 percent of all reported state enterprise profit were transferred to their Social Funds (see Table 8.2). This compares with 29 percent used for productive investments. Although called "Fund", most of the money is spent in the year it incurs.<sup>3</sup>

8.8 No systematic data could be obtained on the provision of social facilities

Table 8.2: Use of Enterprise Profits in Kazakhstan in 1992

	Percent*
Budget and state's off-budget funds	13
Production development fund	31
Social fund	11
Insurance/pension fund	9
Bonuses	5
Charity	1
Dividends	0.2
Other	30

Source: Goskomstat

\* These figures do not include banking, consumer cooperatives and a few sundry branches.

Table 8.3: Enterprises Providing Social Services in Moscow Survey (in percent)

	Percent	
Subsidized Food Store	78	(and special distribution of subsidized items: na)
Subsidized Canteen	66	
Land for Dachas	63	
Permanent Housing	49	(and housing loans: 34 percent)
Temporary Housing	29	
Kindergarten	54	(and child care allowance: 98 percent)
Polyclinics (Access)	39	
Sanatorium	37	(and sanatorium vouchers: 88 percent)
Community House	17	

Source: Commander/Jackman: Providing Social Benefits in Russia, The World Bank, 1993.

<sup>3</sup> In 1991, 80 percent of available Social Fund resources (initial stock plus 1991 contributions) were spent. Only 20 percent was carried over into 1992. Expenditures are believed to have increased above 80 percent in 1993.

by enterprise.<sup>4</sup> However, a World Bank survey of 41 enterprises in the Moscow area undertaken in late 1992, provides an indication of the level of provision of social services that may be expected in Kazakhstan (see Table 8.2). Indeed, enterprise visits suggest similar figures in Kazakhstan. The provision of housing, however, may be somewhat higher than observed in the Moscow region.

8.9 Enterprises in the Moscow survey paid the equivalent of about 40 percent of wages and bonuses into their Social Fund, and a further 25 percent for social insurance, including pensions. Goskomstat data for 1992 suggests that contributions to Social Fund's in Kazakhstan were lower at around 18 percent of wages and bonuses. Contributions to social insurance and charities amounted to around 15 percent. Still, the ruble 58 billion allocated by Kazakh state enterprises to their Social Fund compares with the ruble 82 billion spent on social services (and related investments) by the state budget. Depending on the data used<sup>5</sup>, between 32 and 40 percent of unrecovered social service expenditures were borne by state enterprises in 1992, and 60 to 68 percent by the state budget.

### Key Issues of Enterprise Social Assets

8.10 Enterprise exposure to market pressures and increased financial discipline will force increased enterprise efficiency and an assessment of core enterprise functions. This is likely to prompt a divestiture of social assets. The Government therefore needs to devise a strategy that facilitates the removal of either the assets, or the financial liabilities, of these functions from enterprises while continuing to protect living standards. Continued provision of essential services and transfers therefore will be necessary. The approach, however, should not unduly burden enterprises, distort competition, effect incentives facing employees, produce inefficiencies in the arrangements, or delay (or lead to the failure of) privatization and effective restructuring.

8.11 The continued provision of many social services and transfers by the employer enterprises has several potential drawbacks:

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4 Available statistics do not specify the percentage of employment or assets in productive enterprises that are dedicated to "non-productive" services. Among organizations classified as non-productive, less than 4 percent are employed in units other than enterprises. Enterprise visits suggest that official data on social assets and services may not be very reliable. It appears many social assets like dachas, vacation homes, and land for private housing, while de facto funded by state enterprises, are not represented in enterprise books as assets. Many of these assets were created informally through off-book transactions and favors. For example, construction may be undertaken with materials and labor diverted informally from the enterprise; additional materials, and especially land, may be obtained from other state enterprises, kolхозes or organizations, in exchange for enterprise outputs at preferential prices or prompt delivery; and, additional expenditures are sometimes paid for with funds kept off the enterprise books. The final social assets were used by individual employees. In many cases this private use has subsequently been quasi-legalized through some lease or purchase contract at favorable terms. Other assets which were open to all employees have been privatized in some "spontaneous" and not necessarily legal fashion at favorable terms to individuals close to the managers, or to their patrons in the administration who now operate them on their own account.

5 Goskomstat also reports that total expenditures for social and cultural needs (other than social security and insurance payments), financed from all resources, amounted to ruble 120 billion, in 1992. Goskomstat also reports citizens received free social services worth ruble 115 billion and social payments of ruble 165 billion in 1992. Of the total ruble 280 billion, social security transfers accounted for ruble 124 billion, transfers for consumption and leave ruble 55 billion, education ruble 57 billion and housing maintenance ruble 16 billion.

- Competition is distorted if older enterprises, particularly those that are still owned by the state, bear such liabilities but new local or foreign competition do not. Existing enterprises were required to provide these services under the previous system, and should not be financially handicapped by their presence in the new environment.
- Social costs like child and health care that are higher for certain people (young mothers, invalids, etc.) might make employers discriminate against these groups in hiring and lay-offs. More generally, high social costs associated with employees raise labor costs, thus reducing labor competitiveness and encouraging labor-saving investments.
- Social services that are not available to former employees or complete outsiders make it harder for employees to leave enterprises and join another with fewer social services. Similarly this makes unemployment more costly and restricts labor movement among towns and oblasts. This discourages socially minded managers, or managers concerned about their enterprise's reputation and relations with the local community, from shedding excess staff.
- As enterprises become more profit oriented they will likely try to limit access to their social services to their employees (and perhaps their families). This may jeopardize the welfare of citizens without employment in the formal enterprise sector.
- Productive enterprises are likely to become more efficient if they focus attention and capacity on their core productive activities. Similarly, social services would be provided more efficiently by specialized service operators rather than by such enterprises. The specialized operator of social services need not be the state itself, it could be a private party earning fees from beneficiaries or under contract with the state or enterprise.
- The social hardship resulting from the closure of an enterprise is compounded if it provided essential social services to its employees and others in the community. This is of particular concern in towns dominated by one, or a few enterprises.

**8.12** Simply transferring the assets to the municipality, however, may not necessarily be the best approach. A municipality may lack the necessary funding and specific expertise in the relevant services. In "company towns", municipal finances are likely to reflect the 'health' of the dominant enterprise. A distressed loss-maker is likely to restrict taxation and revenues flows to the municipality. At the enterprise level, the burden of higher local taxes to help the municipality operate social services may well equal the burden of its own continued operation of the social assets.

**8.13** In devising a strategy, the following factors need to be considered:

- (i) The location, ownership, management, and financing of a social asset may well differ. A social facility can be owned by one organization, operated by another, and financed by a third. For example, a firm may retain a kindergarten on its premises and remain the owner of the building, but lease the building to the municipality. The municipality finances the operation of the kindergarten and may employ a private contractor to manage and operate it. Similarly, the state may enter into an annual or long-term contract with an enterprise to continue the provision of currently provided services. The contract may stipulate the volume and quality of the social services to be provided by the enterprise

and the financial compensation that the state will pay to cover the estimated operating costs.

(ii) Different responsibilities may be appropriate in different circumstances.

- Essential services, such as health care, should be provided to the entire population, and in many countries are considered ultimately the responsibility of the state. If enterprises cease operation of such facilities because of profit imperatives or they become distressed, or they close them to non-employees, the municipalities may have to take over their operation or support the financing of these services to ensure delivery to the general population. Services that are not essential, such as the use of vacation homes, can be limited to those users that are able and willing to bear their costs, and can in many cases be operated profitably on a commercial basis.
- Operators of social facilities should generally seek cost recovery, but the technical ability to make final users pay depends on various factors. One problem are so-called public goods whose use by non-payers can not easily be prevented. This "free rider" problem is less severe for the municipality which can make every citizen pay through taxes. Similarly, municipalities may be more suited than individual enterprises to operating natural monopolies, i.e. facilities whose marginal costs are basically zero and are therefore best provided at a maximum scale. A third issue are facilities that could be transferred to their individual users but require the cooperation of many users. For example, dwellers might take over their individual apartments, but none of them alone will be willing to bear the maintenance of the building. Dweller cooperatives or contractual arrangements need to be developed in such circumstances to ensure a mutual contribution to such costs.
- A further question is whether enterprises or municipalities are more vulnerable to pressures from users to provide services irrespective of the financial cost. The likely pressure exerted by users depends, in part, on their ability to migrate to other sources of such services, whether provided by another enterprise, or in another town. The ability to change enterprises in a town is currently limited by the recession, and to move to another town, by 'propiska' residency restrictions. The vulnerability of service providers to pressure from users depends on the softness of enterprise budget constraints and their dependency on the service users (e.g., skilled employees).
- Social facilities are operated more sustainably by organizations that are relatively secure financially. Towns dominated by single, a few, or single subsector enterprises are exposed to the financial health of those enterprises. Kazakhstan has a large number of such towns, often founded in the steppe near a mineral deposit, or constituted by a state farm far from other settlements. This risk is partially offset by the practice of flexible inter-regional balancing of fiscal resources in Kazakhstan. At present, the share of certain taxes to be retained in an oblast is adjusted quarterly, and differs substantially between oblasts.

- Price controls on social services may make it financially burdensome for any organization to provide the services. This is currently the case with rent controls and low, fixed maintenance charges for housing. Where possible, remaining such price controls should be lifted, and targeted assistance provided to those users in need of support.
- (iii) Changes in the institutional arrangements for social services need to be well planned and implemented. The ownership or simply the operation (through management contracts or leases) of social assets can stay with the original enterprise (even while the enterprise as a whole gets privatized), or it can be transferred to other parties. Commercial investors or operators who expect to run these operations profitably, current users who may prefer to retain control themselves, or municipality or oblast/republican agencies may all be interested in operating these social assets. Transfer to any of these involves questions similar to general privatization.
- Social assets need to be separated from the enterprises to which they initially belonged. This would best be done prior to the enterprises corporatization when ownership and labor relations are not yet based on contracts. Corporatization necessitates a review and legal clarification of assets and employment. Like any segmentation, the separation of social assets will be time-consuming. To avoid delaying implementation of the National Privatization Program, enterprises could be initially corporatized and privatized, leaving future owners to spin off social assets. For those social assets and services that are considered essential, however, the state should determine future operating obligations prior to privatizing the enterprises.<sup>6</sup>
  - Before privatization, social assets need to be carefully monitored by the state because incentives are dangerously distorted. First, managers of state enterprises that enjoy "financial autonomy" but face privatization soon might be tempted to spontaneously privatize those social assets that are commercially attractive. This is not just a matter of fairness, legality, and state revenue. The lucky beneficiaries of these deals -- for example, low-cost leases for guest houses, in-house canteens and shops, etc. -- might not be well qualified to operate the facilities efficiently. In addition, they may have little incentive to maintain and restructure these assets. Second, state enterprise managers that seek short-term financial gain might close down facilities that are costly to the enterprise but essential for users. Implicit contracts with employees and the local community to provide social services need to be replaced with contractual or regulatory obligations. Third, state enterprise collectives are currently motivated to invest excess liquidity and inflated accounting profits into additional social assets that are attractive, but non-essential (for example, land for dachas, apartments, or sports facilities).

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<sup>6</sup> Firms that provide predominantly social services are supposed to be excluded from mass privatization, so that their obligations can be carefully reviewed and contractually specified prior to potential privatization on a case-by-case basis.

- **Transfer of these assets should be done competitively. Commercially attractive facilities like canteens, in-house shops, vacation homes, sanatoriums, and potentially even kindergartens, could be injected into the auction program for small-scale privatization. Some objects of particular interest to foreigners, such as guest houses in commercially or attractive tourist locations, could be offered against foreign exchange.**
- **Social facilities that provide essential services which can not, or should not, be operated commercially for a profit could be made attractive to investors or operators if the state or municipality announced in advance the amount of, or calculation formula for, a subsidy that it will pay for its post-transfer operation and/or restructuring.**
- **Careful valuation, fair pricing, and transparent procedures are critical in non-competitive transfers. Some transfers to a pre-determined party may sometimes be unavoidable where transfer to third parties would meet widespread popular resistance. This may be the case for apartments and land controlled by enterprises used by employees for housing or dachas. Direct transfer may also be necessary for social facilities that are commercially too risky despite a contractual assurance of state subsidies (for example, hospitals).**
- **The new owners or operators could be given access to post-transfer technical assistance, training, and financing, both for operation and restructuring. External donors may help in this process.**
- **The transfer of essential social services to municipalities on a broad scale might require adjustments in municipal taxation, and revenue sharing arrangements between municipalities, oblasts, and the republic.**

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**TABLE 1-1: KAZAKHSTAN - POPULATION AND EMPLOYMENT - SUMMARY TABLE***(in thousands)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>Total Population</b>	14,991	15,696	15,865	16,065	16,268	16,456	16,618	16,721	16,892	16,884
<b>Males</b>	7,219	7,568	7,656	7,761	7,869	7,970	8,057	8,116	8,204	..
<b>Females</b>	7,772	8,128	8,209	8,304	8,399	8,486	8,561	8,605	8,688	..
<b>Urban</b>	8,128	8,757	8,896	9,068	9,243	9,394	9,523	9,634	9,713	9,580
<b>Rural</b>	6,863	6,939	6,969	6,997	7,025	7,062	7,095	7,087	7,179	7,304
<b>Below Working Ages</b>	5,142	5,327	5,384	5,443	5,507	5,556	5,573	5,559	5,568	..
<b>Working-Age Population</b>	8,320	8,687	8,763	8,873	8,971	9,082	9,175	9,226	9,325	..
<b>Above Working Ages</b>	1,529	1,682	1,718	1,749	1,790	1,818	1,870	1,936	1,999	..
<b>Persons Older and Younger Than the Able-Bodied Ages Who Are Working</b>	227	254	253	232	226	226	230	229	230	..
<b>Older</b>	213	242	242	222	216	216	218	218	219	..
<b>Younger</b>	14	12	11	10	10	10	12	11	11	..
<b>Total Labor Resources</b>	8,360	8,854	8,935	9,016	9,113	9,203	9,262	9,331	9,368	9,443
<b>Total Employed Population</b>	6,640	7,136	7,209	7,295	7,400	7,467	7,563	7,494	7,356	7,561
<b>State Sector</b>	6,225	6,719	6,789	6,846	6,862	6,789	6,775	6,712	5,410	..
<b>Leased Enterprises</b>	..	..	..	..	..	..	..	..	344	..
<b>Joint-Stock Companies</b>	..	..	..	..	..	..	..	..	251	..
<b>Economic Associations</b>	..	..	..	..	..	..	..	..	12	..
<b>Social Organizations</b>	..	..	..	..	..	..	..	..	33	..
<b>Joint Ventures</b>	..	..	..	..	..	..	..	7	7	..
<b>Collective Farms</b>	276	279	276	274	264	254	260	258	268	..
<b>Cooperatives</b>	..	..	..	5	42	..	..	..	98	..
<b>Individual Labor Activities</b>	..	..	..	..	..	..	..	..	24	..
<b>Private Subsidiary Agriculture</b>	137	136	142	162	221	230	275	310	337	..
<b>Private Agriculture</b>	..	..	..	..	..	..	..	..	39	..
<b>Other</b>	2	2	2	8	11	194	253	207	533	..
<b>Students</b>	810	791	777	773	772	770	759	763	734	726
<b>Religious Workers</b>	..	..	..	..	..	..	..	..	..	..
<b>Able-Bodied Persons Not Employed in the National Economy</b>	910	927	949	948	941	966	940	1,074	1,064	1,156
<b>Housewives</b>	..	..	..	..	..	..	..	..	..	..
<b>Military</b>	..	..	..	..	..	..	..	..	..	..
<b>Unemployed</b>	..	..	..	..	..	..	..	4	34	40

Source: State Committee of Statistics.

**TABLE 1-2: KAZAKHSTAN - EMPLOYMENT BY SECTOR, ANNUAL AVERAGE***(in thousands)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Material Sphere</b>	<b>4,838</b>	<b>5,177</b>	<b>5,203</b>	<b>5,270</b>	<b>5,343</b>	<b>5,341</b>	<b>5,405</b>	<b>5,307</b>	<b>5,187</b>
Agriculture including forestry	1,561	1,662	1,655	1,695	1,733	1,676	1,726	1,754	1,794
Agriculture excluding forestry	1,545	1,646	1,640	1,680	1,718	1,662	1,713	1,740	1,781
Forestry	16	16	16	15	15	14	14	14	13
<b>Industry, total</b>	<b>2,072</b>	<b>2,218</b>	<b>2,245</b>	<b>2,279</b>	<b>2,336</b>	<b>2,420</b>	<b>2,447</b>	<b>2,304</b>	<b>2,230</b>
Industry, other	1,410	1,520	1,532	1,541	1,563	1,562	1,539	1,533	1,490
Construction	662	699	713	738	773	857	908	771	740
<b>Other, material sphere</b>	<b>1,205</b>	<b>1,297</b>	<b>1,303</b>	<b>1,297</b>	<b>1,275</b>	<b>1,245</b>	<b>1,232</b>	<b>1,249</b>	<b>1,163</b>
Transportation of goods	558	606	607	591	561	509	510	508	484
Maintenance of roads	..	..	..	..	..	..	..	..	..
Communication (material production)	..	..	..	..	..	..	..	..	..
Trade, catering, material supply and procurement	549	576	577	577	576	563	561	551	533
Information and computing services	17	20	22	27	26	23	21	20	14
Other branches of material production	81	95	97	102	113	150	140	170	132
<b>Nonmaterial Sphere</b>	<b>1,802</b>	<b>1,959</b>	<b>2,005</b>	<b>2,025</b>	<b>2,057</b>	<b>2,126</b>	<b>2,158</b>	<b>2,187</b>	<b>2,169</b>
Transportation	206	222	222	213	209	197	194	192	180
Communication	..	..	..	..	..	..	..	..	..
Housing, public utilities and personal services	227	246	248	257	267	294	292	289	283
Health care, social security, physical culture and sports	351	393	402	412	428	446	456	465	481
Education, culture and art	693	754	774	798	820	1,001	1,022	1,036	871
Science and scientific services	149	154	157	144	140	..	..	..	124
Credit and insurance	38	41	40	40	40	40	39	42	46
General administration and defense	138	149	162	161	153	148	155	163	184
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	..
Other, material and nonmaterial sphere	3,007	3,256	3,308	3,322	3,332	3,371	3,390	3,436	3,332
<b>Total Employment</b>	<b>6,640</b>	<b>7,136</b>	<b>7,208</b>	<b>7,295</b>	<b>7,400</b>	<b>7,467</b>	<b>7,563</b>	<b>7,494</b>	<b>7,356</b>

*Source: State Committee of Statistics.*

**TABLE 1-2A: KAZAKHSTAN - SECTOR SHARES OF EMPLOYMENT***(in percent)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Material Sphere</b>	<b>72.9</b>	<b>72.5</b>	<b>72.2</b>	<b>72.2</b>	<b>72.2</b>	<b>71.5</b>	<b>71.5</b>	<b>70.8</b>	<b>70.5</b>
Agriculture including forestry	23.5	23.3	23.0	23.2	23.4	22.4	22.8	23.4	24.4
Agriculture excluding forestry	23.3	23.1	22.7	23.0	23.2	22.3	22.6	23.2	24.2
Forestry	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Industry, total</b>	<b>31.2</b>	<b>31.1</b>	<b>31.1</b>	<b>31.2</b>	<b>31.6</b>	<b>32.4</b>	<b>32.4</b>	<b>30.8</b>	<b>30.3</b>
Industry, other	21.2	21.3	21.3	21.1	21.1	20.9	20.3	20.5	20.3
Construction	10.0	9.8	9.9	10.1	10.4	11.5	12.0	10.3	10.1
<b>Other, material sphere</b>	<b>18.1</b>	<b>18.2</b>	<b>18.1</b>	<b>17.8</b>	<b>17.2</b>	<b>16.7</b>	<b>16.3</b>	<b>16.7</b>	<b>15.8</b>
Transportation of goods	8.4	8.5	8.4	8.1	7.6	6.8	6.7	6.8	6.6
Maintenance of roads	..	..	..	..	..	..	..	..	..
Communication (material production)	..	..	..	..	..	..	..	..	..
Trade, catering, material supply and procurement	8.3	8.1	8.0	7.9	7.8	7.5	7.4	7.4	7.2
Information and computing services	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.2
Other branches of material production	1.2	1.3	1.4	1.4	1.5	2.0	1.9	2.3	1.8
<b>Nonmaterial Sphere</b>	<b>27.1</b>	<b>27.5</b>	<b>27.8</b>	<b>27.8</b>	<b>27.8</b>	<b>28.5</b>	<b>28.5</b>	<b>29.2</b>	<b>29.5</b>
Transportation	3.1	3.1	3.1	2.9	2.8	2.6	2.6	2.6	2.4
Communication	..	..	..	..	..	..	..	..	..
Housing, public utilities and personal services	3.4	3.4	3.4	3.5	3.6	3.9	3.9	3.9	3.8
Health care, social security, physical culture and sports	5.3	5.5	5.6	5.6	5.8	6.0	6.0	6.2	6.5
Education, culture and art	10.4	10.6	10.7	10.9	11.1	13.4	13.5	13.8	11.8
Science and scientific services	2.2	2.2	2.2	2.0	1.9	0.0	0.0	0.0	1.7
Credit and insurance	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6
General administration and defense	2.1	2.1	2.2	2.2	2.1	2.0	2.0	2.2	2.5
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	..
<b>Other, material and nonmaterial sphere</b>	<b>45.3</b>	<b>45.6</b>	<b>45.9</b>	<b>45.5</b>	<b>45.0</b>	<b>45.1</b>	<b>44.8</b>	<b>45.8</b>	<b>45.3</b>
<b>Total Employment</b>	<b>100.0</b>								

*Source: Table 1-2.*

**TABLE 1-3: KAZAKHSTAN - WORKERS AND EMPLOYEES IN STATE SECTOR, 1992***(in thousands)*

	Total	of which: Workers	of which: Employees
Material Sphere	4,459.9	3,449.8	1,010.1
Agriculture including forestry	1,170.9	971.7	199.2
Agriculture excluding forestry	1,158.1	962.4	195.7
Forestry	12.8	9.3	3.5
Industry, total	2,001.1	1,537.6	463.5
Industry, other	1,350.9	1,038.9	312.0
Construction	650.2	498.7	151.5
Other, material sphere	1,287.9	940.5	347.4
Transportation of goods	565.8	423.9	141.9
Maintenance of roads	..	..	..
Communication servicing material productio	82.3	57.8	24.5
Trade and catering	408.7	303.9	104.8
Material Supply	59.5	40.9	18.6
Procurement	39.5	27.9	11.6
Information and computing services	13.8	5.5	8.3
Other branches of material production	118.3	80.6	37.7
Nonmaterial Sphere	1,845.6	645.9	1,199.7
Transportation	..	..	..
Communication	..	..	..
Housing, public utilities and personal services	263.5	200.3	63.2
Health care, social security, physical culture and sports	467.3	163.9	303.4
Education	754.9	196.2	558.7
Culture and art	97.9	29.2	68.7
Science and scientific services	87.7	32.9	54.8
Credit and insurance	46.7	4.5	42.2
General administration and defense 1/	127.6	18.9	108.7
Private nonprofit institutions serving households	..	..	..
Other, material and nonmaterial spheres	3,133.5	1,586.4	1,547.1
Total	6,305.5	4,095.7	2,209.8

*1/ Excluding defense.**Source: State Committee of Statistics.*

**TABLE 1-4: KAZAKHSTAN - LABOR FORCE PARTICIPATION RATE BY AGE GROUP**

Year and Indicator	All Age Groups	0-15	16-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	Over 65
<b>1989 Census</b>													
Total Population (thousands)	16,464	5,551	1,140	1,346	1,544	1,364	1,130	697	751	836	586	592	927
Employed (thousands)	7,825	7	430	1,064	1,413	1,286	1,078	666	703	696	307	118	57
Labor Force Participation (percent)	47.5%	0.1%	37.7%	79.0%	91.5%	94.3%	95.4%	95.6%	93.6%	83.3%	52.4%	19.9%	6.1%
<b>Males:</b>													
Total Population (thousands)	7,974	2,809	592	680	773	681	557	341	357	400	270	231	279
Employed (thousands)	4,155	5	254	565	748	669	546	334	346	371	220	68	29
Labor Force Participation (percent)	52.1%	0.2%	42.9%	83.1%	96.8%	98.2%	98.0%	97.9%	96.9%	92.8%	81.5%	28.9%	10.4%
<b>Females:</b>													
Total Population (thousands)	8,490	2,742	548	666	771	683	573	356	394	436	316	357	648
Employed (thousands)	3,670	2	176	499	665	617	532	332	357	325	87	50	28
Labor Force Participation (percent)	43.2%	0.1%	32.1%	74.9%	86.3%	90.3%	92.8%	93.3%	90.6%	74.5%	27.5%	14.0%	4.3%
<b>1979 Census</b>													
Total Population (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Employed (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Labor Force Participation (percent)	..	..	..	..	..	..	..	..	..	..	..	..	..
<b>Males:</b>													
Total Population (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Employed (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Labor Force Participation (percent)	..	..	..	..	..	..	..	..	..	..	..	..	..
<b>Females:</b>													
Total Population (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Employed (thousands)	..	..	..	..	..	..	..	..	..	..	..	..	..
Labor Force Participation (percent)	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: State Committee of Statistics.

**TABLE 1-5: KAZAKHSTAN - REGISTERED UNEMPLOYMENT***(in thousands, end of month)*

	Total	Males	Females	of which Receiving Benefits
<b>1991</b>				
January	..	..	..	..
February	..	..	..	..
March	..	..	..	..
April	..	..	..	..
May	..	..	..	..
June	..	..	..	..
July	..	..	..	..
August	..	..	..	..
September	..	..	..	..
October	..	..	..	..
November	..	..	..	..
December	4.0	1.0	3.0	1.0
<b>1992</b>				
January	4.5	..	..	1.2
February	6.7	..	..	2.3
March	9.2	2.9	6.3	3.6
April	11.8	..	..	5.0
May	13.6	..	..	6.2
June	15.8	4.2	11.6	7.7
July	19.6	..	..	10.2
August	22.4	..	..	12.3
September	25.1	7.0	18.1	13.5
October	28.2	..	..	15.1
November	30.6	..	..	16.7
December	33.7	8.6	25.1	18.2
<b>1993</b>				
January	35.6	..	..	17.7
February	37.2	..	..	17.8
March	39.3	11.5	27.8	18.5
April	40.6	..	..	19.2
May	39.4	..	..	18.6
June	37.6	11.3	26.3	17.6
July	37.3	..	..	16.9
August	36.8	..	..	16.6
September	37.2	10.4	26.8	15.5
October	39.1	..	..	14.8
November	39.8	..	..	14.8
December	40.5	12.1	28.4	15.4
<b>1994</b>				
January	42.9	..	..	16.0
February	46.7	..	..	17.8
March	48.1	17.5	30.6	18.5
April	50.8	..	..	20.8

Source: State Committee of Statistics.

**TABLE 2-1: KAZAKHSTAN - GROSS DOMESTIC PRODUCT BY ORIGIN AND EXPENDITURE AT CURRENT PRICES**
*(millions of rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	..	..	..	..	..	..	..	..	96,185.3
Agriculture excluding forestry	..	..	..	..	..	..	..	..	96,114.4
Forestry	..	..	..	..	..	..	..	..	70.9
Industry, total	..	..	..	..	..	..	..	..	541,312.6
Industry, other	..	..	..	..	..	..	..	..	469,126.1
Construction	..	..	..	..	..	..	..	..	72,186.5
Other	..	..	..	..	..	..	..	..	576,102.1
Transportation	..	..	..	..	..	..	..	..	61,303.2
Maintenance of roads	..	..	..	..	..	..	..	..	..
Communication	..	..	..	..	..	..	..	..	6,525.8
Wholesale trade	..	..	..	..	..	..	..	..	..
Retail trade and catering	..	..	..	..	..	..	..	..	14,719.3
Material supply	..	..	..	..	..	..	..	..	21,405.0
Procurement	..	..	..	..	..	..	..	..	6,286.5
Information and computing services	..	..	..	..	..	..	..	..	558.3
Other branches of material production	..	..	..	..	..	..	..	..	10,787.1
Housing	..	..	..	..	..	..	..	..	..
Public utilities and personal services	..	..	..	..	..	..	..	..	7,894.8
Health care, social security, physical culture and sports	..	..	..	..	..	..	..	..	15,428.0
Education	..	..	..	..	..	..	..	..	31,976.3
Culture and art	..	..	..	..	..	..	..	..	..
Science and scientific services	..	..	..	..	..	..	..	..	..
Banking 1/	..	..	..	..	..	..	..	..	110,615.5
Insurance	..	..	..	..	..	..	..	..	2,213.1
General administration and defense	..	..	..	..	..	..	..	..	16,667.9
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	19,922.1
Households	..	..	..	..	..	..	..	..	238,026.0
Other government institutions	..	..	..	..	..	..	..	..	11,773.2
<b>Total gross value added (GVA) at market prices</b>	..	..	..	..	..	..	..	..	1,213,600.0
<b>Taxes on production and imports (TOPI)</b>	..	..	..	..	..	..	..	..	187,106.0
Taxes on products (TOP)	..	..	..	..	..	..	..	..	..
Other taxes on production (OTOP)	..	..	..	..	..	..	..	..	..
Taxes on imports (TOI)	..	..	..	..	..	..	..	..	..
<b>Subsidies on production and imports (SOPI)</b>	..	..	..	..	..	..	..	..	34,907.0
Subsidies on products (SOP)	..	..	..	..	..	..	..	..	..
Other subsidies on production (OSOP)	..	..	..	..	..	..	..	..	..
Subsidies on imports (SOI)	..	..	..	..	..	..	..	..	..
<b>GDP at factor cost (GVA - OTOP + OSOP)</b>	..	..	..	..	..	..	..	..	1,061,401.0
<b>Net indirect Taxes (TOPI - SOPI)</b>	..	..	..	..	..	..	..	..	152,199.0
<b>Gross Domestic Product at market prices</b>	<b>24,902.3</b>	<b>30,442.7</b>	<b>33,572.1</b>	<b>33,909.9</b>	<b>36,233.5</b>	<b>39,230.1</b>	<b>44,368.7</b>	<b>74,215.1</b>	<b>1,213,600.0</b>
<b>By Expenditure Category:</b>									
Consumption	..	..	..	..	..	..	..	..	833,881
Private consumption	..	..	..	..	..	..	..	..	614,500
Government consumption	..	..	..	..	..	..	..	..	219,381
Gross domestic investment	..	..	..	..	..	..	..	..	343,449
Gross fixed investment	..	..	..	..	..	..	..	..	260,924
Change in stocks	..	..	..	..	..	..	..	..	82,525
Resource balance (net exports GNFS)	..	..	..	..	..	..	..	..	36,270
Exports of goods and nonfactor services	..	..	..	..	..	..	..	..	650,489
Imports of goods and nonfactor services	..	..	..	..	..	..	..	..	614,219

*1/ Data on banking was adjusted to reflect the revised GDP (there is still a serious question, how the value added in banking was calculated).*
*Sources: State Committee of Statistics and World Bank staff estimates.*

**TABLE 2-2: KAZAKHSTAN - GROSS DOMESTIC PRODUCT BY ORIGIN AND EXPENDITURE AT CURRENT PRICES**
*(percentage shares)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	..	..	..	..	..	..	..	..	7.9
Agriculture excluding forestry	..	..	..	..	..	..	..	..	7.9
Forestry	..	..	..	..	..	..	..	..	0.0
Industry, total	..	..	..	..	..	..	..	..	44.6
Industry, other	..	..	..	..	..	..	..	..	38.7
Construction	..	..	..	..	..	..	..	..	5.9
Other	..	..	..	..	..	..	..	..	47.5
Transportation	..	..	..	..	..	..	..	..	5.1
Maintenance of roads	..	..	..	..	..	..	..	..	0.0
Communication	..	..	..	..	..	..	..	..	0.5
Wholesale trade	..	..	..	..	..	..	..	..	..
Retail trade and catering	..	..	..	..	..	..	..	..	1.2
Material supply	..	..	..	..	..	..	..	..	1.8
Procurement	..	..	..	..	..	..	..	..	0.5
Information and computing services	..	..	..	..	..	..	..	..	0.0
Other branches of material production	..	..	..	..	..	..	..	..	0.9
Housing	..	..	..	..	..	..	..	..	..
Public utilities and personal services	..	..	..	..	..	..	..	..	0.7
Health care, social security, physical culture and sports	..	..	..	..	..	..	..	..	0.0
Education	..	..	..	..	..	..	..	..	1.3
Culture and art	..	..	..	..	..	..	..	..	2.6
Science and scientific services	..	..	..	..	..	..	..	..	..
Banking	..	..	..	..	..	..	..	..	9.1
Insurance	..	..	..	..	..	..	..	..	0.2
General administration and defense	..	..	..	..	..	..	..	..	1.4
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	0.0
Households	..	..	..	..	..	..	..	..	1.6
Other government institutions	..	..	..	..	..	..	..	..	19.6
	..	..	..	..	..	..	..	..	1.0
Total gross value added (GVA) at market prices	..	..	..	..	..	..	..	..	100.0
Gross Domestic Product at factor cost	..	..	..	..	..	..	..	..	87.5
Net Indirect Taxes	..	..	..	..	..	..	..	..	12.5
Gross Domestic Product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>By Expenditure Category:</b>									
Consumption	..	..	..	..	..	..	..	..	68.7
Private consumption	..	..	..	..	..	..	..	..	50.6
Government consumption	..	..	..	..	..	..	..	..	18.1
Gross domestic investment	..	..	..	..	..	..	..	..	28.3
Gross fixed investment	..	..	..	..	..	..	..	..	21.5
Change in stocks	..	..	..	..	..	..	..	..	6.8
Resource balance (Net exports GNFS)	..	..	..	..	..	..	..	..	3.0
Exports of goods and nonfactor services	..	..	..	..	..	..	..	..	53.6
Imports of goods and nonfactor services	..	..	..	..	..	..	..	..	50.6

*Source: Table 2-1.*

**TABLE 2-3: KAZAKHSTAN - NATIONAL INCOME AND GROSS NATIONAL/DOMESTIC PRODUCT**
*(millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
1. Net Material Product	20,572.0	23,153.0	24,270.0	24,197.2	26,719.2	27,997.5	33,357.9	66,833.4	840,424.3
2. Wages, Salaries, NonMaterial Sphere	2,390.3	2,804.6	2,944.5	3,118.7	3,338.8	3,754.0	4,383.7	9,432.2	68,392.8
3. Social Sec. Contributions, NonMaterial Sphere	9.7	15.8	17.2	19.6	15.8	16.9	17.8	31.2	23,937.0
4. Insurance Compensation Received, Material Sphere	..	..	..	..	..	..	..	..	..
5. Profit, NonMaterial Sphere	..	..	..	..	..	..	..	..	..
6. Losses in Reserves, Material Sphere	368.9	510.0	508.3	582.0	717.1	792.3	968.2	659.4	9,013.0
7. Insurance Premiums Paid, Material Sphere	..	..	..	..	..	..	..	..	..
8. Business and Travel Expenses	343.0	453.1	485.9	500.7	526.3	552.1	628.0	1,292.5	17,050.0
9. Purchases of NonMaterial Services by Enterprises of Material Services	..	..	..	..	..	..	..	..	..
10. Expenditure in Connection with the Provision of Employee Facilities, Material Sphere	..	..	..	..	..	..	..	..	..
11. Imputed Service Charge of Financial Intermediaries	..	..	..	..	..	..	..	..	..
12. Net Factor Income from Abroad	..	..	..	..	..	..	..	..	..
13. National Income at Market Prices (Net National Product) = (1+2+3+4+5-6-7-8-9-10-11+12)	22,260.1	25,010.3	26,237.5	26,252.8	28,830.4	30,424.0	36,163.2	74,344.9	906,691.1
14. Consumption of Fixed Capital	5,969.2	7,783.8	8,397.2	9,074.5	9,223.5	9,690.2	9,766.5	5,769.4	18,166.0
15. Gross National Product at Market Prices = (13+14)	28,229.3	32,794.1	34,634.7	35,327.3	38,053.9	40,114.2	45,929.7	80,114.3	924,857.1
16. Gross Domestic Product at Market Prices = (15-12)	24,902.3	30,442.7	33,572.1	33,909.9	36,233.5	39,230.1	44,368.7	74,215.1	1,213,600.0

*Sources: Goskomstat.*

**TABLE 2-4: KAZAKHSTAN - COMPOSITION OF NET MATERIAL PRODUCT AND GROSS DOMESTIC PRODUCT***(millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>A. Net Material Product (MPS)</b>	20,572.0	23,153.0	24,270.0	24,197.2	26,719.2	27,997.5	33,357.9	66,833.4	840,424.3
<b>A1. Primary Income of the Population (MPS)</b>	9,650.7	11,504.9	12,163.7	12,567.5	13,490.2	14,384.7	16,124.9	27,566.6	227,315.0
<b>C1. Wages and salaries of employees, non-material sphere</b>	2,390.3	2,804.6	2,944.5	3,118.7	3,338.8	3,754.0	4,383.7	9,432.2	68,392.8
<b>C2. Income from personal and subsidiary plots of the population</b>	1,931.1	2,818.3	3,196.7	2,880.5	2,946.9	4,195.0	2,386.1	8,122.8	66,980.8
<b>C3. Employers contributions to social security</b>	615.7	874.2	923.0	949.1	1,008.3	1,384.4	1,642.1	7,673.3	98,708.0
<b>C3a material sphere</b>	606.0	858.4	905.8	929.5	992.5	1,367.5	1,624.3	7,642.1	74,771.0
<b>C3b non-material sphere</b>	9.7	15.8	17.2	19.6	15.8	16.9	17.8	31.2	23,937.0
<b>C4. Business travel expenses</b>	343.0	453.1	485.9	500.7	526.3	552.1	628.0	1,292.5	17,050.0
<b>C4a material sphere</b>	342.4	452.5	485.3	500.1	525.0	549.8	625.7	1,290.4	16,862.0
<b>C4b non-material sphere</b>	0.6	0.6	0.6	0.6	1.3	2.3	2.3	2.1	188.0
<b>C5. Other adjustments (+)</b>	..	..	..	..	..	..	..	..	..
<b>C6. Other adjustments (-)</b>	..	..	..	..	..	..	..	..	..
<b>B1. Compensation of Employees (SNA) (A1+C1-C2+C3-C4 +C5+C6)</b>	10,382.6	11,912.3	12,348.6	13,254.1	14,364.1	14,776.0	19,136.6	35,256.8	310,385.0
<b>A2. Primary Income of Enterprises (MPS)</b>	7,594.3	9,296.7	11,043.7	10,212.3	11,408.6	12,728.7	15,672.0	33,367.6	442,078.0
<b>D1. Operating surplus and taxes of non-budgetary units, nonmaterial sphere</b>	..	..	..	..	..	..	..	..	..
<b>D2. Purchase of non-material services, material sphere</b>	..	..	..	..	..	..	..	..	..
<b>D3. Expenditure in connection with the provision of employee facilities, material sphere</b>	..	..	..	..	..	..	..	..	..
<b>D4. Losses in stocks</b>	368.9	510.0	508.3	582.0	717.1	792.3	968.2	659.4	9,013.0
<b>D5. Other adjustments (+)</b>	..	..	..	..	..	..	..	..	..
<b>D6. Other adjustments (-)</b>	..	..	..	..	..	..	..	..	..
<b>B2. Operating Surplus including Net Taxes on Production and Imports (SNA) (A2+C2-C3a+D1-D2-D3-D4+D5+D6)</b>	8,550.5	10,746.6	12,826.3	11,581.3	12,645.9	14,763.9	15,465.6	33,188.9	425,274.8
<b>B3. Consumption of Fixed Capital (SNA)</b>	5,969.2	7,783.8	8,397.2	9,074.5	9,223.5	9,690.2	9,766.5	5,769.4	18,166.0
<b>B. Gross Domestic Product at market prices (SNA) = (B1+B2+B3)</b>	24,902.3	30,442.7	33,572.1	33,909.9	36,233.5	39,230.1	44,368.7	74,215.1	1,213,600.0

Source: State Committee of Statistics.

**TABLE 2-5: KAZAKHSTAN - NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE AT CURRENT PRICES**

(millions of rubles)

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	5,338.4	6,818.1	8,283.3	8,066.4	9,214.5	10,461.8	13,961.6	22,862.4	255,738.7
Agriculture excluding forestry	5,326.7	6,796.6	8,261.5	8,044.2	9,189.0	10,435.4	13,937.0	22,810.1	255,634.1
Forestry	11.7	21.5	21.8	22.2	25.5	26.4	24.6	52.3	104.6
Industry, total	9,759.0	11,353.1	10,872.4	11,260.1	11,604.7	11,277.4	12,340.0	33,786.1	455,074.1
Industry, other	6,671.8	7,626.5	6,680.0	6,915.4	6,762.1	5,659.0	7,002.9	24,764.0	390,253.6
Construction	3,087.2	3,726.6	4,192.4	4,344.7	4,842.6	5,618.4	5,337.5	9,022.1	64,820.5
Other	5,474.6	4,981.8	5,114.3	4,870.7	5,900.0	6,258.3	7,055.9	10,184.9	129,611.5
Transportation of goods	1,722.3	2,176.5	2,228.6	2,275.4	2,433.4	2,482.6	3,083.0	5,419.9	59,687.9
Maintenance of roads	..	56.8	34.1	65.9	67.5	42.9	55.6	84.7	2,810.0
Communication (material production)	52.2	82.1	85.9	94.9	104.2	108.8	118.1	160.7	4,673.2
Wholesale trade	81.1	92.4	101.2	80.9	108.8	115.7	125.0	140.5	3,544.5
Retail trade and catering	987.8	1,119.3	1,194.8	1,040.8	1,230.2	1,365.2	1,476.5	2,542.0	25,803.9
Material supply	266.0	365.0	410.6	388.8	376.8	383.7	438.9	1,019.6	25,917.0
Procurement	344.0	443.5	433.6	424.0	506.7	399.2	460.1	593.9	5,938.1
Information and computing services	..	30.0	47.9	53.5	60.2	82.6	94.1	76.4	531.9
Other branches of material production	2,021.2	616.2	577.6	446.5	1,012.2	1,277.6	1,204.6	147.2	705.0
<b>Net Material Product</b>	<b>20,572.0</b>	<b>23,153.0</b>	<b>24,270.0</b>	<b>24,197.2</b>	<b>26,719.2</b>	<b>27,997.5</b>	<b>33,357.5</b>	<b>66,833.4</b>	<b>840,424.3</b>
<b>By Expenditure Category:</b>									
Consumption	17,490.2	21,548.0	21,803.6	22,480.3	23,879.5	25,833.0	28,452.2	63,097.3	667,787.7
Consumption of population	15,128.9	18,466.0	18,744.0	19,113.3	20,378.4	22,185.0	24,441.6	47,632.6	579,333.9
Social consumption	2,361.3	3,082.0	3,059.6	3,367.0	3,501.1	3,648.0	4,010.6	15,464.7	88,453.8
Investment (accumulation)	6,202.0	9,915.0	9,111.9	8,306.8	8,464.5	8,728.0	11,693.0	22,481.3	324,971.4
Fixed capital	4,245.4	5,300.0	5,673.0	6,035.0	5,091.0	5,326.0	5,594.0	5,138.9	242,731.0
Changes in inventories and other	1,956.6	4,615.0	3,438.9	2,271.8	3,373.5	3,402.0	6,099.0	17,342.4	82,240.4
Losses	368.9	510.0	508.3	582.0	717.1	792.3	968.2	659.4	9,013.4
Net exports	-3,489.1	-8,820.0	-7,153.8	-7,171.9	-6,341.9	-7,355.8	-7,755.5	-19,404.6	-161,348.2

Sources: Goskomstat.

**TABLE 2-5A: KAZAKHSTAN - NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE AT CURRENT PRICES**
*(percentage shares)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	25.9	29.4	34.1	33.3	34.5	37.4	41.9	34.2	30.4
Agriculture excluding forestry	25.9	29.4	34.0	33.2	34.4	37.3	41.8	34.1	30.4
Forestry	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Industry, total	47.4	49.0	44.8	46.5	43.4	40.3	37.0	50.6	54.1
Industry, other	32.4	32.9	27.5	28.6	25.3	20.2	21.0	37.1	46.4
Construction	15.0	16.1	17.3	18.0	18.1	20.1	16.0	13.5	7.7
Other	26.6	21.5	21.1	20.1	22.1	22.4	21.2	15.2	15.4
Transportation of goods	8.4	9.4	9.2	9.4	9.1	8.9	9.2	8.1	7.1
Maintenance of roads	0.0	0.2	0.1	0.3	0.3	0.2	0.2	0.1	0.3
Communication (material production)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.6
Wholesale trade	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.2	0.4
Retail trade and catering	4.8	4.8	4.9	4.3	4.6	4.9	4.4	3.8	3.1
Material supply	1.3	1.6	1.7	1.6	1.4	1.4	1.3	1.5	3.1
Procurement	1.7	1.9	1.8	1.8	1.9	1.4	1.4	0.9	0.7
Information and computing services	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.1	0.1
Other branches of material production	9.8	2.7	2.4	1.8	3.8	4.6	3.6	0.2	0.1
<b>Net Material Product</b>	<b>100.0</b>								
<b>By Expenditure Category:</b>									
Consumption	85.0	93.1	89.8	92.9	89.4	92.3	85.3	94.4	79.5
Consumption of population	73.5	79.8	77.2	79.0	76.3	79.2	73.3	71.3	68.9
Social consumption	11.5	13.3	12.6	13.9	13.1	13.0	12.0	23.1	10.5
Investment (accumulation)	30.1	42.8	37.5	34.3	31.7	31.2	35.1	33.6	38.7
Fixed capital	20.6	22.9	23.4	24.9	19.1	19.0	16.8	7.7	28.9
Changes in inventories and other	9.5	19.9	14.2	9.4	12.6	12.2	18.3	25.9	9.8
Losses	1.8	2.2	2.1	2.4	2.7	2.8	2.9	1.0	1.1
Net exports	-17.0	-38.1	-29.5	-29.6	-23.7	-26.3	-23.2	-29.0	-19.2

*Source: Table 2-5.*

**TABLE 2-6: KAZAKHSTAN - NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE AT CONSTANT PRICES**
*(millions of rubles, for 1980-88, 1983 = 100; for 1989-92, previous year = 100)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	3,995.1	6,473.0	7,546.5	7,089.7	7,703.5	8,212.1	11,742.8	10,510.4	22,965
Agriculture excluding forestry	3,983.4	6,451.5	7,524.7	7,067.5	7,678.0	8,187.2	11,717.7	10,458.1	22,924
Forestry	11.7	21.5	21.8	22.2	25.5	24.9	25.1	52.3	41
Industry, total	10,204.0	11,144.7	10,500.9	10,953.6	11,603.6	11,974.1	9,641.6	10,716.9	25,940
Industry, other	6,845.7	7,354.3	6,713.4	6,717.3	6,757.2	6,856.1	4,478.6	6,712.9	20,800
Construction	3,358.3	3,790.4	3,787.5	4,236.3	4,846.4	5,118.0	5,163.0	4,004.0	5,140
Other	5,169.3	4,981.0	4,945.0	4,900.2	5,590.7	6,511.0	6,350.6	7,176.4	8,602
Transportation of goods	1,858.7	2,176.5	2,228.6	2,275.4	2,433.4	2,449.0	2,579.9	4,359.7	4,637
Maintenance of roads	..	56.8	34.1	65.9	67.5	41.6	54.1	68.3	
Communication (material production)	..	82.1	85.9	94.9	104.2	106.5	118.1	127.6	137
Wholesale trade	..	97.5	104.1	90.8	112.6	126.2	125.3	71.9	
Retail trade and catering	961.8	1,151.4	1,136.6	1,104.0	1,185.0	1,358.5	1,481.4	1,311.4	2,132
Material supply	385.9	322.8	307.3	329.9	284.9	539.6	287.7	730.1	878
Procurement	232.1	456.8	435.7	443.0	344.4	604.3	469.3	301.5	605
Information and computing services	..	30.0	47.9	53.5	60.2	81.8	94.8	75.0	62
Other branches of material production	1,730.8	607.1	564.8	442.8	998.5	1,203.5	1,140.0	130.9	147
<b>Net Material Product</b>	<b>19,368.4</b>	<b>22,598.7</b>	<b>22,992.4</b>	<b>22,943.5</b>	<b>24,897.8</b>	<b>26,697.2</b>	<b>27,735.0</b>	<b>28,403.7</b>	<b>57,508</b>
<b>By Expenditure Category:</b>									
Consumption	16,693.0	21,496.0	21,573.1	22,151.4	23,499.3	24,573.1	26,193.7	31,297.4	61,903
Consumption of population	14,361.0	18,411.0	18,509.2	18,774.0	19,991.2	20,977.7	22,360.1	24,314.8	53,069
Social consumption	2,332.0	3,085.0	3,063.9	3,377.4	3,508.1	3,595.4	3,833.6	6,982.6	8,833
Investment (accumulation)	5,895.7	9,037.0	8,971.6	7,888.2	8,348.8	7,863.8	9,579.3	8,433.4	8,838
Fixed capital	4,234.0	5,332.0	5,389.0	5,675.0	4,786.0	4,780.8	4,625.1	2,238.0	3,576
Changes in inventories and other	1,661.7	3,705.0	3,582.6	2,213.2	3,562.8	3,083.0	4,954.2	6,195.4	5,262
Losses and discrepancy	..	..	..	..	..	..	..	..	..
Net exports	-3,220.3	-7,934.3	-7,552.3	-7,096.1	-6,950.3	-5,739.7	-8,038.0	-11,327.1	-13,232

*Sources: State Committee of Statistics.*

**TABLE 2-6A: NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE AT CONSTANT PRICES**

(percentage growth rates)

	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>							
Agriculture including forestry	16.6	-6.1	8.7	-10.9	12.2	-24.7	0.5
Agriculture excluding forestry	16.6	-6.1	8.6	-10.9	12.3	-25.0	0.5
Forestry	1.4	1.8	14.9	-2.4	-4.9	112.6	-20.3
Industry, total	-5.8	4.3	5.9	3.2	-14.5	-13.2	-23.2
Industry, other	-8.7	0.1	0.6	1.4	-20.9	-4.1	-16.0
Construction	-0.1	11.8	14.4	5.7	-8.1	-25.0	-43.0
Other	-0.7	-0.9	14.1	10.4	1.5	1.7	-15.5
Transportation of goods	2.4	2.1	6.9	0.6	3.9	41.4	-14.4
Maintenance of roads	-40.0	93.3	2.4	-38.4	26.1	22.8	-100.0
Communication (material production)	4.6	10.5	9.8	2.2	8.5	8.0	-14.4
Wholesale trade	6.8	-12.8	24.0	16.0	8.3	-42.5	-100.0
Retail trade and catering	-1.3	-2.9	7.3	10.4	8.5	-11.2	-16.1
Material supply	-4.8	7.4	-13.6	43.2	-25.0	66.3	-13.8
Procurement	-4.6	1.7	-22.3	19.3	17.6	-34.5	2.0
Information and computing services	59.7	11.7	12.5	35.9	14.8	-20.3	-17.8
Other branches of material production	-7.0	-21.6	125.5	18.9	-10.8	-89.1	0.0
<b>Net Material Product</b>	<b>1.7</b>	<b>-0.2</b>	<b>8.5</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-14.9</b>	<b>-14.0</b>
<b>By Expenditure Category:</b>							
Consumption	0.4	2.7	6.1	2.9	1.4	10.0	-1.9
Consumption of population	0.5	1.4	6.5	2.9	0.8	-0.5	11.4
Governmental consumption	-0.7	10.2	3.9	2.7	5.1	74.1	-42.9
Investment (accumulation)	-0.7	-12.1	5.8	-7.1	9.8	-27.9	-60.7
Fixed capital	1.1	5.3	-15.7	-6.1	-13.2	-60.0	-30.4

Source: Table 2-6.

**TABLE 2-6B: KAZAKHSTAN - NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE - IMPLICIT PRICE DEFLATORS***(previous year = 100)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>									
Agriculture including forestry	133.6	105.3	109.8	113.8	119.6	127.4	118.9	217.5	1,111.1
Agriculture excluding forestry	133.7	105.3	109.8	113.8	119.7	127.5	118.9	218.1	1,111.1
Forestry	100.0	100.0	100.0	100.0	100.0	106.0	98.0	100.0	251.1
Industry, total	95.6	101.9	103.5	102.8	100.0	94.2	128.0	315.3	1,754.4
Industry, other	97.5	103.7	99.5	102.9	100.1	82.5	156.4	368.9	1,870.4
Construction	91.9	98.3	110.7	102.6	99.9	109.8	103.4	225.3	1,261.1
Other	105.9	100.0	103.4	99.4	105.5	96.1	111.1	141.9	1,500.1
Transportation of goods	92.7	100.0	100.0	100.0	100.0	101.4	119.5	124.3	1,287.1
Maintenance of roads	..	100.0	100.0	100.0	100.0	103.1	102.8	124.0	..
Communication (material production)	..	100.0	100.0	100.0	100.0	102.2	100.0	125.9	3,396.1
Wholesale trade	..	94.8	97.2	89.1	96.6	91.7	99.8	195.4	..
Retail trade and catering	102.7	97.2	105.1	94.3	103.8	100.5	99.7	193.8	1,210.1
Material supply	68.9	113.1	133.6	117.9	132.3	71.1	152.6	139.7	2,948.1
Procurement	148.2	97.1	99.5	95.7	147.1	66.1	98.0	197.0	980.1
Information and computing services	..	100.0	100.0	100.0	100.0	101.0	99.3	101.9	847.1
Other branches of material production	116.8	101.5	102.3	100.8	101.4	106.2	105.7	112.5	478.1
Net Material Product	106.2	102.5	105.6	105.5	107.3	104.9	120.3	235.3	1,461.1
<b>By Expenditure Category:</b>									
Consumption	104.8	100.2	101.1	101.5	101.6	105.1	108.6	201.6	1,078.1
Consumption of population	105.3	100.3	101.3	101.8	101.9	105.8	109.3	195.9	1,091.1
Social consumption	101.3	99.9	99.9	99.7	99.8	101.5	104.6	221.5	1,001.1
Investment (accumulation)	105.2	109.7	101.6	105.3	101.4	111.0	122.1	266.6	3,676.1
Fixed capital	100.3	99.4	105.3	106.3	106.4	111.4	120.9	229.6	6,787.1

*Sources: Tables 2-5 and 2-6.*

**TABLE 2-6C: KAZAKHSTAN - NET MATERIAL PRODUCT BY ORIGIN AND EXPENDITURE - IMPLICIT PRICE DEFLATORS**
*(percentage change)*

	1986	1987	1988	1989	1990	1991	1992
<b>By Industrial Origin:</b>							
Agriculture including forestry	4.2	3.7	5.1	6.5	-6.7	83.0	411.9
Agriculture excluding forestry	4.2	3.7	5.1	6.5	-6.7	83.4	411.3
Forestry	0.0	0.0	0.0	6.0	-7.6	2.0	150.8
<b>Industry, total</b>	<b>1.6</b>	<b>-0.7</b>	<b>-2.7</b>	<b>-5.8</b>	<b>35.9</b>	<b>146.3</b>	<b>456.5</b>
Industry, other	-4.0	3.5	-2.8	-17.5	89.4	135.9	408.6
Construction	12.6	-7.3	-2.6	9.9	-5.8	118.0	459.6
<b>Other</b>	<b>3.4</b>	<b>-3.9</b>	<b>6.2</b>	<b>-8.9</b>	<b>15.6</b>	<b>27.7</b>	<b>961.6</b>
Transportation of goods	0.0	0.0	0.0	1.4	17.9	4.0	935.3
Maintenance of roads	0.0	0.0	0.0	3.1	-0.3	20.7	..
Communication (material production)	0.0	0.0	0.0	2.2	-2.1	25.9	2,596.7
Wholesale trade	2.6	-8.3	8.4	-5.1	8.8	95.9	..
Retail trade and catering	8.1	-10.3	10.1	-3.2	-0.8	94.5	524.2
Material supply	18.2	-11.8	12.2	-46.2	114.5	-8.5	2,011.5
Procurement	2.5	-3.8	53.7	-55.1	48.4	100.9	397.6
Information and computing services	0.0	0.0	0.0	1.0	-1.7	2.6	731.5
Other branches of material production	0.8	-1.4	0.5	4.7	-0.5	6.4	325.9
<b>Net Material Product</b>	<b>3.0</b>	<b>-0.1</b>	<b>1.8</b>	<b>-2.3</b>	<b>14.7</b>	<b>95.6</b>	<b>521.1</b>
<b>By Expenditure Category:</b>							
Consumption	0.8	0.4	0.1	3.5	3.3	85.6	435.1
Consumption of population	1.0	0.5	0.1	3.7	3.4	79.2	457.2
Social consumption	0.0	-0.2	0.1	1.7	3.1	111.7	352.1
Investment (accumulation)	-7.4	3.7	-3.7	9.5	10.0	118.4	1,279.3
Fixed capital	5.9	1.0	0.0	4.7	8.6	89.8	2,855.8

*Source: Tables 2-6B.*

**TABLE 2-7: KAZAKHSTAN - DEPRECIATION BY SECTOR AT CURRENT PRICES***(millions of rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Material Sphere</b>	<b>4,132</b>	<b>5,715</b>	<b>6,290</b>	<b>6,940</b>	<b>6,901</b>	<b>7,261</b>	<b>7,256</b>	<b>4,211</b>	<b>11,430</b>
Agriculture including forestry	1,271	1,600	1,682	2,059	1,836	1,874	1,914	1,198	2,549
Agriculture excluding forestry	1,268	1,596	1,678	2,054	1,832	1,870	1,908	1,192	2,535
Forestry	3	4	4	5	4	4	6	6	14
<b>Industry, total</b>	<b>2,182</b>	<b>2,897</b>	<b>3,249</b>	<b>3,296</b>	<b>3,515</b>	<b>3,720</b>	<b>3,673</b>	<b>2,064</b>	<b>5,552</b>
Industry, other	1,839	2,425	2,730	2,736	2,915	3,102	3,038	1,646	5,010
Construction	343	472	519	560	600	618	635	418	542
<b>Other, material sphere</b>	<b>679</b>	<b>1,218</b>	<b>1,359</b>	<b>1,585</b>	<b>1,550</b>	<b>1,667</b>	<b>1,669</b>	<b>949</b>	<b>3,329</b>
Transportation of goods	385	822	946	1,183	1,124	1,288	1,238	657	2,358
Maintenance of roads	16	24	26	27	30	29	33	36	..
Communication for material production	14	19	25	26	31	32	35	32	198
Wholesale trade	120	151	160	173	154	140	149	85	322
Retail trade and catering	..	..	..	..	..	..	..	..	..
Material supply	64	98	98	78	81	86	94	72	217
Procurement	73	81	82	85	112	70	97	47	206
Information and computing services	..	17	19	10	10	14	15	13	17
Other branches of material production	7	6	3	3	8	8	8	7	11
<b>Nonmaterial Sphere</b>	<b>1,349</b>	<b>1,940</b>	<b>1,998</b>	<b>1,987</b>	<b>2,129</b>	<b>2,176</b>	<b>2,282</b>	<b>1,340</b>	<b>5,571</b>
Transportation	151	364	352	235	291	228	283	48	..
Communication	4	56	60	65	70	75	58	35	..
Housing	608	764	798	801	846	893	960	625	3,521
Public utilities and personal services	154	198	208	221	242	266	290	205	662
Health care, social security, physical culture and sports	75	97	100	104	120	123	125	75	255
Education	164	196	207	253	238	254	240	150	557
Culture and art	49	59	62	80	84	85	60	36	160
Science and scientific services	61	94	103	110	112	121	135	95	140
Credit	..	..	..	..	..	..	..	..	..
Insurance	..	..	..	..	..	..	..	..	..
General administration and defense	..	..	..	..	..	..	..	..	..
Private nonprofit institutions serving households	83	112	108	118	126	131	131	71	276
<b>Other, material and nonmaterial spheres</b>	<b>2,028</b>	<b>3,158</b>	<b>3,357</b>	<b>3,572</b>	<b>3,679</b>	<b>3,843</b>	<b>3,951</b>	<b>2,289</b>	<b>8,900</b>
<b>Total Depreciation</b>	<b>5,481</b>	<b>7,655</b>	<b>8,288</b>	<b>8,927</b>	<b>9,030</b>	<b>9,437</b>	<b>9,538</b>	<b>5,551</b>	<b>17,001</b>

*Sources: State Committee of Statistics.*

**TABLE 2-8: KAZAKHSTAN - SECTOR SHARES OF DEPRECIATION***(in percent)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Material Sphere</b>	<b>75.4</b>	<b>74.7</b>	<b>75.9</b>	<b>77.7</b>	<b>76.4</b>	<b>76.9</b>	<b>76.1</b>	<b>75.9</b>	<b>67.2</b>
Agriculture including forestry	23.2	20.9	20.3	23.1	20.3	19.9	20.1	21.6	15.0
Agriculture excluding forestry	23.1	20.8	20.2	23.0	20.3	19.8	20.0	21.5	14.9
Forestry	0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Industry, total	39.8	37.8	39.2	36.9	38.9	39.4	38.5	37.2	32.7
Industry, other	33.6	31.7	32.9	30.6	32.3	32.9	31.9	29.7	29.5
Construction	6.3	6.2	6.3	6.3	6.6	6.5	6.7	7.5	3.2
Other, material sphere	12.4	15.9	16.4	17.8	17.2	17.7	17.5	17.1	19.6
Transportation of goods	7.0	10.7	11.4	13.3	12.4	13.6	13.0	11.8	13.9
Maintenance of roads	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	..
Communication for material production	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.6	1.2
Wholesale trade	2.2	2.0	1.9	1.9	1.7	1.5	1.6	1.5	1.9
Retail trade and catering	..	..	..	..	..	..	..	..	..
Material supply	1.2	1.3	1.2	0.9	0.9	0.9	1.0	1.3	1.3
Procurement	1.3	1.1	1.0	1.0	1.2	0.7	1.0	0.8	1.2
Information and computing services	0.0	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.1
Other branches of material production	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
<b>Nonmaterial Sphere</b>	<b>24.6</b>	<b>25.3</b>	<b>24.1</b>	<b>22.3</b>	<b>23.6</b>	<b>23.1</b>	<b>23.9</b>	<b>24.1</b>	<b>32.8</b>
Transportation	2.8	4.8	4.2	2.6	3.2	2.4	3.0	0.9	..
Communication	0.1	0.7	0.7	0.7	0.8	0.8	0.6	0.6	..
Housing	11.1	10.0	9.6	9.0	9.4	9.5	10.1	11.3	20.7
Public utilities and personal services	2.8	2.6	2.5	2.5	2.7	2.8	3.0	3.7	3.9
Health care, social security, physical culture and sports	1.4	1.3	1.2	1.2	1.3	1.3	1.3	1.4	1.5
Education	3.0	2.6	2.5	2.8	2.6	2.7	2.5	2.7	3.3
Culture and art	0.9	0.8	0.7	0.9	0.9	0.9	0.6	0.6	0.9
Science and scientific services	1.1	1.2	1.2	1.2	1.2	1.3	1.4	1.7	0.8
Credit	..	..	..	..	..	..	..	..	..
Insurance	..	..	..	..	..	..	..	..	..
General administration and defense	..	..	..	..	..	..	..	..	..
Private nonprofit institutions serving households	1.5	1.5	1.3	1.3	1.4	1.4	1.4	1.3	1.6
<b>Other, material and nonmaterial spheres</b>	<b>37.0</b>	<b>41.3</b>	<b>40.5</b>	<b>40.0</b>	<b>40.7</b>	<b>40.7</b>	<b>41.4</b>	<b>41.2</b>	<b>52.3</b>
<b>Total Depreciation</b>	<b>100.0</b>								

Source: Table 2-7.

**TABLE 2-9: KAZAKHSTAN - GROSS SOCIAL PRODUCT BY SECTOR AT CURRENT PRICES**

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<i>(millions of rubles)</i>									
Agriculture including forestry	10,850.0	14,238.9	16,383.1	16,362.4	17,337.5	18,142.4	22,282.9	36,218.4	427,701.7
Agriculture excluding forestry	10,832.5	14,207.2	16,351.5	16,329.8	17,301.4	18,104.5	22,247.8	36,123.1	427,528.1
Forestry	17.5	31.7	31.6	32.6	36.1	37.9	35.1	95.3	173.6
Industry, total	29,833.1	38,145.5	38,145.8	40,797.2	41,938.4	43,416.3	43,763.9	102,925.1	1,575,692.1
Industry, other	23,307.5	29,810.5	29,540.6	31,541.6	32,105.2	32,338.6	33,623.6	85,958.9	1,370,036.6
Construction	6,525.6	8,335.0	8,605.2	9,255.6	9,833.2	11,077.7	10,140.3	16,966.2	205,655.5
Other	7,340.4	7,896.8	8,037.0	7,968.6	9,080.7	9,516.1	10,629.5	15,467.3	308,273.5
Transportation of goods	3,052.1	3,920.9	4,027.6	4,122.9	4,258.4	4,341.4	5,129.8	8,084.8	143,130.2
Maintenance of roads	..	495.2	425.0	497.3	517.6	543.4	568.9	263.6	7,648.7
Communication servicing material production	75.3	113.2	118.7	130.0	139.6	149.5	159.7	232.7	7,060.2
Wholesale trade	95.9	114.1	124.5	122.1	138.7	145.6	158.4	216.2	6,548.4
Retail trade and catering	1,257.0	1,463.8	1,551.8	1,459.3	1,670.2	1,837.1	2,003.7	3,434.1	48,977.0
Material supply	313.8	427.7	489.6	462.2	449.6	466.5	546.3	1,994.9	63,858.0
Procurement	494.0	627.6	599.7	593.0	726.0	550.1	630.7	840.0	28,745.1
Information and computing services	..	75.7	75.9	83.2	97.7	120.0	142.8	134.1	1,077.9
Other branches of material production	2,052.3	658.6	624.2	498.6	1,082.9	1,362.5	1,289.2	266.9	1,228.0
<b>Gross Social Product</b>	<b>48,023.5</b>	<b>60,281.2</b>	<b>62,565.9</b>	<b>65,128.2</b>	<b>68,356.6</b>	<b>71,074.8</b>	<b>76,676.3</b>	<b>154,610.8</b>	<b>2,311,667.3</b>
<i>(percentage shares of gross social product)</i>									
Agriculture including forestry	22.6	23.6	26.2	25.1	25.4	25.5	29.1	23.4	18.5
Agriculture excluding forestry	22.6	23.6	26.1	25.1	25.3	25.5	29.0	23.4	18.5
Forestry	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0
Industry, total	62.1	63.3	61.0	62.6	61.4	61.1	57.1	66.6	68.2
Industry, other	48.5	49.5	47.2	48.4	47.0	45.5	43.9	55.6	59.3
Construction	13.6	13.8	13.8	14.2	14.4	15.6	13.2	11.0	8.9
Other	15.3	13.1	12.8	12.2	13.3	13.4	13.9	10.0	13.3
Transportation of goods	6.4	6.5	6.4	6.3	6.2	6.1	6.7	5.2	6.2
Maintenance of roads	..	0.8	0.7	0.8	0.8	0.8	0.7	0.2	0.3
Communication servicing material production	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Wholesale trade	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.3
Retail trade and catering	2.6	2.4	2.5	2.2	2.4	2.6	2.6	2.2	2.1
Material supply	0.7	0.7	0.8	0.7	0.7	0.7	0.7	1.3	2.8
Procurement	1.0	1.0	1.0	0.9	1.1	0.8	0.8	0.5	1.2
Information and computing services	..	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.0
Other branches of material production	4.3	1.1	1.0	0.8	1.6	1.9	1.7	0.2	0.1
<b>Gross Social Product</b>	<b>100.0</b>	<b>100.0</b>							

Sources: State Committee of Statistics.

**TABLE 2-10: KAZAKHSTAN - MATERIAL INPUTS BY SECTOR AT CURRENT PRICES**

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<i>(millions of rubles)</i>									
Agriculture including forestry	5,511.6	7,420.8	8,099.8	8,296.0	8,123.0	7,680.6	8,321.3	13,356.0	171,963.0
Agriculture excluding forestry	5,505.8	7,410.6	8,090.0	8,285.6	8,112.4	7,669.1	8,310.8	13,313.0	171,894.0
Forestry	5.8	10.2	9.8	10.4	10.6	11.5	10.5	43.0	69.0
Industry, total	20,074.1	26,792.4	27,273.4	29,537.1	30,333.7	32,138.9	31,423.5	69,139.0	1,120,618.0
Industry, other	16,635.7	22,184.0	22,860.6	24,626.2	25,343.1	26,679.6	26,620.7	61,194.9	979,783.0
Construction	3,438.4	4,608.4	4,412.8	4,910.9	4,990.6	5,459.3	4,802.8	7,944.1	140,835.0
Other	1,865.8	2,915.0	2,922.7	3,097.9	3,180.7	3,257.8	3,573.6	5,282.4	178,662.0
Transportation of goods	1,329.9	1,744.4	1,799.0	1,847.5	1,825.0	1,858.8	2,046.8	2,664.9	83,442.3
Maintenance of roads	..	438.4	390.9	431.4	450.1	500.5	513.3	178.9	4,838.7
Communication servicing material production	23.0	31.1	32.8	35.1	35.4	40.7	41.6	72.0	2,387.0
Wholesale trade	15.0	21.7	23.3	41.2	27.7	29.9	33.4	75.7	3,003.9
Retail trade and catering	268.7	344.5	357.0	418.5	442.2	471.9	527.2	892.1	23,173.1
Material supply	47.8	62.7	79.0	73.4	72.8	82.8	107.4	975.3	37,941.0
Procurement	150.4	184.1	166.1	169.0	219.3	150.9	170.6	246.1	22,807.0
Information and computing services	..	45.7	28.0	29.7	37.5	37.4	48.7	57.7	546.0
Other branches of material production	31.0	42.4	46.6	52.1	70.7	84.9	84.6	119.7	523.0
<b>Total Material Inputs</b>	<b>27,451.5</b>	<b>37,128.2</b>	<b>38,295.9</b>	<b>40,931.0</b>	<b>41,637.4</b>	<b>43,077.3</b>	<b>43,318.4</b>	<b>87,777.4</b>	<b>1,471,243.0</b>
<i>(percentage shares of total material inputs)</i>									
Agriculture including forestry	20.1	20.0	21.2	20.3	19.5	17.8	19.2	15.2	11.7
Agriculture excluding forestry	20.1	20.0	21.1	20.2	19.5	17.8	19.2	15.2	11.7
Forestry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industry, total	73.1	72.2	71.2	72.2	72.9	74.6	72.5	78.8	76.2
Industry, other	60.6	59.7	59.7	60.2	60.9	61.9	61.5	69.7	66.6
Construction	12.5	12.4	11.5	12.0	12.0	12.7	11.1	9.1	9.6
Other	6.8	7.9	7.6	7.6	7.6	7.6	8.2	6.0	12.1
Transportation of goods	4.8	4.7	4.7	4.5	4.4	4.3	4.7	3.0	5.7
Maintenance of roads	..	1.2	1.0	1.1	1.1	1.2	1.2	0.2	0.3
Communication servicing material production	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Wholesale trade	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Retail trade and catering	1.0	0.9	0.9	1.0	1.1	1.1	1.2	1.0	1.6
Material supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.1	2.6
Procurement	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.3	1.6
Information and computing services	..	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other branches of material production	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.0
<b>Total Material Inputs</b>	<b>100.0</b>								

Sources: State Committee of Statistics.

**TABLE 3.1: KAZAKHSTAN - BALANCE OF PAYMENTS**

	Non-FSU		FSU		Consolidated	
	1992	1993	1992	1993	1992	1993
	(in millions of US\$)		(in billions of Rubles) 1/		(in millions of US\$)	
Exports	1,489.0	1,529.0	419.7	2,209.3	4,196.7	3,922.6
Imports	960.8	1,269.3	486.5	2,950.9	4,099.5	4,466.4
Trade Balance	528.2	259.7	-66.8	-741.6	97.2	-543.8
Non-Factor Services	-137.0	-105.1	-15.2	-37.3	-235.0	-145.5
Resource Balance	391.2	154.6	-82.0	-778.9	-137.8	-689.3
Net Factor Services	-175.0	-46.3	0.0	0.0	-175.0	-46.3
Receipts	0.0	0.0	0.0	0.0	0.0	0.0
Payments	175.0	46.3	0.0	0.0	175.0	46.3
Government Interest	175.0	11.0	0.0	0.0	175.0	11.0
ROE Interest	0.0	19.3	0.0	0.0	0.0	19.3
Other Payments	0.0	16.0	0.0	0.0	0.0	16.0
Net Current Transfers	52.0	65.0	17.9	50.8	167.5	120.0
Current Account Balance	268.2	173.3	-64.1	-728.2	-145.3	-615.6
Net Direct Investment	100.0	123.0	0.0	0.0	100.0	123.0
Net Long-Term Credits	-205.0	406.3	0.0	-9.8	-205.0	395.7
to Government	-275.0	33.2	0.0	0.0	-275.0	33.2
Disbursements	163.0	32.2	0.0	0.0	163.0	32.2
Repayments	438.0	-1.0	0.0	0.0	438.0	-1.0
to Rest of Economy	70.0	373.1	0.0	-9.8	70.0	362.5
Disbursements	70.0	422.4	0.0	-9.8	70.0	411.8
Repayments	..	49.3	0.0	0.0	0.0	49.3
Capital N.E.I.	0.0	-146.8	0.0	27.7	0.0	-146.8
Extraordinary Financing	608.0	0.0	-169.0	343.8	7.6	372.5
Debt Deferral (by Government)	273.0	0.0	0.0	0.0	273.0	0.0
Increase in Arrears	335.0	0.0	-169.0	343.8	-265.4	372.5
by Government	335.0	0.0	0.0	0.0	335.0	0.0
by Rest of Economy	0.0	0.0	-169.0	343.8	-600.4	372.5
Errors and Omissions	-518.2	-189.8	-3.9	-204.0	-346.3	-170.8
Capital Account Balance	-15.2	192.7	-172.9	67.3	815.5	-165.0
Overall Balance	253.0	366.0	-237.0	-598.2	-589.0	-42.0
Change in Net Foreign Assets	-253.0	-366.0	237.0	313.0	589.0	42.0
Change in Net Reserves 2/	-253.0	-366.0	0.0	0.0	-253.0	-366.0
Gross Reserves 2/	-253.0	-454.0	0.0	0.0	-253.0	-454.0
IMF Credit	0.0	88.0	0.0	0.0	0.0	88.0
Correspondent Accounts	0.0	0.0	237.0	300.0	842.0	408.0

1/ Russian rubles, after August 1993. Exchange rate for current transactions 1992=155; 1993=923.

2/ Excluding gold.

Source: World Bank staff estimates.

**TABLE 3-2: KAZAKHSTAN - EXCHANGE RATES**

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<i>(rubles per dollar)</i>									
Official Exchange Rate 1/	..	..	..	0.6328	0.6080	0.6274	0.5856	0.5819	..
<hr/>									
	1992		1993		1994				
	Daily average rate	End-period rate	Daily average rate	End-period rate	Daily average rate	End-period rate			
<hr/>									
Official Exchange Rates 2/									
<i>(rubles per dollar)</i>									
January	110.0	110.0	461.7	572.0	..	..			
February	104.8	90.0	572.0	593.0	..	..			
March	92.3	100.0	658.7	684.0	..	..			
April	100.0	100.0	756.3	823.0	..	..			
May	95.3	85.0	911.0	1024.0	..	..			
June	88.5	100.0	1080.0	1060.0	..	..			
July	138.3	161.2	1025.0	987.0	..	..			
August	167.9	205.0	985.8	992.5	..	..			
September	217.4	254.0	1073.0	1169.0	..	..			
October	344.7	398.0	1188.0	1184.0	..	..			
November	423.5	447.0	..	..	..	..			
December	414.6	414.5	..	..	..	..			
<hr/>									
<i>(tenge per dollar)</i>									
January	..	..	..	..	8.33	10.71			
February	..	..	..	..	11.20	11.58			
March	..	..	..	..	18.48	19.94			
April	..	..	..	..	26.42	29.92			
May	..	..	..	..	36.24	40.22			
June	..	..	..	..	..	42.89			
July 3/	..	..	..	..	..	43.29			
August	..	..	..	..	..	..			
September	..	..	..	..	..	..			
October	..	..	..	..	..	..			
November	..	..	4.7	4.7	..	..			
December	..	..	5.9	6.3	..	..			

1/ Annual average.

2/ As determined by the Central Bank of Russia (CBR). The official rate of exchange in Kazakhstan has been pegged to the CBR ma since July 1992 till October 1993. In November 1993 Kazakhstan introduced its own currency, the tenge (1 tenge = 500 rubles).

3/ As of July 11.

Sources: National Bank of the Republic of Kazakhstan.

**TABLE 3-3: KAZAKHSTAN - TOTAL EXPORTS BY COMMODITY GROUPS AT DOMESTIC PRICES**

(millions of current rubles)

			<i>Interrepublic</i>						<i>Extrarepublic</i>						<i>Total Trade</i>			
	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992
INDUSTRY	..	..	6,864	6,513	..	..	..	..	869	875	..	..	..	..	7,733	7,388	..	..
POWER	..	..	224	233	..	..	..	..	0	0	..	..	..	..	224	233	..	..
OIL AND GAS	..	..	860	783	..	..	..	..	15	12	..	..	..	..	875	795	..	..
COAL	..	..	312	304	..	..	..	..	0	2	..	..	..	..	312	306	..	..
OTHER FUEL	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
FERROUS METALLURGY	..	..	889	839	..	..	..	..	188	198	..	..	..	..	1,077	1,037	..	..
NON-FERROUS METALLURGY	..	..	492	480	..	..	..	..	299	297	..	..	..	..	791	777	..	..
CHEMICAL AND PETROLEUM	..	..	968	961	..	..	..	..	153	121	..	..	..	..	1,121	1,082	..	..
MACHINERY AND METAL WORKS	..	..	790	746	..	..	..	..	47	41	..	..	..	..	837	787	..	..
SAWMILL AND LUMBER INDUSTRY	..	..	26	22	..	..	..	..	..	1	..	..	..	..	0	0	..	..
BUILDING MATERIALS	..	..	144	114	..	..	..	..	2	2	..	..	..	..	146	116	..	..
LIGHT INDUSTRY	..	..	1,495	1,395	..	..	..	..	130	141	..	..	..	..	1,625	1,536	..	..
FOOD PRODUCTION	..	..	582	561	..	..	..	..	35	51	..	..	..	..	617	612	..	..
OTHER INDUSTRIES	..	..	82	75	..	..	..	..	..	9	..	..	..	..	82	84	..	..
AGRICULTURE	..	..	1,123	1,732	..	..	..	..	23	32	..	..	..	..	1,146	1,764	..	..
OTHER MATERIAL PRODUCTION	..	..	217	198	..	..	..	..	1	0	..	..	..	..	218	198	..	..
TOTAL	..	..	8,204	8,443	13,745	342,021	..	..	893	907	1,620	..	..	..	9,097	9,350	15,365	..
Memo Item:																		
Share to Total Trade (percent)	..	..	90.2	90.3	89.5	..	..	..	9.8	9.7	10.5	..	..	..	100.0	100.0	100.0	..

Sources: State Committee of Statistics.

TABLE 3-4: KAZAKHSTAN - TOTAL IMPORTS BY COMMODITY GROUPS AT DOMESTIC PRICES  
(millions of current rubles)

	1987-1992					1987-1992					Total Trade						
	1987	1988	1989	1990	1992	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992
INDUSTRY	..	..	14,217	13,775	..	..	..	2,734	3,352	..	..	..	..	16,951	17,127	..	..
POWER	..	..	371	420	..	..	..	0	0	..	..	..	..	371	420	..	..
OIL AND GAS	..	..	1,443	1,177	..	..	..	4	5	..	..	..	..	1,447	1,182	..	..
COAL	..	..	135	156	..	..	..	..	..	..	..	..	..	155	156	..	..
OTHER FUEL	..	..	1	1	..	..	..	..	..	..	..	..	..	1	1	..	..
FERROUS METALLURGY	..	..	977	939	..	..	..	63	47	..	..	..	..	1,040	986	..	..
NON-FERROUS METALLURGY	..	..	252	255	..	..	..	20	20	..	..	..	..	272	275	..	..
CHEMICAL AND PETROLEUM	..	..	1,577	1,522	..	..	..	126	205	..	..	..	..	1,703	1,727	..	..
MACHINERY AND METAL WORKS	..	..	4,754	4,704	..	..	..	605	806	..	..	..	..	5,359	5,510	..	..
SAWMILL AND LUMBER INDUSTRY	..	..	905	691	..	..	..	83	142	..	..	..	..	988	833	..	..
BUILDING MATERIALS	..	..	285	296	..	..	..	28	36	..	..	..	..	313	332	..	..
LIGHT INDUSTRY	..	..	1,849	1,982	..	..	..	1,264	1,392	..	..	..	..	3,113	3,374	..	..
FOOD PRODUCTION	..	..	1,347	1,232	..	..	..	525	647	..	..	..	..	1,872	1,879	..	..
OTHER INDUSTRIES	..	..	301	400	..	..	..	16	52	..	..	..	..	317	452	..	..
AGRICULTURE	..	..	194	227	..	..	..	264	165	..	..	..	..	458	392	..	..
OTHER MATERIAL PRODUCTION	..	..	162	315	..	..	..	..	..	..	..	..	..	162	315	..	..
TOTAL	..	..	14,573	14,317	13,220	346,942	..	..	2,998	3,517	1,019	..	..	17,571	17,834	14,239	..
Mean item: Share to Total Trade (percent)	..	..	82.9	80.3	92.8	..	..	17.1	19.7	7.2	..	..	..	100.0	100.0	100.0	..

Sources: State Committee of Statistics.

**TABLE 3-4A: KAZAKHSTAN - TRADE BALANCE BY COMMODITY GROUPS AT DOMESTIC PRICES**

(millions of current rubles)

	Interrepublic						Extrarepublic						Total Trade					
	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992
INDUSTRY	..	..	-7,353	-7,262	..	..	..	..	-1,865	-2,477	..	..	..	..	-9,218	-9,739	..	..
POWER	..	..	-147	-187	..	..	..	..	0	0	..	..	..	..	-147	-187	..	..
OIL AND GAS	..	..	-583	-394	..	..	..	..	11	7	..	..	..	..	-572	-387	..	..
COAL	..	..	157	148	..	..	..	..	0	2	..	..	..	..	157	150	..	..
OTHER FUEL	..	..	-1	-1	..	..	..	..	0	0	..	..	..	..	-1	-1	..	..
FERROUS METALLURGY	..	..	-88	-100	..	..	..	..	125	151	..	..	..	..	37	51	..	..
NON-FERROUS METALLURGY	..	..	240	225	..	..	..	..	279	277	..	..	..	..	519	502	..	..
CHEMICAL AND PETROLEUM	..	..	-609	-561	..	..	..	..	27	-84	..	..	..	..	-582	-645	..	..
MACHINERY AND METAL WORKS	..	..	-3,964	-3,958	..	..	..	..	-558	-765	..	..	..	..	-4,522	-4,723	..	..
SAWMILL AND LUMBER INDUSTRY	..	..	-879	-669	..	..	..	..	-83	-141	..	..	..	..	-962	-810	..	..
BUILDING MATERIALS	..	..	-141	-182	..	..	..	..	-26	-34	..	..	..	..	-167	-216	..	..
LIGHT INDUSTRY	..	..	-354	-587	..	..	..	..	-1,134	-1,251	..	..	..	..	-1,488	-1,838	..	..
FOOD PRODUCTION	..	..	-765	-67*	..	..	..	..	-490	-596	..	..	..	..	-1,255	-1,267	..	..
OTHER INDUSTRIES	..	..	-219	-325	..	..	..	..	-16	-43	..	..	..	..	-235	-368	..	..
AGRICULTURE	..	..	929	1,505	..	..	..	..	-241	-133	..	..	..	..	688	1,372	..	..
OTHER MATERIAL PRODUCTION	..	..	55	-117	..	..	..	..	1	0	..	..	..	..	56	-117	..	..
TOTAL	..	..	-6,369	-5,874	525	..	..	..	-2,105	-2,610	601	..	..	..	-8,474	-8,484	1,126	..
Memo Item:																		
Share to Total Trade (percent)	..	..	75.2	69.2	46.6	..	..	..	24.8	30.8	53.4	..	..	..	100.0	100.0	100.0	..

Sources: Tables 3-3 and 3-4.

**TABLE 3-5: KAZAKHSTAN - GEOGRAPHICAL DISTRIBUTION OF EXTRAREPUBLIC TRADE**
*(millions of current U.S. dollars)*

	EXPORTS						IMPORTS					
	1988	1989	1990	1991	1992	1993	1988	1989	1990	1991	1992	1993
<b>TOTAL TRADE</b>	..	..	1,402.0	928.0	1,450.7	1,485.5	..	..	1,490.0	584.0	565.5	471.6
<b>INDUSTRIAL COUNTRIES</b>	..	..	647.0	357.0	835.2	985.7	..	..	556.0	253.0	182.9	252.1
Australia	..	..	..	..	0.5	20.6	..	..	..	..	..	6.7
Austria	..	..	..	..	50.2	32.4	..	..	..	..	30.3	21.5
Belgium	..	..	..	..	10.9	12.6	..	..	..	..	..	8.3
Denmark	..	..	..	..	3.0	8.2	..	..	..	..	..	0.7
Finland	..	..	..	..	42.7	9.3	..	..	..	..	25.0	4.7
France	..	..	..	..	18.5	6.7	..	..	..	..	7.4	8.6
Germany	..	..	..	..	123.1	131.0	..	..	..	..	19.0	76.3
Iceland	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	..	..	0.2	4.9	..	..	..	..	..	..
Italy	..	..	..	..	40.2	83.8	..	..	..	..	29.8	20.7
Japan	..	..	..	..	48.9	36.9	..	..	..	..	4.1	3.6
Netherlands	..	..	..	..	52.2	49.1	..	..	..	..	1.0	1.2
Norway	..	..	..	..	2.8	..	..	..	..	..	..	..
Spain	..	..	..	..	1.3	14.2	..	..	..	..	..	0.2
Sweden	..	..	..	..	150.5	91.5	..	..	..	..	9.9	2.2
Switzerland	..	..	..	..	104.1	174.7	..	..	..	..	15.0	17.8
United Kingdom	..	..	..	..	26.3	96.9	..	..	..	..	23.2	18.9
United States	..	..	..	..	100.1	145.3	..	..	..	..	6.4	38.5
Others a/	..	..	..	..	59.7	67.6	..	..	..	..	11.8	22.2
<b>DEVELOPING COUNTRIES</b>	..	..	617.0	354.0	615.5	499.8	..	..	875.0	330.0	382.6	219.5
<b>Africa</b>	..	..	2.0	1.0	..	0.8	..	..	0.0	1.0	..	..
<b>Asia</b>	..	..	102.0	101.0	285.9	280.6	..	..	182.0	121.0	235.3	115.1
Afghanistan	..	..	..	..	3.8	2.5	..	..	..	..	2.4	0.7
China, People's Rep.	..	..	..	..	237.0	172.2	..	..	..	..	212.6	80.1
India	..	..	..	..	0.7	2.9	..	..	..	..	9.2	13.4
Korea	..	..	..	..	12.6	45.5	..	..	..	..	1.7	8.5
Korea, Dem. People's Rep.	..	..	..	..	17.7	22.1	..	..	..	..	8.5	0.4
Mongolia	..	..	..	..	3.1	0.3	..	..	..	..	..	0.6
Viet Nam	..	..	..	..	..	0.6	..	..	..	..	..	..
Others	..	..	..	..	11.0	34.5	..	..	..	..	0.9	11.4
<b>Europe</b>	..	..	430.0	191.0	235.8	208.8	..	..	337.0	79.0	78.0	97.1
Bulgaria	..	..	..	..	17.4	21.6	..	..	..	..	2.2	4.1
Czechoslovakia	..	..	..	..	80.5	48.5	..	..	..	..	2.8	47.7
Hungary	..	..	..	..	21.7	36.5	..	..	..	..	27.4	23.1
Poland	..	..	..	..	48.6	36.9	..	..	..	..	8.5	3.6
Romania	..	..	..	..	4.9	1.5	..	..	..	..	5.0	1.7
Turkey	..	..	..	..	16.2	55.9	..	..	..	..	4.6	15.1
Yugoslavia	..	..	..	..	13.9	1.4	..	..	..	..	27.0	0.4
Others b/	..	..	..	..	32.6	6.5	..	..	..	..	..	1.4
<b>Latin America and Caribbean</b>	..	..	49.0	6.0	22.4	2.7	..	..	348.0	125.0	29.1	4.3
Cuba	..	..	47.0	6.0	18.9	..	..	..	316.0	115.0	29.0	3.5
Others	..	..	2.0	0.0	3.5	2.7	..	..	32.0	10.0	0.1	0.8
<b>Middle East</b>	..	..	34.0	55.0	71.4	6.9	..	..	8.0	4.0	40.2	3.0
Egypt	..	..	..	..	..	0.2	..	..	..	..	..	..
Iraq	..	..	..	..	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..	..	..	..	..
Syrian Arab Republic	..	..	..	..	..	0.7	..	..	..	..	..	..
Others c/	..	..	..	..	71.4	6.0	..	..	..	..	40.2	3.0

*a/ Includes Canada, New Zealand, Greece, Luxembourg, and Portugal.*
*b/ Includes Cyprus and Malta.*
*c/ Includes Bahrain, Iran, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen, Rep. of.*
*Sources: State Committee of Statistics.*

**TABLE 3-5A: KAZAKHSTAN - GEOGRAPHICAL DISTRIBUTION OF EXTRAREPUBLIC TRADE**
*(percentage of total trade)*

	EXPORTS						IMPORTS					
	1988	1989	1990	1991	1992	1993	1988	1989	1990	1991	1992	1993
<b>TOTAL TRADE</b>	..	..	100.0	100.0	100.0	100.0	..	..	100.0	100.0	100.0	100.0
<b>INDUSTRIAL COUNTRIES</b>	..	..	46.1	38.5	57.6	66.4	..	..	37.3	43.3	32.3	53.5
Australia	..	..	..	..	0.0	1.4	..	..	..	..	..	1.4
Austria	..	..	..	..	3.5	2.2	..	..	..	..	5.4	4.6
Belgium	..	..	..	..	0.8	0.8	..	..	..	..	..	1.8
Denmark	..	..	..	..	0.2	0.6	..	..	..	..	..	0.1
Finland	..	..	..	..	2.9	0.6	..	..	..	..	4.4	1.0
France	..	..	..	..	1.3	0.5	..	..	..	..	1.3	1.8
Germany	..	..	..	..	8.5	8.8	..	..	..	..	3.4	16.2
Iceland	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	..	..	0.0	0.3	..	..	..	..	..	..
Italy	..	..	..	..	2.8	5.6	..	..	..	..	5.3	4.4
Japan	..	..	..	..	3.4	2.5	..	..	..	..	0.7	0.8
Netherlands	..	..	..	..	3.6	3.3	..	..	..	..	0.2	0.3
Norway	..	..	..	..	0.2	..	..	..	..	..	..	..
Spain	..	..	..	..	0.1	1.0	..	..	..	..	..	0.0
Sweden	..	..	..	..	10.4	6.2	..	..	..	..	1.8	0.5
Switzerland	..	..	..	..	7.2	11.8	..	..	..	..	2.7	3.8
United Kingdom	..	..	..	..	1.8	6.5	..	..	..	..	4.1	4.0
United States	..	..	..	..	6.9	9.8	..	..	..	..	1.1	8.2
Others a/	..	..	..	..	4.1	4.6	..	..	..	..	2.1	4.7
<b>DEVELOPING COUNTRIES</b>	..	..	44.0	38.1	42.4	33.6	..	..	58.7	56.5	67.7	46.5
<b>Africa</b>	..	..	0.1	0.1	..	0.1	..	..	0.0	0.2	..	..
<b>Asia</b>	..	..	7.3	10.9	19.7	18.9	..	..	12.2	20.7	41.6	24.4
Afghanistan	..	..	..	..	0.3	0.2	..	..	..	..	0.4	0.1
China, People's Rep.	..	..	..	..	16.3	11.6	..	..	..	..	37.6	17.0
India	..	..	..	..	0.0	0.2	..	..	..	..	1.6	2.8
Korea	..	..	..	..	0.9	3.1	..	..	..	..	0.3	1.8
Korea, Dem. People's Rep.	..	..	..	..	1.2	1.5	..	..	..	..	1.5	0.1
Mongolia	..	..	..	..	0.2	0.0	..	..	..	..	..	0.1
Viet Nam	..	..	..	..	..	0.0	..	..	..	..	..	..
Others	..	..	..	..	0.8	2.3	..	..	..	..	0.2	2.4
<b>Europe</b>	..	..	30.7	20.6	16.3	14.1	..	..	22.6	13.5	13.8	20.6
Bulgaria	..	..	..	..	1.2	1.5	..	..	..	..	0.4	0.9
Czechoslovakia	..	..	..	..	5.5	3.3	..	..	..	..	0.5	10.1
Hungary	..	..	..	..	1.5	2.5	..	..	..	..	4.8	4.9
Poland	..	..	..	..	3.4	2.5	..	..	..	..	1.5	0.8
Romania	..	..	..	..	0.3	0.1	..	..	..	..	0.9	0.4
Turkey	..	..	..	..	1.1	3.8	..	..	..	..	0.8	2.2
Yugoslavia	..	..	..	..	1.0	0.1	..	..	..	..	4.8	0.1
Others b/	..	..	..	..	2.2	0.4	..	..	..	..	..	0.3
<b>Latin America and Caribbean</b>	..	..	3.5	0.6	1.5	0.2	..	..	23.4	21.4	5.1	0.9
Cuba	..	..	3.4	0.6	1.3	..	..	..	21.2	19.7	5.1	0.7
Others	..	..	0.1	0.0	0.2	0.2	..	..	2.1	1.7	0.0	0.2
<b>Middle East</b>	..	..	2.4	5.9	4.9	0.5	..	..	0.5	0.7	7.1	0.6
Egypt	..	..	..	..	..	0.0	..	..	..	..	..	..
Iraq	..	..	..	..	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..	..	..	..	..
Syrian Arab Republic	..	..	..	..	..	0.0	..	..	..	..	..	..
Others c/	..	..	..	..	4.9	0.4	..	..	..	..	7.1	0.6

*a/ Includes Canada, New Zealand, Greece, Luxembourg, and Portugal.*
*b/ Includes Cyprus and Malta.*
*c/ Includes Bahrain, Iran, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen, Rep. of.*
*Source: Table 3-5.*

**TABLE 3-6: KAZAKHSTAN - GEOGRAPHICAL DISTRIBUTION OF INTERREPUBLIC TRADE AT DOMESTIC PRICES 1/**

	EXPORTS							IMPORTS						
	1987	1988	1989	1990	1991	1992	1993	1987	1988	1989	1990	1991	1992	1993 2/
	<i>(millions of current: rubles; tenge)</i>							<i>(millions of current: rubles; tenge)</i>						
<b>TOTAL TRADE</b>	..	..	..	8,445.0	13,744.9	342,020.8	4,716.2	..	..	..	14,317.0	13,219.6	346,941.5	5,196.9
Armenia	..	..	..	65.0	103.9	453.9	1.3	..	..	..	235.0	35.1	123.9	7.5
Azerbaijan	..	..	..	296.0	140.8	5,876.4	150.9	..	..	..	284.0	290.5	3,423.8	30.6
Belarus	..	..	..	379.0	621.8	8,957.7	234.2	..	..	..	728.0	340.3	14,238.4	154.0
Estonia	..	..	..	57.0	96.0	186.0	1.0	..	..	..	101.0	46.8	..	13.7
Georgia	..	..	..	85.0	77.2	408.7	9.3	..	..	..	367.0	54.3	..	20.1
Kazakhstan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kyrgyzstan	..	..	..	358.0	476.5	8,073.4	107.4	..	..	..	268.0	544.3	9,312.8	69.0
Latvia	..	..	..	102.0	232.3	900.0	9.6	..	..	..	238.0	63.6	..	25.1
Lithuania	..	..	..	81.0	179.2	1,949.6	24.3	..	..	..	180.0	106.8	..	34.4
Moldova	..	..	..	76.0	146.9	1,112.3	16.8	..	..	..	156.0	43.9	210.6	41.4
Russia	..	..	..	4,276.0	8,515.2	246,702.5	3,285.3	..	..	..	9,074.0	8,719.7	257,721.8	3,684.7
Tajikistan	..	..	..	269.0	342.2	3,699.7	67.7	..	..	..	318.0	174.5	1,445.3	26.1
Turkmenistan	..	..	..	217.0	208.4	9,519.2	99.9	..	..	..	79.0	264.5	9,829.5	245.8
Ukraine	..	..	..	731.0	1,338.7	33,637.8	381.7	..	..	..	1,505.0	1,669.1	37,930.9	378.7
Uzbekistan	..	..	..	1,453.0	1,265.8	20,543.6	326.8	..	..	..	784.0	866.2	12,704.5	465.8
Statistical Discrepancy	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	<i>(percentage of total trade)</i>							<i>(percentage of total trade)</i>						
<b>TOTAL TRADE</b>	..	..	..	100.0	100.0	100.0	100.0	..	..	..	100.0	100.0	100.0	100.0
Armenia	..	..	..	0.8	0.8	0.1	0.0	..	..	..	1.6	0.3	0.0	0.1
Azerbaijan	..	..	..	3.5	1.0	1.7	3.2	..	..	..	2.0	2.2	1.0	0.6
Belarus	..	..	..	4.5	4.5	2.6	5.0	..	..	..	5.1	2.6	4.1	3.0
Estonia	..	..	..	0.7	0.7	0.1	0.0	..	..	..	0.7	0.4	..	0.3
Georgia	..	..	..	1.0	0.6	0.1	0.2	..	..	..	2.6	0.4	..	0.4
Kazakhstan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kyrgyzstan	..	..	..	4.2	3.5	2.4	2.3	..	..	..	1.9	4.1	2.7	1.3
Latvia	..	..	..	1.2	1.7	0.3	0.2	..	..	..	1.7	0.5	..	0.5
Lithuania	..	..	..	1.0	1.3	0.6	0.5	..	..	..	1.3	0.8	..	0.7
Moldova	..	..	..	0.9	1.1	0.3	0.4	..	..	..	1.1	0.3	0.1	0.8
Russia	..	..	..	50.6	62.0	72.1	69.7	..	..	..	63.4	66.0	74.3	70.9
Tajikistan	..	..	..	3.2	2.5	1.1	1.4	..	..	..	2.2	1.3	0.4	0.5
Turkmenistan	..	..	..	2.6	1.5	2.8	2.1	..	..	..	0.6	2.0	2.8	4.7
Ukraine	..	..	..	8.7	9.7	9.8	8.1	..	..	..	10.5	12.6	10.9	7.3
Uzbekistan	..	..	..	17.2	9.2	6.0	6.9	..	..	..	5.5	6.6	3.7	9.0
Statistical Discrepancy	..	..	..	..	..	..	..	..	..	..	..	..	..	..

1/ Data for 1990 represents total trade; for 1991-93 it represents producers' goods only.

2/ In addition to the data presented in this table, in 1993 Kazakhstan also imported 139.3 mill. \$US of electrical and energy goods from the Kyrgyz Republic (25.6 mill. \$US), Turkmenistan (79.6 mill. \$US) and from Uzbekistan (34 mill. \$US).

Sources: State Committee of Statistics.

**TABLE 4-1: KAZAKHSTAN - EXTERNAL DEBT IN CONVERTIBLE CURRENCIES BY CREDITOR COUNTRIES***(in millions of U.S. dollars at the end of 1993)*

Countries	Debt Outstanding at end of Period 1/	Disbursements	Service Payments		
			Principal	Interest	Total
EEC	29.4	6.5	..	0.1	0.1
Canada	2.6	0.8	..	0.0	0.0
Germany	705.6	230.2	5.8	9.5	15.3
Pakistan	10.0	2.1	..	..	..
Russia	1,250.0	..	..	..	..
Austria	120.3	44.9	..	0.0	0.0
Turkey	189.8	45.7	23.6	0.9	24.5
Israel	80.0	27.2	..	0.8	0.8
Italy	30.0	10.2	..	0.3	0.3
Other	9.2	..	..	..	..
<b>Total</b>	<b>2,427.0</b>	<b>367.7</b>	<b>29.4</b>	<b>11.7</b>	<b>41.1</b>

*1/ Including undisbursed.**Sources: World Bank Debt Reporting System.*

**TABLE 5-1: KAZAKHSTAN - GENERAL GOVERNMENT BUDGET REVENUE**
*(millions of current rubles)*

	1985	1986	1987	1988	1989	1990	1991	1992
<b>Total Revenue and Grants</b>	11,825	11,955	12,783	14,098	15,963	18,352	26,070	298,000
Grants	1,350	1,868	2,483	3,732	4,601	6,053	6,033	21,000
<b>Total Revenue</b>	10,475	10,087	10,300	10,366	11,362	12,299	20,037	277,000
<b>Current Revenue</b>	10,475	10,087	10,300	10,366	11,362	12,299	20,037	276,400
<b>Tax revenue</b>	10,158	9,746	9,984	10,114	11,070	11,853	17,649	261,000
<b>Taxes on Income and Profits</b>	4,324	4,345	4,116	4,123	4,393	4,239	9,866	92,000
Individual	1,571	1,646	1,722	1,891	2,170	1,370	3,088	30,000
Corporate	2,753	2,699	2,394	2,232	2,223	2,869	6,778	62,000
<b>Social Security Contributions</b>	1,138	1,263	1,352	1,467	1,573	1,805	..	..
<b>Taxes on Payroll or Work Force</b>	..	..	..	..	..	..	..	..
Taxes on the Use of Labor Force	..	..	..	..	..	..	..	..
Taxes on Increase in Wages and Salaries	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
<b>Taxes on Property</b>	..	..	..	..	..	..	..	..
<b>Taxes on Immovable Property</b>	..	..	..	..	..	..	..	..
Buildings	..	..	..	..	..	..	..	..
Land	..	..	..	..	..	..	..	..
Estate, Inheritance and Gift Taxes	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
<b>Domestic Taxes on Goods and Services</b>	4,164	3,845	4,108	4,142	4,438	4,925	5,897	72,000
General Sales, Turnover or Value-added	..	..	..	..	..	..	..	72,000
Excises	..	..	..	..	..	..	..	..
Profits of Fiscal Monopolies	..	..	..	..	..	..	..	..
Taxes on Specific Services	..	..	..	..	..	..	..	..
Taxes on Use of Goods or Permission to	..	..	..	..	..	..	..	..
Use Goods or to Perform Activities	..	..	..	..	..	..	..	..
Other Taxes Goods and Services	..	..	..	..	..	..	..	..
<b>Taxes on International Trade and Transacti</b>	..	..	..	..	..	..	..	28,000
Import Duties	..	..	..	..	..	..	..	..
Export Duties	..	..	..	..	..	..	..	..
Other Taxes on Intl. Trade and Transacti	..	..	..	..	..	..	..	28,000
<b>Other Taxes</b>	532	293	408	382	666	884	1,886	69,000
<b>Nontax Revenues</b>	317	341	316	252	292	446	2,388	15,400
<b>Capital Revenue</b>	..	..	..	..	..	..	..	600

*Sources: Ministry of Finance.*

**TABLE 5-1A: KAZAKHSTAN - GENERAL GOVERNMENT REVENUES AS SHARES OF TOTAL CURRENT REVENUE AND CURRENT GDP**
*(in percent)*

	1985	1986	1987	1988	1989	1990	1991	1992
<b>Shares of Total Current Revenue</b>								
Current Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	97.0	96.6	96.9	97.6	97.4	96.4	88.1	94.4
Taxes on Income and Profits	41.3	43.1	40.0	39.8	38.7	34.5	49.2	33.3
Individual	15.0	16.3	16.7	18.2	19.1	11.1	15.4	10.9
Corporate	26.3	26.8	23.2	21.5	19.6	23.3	33.8	22.4
Social Security Contributions	10.9	12.5	13.1	14.2	13.8	14.7	..	..
Taxes on Payroll or Work Force	..	..	..	..	..	..	..	..
Taxes on the Use of Labor Force	..	..	..	..	..	..	..	..
Taxes on Increase in Wages and Salaries	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
Taxes on Property	..	..	..	..	..	..	..	..
Taxes on Immovable Property	..	..	..	..	..	..	..	..
Buildings	..	..	..	..	..	..	..	..
Land	..	..	..	..	..	..	..	..
Estate, Inheritance and Gift Taxes	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
Domestic Taxes on Goods and Services	39.8	38.1	39.9	40.0	39.1	40.0	29.4	26.0
General Sales, Turnover or Value-added	..	..	..	..	..	..	..	26.0
Excises	..	..	..	..	..	..	..	..
Profits of Fiscal Monopolies	..	..	..	..	..	..	..	..
Taxes on Specific Services	..	..	..	..	..	..	..	..
Taxes on Use of Goods or Permission to	..	..	..	..	..	..	..	..
Use Goods or to Perform Activities	..	..	..	..	..	..	..	..
Other Taxes Goods and Services	..	..	..	..	..	..	..	..
Taxes on International Trade and Transacti	..	..	..	..	..	..	..	10.1
Import Duties	..	..	..	..	..	..	..	..
Export Duties	..	..	..	..	..	..	..	..
Other Taxes on Intl. Trade and Transacti	..	..	..	..	..	..	..	10.1
Other Taxes	5.1	2.9	4.0	3.7	5.9	7.2	9.4	25.0
Nontax Revenues	3.0	3.4	3.1	2.4	2.6	3.6	11.9	5.6
<b>Shares of Current Gross Domestic Product</b>								
Total Revenue including Grants	38.8	35.6	37.7	38.9	40.7	41.4	35.1	24.6
Grants	4.4	5.6	7.3	10.3	11.7	13.6	8.1	1.7
Total Revenue	34.4	30.0	30.4	28.6	29.0	27.7	27.0	22.8
Current Revenue	34.4	30.0	30.4	28.6	29.0	27.7	27.0	22.8
Tax revenue	33.4	29.0	29.4	27.9	28.2	26.7	23.8	21.5
Taxes on Income and Profits	14.2	12.9	12.1	11.4	11.2	9.6	13.3	7.6
Social Security Contributions	3.7	3.8	4.0	4.0	4.0	4.1	..	..
Taxes on Payroll or Work Force	..	..	..	..	..	..	..	..
Taxes on Property	..	..	..	..	..	..	..	..
Domestic Taxes on Goods and Services	13.7	11.5	12.1	11.4	11.3	11.1	7.9	5.9
Taxes on International Trade and Transacti	..	..	..	..	..	..	..	..
Other Taxes	1.7	0.9	1.2	1.1	1.7	2.0	2.5	5.7
Nontax Revenues	1.0	1.0	0.9	0.7	0.7	1.0	3.2	1.3
Capital Revenue	..	..	..	..	..	..	..	0.0
Memo: Gross Domestic Product at Market Prices (millions of current rubles)	30,442.7	33,572.1	33,909.9	36,233.5	39,230.1	44,368.7	74,215.1	1,213,600.0

*Sources: Tables 5-1 and 2-1.*

TABLE 3-3: KAZAKHSTAN - GENERAL GOVERNMENT BUDGET EXPENDITURE BY ECONOMIC TYPE AND FINANCING BY TYPE OF DEBT HOLDER

(millions of current rubles)

	1985	1986	1987	1988	1989	1990	1991	1992
<b>Total Expenditure by Economic Type</b>	11,512	11,765	12,498	13,499	15,377	17,055	32,758	387,000
Current Expenditure	..	..	..	..	..	..	..	306,000
Expenditure on Goods and Services	..	..	..	..	..	..	..	212,000
Wages and Salaries	..	..	..	..	..	..	..	39,000
Employer Contributions	..	..	..	..	..	..	..	..
Other Purchases of Goods and Services	..	..	..	..	..	..	..	173,000
Interest Payments	..	..	..	..	..	..	..	33,000
Domestic Debt	..	..	..	..	..	..	..	0
Foreign Debt	..	..	..	..	..	..	..	33,000
Subsidies and Other Current Transfers	..	..	..	..	..	..	..	61,000
Subsidies	..	..	..	..	..	..	..	18,000
of which: Agricultural	..	..	..	..	..	..	..	..
Other Current Transfers	..	..	..	..	..	..	..	43,000
Other	..	..	..	..	..	..	..	..
Capital Expenditure	..	..	..	..	..	..	..	81,000
Acquisition of Fixed Capital Assets	..	..	..	..	..	..	..	81,000
Capital Transfers	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
<b>Surplus/Deficit (-)</b>	313	190	285	599	586	1,297	-6,688	-89,000
<b>Financing by Type of Debt Holder</b>	..	..	..	..	..	..	..	89,000
Foreign (net)	..	..	..	..	..	..	..	70,995
from International Development Institution	..	..	..	..	..	..	..	..
from Foreign Governments	..	..	..	..	..	..	..	..
Other Borrowing Abroad	..	..	..	..	..	..	..	..
Domestic (net)	..	..	..	..	..	..	..	18,005
from Monetary Authorities	..	..	..	..	..	..	..	..
from Deposit Money Banks	..	..	..	..	..	..	..	-2,080
Other Domestic Borrowing	..	..	..	..	..	..	..	20,090
<b>Memo:</b>								
Extrabudgetary Surplus/								
Deficit (-) not Included Above	..	..	..	..	..	..	..	4,920
<b>Total Surplus/Deficit (-)</b>								
Including Extrabudgetary Accounts	313	190	285	599	586	1,297	-6,688	-84,080

Sources: Ministry of Finance.

TABLE 5-2A: KAZAKHSTAN - GENERAL GOVERNMENT BUDGET EXPENDITURE SHARES BY ECONOMIC TYPE AND FINANCING BY TYPE OF DEBT HOLDER

(in percent)

	1985	1986	1987	1988	1989	1990	1991	1992
<b>Shares of Total Expenditure</b>								
Total Expenditure by Economic Type	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current Expenditure	..	..	..	..	..	..	..	79.1
Expenditure on Goods and Services	..	..	..	..	..	..	..	54.8
Wages and Salaries	..	..	..	..	..	..	..	10.1
Employer Contributions	..	..	..	..	..	..	..	..
Other Purchases of Goods and Services	..	..	..	..	..	..	..	44.7
Interest Payments	..	..	..	..	..	..	..	8.5
Domestic Debt	..	..	..	..	..	..	..	..
Foreign Debt	..	..	..	..	..	..	..	8.5
Subsidies and Other Current Transfers	..	..	..	..	..	..	..	15.8
Subsidies	..	..	..	..	..	..	..	4.7
of which: Agricultural	..	..	..	..	..	..	..	..
Other Current Transfers	..	..	..	..	..	..	..	11.1
Other	..	..	..	..	..	..	..	..
Capital Expenditure	..	..	..	..	..	..	..	20.9
Acquisition of Fixed Capital Assets	..	..	..	..	..	..	..	20.9
Capital Transfers	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..
<b>Shares of Total Financing</b>								
Financing by Type of Debt Holder	..	..	..	..	..	..	..	100.0
Foreign (net)	..	..	..	..	..	..	..	79.8
from International Development Institution	..	..	..	..	..	..	..	..
from Foreign Governments	..	..	..	..	..	..	..	..
Other Borrowing Abroad	..	..	..	..	..	..	..	..
Domestic (net)	..	..	..	..	..	..	..	20.2
from Monetary Authorities	..	..	..	..	..	..	..	..
from Deposit Money Banks	..	..	..	..	..	..	..	-2.3
Other Domestic Borrowing	..	..	..	..	..	..	..	22.6
<b>Shares of Current Gross Domestic Product</b>								
Total Expenditure by Economic Type	37.8	35.0	36.9	37.3	39.2	38.4	44.1	31.9
Current Expenditure	..	..	..	..	..	..	..	25.2
Expenditure on Goods and Services	..	..	..	..	..	..	..	17.5
Interest Payments	..	..	..	..	..	..	..	2.7
Subsidies and Other Current Transfers	..	..	..	..	..	..	..	5.0
Other	..	..	..	..	..	..	..	..
Capital Expenditure	..	..	..	..	..	..	..	6.7
Surplus/Deficit (-)	1.0	0.6	0.8	1.7	1.5	2.9	-9.0	-7.3
Memo:	..	..	..	..	..	..	..	..
Extrabudgetary Surplus/	..	..	..	..	..	..	..	0.4
Deficit (-) not Included Above	..	..	..	..	..	..	..	..
Total Surplus/Deficit (-)	..	..	..	..	..	..	..	..
Including Extrabudgetary Accounts	1.0	0.6	0.8	1.7	1.5	2.9	-9.0	-6.9

Sources: Tables 5-2 and 5-1A.

**TABLE 6-1: KAZAKHSTAN - MONETARY SURVEY***(end of period, in billions of rubles)*

	1991	1992
<b>National Bank</b>		
Net Foreign Assets	15.0	-230.0
Net International Reserves	0.0	..
Other Net Foreign Assets	15.0	-230.0
Net Domestic Assets	30.0	529.0
Credit to Government (net)	15.0	2.0
Credit to Banks	31.0	652.0
Credit to the Economy	0.0	38.0
Other Assets (net)	-16.0	-163.0
Liabilities	45.0	299.0
Currency outside NBK	14.0	148.0
Reserves	4.0	46.0
Excess Reserves	23.0	70.0
Other Deposits	4.0	35.0
<b>Banking System</b>		
Net Foreign Assets	15.0	-78.0
International Reserves	0.0	34.4
Other Net Foreign Assets	15.0	-112.4
Net Domestic Assets	72.0	504.0
Credit to Government (net)	10.0	-25.0
Credit to the Economy	58.0	986.0
Other Assets (net)	4.0	-457.0
Liabilities	87.0	426.0
Currency in Circulation	14.0	147.0
Deposits	73.0	279.0

*Source: NBK and IMF staff estimates.*

**TABLE 6-2: KAZAKHSTAN - ALLOCATION OF BANK CREDIT**
*(millions of current rubles, end of year)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Total credit from banks</b>	..	31,652	29,283	28,538	27,969	28,387	26,021	74,634	986,061
<b>By form of organization</b>									
<b>Public enterprises</b>	..	30,164	27,660	26,789	25,958	26,366	24,062	71,790	960,916
Working capital	..	26,941	24,344	23,274	22,047	22,048	18,855	48,203	938,626
Investment credit from banks	..	3,223	3,316	3,515	3,910	4,318	5,207	23,587	22,290
<b>Cooperatives</b>	..	1,431	1,554	1,651	1,648	1,605	1,335	1,863	14,281
Working capital	..	..	..	..	..	..	121	822	10,824
Investment credit from banks	..	1,431	1,554	1,651	1,648	1,605	1,215	1,041	3,457
<b>Private enterprises</b>	..	..	..	1	1	1	7	130	2,842
Working capital	..	..	..	1	1	1	7	130	1,888
Investment credit from banks	..	..	..	..	..	..	..	..	954
<b>Households</b>	..	57	69	98	362	416	617	852	8,022
Mortgages	..	57	69	98	362	416	617	852	8,022
Other	..	..	..	..	..	..	..	..	..
<b>By type of credit and sector</b>									
<b>Working capital</b>	14,518	23,188	..	22,992	21,364	21,433	17,324	35,049	944,944
Mining	..	..	..	..	..	..	..	..	..
Electricity	28	39	..	28	50	30	75	772	26,400
Metallurgy	426	687	..	454	376	398	513	1,521	47,686
Chemicals	167	167	..	85	70	79	59	78	5,967
Engineering and electronics	469	605	..	459	310	274	328	821	15,677
Light industry	617	979	..	973	999	1,104	1,086	2,221	22,805
Food processing	548	848	..	781	536	476	393	68	17,000
Other sectors in industry	253	395	..	495	325	273	355	701	13,290
Agriculture	6,519	10,709	..	12,535	12,571	12,881	4,310	7,851	148,263
of which: cooperatives	..	..	..	..	..	..	..	..	..
Construction	534	1,734	..	1,028	698	675	1,642	1,542	19,998
Other sectors	4,956	7,026	..	6,153	5,430	5,244	8,563	19,474	627,858
<b>Investment credit from banks</b>	..	..	..	..	..	..	..	..	..
Mining	..	..	..	..	..	..	..	..	..
Electricity	..	..	..	..	..	..	..	..	..
Metallurgy	..	..	..	..	..	..	..	..	..
Chemicals	..	..	..	..	..	..	..	..	..
Engineering and electronics	..	..	..	..	..	..	..	..	..
Light industry	..	..	..	..	..	..	..	..	..
Food processing	..	..	..	..	..	..	..	..	..
Other sectors in industry	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..
of which: cooperatives	..	..	..	..	..	..	..	..	..
Construction	..	..	..	..	..	..	..	..	..
Other sectors	..	..	..	..	..	..	..	..	..
<b>Mortgages</b>	..	..	..	..	..	..	..	..	..
<b>Consumer credit</b>	..	..	..	..	28	29	42	53	473

*Sources: State Committee of Statistics.*

**TABLE 7-1: KAZAKHSTAN - AGRICULTURAL PRODUCTION**
*(in millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993 1/
Total gross agricultural production	..	..	..	..	17,549	18,105	21,797	35,749	407,006	3,132,135
Crop production	..	..	..	..	7,332	6,259	8,672	12,379	145,320	..
Grains	..	..	..	..	..	..	..	..	..	..
Potatoes	..	..	..	..	..	..	..	..	..	..
Vegetables	..	..	..	..	..	..	..	..	..	..
Fruit (without grapes)	..	..	..	..	..	..	..	..	..	..
Grapes	..	..	..	..	..	..	..	..	..	..
Tobacco	..	..	..	..	..	..	..	..	..	..
Cotton	..	..	..	..	..	..	..	..	..	..
Sugarbeets	..	..	..	..	..	..	..	..	..	..
Oilseeds	..	..	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..	..	..
Livestock production	..	..	..	..	10,217	11,845	13,124	23,370	261,686	..
Livestock	..	..	..	..	..	..	..	..	..	..
Cattle	..	..	..	..	..	..	..	..	..	..
Pigs	..	..	..	..	..	..	..	..	..	..
Sheep and goats	..	..	..	..	..	..	..	..	..	..
Poultry	..	..	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	..	..	..
Milk	..	..	..	..	..	..	..	..	..	..
Eggs	..	..	..	..	..	..	..	..	..	..
Wool	..	..	..	..	..	..	..	..	..	..
Other livestock	..	..	..	..	..	..	..	..	..	..
Agricultural services	..	..	..	..	..	..	..	..	..	..
Material inputs	..	..	..	..	8,076	7,669	8,068	13,313	122,735	957,883
Crop production	..	..	..	..	..	..	..	..	..	..
Animal production	..	..	..	..	..	..	..	..	..	..
Agricultural services	..	..	..	..	..	..	..	..	..	..
Net material product, by output:	..	..	..	..	9,472	10,435	13,729	22,436	284,271	2,174,252
Crop production	..	..	..	..	..	..	..	..	..	..
Animal production	..	..	..	..	..	..	..	..	..	..
Agricultural services	..	..	..	..	..	..	..	..	..	..
By form of ownership:	..	..	..	..	..	..	..	..	..	..
State enterprises	..	..	..	..	..	..	..	..	..	..
Cooperative enterprises	..	..	..	..	..	..	..	..	..	..
Subsidiary and personal plots of population	..	..	..	..	..	..	..	..	..	..
Private enterprises	..	..	..	..	..	..	..	..	..	..

*1/ Preliminary data.*
*Source: State Committee of Statistics.*

**TABLE 7-2: KAZAKHSTAN - AGRICULTURAL PRODUCTION**
*(in millions of constant 1983 rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993 1/
	<i>thou. tenge</i>									
<b>Total gross agricultural production</b>	14,135	13,832	15,577	15,169	15,833	14,678	15,673	14,041	14,158	26,845
<b>Crop production</b>	6,399	5,878	6,804	6,138	6,339	4,934	6,118	4,883	5,811	9,864
Grains	..	..	3,427	..	1,499	2,468	3,690	1,689	3,834	5,516
Potatoes	..	..	408	..	432	341	444	410	491	1,477
Vegetables	..	..	363	..	415	400	366	307	320	..
Fruits (without grapes)	..	..	221	..	167	92	190	77	109	..
Grapes	..	..	74	..	43	23	65	31	29	..
Tobacco	..	..	42	..	37	25	24	24	20	..
Cotton	..	..	230	..	219	224	236	207	171	..
Sugarbeets	..	..	88	..	67	61	58	37	66	..
Oilseeds	..	..	43	..	65	51	70	45	70	..
Other	..	..	1,908	..	3,395	1,249	975	2,056	701	..
<b>Livestock production</b>	7,736	7,954	8,773	9,031	9,494	9,744	9,555	9,158	8,347	16,981
Livestock	..	..	5,051	..	5,579	5,693	5,548	5,256	4,941	..
Cattle	..	..	2,589	..	2,936	2,968	2,857	2,705	2,487	..
Pigs	..	..	703	..	759	804	816	775	623	..
Sheep and goats	..	..	1,202	..	1,293	1,299	1,259	1,203	1,128	..
Poultry	..	..	557	..	591	622	616	513	422	..
Other	..	..	..	..	..	..	..	..	281	..
Milk	..	..	2,008	..	2,118	2,213	2,246	2,211	2,096	..
Eggs	..	..	392	..	402	407	401	390	341	..
Wool	..	..	919	..	938	952	933	511	835	..
Other livestock	..	..	403	..	457	479	427	790	134	..
<b>Agricultural services</b>	..	..	..	..	..	..	..	..	..	..
<b>Material inputs</b>	..	..	..	..	..	..	..	..	..	..
Crop production	..	..	..	..	..	..	..	..	..	..
Animal production	..	..	..	..	..	..	..	..	..	..
Agricultural services	..	..	..	..	..	..	..	..	..	..
<b>Net material product, by output:</b>	..	..	..	..	..	..	..	..	..	..
Crop production	..	..	..	..	..	..	..	..	..	..
Animal production	..	..	..	..	..	..	..	..	..	..
Agricultural services	..	..	..	..	..	..	..	..	..	..
<b>By form of ownership:</b>	..	..	..	..	..	..	..	..	..	..
State enterprises	..	..	..	..	..	..	..	..	..	..
Cooperative enterprises	..	..	..	..	..	..	..	..	..	..
Subsidiary and personal plots of population	..	..	..	..	..	..	..	..	..	..
Private enterprises	..	..	..	..	..	..	..	..	..	..

*1/ Preliminary data.*
*Source: State Committee of Statistics.*

**TABLE 7-3: KAZAKHSTAN - PRODUCTION AND AVERAGE YIELD OF MAJOR AGRICULTURAL CROPS**

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>Production (thousands tons)</i>										
Grain - Cleanweight	25,930	22,694	26,562	25,721	20,970	18,797	28,488	11,992	29,772	21,631
Winter Wheat	1,357	935	1,328	2,255	1,354	1,452	1,966	1,298	1,743	1,934
Spring Wheat	16,191	13,256	15,415	13,853	10,808	9,332	14,231	5,591	16,542	9,651
Coarse grain										
Rye	123	136	369	338	548	745	839	480	525	889
Corn	414	598	505	477	561	479	442	330	368	355
Winter Barley	114	72	91	122	84	50	112	100	118	119
Spring Barley	5,923	5,883	7,005	6,807	5,754	5,260	8,389	2,986	8,393	7,790
Oats	649	534	616	459	345	251	611	231	727	906
Millet	356	402	390	549	577	459	939	234	448	294
Rice	364	620	586	606	626	555	579	521	467	479
Flax	..	..	..	..	..	..	..	..	..	..
Oilseeds	126	129	139	182	216	167	230	155	235	172
Sunflowerseed	83	75	105	125	101	126	93	98	85	107
Soybeans	8	17	35	45	41	33	33	16	12	6
Other	18	18	21	20	36	29	56	31	101	..
Cotton (raw)	358	305	333	312	325	315	324	291	252	200
Cotton fiber	..	10	11	10	10	10	10	9	..	..
Sugarbeets	2,223	1,750	1,587	1,662	1,214	1,094	1,044	674	1,160	925
Potatoes	2,238	2,197	2,137	2,066	2,260	1,783	2,324	2,143	2,570	2,296
Pulses	128	113	150	145	132	107	154	66	123	108
Vegetables	1,134	1,085	1,211	1,190	1,354	1,254	1,136	955	985	808
Fruit	257	133	386	209	276	118	301	98	169	89
Grapes	172	69	158	141	94	48	139	66	62	40
Other	85	64	228	68	182	70	162	32	107	..
Corn (silage and greenchop)	25,576	33,170	27,870	31,130	28,347	19,851	44,104	14,238	24,742	19,202
Hay	16,114	16,805	18,275	19,538	18,747	18,477	17,150	13,401	16,416	18,132
<i>Average yield (centners per hectare)</i>										
Grain - Cleanweight	10.2	9.0	10.8	10.5	8.6	7.9	12.2	5.3	13.2	9.7
Winter Wheat	10.9	9.4	12.5	19.5	14.8	13.2	16.4	10.8	14.3	14.7
Spring Wheat	10.2	8.7	10.6	9.8	7.7	7.0	11.1	4.6	13.1	8.4
Coarse grain										
Rye	4.7	5.9	8.5	6.9	9.5	10.3	10.9	8.5	8.4	14.7
Corn	43.0	44.5	42.5	40.3	40.9	35.8	34.4	27.2	29.1	30.3
Winter Barley	12.3	10.8	10.8	19.6	20.0	17.2	21.2	15.2	14.5	18.8
Spring Barley	9.9	8.7	10.6	10.0	8.3	7.8	12.7	4.6	14.8	11.2
Oats	13.2	15.4	13.7	9.5	9.8	6.1	16.0	4.5	15.9	16.5
Millet	4.3	4.9	5.6	8.2	8.2	5.9	12.0	2.8	4.5	5.6
Rice	43.1	43.6	45.5	45.4	46.5	41.6	46.5	44.0	38.6	42.8
Flax	..	..	..	..	..	..	..	..	..	..
Oilseeds	7.7	6.0	7.2	7.6	7.2	5.9	8.6	5.1	5.1	4.0
Sunflowerseed	9.7	9.0	8.7	11.2	11.4	8.0	10.3	4.9	3.3	4.0
Soybeans	6.9	12.6	11.0	12.0	14.7	13.4	14.4	9.4	10.8	9.9
Other	..	..	..	..	..	..	..	..	..	..
Cotton (raw)	28.3	23.4	25.9	24.4	25.4	26.4	27.1	25.0	22.5	18.1
Cotton fiber	..	7.6	8.4	7.5	7.9	8.3	8.5	8.1	..	..
Sugarbeets	285.0	264.0	279.0	320.0	316.1	266.9	259.9	148.0	136.0	135.0
Potatoes	117.0	115.1	112.0	108.3	112.0	85.7	112.9	98.9	104.0	94.1
Pulses	9.4	6.8	9.1	7.9	7.2	6.2	9.7	4.3	8.8	9.1
Vegetables	167.0	161.0	179.0	165.0	169.0	156.2	154.4	121.0	114.0	106.0
Fruit	38.4	18.4	53.6	29.6	37.9	16.1	41.9	14.6	22.2	12.2
Grapes	83.4	32.8	77.4	73.2	49.9	25.6	80.5	38.5	36.8	25.3
Other	..	..	..	..	..	..	..	..	..	..
Corn (silage and greenchop)	110.0	135.0	115.0	135.0	131.0	91.0	193.0	72.0	110.0	96.0
Hay	..	..	..	..	..	..	..	..	..	..

Source: State Committee of Statistics.

**TABLE 7-4: KAZAKHSTAN - ANIMAL HUSBANDRY 1/**

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>Livestock (thousand heads) 2/</b>	48,414.4	49,205.8	50,829.4	50,977.7	51,161.2	51,064.7	51,410.8	48,935.7	48,439.4	47,931.3
Cattle	8,692.9	9,165.3	9,528.5	9,672.4	9,751.5	9,818.4	9,757.2	9,592.4	9,576.3	9,346.6
of which: Cows	2,983.1	3,086.5	3,160.7	3,206.9	3,272.7	3,326.8	3,368.0	3,490.0	3,623.4	3,687.2
Pigs	3,093.2	2,968.0	3,220.6	3,237.2	3,187.9	3,262.3	3,223.8	2,976.1	2,591.0	2,445.2
Sheep	34,529.5	34,646.7	35,525.3	35,470.1	35,544.9	35,241.4	34,677.5	33,558.8	33,375.7	33,113.3
Goats	678.0	838.0	882.6	918.1	952.7	979.3	983.0	996.9	1,044.1	1,094.8
Horses	1,299.7	1,455.0	1,533.2	1,540.1	1,580.7	1,618.8	1,626.3	1,666.4	1,703.5	1,776.6
Camels	121.1	132.8	139.2	139.8	143.5	142.5	143.0	145.1	148.8	154.8
Rabbits	205.0	168.2	170.3	166.0	155.4	189.4	205.7	166.6	136.7	130.9
Poultry	48,092.0	55,436.0	57,542.0	57,667.0	58,436.0	59,286.0	59,899.0	59,932.0	52,733.0	52,591.0
<b>Animal husbandry products</b>										
Meat (thousand tons)	1,068.6	1,133.0	1,300.0	1,399.2	1,493.1	1,573.4	1,559.6	1,524.4	1,257.5	1,257.9
Beef	464.5	506.3	579.5	631.9	688.9	727.0	709.7	723.7	596.2	..
Pork	195.3	184.9	219.2	244.5	255.3	273.4	285.9	274.0	217.3	..
Lamb and Goat	231.0	220.7	253.4	258.3	278.6	289.3	286.0	270.1	242.9	..
Poultry	126.3	165.9	191.0	197.6	200.7	209.8	200.9	184.7	139.0	..
Other	51.5	55.2	56.9	66.9	69.6	73.9	77.1	71.9	62.1	..
Milk (thousand tons)	4,597.0	4,763.0	5,040.0	5,185.0	5,321.0	5,563.0	5,642.0	5,555.0	5,265.6	5,548.1
Eggs (millions)	3,369.0	3,803.0	4,097.0	4,189.0	4,202.0	4,253.0	4,185.0	4,075.0	3,565.0	3,375.6
Wool (thousand tons)	103,587.0	97,623.0	106,658.0	106,442.0	108,373.0	109,942.0	197,850.0	104,420.0	96,451.0	95,023.0

1/ At the end of the year.

2/ Total excludes rabbits and poultry

Source: State Committee of Statistics

**TABLE 7-5: KAZAKHSTAN - AGRICULTURAL PRODUCTION BY TYPE OF OWNERSHIP**
*(millions of constant 1983 rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993 thou. tenge
<b>Total agriculture</b>	14,135	13,832	15,578	15,169	15,833	14,678	15,673	14,041	14,158	26,845
Crops	6,399	5,878	6,804	6,138	6,339	4,934	6,118	4,883	5,811	9,864
Animal husbandry	7,736	7,954	8,774	9,031	9,494	9,744	9,555	9,158	8,347	16,981
<b>Collective farms (kolhoz)</b>	1,719	1,571	1,673	1,786	1,805	1,744	1,690	1,405	1,390	..
Crops	899	834	837	914	894	838	819	630	741	..
Animal husbandry	820	737	836	872	911	906	871	775	649	..
<b>State farms (sovhoz)</b>	9,088	8,590	10,015	9,385	9,681	8,449	9,349	7,876	7,424	..
Crops	4,883	4,493	5,338	4,665	4,800	3,551	4,631	3,611	4,067	..
Animal husbandry	4,205	4,097	4,677	4,720	4,881	4,898	4,718	4,265	3,357	..
<b>Other State Enterprises</b>	150	221	246	223	246	233	234	198	355	..
Crops	82	100	121	85	102	88	93	86	186	..
Animal husbandry	68	121	125	138	144	145	141	112	169	..
<b>Private plots</b>	3,178	3,450	3,644	3,775	4,101	4,252	4,400	4,512	4,784	..
Crops	535	451	508	474	543	457	575	545	720	..
Animal husbandry	2,643	2,999	3,136	3,301	3,558	3,795	3,825	3,967	4,064	..
<b>Private Farms</b>	..	..	..	..	..	..	..	50	205	..
Crops	..	..	..	..	..	..	..	11	97	..
Animal husbandry	..	..	..	..	..	..	..	39	108	..

*Source: State Committee of Statistics.*

**TABLE 7-6: KAZAKHSTAN - EMPLOYMENT IN AGRICULTURE***(in thousands)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Total</b>	1,515	1,646	1,640	1,679	1,718	1,662	1,713	1,740	1,781
Collective farms	277	279	276	274	264	254	260	258	268
State farms	1,112	1,176	1,172	1,177	1,156	1,102	1,092	1,082	1,047
Temporary workers	19	47	40	41	42	26	26	26	34
Labor on private plots	137	136	142	163	221	230	302	310	337
New private cooperatives	..	..	..	..	..	..	9	11	5
Private farms	..	..	..	..	..	..	1	5	39
Other	..	8	10	24	35	50	23	48	51

*Source: State Committee of Statistics.*

**TABLE 7-7: KAZAKHSTAN - FARM ACTIVITIES: MAIN INDICATORS**

<i>1980</i>	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	397	2,077	..	..	..
Gross Output (million 1983 rubles)	14,135	1,719	9,088	150	3,178	..
Fixed Capital (billion 1984 rubles)	9	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	147	1,091	..	..	..
Production (thousand tons)						
Grain	27,506	3,610	23,665	214	17	..
Sugar beets	2,223	1,004	1,208	11	..	..
Sunflowers	100	45	48	0	7	..
Flax	..	..	..	..	..	..
Potatoes	2,238	107	835	61	1,235	..
Vegetables	1,134	160	544	34	396	..
Meat	1,069	96	600	10	363	..
Milk	4,597	552	2,107	36	1,902	..
Eggs (millions)	3,369	22	2,063	13	1,271	..
Cattle (thousand heads)	8,693	917	5,506	131	2,139	..
Cows	2,985	283	1,528	17	1,157	..
Pigs	3,093	432	1,904	84	673	..
Sheep, goats	35,208	5,235	25,921	360	3,692	..
Poultry	43,091	730	27,113	252	19,997	..
<i>1985</i>	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	388	2,140	..	..	..
Gross Output (million 1983 rubles)	13,832	1,571	8,591	221	3,449	..
Fixed Capital (billion 1984 rubles)	11	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	191	1,142	..	..	..
Production (thousand tons)						
Grain	24,164	2,977	20,877	291	19	..
Sugar beets	1,901	745	1,133	23	..	..
Sunflowers	93	46	43	0	4	..
Flax	0	..	..	..	..	..
Potatoes	2,197	117	879	70	1,131	..
Vegetables	1,085	184	574	40	287	..
Meat	1,133	91	652	29	361	..
Milk	4,763	542	2,099	50	2,072	..
Eggs (millions)	3,803	17	2,533	9	1,244	..
Cattle (thousand heads)	9,165	960	5,607	184	2,414	..
Cows	3,087	286	1,518	37	1,246	..
Pigs	2,968	357	1,846	236	529	..
Sheep, goats	35,485	4,911	25,592	480	4,502	..
Poultry	55,436	651	35,373	302	19,110	..

TABLE 7-7. KAZAKHSTAN - FARM ACTIVITIES: MAIN INDICATORS, cont'd.

	1986					
	Total	Collective farms (kolkhozes)	State Farms (sovkhozes)	Other (state farms)	Private Farms	Private Farms
Number of farms	..	388	2,119	..	..	..
Gross Output (million 1983 rubles)	15,578	1,673	10,015	246	3,644	..
Fixed Capital (billion 1984 rubles)	11	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	79	685	..	..	..
Production (thousand tons)						
Grain	28,306	3,549	24,387	352	18	..
Sugar beets	1,721	672	1,031	18	..	..
Sunflowers	83	41	38	0	4	..
Fish	0	..	..	..	..	..
Potatoes	2,137	110	816	77	1,134	..
Vegetables	1,211	211	663	42	295	..
Meat	1,300	114	769	27	390	..
Milk	5,080	582	2,258	54	2,146	..
Eggs (millions)	4,097	20	2,816	7	1,254	..
Cattle (thousand heads)						
Cows	9,528	984	5,801	180	2,563	..
Pigs	3,161	287	1,539	31	1,304	..
Sheep, goats	3,221	382	2,007	269	563	..
Poultry	36,408	4,992	26,152	358	4,905	..
	57,542	667	37,428	344	19,103	..
1987						
	Total	Collective farms (kolkhozes)	State Farms (sovkhozes)	Other (state farms)	Private Farms	Private Farms
Number of farms	..	386	2,143	..	..	..
Gross Output (million 1983 rubles)	15,169	1,786	9,385	223	3,775	..
Fixed Capital (billion 1984 rubles)	12	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	85	645	..	..	..
Production (thousand tons)						
Grain	27,444	3,589	23,544	292	19	..
Sugar beets	1,804	683	1,121	..	..	..
Sunflowers	117	59	54	0	4	..
Fish	0	..	..	..	..	..
Potatoes	2,066	109	782	64	1,111	..
Vegetables	1,190	224	646	33	287	..
Meat	1,399	122	830	28	419	..
Milk	5,185	600	2,321	39	2,225	..
Eggs (millions)	4,189	19	2,907	7	1,256	..
Cattle (thousand heads)						
Cows	9,672	995	5,872	161	2,644	..
Pigs	3,207	286	1,525	33	1,363	..
Sheep, goats	3,237	397	2,016	270	554	..
Poultry	36,388	5,004	25,921	337	5,126	..
	57,667	489	37,829	270	19,079	..

TABLE 7-7: KAZAKHSTAN - FARM ACTIVITIES: MAIN INDICATORS, cont'd.

1988	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	399	2,125	..	..	..
Gross Output (million 1983 rubles)	15,833	1,805	9,681	246	4,101	..
Fixed Capital (billion 1984 rubles)	13	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	54	517	..	..	..
Production (thousand tons)						
Grain	22,560	3,006	19,276	257	21	..
Sugar beets	1,312	489	823	..	..	..
Sunflowers	139	67	66	3	3	..
Flax	0	..	..	..	..	..
Potatoes	2,260	124	857	62	1,217	..
Vegetables	1,354	247	709	43	355	..
Meat	1,493	128	871	31	463	..
Milk	5,321	624	2,357	48	2,292	..
Eggs (millions)	4,202	14	2,916	10	1,262	..
Cattle (thousand heads)						
Cows	9,752	990	5,791	168	2,803	..
Pigs	3,273	288	1,506	38	1,441	..
Sheep, goats	3,188	352	1,959	280	597	..
Poultry	36,498	4,896	25,606	512	5,484	..
	58,436	693	37,728	419	19,596	..
1989	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	400	2,119	..	..	..
Gross Output (million 1983 rubles)	14,678	1,744	8,449	233	4,252	..
Fixed Capital (billion 1984 rubles)	14	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	13	242	..	..	..
Production (thousand tons)						
Grain	20,356	3,027	17,052	258	19	..
Sugar beets	1,188	432	755	1	..	..
Sunflowers	105	51	49	2	3	..
Flax	0	..	..	..	..	..
Potatoes	1,783	103	661	59	960	..
Vegetables	1,254	235	628	41	350	..
Meat	1,573	131	915	33	494	..
Milk	5,563	639	2,411	50	2,463	..
Eggs (millions)	4,253	15	2,921	10	1,307	..
Cattle (thousand heads)						
Cows	9,818	985	5,725	186	2,922	..
Pigs	3,327	289	1,488	39	1,511	..
Sheep, goats	3,262	377	1,970	290	625	..
Poultry	36,222	4,723	24,958	544	5,997	..
	59,286	771	38,246	478	19,791	..

**TABLE 7-7: KAZAKHSTAN - FARM ACTIVITIES: MAIN INDICATORS, cont'd.**

<i>1990</i>	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	402	2,118	..	..	324
Gross Output (million 1983 rubles)	15,673	1,690	9,349	234	4,400	..
Fixed Capital (billion 1984 rubles)	13	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	4	73	..	..	..
Production (thousand tons)						
Grain	31,249	3,581	27,217	426	18	7
Sugar beets	1,134	390	744	..	..	..
Sunflowers	141	70	66	2	3	..
Flax	0	..	..	..	..	..
Potatoes	2,324	109	914	55	1,246	..
Vegetables	1,136	191	523	31	391	..
Meat	1,560	126	880	33	520	1
Milk	5,642	629	2,387	48	2,578	..
Eggs (millions)	4,185	16	2,843	6	1,320	..
Cattle (thousand heads)						
Cows	9,757	958	5,606	175	3,013	5
Pigs	3,368	282	1,467	39	1,578	2
Sheep, goats	3,224	358	1,938	263	664	1
Poultry	35,661	4,527	24,136	587	6,360	51
	59,899	586	38,777	539	19,997	..
<i>1991</i>	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	408	2,120	..	..	3,333
Gross Output (million 1983 rubles)	14,041	1,659	7,622	198	4,512	50
Fixed Capital (billion 1984 rubles)	13	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	26	272	..	..	..
Production (thousand tons)						
Grain	13,274	1,991	11,013	204	25	41
Sugar beets	726	282	442	2	..	..
Sunflowers	108	51	53	1	3	..
Flax	0	..	..	..	..	..
Potatoes	2,143	82	708	47	1,304	2
Vegetables	955	156	407	25	365	2
Meat	1,524	121	845	30	525	3
Milk	5,555	589	2,230	52	2,681	3
Eggs (millions)	4,075	15	2,752	4	1,304	..
Cattle (thousand heads)						
Cows	9,592	913	5,280	171	3,195	33
Pigs	3,490	277	1,438	44	1,716	15
Sheep, goats	2,976	287	1,751	234	698	6
Poultry	34,556	4,311	22,270	593	6,950	432
	59,932	613	39,358	292	19,659	10

TABLE 7-7: KAZAKHISTAN - FARM ACTIVITIES: MAIN INDICATORS, cont'd.

1992	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	452	2,055	..	9,262	..
Gross Output (million 1983 rubles)	14,158	1,390	7,424	355	4,784	205
Fixed Capital (billion 1984 rubles)	7	0	..	..	..	..
Profits (billion 1983 rubles)	0	..	..	..	..	..
Number of loss-making farms	..	30	299	..	..	..
Production (thousand tons)						
Grain	33,427	3,774	28,069	1,062	16	506
Sugar beets	1,276	498	726	22	5	25
Sunflowers	122	53	61	5	2	1
Flax	3	..	..	..	..	..
Potatoes	2,570	88	695	46	1,711	30
Vegetables	985	143	359	44	379	60
Meat	1,258	96	581	28	544	9
Milk	5,265	505	1,813	68	2,856	23
Eggs (millions)	3,565	9	2,229	2	1,324	1
Cattle (thousand heads)						
Cows	9,576	907	4,940	208	3,452	69
Pigs	3,623	271	1,345	59	1,918	30
Sheep, goats	2,591	179	1,516	171	713	12
Poultry	34,420	4,485	20,422	967	7,767	779
	52,733	222	32,877	154	19,075	405

1993	Total	Collective farms (kolhozes)	State Farms (sovhozes)	Other (state farms)	Private Plots	Private Farms
Number of farms	..	445	2,079	..	..	..
Gross Output (million 1983 rubles)	..	..	..	..	..	..
Fixed Capital (billion 1984 rubles)	..	..	..	..	..	..
Profits (billion 1983 rubles)	..	..	..	..	..	..
Number of loss-making farms	..	157	1,132	..	..	..
Production (thousand tons)						
Grain	21,631	2,854	16,253	1,932	17	575
Sugar beets	843	276	264	245	24	34
Sunflowers	86	40	36	6	3	1
Flax	..	..	..	..	..	..
Potatoes	2,296	76	440	90	1,627	64
Vegetables	808	92	181	43	432	39
Meat	1,258	..	..	..	..	..
Milk	5,548	..	..	..	..	..
Eggs (millions)	3,376	..	..	..	..	..
Cattle (thousand heads)						
Cows	9,347	817	3,884	164	3,802	88
Pigs	3,687	250	1,137	51	2,045	39
Sheep, goats	2,445	143	1,281	123	805	14
Poultry	34,208	4,159	16,974	598	8,523	828
	52,591	..	..	..	..	..

Source: State Committee of Statistics.

**TABLE 8-1: KAZAKHSTAN - INDUSTRIAL PRODUCTION BY SECTOR**
*(millions of current rubles)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993 // mill. tenge
All Industry	29,041	30,418	31,763	33,037	34,151	34,738	85,436	1,301,988	20,875
Heavy Industry	18,902	19,988	20,858	21,664	22,241	22,235	48,302	1,063,511	..
Fuel-Energy Industry	3,791	4,046	4,199	4,343	4,449	4,521	10,627	375,263	..
Electricity	1,334	1,396	1,434	1,492	1,632	1,797	4,141	121,309	3,167
Fuel Industry	2,457	2,650	2,765	2,851	2,817	2,724	6,486	253,954	3,616
Ferrous and Non-Ferrous Metallurgy	5,044	5,237	5,416	5,622	5,744	5,728	12,670	360,120	..
Chemicals and Petrochemical Industry	1,300	1,398	1,526	1,634	1,683	1,648	3,893	99,447	918
Machine-Building and Metalworking	3,162	3,390	3,440	3,532	3,629	3,568	6,571	71,020	1,168
Forestry, Woodworking, Pulp and Paper Industry	674	712	767	779	789	794	1,518	2,016	17
Construction Materials	1,761	1,830	1,943	2,018	2,067	1,990	4,200	51,842	719
Light Industry	4,707	4,780	4,907	5,131	5,329	5,402	15,798	83,673	1,318
Textiles	2,754	2,900	2,988	3,125	3,293	3,299	11,008	58,125	857
Clothing	1,357	1,306	1,332	1,381	1,403	1,459	3,235	15,486	..
Leather and Shoe	275	272	278	297	324	325	842	7,545	..
Agriculture/Food-Processing	5,432	5,650	5,998	6,242	6,581	7,101	21,336	154,804	2,187
Food Processing	..	..	..	..	..	..	..	56,504	963
Meat and Dairy Products	2,373	2,662	2,917	3,024	3,161	3,189	13,730	87,255	1,171
Fish	185	184	183	187	181	177	384	2,281	52

*// Preliminary data.*
*Source: State Committee of Statistics.*

**TABLE 8-2: KAZAKHSTAN - INDUSTRIAL PRODUCTION BY SECTOR**

	1985	1986	1987	1988	1989	1990	1991	1992	1992	1993
	<i>(millions of constant 1982 rubles)</i>								<i>(mill. of '92 tenge)</i>	
All Industry	30,094	31,599	33,036	34,196	35,006	35,042	34,727	29,934	23,559	19,770
Heavy Industry	20,023	21,199	22,120	22,842	23,221	22,781	22,508	20,054	..	..
Fuel-Energy Industry	6,604	6,995	7,261	7,334	7,460	7,312	7,414	6,970	..	..
Electricity	1,655	1,725	1,796	1,792	1,888	1,868	1,851	1,736	1,908	1,855
Fuel Industry	4,949	5,270	5,465	5,542	5,572	5,444	5,580	5,251	4,225	3,664
Ferrous and Non-Ferrous Metallurgy	5,022	5,201	5,344	5,566	5,662	5,471	5,394	5,038	6,428	5,485
Chemicals and Petrochemical Industry	1,300	1,402	1,528	1,640	1,687	1,649	1,565	1,144	1,665	918
Machine-Building and Metalworking	3,155	3,402	3,484	3,557	3,637	3,572	3,622	2,727	1,497	1,164
Forestry, Woodworking, Pulp and Paper Industry	669	708	656	770	789	792	797	563	29	17
Construction Materials	1,754	1,812	1,924	2,005	2,056	1,980	2,000	1,662	1,053	719
Light Industry	4,741	4,832	4,968	5,204	5,399	5,483	5,620	4,440	1,507	1,318
Textiles	2,756	2,905	2,992	3,132	3,291	3,295	3,255	2,556	995	857
Clothing	1,376	1,338	1,374	1,434	1,465	1,532	1,769	1,380	..	..
Leather and Shoe	273	271	279	295	319	318	351	274	..	..
Agriculture/Food Processing	5,330	5,568	5,948	6,190	6,416	6,778	6,371	4,785	2,857	2,348
Food Processing	1,930	1,908	2,020	2,091	2,151	2,135	1,986	1,636	1,355	1,055
Meat and Dairy Products	2,349	2,669	2,943	3,061	3,207	3,233	3,013	1,986	1,450	1,242
Fish	182	191	195	197	190	187	206	164	52	52
	<i>(growth rates in percent)</i>									
All Industry	..	5.0	4.5	3.5	2.5	0.0	-0.9	-13.8	..	-16.1
Heavy Industry	..	5.9	4.3	3.3	1.7	-1.9	-1.2	-10.9	..	..
Fuel-Energy Industry	..	5.9	3.8	1.0	1.7	-2.0	1.4	-6.0	..	..
Electricity	..	4.2	4.1	-0.2	5.4	-1.1	-0.9	-6.2	..	-2.8
Fuel Industry	..	6.5	3.7	1.4	0.5	-2.3	2.5	-5.9	..	-13.3
Ferrous and Non-Ferrous Metallurgy	..	3.6	2.7	4.2	1.7	-3.4	-1.4	-6.6	..	-14.7
Chemicals and Petrochemical Industry	..	7.8	9.0	7.3	2.9	-2.3	-5.1	-26.9	..	-44.9
Machine-Building and Metalworking	..	7.8	2.4	2.1	2.2	-1.8	1.4	-24.7	..	-22.2
Forestry, Woodworking, Pulp and Paper Industry	..	5.8	-7.3	17.4	2.5	0.4	0.6	-29.4	..	-40.8
Construction Materials	..	3.3	6.2	4.2	2.5	-3.7	1.0	-16.9	..	-31.8
Light Industry	..	1.9	2.8	4.8	3.7	1.6	2.5	-21.0	..	-12.5
Textiles	..	5.4	3.0	4.7	5.1	0.1	-1.2	-21.5	..	-13.9
Clothing	..	-2.8	2.7	4.4	2.2	4.6	15.5	-22.0	..	..
Leather and Shoe	..	-0.7	3.0	5.7	8.1	-0.3	10.3	-22.0	..	..
Agriculture/Food Processing	..	4.5	6.8	3.4	4.3	5.6	-6.0	-24.9	..	-17.8
Food Processing	..	-1.1	5.9	3.5	2.9	-0.7	-7.0	-17.6	..	-22.2
Meat and Dairy Products	..	13.6	10.3	4.0	4.8	0.8	-6.8	-34.1	..	-14.4
Fish	..	4.9	2.1	1.0	-3.6	-1.6	10.2	-20.2	..	-0.1

Source: State Committee of Statistics.

**TABLE 8-3: KAZAKHSTAN - ELECTRICITY PRODUCTION AND CONSUMPTION***(millions of KWH)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Production	81,263	85,094	88,490	88,417	89,657	87,379	85,984	82,700	77,440
of which:									
Thermal	76,035	80,320	82,762	81,429	82,365	80,013	78,802	75,830	69,810
Hydro	5,228	4,774	5,728	6,988	7,292	7,366	7,182	6,870	7,630
Nuclear	..	..	..	..	..	..	..	..	..
Total Imports	22,067	23,126	23,815	25,265	27,497	31,426	30,823	29,620	36,970
Interrepublic	..	..	..	..	..	..	..	..	..
Extrarepublic	..	..	..	..	..	..	..	..	..
Total Supply	103,330	108,220	112,305	113,682	117,154	118,805	116,807	112,320	114,410
Domestic Consumption	91,825	95,391	99,668	101,707	103,655	104,717	101,623	96,870	99,160
Industry and Construction	56,865	59,343	61,934	63,783	64,474	63,935	60,297	54,640	56,490
Agriculture	10,669	10,947	11,474	11,808	12,320	13,708	14,131	15,070	16,380
Transport	5,356	5,482	5,934	6,256	6,355	6,459	6,306	5,660	4,970
Other Sectors	10,983	11,327	11,855	11,702	12,157	12,423	12,759	12,660	12,130
Households	..	..	..	..	..	..	..	..	..
Losses	7,952	8,292	8,471	8,158	8,349	8,192	8,130	8,840	9,190
Total Exports	11,505	12,829	12,637	11,975	13,499	14,088	15,184	15,450	15,250
Interrepublic	..	..	..	..	..	..	..	..	..
Extrarepublic	..	..	..	..	..	..	..	..	..
Total Uses	103,330	108,220	112,305	113,682	117,154	118,805	116,807	112,320	114,410

Source: State Committee of Statistics.

**TABLE 8-4: KAZAKHSTAN - INDUSTRIAL PRODUCTION BY COMMODITIES**
*(volume in units indicated)*

	Unit	1980	1985	1986	1987	1988	1989	1990	1991	1992
Electricity Production	MKW	61,530	81,263	85,095	88,490	88,417	89,657	87,379	85,984	82,701
Electricity Consumption	MKW	72,104	91,825	95,392	99,668	101,662	103,655	104,717	101,596	..
Coal	TT	115,375	130,816	137,799	142,053	143,087	138,355	131,443	130,382	127,000
Oil	TT	..	22,800	..	..	..	..	25,800	26,600	25,800
Natural Gas	MM3	4,314	5,456	5,824	6,311	7,134	6,710	7,114	7,885	8,113
Iron Ore	TT	25,763	22,977	23,630	24,224	24,342	23,764	23,846	21,993	17,700
Cast Iron	TT	4,710	4,932	4,890	4,797	4,940	5,279	5,226	4,953	4,666
Steel	TT	5,967	6,155	6,496	6,555	6,766	6,831	6,754	6,377	6,063
Rolled Steel	TT	4,114	4,182	4,566	4,580	4,874	5,011	4,899	4,660	4,426
Coke (6% Humidity)	TT	4,321	4,100	4,237	4,191	4,169	4,137	3,711	3,404	..
Metal Cutting										
Machine Tools	U	3,017	2,848	2,630	2,155	2,214	2,307	2,578	2,389	1,629
Excavators	U	1,803	1,877	1,843	1,045	570	578	710	618	312
Bulldozers	U	8,863	13,670	14,504	15,220	14,810	15,308	13,328	10,288	3,456
Tractors	U	..	..	..	..	..	..	..	34,131	..
Agriculture Machines	M Rubles	212	366	389	399	323	229	215	356	4,680
Primary Oil Processors	TT	11,381	13,919	17,555	18,149	17,603	18,406	17,854	18,002	..
Sulphuric Acid	TT	1,891	1,671	1,850	2,008	2,063	1,896	3,151	2,815	2,349
Fertilizers	TT	1,262	1,430	1,520	1,603	1,737	1,705	1,656	1,516	880
Artificial Fibers	T	19,268	21,007	23,552	23,352	21,834	20,568	17,406	11,280	8,500
Synthetic Rubber	T	34,381	33,205	33,952	34,269	34,363	33,438	31,950	25,614	..
Tires	TU	..	1,452	..	..	..	..	2,633	3,029	2,880
Cement	TT	..	7,549	..	..	..	..	8,301	7,575	6,436
Building Bricks	M	1,989	1,947	2,055	2,268	2,354	2,468	2,285	2,146	1,971
Ferro-Concrete Construction	T M3	6,067	6,575	6,824	7,535	7,747	7,717	7,504	7,221	5,450
Sheets of Asbestos	MU	591	643	652	668	681	691	722	721	688
Fabrics	TM2	178,112	289,114	300,048	288,174	313,517	329,811	325,461	249,122	228,400
Hosiery	TP	68,963	76,707	77,154	78,205	80,517	82,579	87,716	83,162	74,400
Knitted Wear	TU	95,554	100,259	102,265	105,298	108,097	122,589	126,772	111,600	69,000
Shoes	TP	30,199	32,262	35,967	32,735	34,083	35,189	36,464	34,051	23,200
Carpets	TM2	1,722	2,384	2,213	2,236	2,343	2,235	2,234	2,103	..
Meat , 1st Quality	T	607,773	665,440	807,227	848,102	868,699	946,238	898,583	846,000	633,000
Sausage	T	120,949	125,783	131,340	139,185	146,970	152,444	154,938	152,332	97,000
Butter	T	60,635	69,267	74,443	75,943	79,628	83,295	85,056	75,824	61,600
Whole Milk	TT	1,107	1,225	1,269	1,433	1,471	1,491	1,470	1,393	1,154
Sugar (Powder)	T	271,626	336,999	342,275	348,597	313,996	377,315	319,134	306,814	213,000
Margarine	T	75,984	83,970	83,830	79,832	86,986	86,129	71,376	47,706	35,100
Washing Machines	U	175,170	183,300	188,190	176,810	166,217	264,400	367,363	391,072	369,800
Tape Recorders	U	78,100	124,200	130,225	138,355	150,425	162,100	200,500	130,674	114,100

*Source: State Committee of Statistics.*

**TABLE 8-4A: KAZAKHSTAN - INDUSTRIAL PRODUCTION BY COMMODITIES**
*(index: 1985 = 100)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
Electricity Production	75.7	100.0	104.7	108.9	108.8	110.3	107.5	105.8	101.8
Electricity Consumption	78.5	100.0	103.9	108.5	110.7	112.9	114.0	110.6	..
Coal	88.2	100.0	105.3	108.6	109.4	105.8	100.5	99.7	97.1
Oil	..	100.0	..	..	..	..	113.2	116.7	113.2
Natural Gas	79.1	100.0	106.8	115.7	130.8	123.0	130.4	144.5	148.7
Iron Ore	112.1	100.0	102.8	105.4	105.9	103.4	103.8	95.7	77.0
Cast Iron	95.5	100.0	99.2	97.3	100.2	107.0	106.0	100.4	94.6
Steel	96.9	100.0	105.5	106.5	109.9	111.0	109.7	103.6	98.5
Rolled Steel	98.4	100.0	109.2	109.5	116.6	119.8	117.2	111.4	105.8
Coke (6% Humidity)	105.4	100.0	103.3	102.2	101.7	100.9	90.5	83.0	..
Metal Cutting									
Machine Tools	105.9	100.0	92.3	75.7	77.7	81.0	90.5	83.9	57.2
Excavators	96.1	100.0	98.2	55.7	30.4	30.8	37.8	32.9	16.6
Bulldozers	64.8	100.0	106.1	111.3	108.3	112.0	97.5	75.3	25.3
Tractors	..	..	..	..	..	..	..	..	..
Agriculture Machines	58.0	100.0	106.2	109.0	88.2	62.5	58.7	97.2	1277.8
Primary Oil Processors	81.8	100.0	126.1	130.4	126.5	132.2	128.3	129.3	..
Sulphuric Acid	113.2	100.0	110.7	120.2	123.5	113.5	188.6	168.5	140.6
Fertilizers	88.3	100.0	106.3	112.1	121.5	119.2	115.8	106.0	61.5
Artificial Fibers	91.7	100.0	112.1	111.2	103.9	97.9	82.9	53.7	40.5
Synthetic Rubber	103.5	100.0	102.2	103.2	103.5	100.7	96.2	77.1	..
Tires	..	..	..	..	..	..	..	..	..
Cement	..	..	..	..	..	..	..	..	..
Building Bricks	102.2	100.0	105.5	116.5	120.9	126.8	117.4	110.2	101.2
Ferro-Concrete Construction	92.3	100.0	103.8	114.6	117.8	117.4	114.1	109.8	82.9
Sheets of Asbestos	91.8	100.0	101.4	103.9	105.9	107.4	112.3	112.1	107.0
Fabrics	61.6	100.0	103.8	99.7	108.4	114.1	112.6	86.2	79.0
Hosiery	89.9	100.0	100.6	102.0	105.0	107.7	114.4	108.4	97.0
Knitted Wear	95.3	100.0	102.0	105.0	107.8	122.3	126.4	111.3	68.8
Shoes	93.6	100.0	111.5	101.5	105.6	109.1	113.0	105.5	71.9
Carpets	72.2	100.0	92.8	93.8	98.3	93.8	93.7	88.2	..
Meat , 1st Quality	91.3	100.0	121.3	127.4	130.5	142.2	135.0	127.1	95.1
Sausage	96.2	100.0	104.4	110.7	116.8	121.2	123.2	121.1	77.1
Butter	86.7	100.0	107.5	109.6	115.0	120.3	122.8	109.5	88.9
Whole Milk	90.4	100.0	103.6	117.0	120.1	121.7	120.0	113.7	94.2
Sugar (Powder)	80.6	100.0	101.6	103.4	93.2	112.0	94.7	91.0	63.2
Margarine	90.5	100.0	99.8	95.1	103.6	102.6	85.0	56.8	41.8
Washing Machines	95.6	100.0	102.7	96.5	90.7	144.2	200.4	213.4	201.7
Tape Recorders	62.9	100.0	104.9	111.4	121.1	130.5	161.4	105.2	91.9

*Source: Table 8-4.*

**TABLE 8-5: KAZAKHSTAN - ENERGY BALANCE SHEET**
*(thousand toe) 1/*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Domestic sources</b>	106,088	114,222	..	..	..	..	220,068	..	..
Coal	73,383	82,152	..	..	..	..	85,408	..	..
Other solid fuels	..	..	..	..	..	..	..	..	..
Liquid fuel 2/	26,677	32,661	..	..	..	..	36,922	..	..
Other 3/	6,028	-591	..	..	..	..	97,738	..	..
<b>Imports 4/</b>	48,365	50,554	..	..	..	..	74,044	..	..
Liquid fuel	10,129	14,764	..	..	..	..	26,538	..	..
Gas	11,791	6,958	..	..	..	..	13,005	..	..
Other primary energy	26,445	28,832	..	..	..	..	34,501	..	..
<b>Exports 4/</b>	66,128	71,250	..	..	..	..	82,342	..	..
Liquid fuels	19,305	27,700	..	..	..	..	28,569	..	..
Gas	4,891	2,579	..	..	..	..	4,660	..	..
Other primary energy	41,932	40,971	..	..	..	..	49,113	..	..
<b>Change in stocks</b>	-1,324	1,269	..	..	..	..	-8,931	..	..
<b>Domestic use of primary energy 5/</b>	87,001	94,795	..	..	..	..	202,839	..	..
For electricity and heat energy generation (including hydro- and nuclear power)	37,491	45,519	..	..	..	..	45,987	..	..
For other purposes of which:	49,510	49,276	..	..	..	..	156,852	..	..
By industry	13,253	13,241	..	..	..	..	15,783	..	..
By agriculture	4,423	4,429	..	..	..	..	3,565	..	..
By households	5,074	5,749	..	..	..	..	8,248	..	..

1/ toe (tons of oil equivalent); with temperature of combustion of 7000 kcal/kg.

2/ Oil and condensed gas.

3/ Including primary energy equivalent for the energy production in WPS and NPS.

4/ Including FSU.

5/ Visible consumption = domestic sources + import - export + or - change in stocks.

Source: State Committee of Statistics.

**TABLE 9-1A: KAZAKHSTAN - WHOLESALE AND RETAIL PRICES**

ANNUAL	1990	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>(previous year = 100)</i>										
1. Wholesale Prices - Total	..	..	..	..	..	101.3	104.4	293.1	2,469.0	1,442.3
Electroenergy	..	..	..	..	..	..	..	..	4,820.8	1,844.7
Fuel	..	..	..	..	..	..	..	..	3,816.3	2,759.8
Ferrous Metallurgy	..	..	..	..	..	..	..	..	3,722.3	1,549.1
Non-Ferrous Metallurgy	..	..	..	..	..	..	..	..	4,177.9	692.8
Chemical	..	..	..	..	..	..	..	..	3,656.3	1,191.2
Petrochemical	..	..	..	..	..	..	..	..	3,242.6	894.7
Machine Building	..	..	..	..	..	..	..	..	1,829.3	1,415.3
Forestry, Wood and Paper	..	..	..	..	..	..	..	..	1,578.2	1,970.1
Construction Materials	..	..	..	..	..	..	..	..	1,635.5	1,634.3
Glass Industry	..	..	..	..	..	..	..	..	1,697.6	1,383.6
Light Industry	..	..	..	..	..	..	..	..	997.9	999.2
Food Industry	..	..	..	..	..	..	..	..	1,635.8	1,299.9
Meat Industry	..	..	..	..	..	..	..	..	1,688.3	1,286.0
Dairy Industry	..	..	..	..	..	..	..	..	1,189.3	1,625.9
Fish Industry	..	..	..	..	..	..	..	..	979.9	..
Grain Processing	..	..	..	..	..	..	..	..	1,916.9	1,219.8
Fodder Industry	..	..	..	..	..	..	..	..	1,491.2	1,284.9
2. Consumer Prices (CPI) 1/	..	..	..	..	..	..	..	190.9	1,621.6	1,496.2
Aggregated Goods	..	..	..	..	..	..	..	194.9	..	..
Food Products	..	..	..	..	..	..	..	194.6	..	..
Non-Food Products	..	..	..	..	..	..	..	195.1	..	..
Paid Services	..	..	..	..	..	..	103.4	159.1	..	..

MONTHLY	1991	1991	1991	1991	1991	1991	1991	1991	1991	1991	1991	1991
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<i>(same month of the preceding year = 100)</i>												
1. Wholesale Prices - Total	187.1	181.6	191.3	255.0	257.8	273.9	300.5	298.6	301.4	310.5	343.4	367.9
Electroenergy	..	..	..	..	..	..	..	..	..	..	..	..
Fuel	..	..	..	..	..	..	..	..	..	..	..	..
Ferrous Metallurgy	..	..	..	..	..	..	..	..	..	..	..	..
Non-Ferrous Metallurgy	..	..	..	..	..	..	..	..	..	..	..	..
Chemical	..	..	..	..	..	..	..	..	..	..	..	..
Petrochemical	..	..	..	..	..	..	..	..	..	..	..	..
Machine Building	..	..	..	..	..	..	..	..	..	..	..	..
Forestry, Wood and Paper	..	..	..	..	..	..	..	..	..	..	..	..
Construction Materials	..	..	..	..	..	..	..	..	..	..	..	..
Glass Industry	..	..	..	..	..	..	..	..	..	..	..	..
Light Industry	..	..	..	..	..	..	..	..	..	..	..	..
Food Industry	..	..	..	..	..	..	..	..	..	..	..	..
Meat Industry	..	..	..	..	..	..	..	..	..	..	..	..
Dairy Industry	..	..	..	..	..	..	..	..	..	..	..	..
Fish Industry	..	..	..	..	..	..	..	..	..	..	..	..
Grain Processing	..	..	..	..	..	..	..	..	..	..	..	..
Fodder Industry	..	..	..	..	..	..	..	..	..	..	..	..
2. Consumer Prices	..	..	..	..	..	..	..	..	..	..	..	..
Aggregated Goods (RPI)	..	..	..	..	..	..	..	..	..	..	..	..
Food Products (RPI)	..	..	..	..	..	..	..	..	..	..	..	..
Non-Food Products (RPI)	..	..	..	..	..	..	..	..	..	..	..	..
Paid Services	..	..	..	..	..	..	..	..	..	..	..	..

1/ Retail Price Index (RPI) in 1991; Consumer Price Index (CPI) in 1992.

**TABLE 9-1A: KAZAKHSTAN - WHOLESALE AND RETAIL PRICES, cont'd.**

MONTHLY	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	1992 May	1992 June	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.
<i>(same month of the preceding year = 100)</i>												
<b>1. Wholesale Prices - Total</b>	1,443.5	1,475.3	1,719.6	1,593.3	1,590.3	2,110.8	2,659.8	2,753.0	2,796.4	3,644.1	3,924.9	3,916.9
Electroenergy	599.5	812.0	2,388.8	2,394.4	2,387.7	5,163.0	6,300.6	5,887.2	5,811.9	7,099.0	12,274.9	6,730.1
Fuel	632.7	649.9	664.0	670.2	669.0	3,261.8	3,418.9	4,016.9	4,084.6	8,422.4	9,356.7	9,947.9
Ferrous Metallurgy	413.3	2,912.0	3,031.3	3,101.9	3,104.5	4,086.1	3,906.9	4,647.7	4,826.9	4,654.3	4,210.0	3,772.9
Non-Ferrous Metallurgy	5,138.3	1,862.0	2,784.9	2,906.4	3,030.3	2,864.1	4,615.8	4,375.5	4,375.5	6,956.2	5,300.5	5,924.9
Chemical	2,108.8	2,956.5	3,111.5	3,181.5	3,202.1	3,149.8	4,319.2	4,956.8	4,740.2	4,116.6	3,787.1	4,245.6
Petrochemical	2,164.2	2,635.2	1,971.1	2,100.1	2,298.6	2,436.8	4,671.4	4,711.4	4,698.0	3,249.7	4,146.8	3,828.0
Machine Building	784.8	1,579.2	1,372.7	1,490.7	1,562.1	1,629.7	1,793.3	2,168.5	2,054.5	2,410.2	2,467.6	2,638.1
Forestry, Wood and Paper	1,122.0	1,291.5	1,435.5	1,719.8	1,591.1	1,602.9	1,729.7	1,332.7	1,320.1	1,433.7	1,937.1	2,422.3
Construction Materials	756.1	947.1	1,109.2	1,126.6	1,249.6	1,626.7	1,692.2	1,819.1	1,865.7	2,198.0	2,544.8	2,690.7
Glass Industry	304.0	912.2	912.2	912.2	912.2	1,824.2	2,432.3	2,432.3	2,432.3	2,432.3	2,432.3	2,432.3
Light Industry	828.3	908.3	1,141.2	925.8	816.3	933.7	1,103.4	1,042.1	947.9	967.7	1,247.6	1,111.9
Food Industry	967.1	1,097.8	1,236.6	903.0	1,015.3	1,071.6	1,930.5	1,983.7	1,905.5	2,328.2	2,627.7	2,562.2
Meat Industry	1,763.2	2,222.0	2,266.9	1,143.1	695.9	1,328.3	1,676.0	1,659.6	1,704.5	1,798.8	1,809.0	2,192.2
Dairy Industry	1,331.4	1,491.8	1,613.8	635.7	845.4	671.4	1,147.4	1,110.4	1,139.8	1,192.6	1,391.7	1,700.5
Fish Industry	890.9	749.0	830.1	818.7	626.7	741.8	768.4	885.3	1,153.4	1,171.9	1,363.6	1,759.1
Grain Processing	969.5	950.4	1,044.8	774.0	811.0	814.1	1,501.4	969.3	2,756.3	4,173.3	4,397.4	3,841.1
Fodder Industry	601.8	686.2	677.9	776.6	875.9	907.7	1,571.7	901.3	1,501.1	2,379.4	3,743.6	3,271.3
<b>2. Consumer Prices - Total</b>	..	..	..	..	..	..	..	..	..	..	..	..
Aggregated Goods (RPI)	563.0	682.0	799.0	553.9	606.2	704.6	842.8	888.7	1,037.4	1,208.9	1,363.5	1,508.5
Food Products (RPI)	693.2	748.6	782.9	518.8	571.7	701.9	890.6	956.2	1,167.7	1,411.0	1,612.5	1,713.2
Non-Food Products (RPI)	497.2	640.7	811.7	596.0	657.1	708.5	778.6	800.1	879.0	1,025.6	1,137.5	1,306.4
Paid Services	548.2	632.3	663.4	573.3	592.0	794.7	929.2	964.0	993.7	1,152.2	1,567.8	1,800.1

MONTHLY	1993 Jan.	1993 Feb.	1993 Mar.	1993 Apr.	1993 May	1993 June	1993 July	1993 Aug.	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.
<i>(same month of the preceding year = 100)</i>												
<b>1. Wholesale Prices - Total</b>	2,015.5	1,616.9	2,040.1	1,302.2	1,318.0	1,324.1	1,096.0	1,123.9	1,286.4	1,310.2	1,422.7	1,423.8
Electroenergy	4,852.9	1,567.1	2,209.1	2,066.6	1,981.2	1,525.8	765.3	921.3	1,273.6	1,622.5	1,397.9	1,952.9
Fuel	5,869.2	4,341.0	4,120.0	3,944.0	3,927.1	3,611.0	2,120.0	1,227.6	1,338.3	1,057.1	809.4	758.8
Ferrous Metallurgy	1,721.6	2,901.5	5,149.6	794.1	741.7	741.7	823.6	889.0	966.4	1,210.8	1,046.2	1,595.6
Non-Ferrous Metallurgy	651.2	675.7	865.7	878.8	879.3	765.4	534.0	553.4	714.7	547.7	575.4	691.8
Chemical	2,046.5	694.6	858.6	889.7	958.8	1,558.4	1,077.8	988.9	1,088.4	1,024.5	1,999.1	1,109.0
Petrochemical	1,582.3	731.8	621.3	837.5	849.7	875.0	687.7	670.0	769.8	899.6	1,003.9	1,277.5
Machine Building	1,185.8	648.1	1,123.8	1,185.3	1,172.5	1,273.3	1,479.8	1,516.5	1,698.8	1,853.5	1,764.2	1,766.1
Forestry, Wood and Paper	1,647.7	1,335.1	828.0	960.4	1,122.5	1,594.1	1,521.2	2,844.0	3,036.0	2,991.5	3,179.0	2,681.7
Construction Materials	1,657.3	1,603.7	2,256.5	1,149.3	1,193.5	1,094.8	1,260.0	1,498.8	1,817.2	1,880.4	2,062.4	2,137.9
Glass Industry	2,631.6	600.0	600.0	1,333.4	1,333.4	666.6	500.0	1,312.6	1,312.6	1,312.6	2,500.0	2,500.0
Light Industry	776.6	681.0	1,518.3	666.5	668.3	722.8	768.4	950.2	1,071.8	1,255.7	1,459.8	1,450.7
Food Industry	1,949.5	1,208.8	1,265.2	1,091.7	1,110.1	1,100.0	933.3	968.7	1,463.3	1,281.1	1,608.8	1,618.7
Meat Industry	1,775.0	745.9	963.4	1,029.9	1,066.6	1,164.8	932.0	1,133.8	1,254.9	1,567.9	1,955.0	1,842.6
Dairy Industry	1,926.7	2,487.5	1,751.0	1,597.9	1,680.1	1,867.5	1,089.3	1,020.6	1,222.7	1,465.6	1,899.7	1,502.2
Grain Processing	1,967.6	1,345.9	1,011.7	1,129.4	1,288.8	1,288.5	1,253.6	1,370.0	1,007.8	881.8	1,021.7	1,071.3
Fodder Industry	2,581.5	2,239.9	1,124.0	888.1	1,115.4	1,134.1	1,301.9	1,385.4	1,118.9	995.7	746.7	827.3
<b>2. Consumer Prices</b>	..	..	..	..	..	..	..	..	..	..	..	..
Aggregated Goods (RPI)	741.3	831.9	902.7	930.2	1,024.4	1,009.1	1,381.7	1,463.8	1,542.0	1,697.4	2,003.5	2,100.0
Food Products (RPI)	699.6	823.0	960.1	1,022.7	1,081.4	1,035.3	1,286.1	1,370.0	1,427.9	1,523.1	1,902.4	2,075.0
Non-Food Products (RPI)	796.1	843.4	838.7	821.5	952.2	972.2	1,516.6	1,596.0	1,702.8	1,938.1	2,143.2	2,134.5
Paid Services	1,128.7	1,152.4	1,540.2	1,483.4	1,938.6	1,311.2	1,198.6	1,657.8	1,604.3	..	..	..

Note: CPI = Consumer Price Index; RPI = Retail Price Index.

Sources: State Committee of Statistics.

**TABLE 9-1B: KAZAKHSTAN - WHOLESALE AND RETAIL PRICES**

ANNUAL	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993		
(previous year = 100)												
1. Wholesale Prices - Total	..	..	..	..	..	..	..	..	2,469.0	1,442.3		
Electroenergy	..	..	..	..	..	..	..	..	4,820.8	1,844.7		
Fuel	..	..	..	..	..	..	..	..	3,816.3	2,759.8		
Ferrous Metallurgy	..	..	..	..	..	..	..	..	3,722.3	1,549.1		
Non-Ferrous Metallurgy	..	..	..	..	..	..	..	..	4,177.9	692.8		
Chemical	..	..	..	..	..	..	..	..	3,656.3	1,191.2		
Petrochemical	..	..	..	..	..	..	..	..	3,242.6	894.7		
Machine Building	..	..	..	..	..	..	..	..	1,829.3	1,415.3		
Forestry, Wood and Paper	..	..	..	..	..	..	..	..	1,578.2	1,970.1		
Construction Materials	..	..	..	..	..	..	..	..	1,635.5	1,634.3		
Glass Industry	..	..	..	..	..	..	..	..	1,697.6	1,383.6		
Light Industry	..	..	..	..	..	..	..	..	997.9	999.2		
Food Industry	..	..	..	..	..	..	..	..	1,635.8	1,299.9		
Meat Industry	..	..	..	..	..	..	..	..	1,688.3	1,286.0		
Dairy Industry	..	..	..	..	..	..	..	..	1,189.3	1,625.9		
Grain Processing	..	..	..	..	..	..	..	..	1,916.9	1,219.8		
Fodder Industry	..	..	..	..	..	..	..	..	1,491.2	1,284.9		
2. Consumer Prices (CPI) 1/	..	..	..	..	..	..	..	190.9	1,621.6	1,496.2		
Aggregated Goods	..	..	..	..	..	..	..	194.9	..	..		
Food Products	..	..	..	..	..	..	..	194.6	..	..		
Non-Food Products	..	..	..	..	..	..	..	195.1	..	..		
Paid Services	..	..	..	..	..	..	103.4	159.1	..	..		
MONTHLY	1991 Jan.	1991 Feb.	1991 Mar.	1991 Apr.	1991 May	1991 June	1991 July	1991 Aug.	1991 Sept.	1991 Oct.	1991 Nov.	1991 Dec.
(previous month = 100)												
1. Wholesale Prices - Total	..	..	..	..	..	..	..	..	..	..	..	..
Electroenergy	..	..	..	..	..	..	..	..	..	..	..	..
Fuel	..	..	..	..	..	..	..	..	..	..	..	..
Ferrous Metallurgy	..	..	..	..	..	..	..	..	..	..	..	..
Non-Ferrous Metallurgy	..	..	..	..	..	..	..	..	..	..	..	..
Chemical	..	..	..	..	..	..	..	..	..	..	..	..
Petrochemical	..	..	..	..	..	..	..	..	..	..	..	..
Machine Building	..	..	..	..	..	..	..	..	..	..	..	..
Forestry, Wood and Paper	..	..	..	..	..	..	..	..	..	..	..	..
Construction Materials	..	..	..	..	..	..	..	..	..	..	..	..
Glass Industry	..	..	..	..	..	..	..	..	..	..	..	..
Light Industry	..	..	..	..	..	..	..	..	..	..	..	..
Food Industry	..	..	..	..	..	..	..	..	..	..	..	..
Meat Industry	..	..	..	..	..	..	..	..	..	..	..	..
Dairy Industry	..	..	..	..	..	..	..	..	..	..	..	..
Grain Processing	..	..	..	..	..	..	..	..	..	..	..	..
2. Consumer Prices	..	..	..	..	..	..	..	..	..	..	..	..
Aggregated Goods (RPI) 2/	106.8	107.2	104.9	162.8	104.2	101.6	100.1	100.6	101.6	104.7	105.6	107.7
Food Products (RPI) 2/	104.3	104.5	103.7	154.8	101.8	100.6	97.5	97.4	99.8	106.0	105.1	108.2
Non-Food Products (RPI) 2/	109.3	109.9	105.9	170.3	106.2	102.4	102.2	103.1	103.0	103.7	106.0	107.3
Paid Services	..	..	..	..	..	..	..	..	..	..	..	..

1/ Retail Price Index (RPI) in 1991; Consumer Price Index (CPI) in 1992.

2/ RPI = Retail Price Index.

**TABLE 9-1B: KAZAKHSTAN - WHOLESALE AND RETAIL PRICES, cont'd.**

MONTHLY	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	1992 May	1992 June	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.
(previous month = 100)												
1. Wholesale Prices - Total	532.0	218.5	133.5	111.0	110.0	159.3	152.3	113.4	116.3	139.9	125.9	117.9
Electroenergy	343.1	242.2	313.6	100.9	100.2	309.3	173.9	100.9	100.9	126.8	151.9	129.7
Fuel	579.5	142.3	103.1	101.7	101.7	482.0	272.1	106.0	100.3	257.3	145.5	110.8
Ferrous Metallurgy	225.5	998.3	161.4	104.9	105.8	120.4	123.9	111.2	104.3	97.1	128.6	106.9
Non-Ferrous Metallurgy	1263.4	171.0	100.0	104.9	112.4	125.1	139.6	111.7	100.0	148.8	114.6	100.0
Chemical	1014.0	171.7	121.3	128.0	124.4	119.0	162.1	143.8	113.2	104.8	122.9	111.8
Petrochemical	932.4	126.8	104.3	111.6	114.6	108.1	197.1	117.0	95.5	108.7	158.3	114.4
Machine Building	458.0	248.1	128.9	110.2	105.1	106.3	117.5	119.1	112.0	123.7	123.1	139.9
Forestry, Wood and Paper	484.9	193.0	145.7	114.6	100.9	106.9	112.6	103.1	114.9	117.8	121.1	143.8
Construction Materials	402.5	143.2	128.6	113.8	114.8	145.1	117.2	115.6	115.9	116.0	117.9	128.9
Glass Industry	304.0	300.0	100.0	100.0	100.0	200.0	133.4	100.0	100.0	100.0	100.0	100.0
Light Industry	297.7	129.6	146.3	110.0	104.5	114.6	107.0	106.3	112.7	112.3	122.5	110.8
Food Industry	371.8	119.9	117.2	123.3	119.6	113.2	162.1	122.0	135.6	184.6	126.3	120.7
Meat Industry	445.1	127.7	110.5	109.3	122.8	110.4	211.9	124.6	99.9	112.0	104.3	124.7
Dairy Industry	318.3	109.5	101.7	117.7	116.0	118.9	252.7	106.0	101.1	105.7	117.6	116.5
Grain Processing	579.9	122.1	103.3	99.9	111.7	104.1	111.8	105.3	305.0	188.6	112.0	103.8
Fodder Industry	406.9	181.2	110.5	167.3	120.5	104.3	102.5	100.6	157.0	236.5	212.7	119.6
2. Consumer Prices (CPI)	312.3	121.0	136.1	140.2	114.5	123.8	116.2	111.4	112.1	116.7	122.8	144.1
Aggregated Goods (RPI)	235.3	121.2	122.1	114.4	111.5	116.6	113.3	107.1	111.7	117.7	119.8	120.9
Food Products (RPI)	282.3	106.8	108.1	107.5	108.9	118.9	116.8	106.5	112.1	120.7	118.6	119.8
Non-Food Products (RPI)	210.6	134.4	135.6	122.7	115.0	113.5	108.4	108.2	111.2	114.1	121.2	122.3
Paid Services	286.9	128.7	139.9	152.0	111.3	145.0	123.2	105.0	108.2	121.5	138.5	129.5
MONTHLY	1993 Jan.	1993 Feb.	1993 Mar.	1993 Apr.	1993 May	1993 June	1993 July	1993 Aug.	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.
(previous month = 100)												
1. Wholesale Prices - Total	137.6	152.0	133.0	121.6	115.1	124.1	122.6	126.7	137.5	128.3	130.3	139.0
Electroenergy	99.3	235.6	181.6	100.8	108.8	110.9	104.9	136.9	153.1	140.0	110.4	195.2
Fuel	162.4	141.5	103.3	105.0	100.5	100.3	146.5	135.1	110.9	111.2	153.0	108.5
Ferrous Metallurgy	113.6	178.8	136.2	111.3	108.8	125.8	134.8	125.6	122.3	120.3	107.9	182.4
Non-Ferrous Metallurgy	102.1	154.7	107.6	109.7	104.2	152.7	107.2	100.4	137.8	109.9	98.7	128.5
Chemical	130.0	126.1	156.2	138.5	113.7	113.1	134.6	119.4	111.7	107.7	141.2	162.5
Petrochemical	124.1	136.1	134.2	156.7	109.0	103.0	99.7	167.6	109.1	120.1	133.2	158.4
Machine Building	155.7	132.3	145.1	134.2	131.1	119.3	126.9	128.7	132.5	117.0	122.1	135.0
Forestry, Wood and Paper	143.1	147.7	136.5	126.4	133.5	143.4	117.8	175.9	124.6	124.0	132.4	123.0
Construction Materials	132.7	137.6	155.9	136.1	114.2	139.8	134.9	146.3	131.0	124.0	131.5	133.9
Glass Industry	125.0	180.0	100.0	222.3	100.0	100.0	100.0	262.6	100.0	100.0	190.6	100.0
Light Industry	150.5	117.3	125.1	122.8	113.8	125.1	123.4	129.3	137.9	144.1	131.1	115.3
Food Industry	134.7	120.3	124.2	127.3	118.5	121.6	122.2	121.1	203.2	140.2	163.8	164.6
Meat Industry	125.0	189.6	137.5	124.7	134.9	127.7	107.8	130.5	118.2	145.8	142.2	115.4
Dairy Industry	162.1	159.6	178.9	113.6	126.1	137.1	103.5	115.8	125.8	138.8	129.7	108.8
Grain Processing	115.5	120.3	116.4	110.5	116.9	106.0	106.4	117.2	136.8	171.9	152.8	134.2
Fodder Industry	108.9	130.5	115.0	106.6	132.5	109.7	116.2	107.8	120.0	126.2	122.9	171.8
2. Consumer Prices (CPI)	132.9	131.7	133.0	121.3	116.1	117.9	121.8	129.1	129.0	138.2	155.5	134.4
Aggregated Goods (RPI)	129.6	127.2	126.2	120.7	116.5	117.2	115.6	123.9	138.6	135.6	147.1	137.7
Food Products (RPI)	126.9	124.9	126.3	118.1	114.0	117.3	113.4	123.5	142.6	135.6	157.0	137.6
Non-Food Products (RPI)	132.8	130.4	126.1	124.8	120.2	117.0	118.6	124.4	133.0	135.7	133.5	137.8
Paid Services	136.3	161.9	164.2	137.1	123.6	120.1	115.7	149.8	133.1	..	..	..

Note: CPI = Consumer Price Index; RPI = Retail Price Index.

Sources: State Committee of Statistics.

**TABLE 9-2: KAZAKHSTAN - WAGE STRUCTURE**
*(monthly wage, November 1992)*

	M A T E R I A L S P H E R E									ALL SPHERES		
	All Sectors			Industry	Construction	Agriculture & Forestry	Transport & Communications	Trade (Wholesale & Retail) & Other	Other Branches of Material Production	All Sectors		
	Total	Workers	Others							Total	Workers	Others
Wage Amount (ruble):												
Under 901	1.2	..	..	0.7	0.8	1.8	0.1	1.8	2.3	..	..	
901-1800	7.5	..	..	2.3	3.5	13.1	1.4	9.0	33.4	..	..	
1801-2700	10.9	..	..	4.4	5.6	18.6	3.0	13.7	27.4	..	..	
2701-4500	18.5	..	..	12.1	12.3	25.6	9.8	30.2	17.2	..	..	
4501-7200	19.6	..	..	18.7	19.8	20.2	18.0	23.4	10.6	..	..	
7201-10800	16.2	..	..	20.3	21.1	10.9	21.5	13.1	4.5	..	..	
10801-13500	8.9	..	..	12.1	12.5	4.4	16.3	4.1	2.8	..	..	
13501-18000	8.4	..	..	12.2	12.1	3.5	15.9	3.0	1.1	..	..	
18001 and more	8.8	..	..	17.2	12.3	1.9	14.0	1.7	0.7	..	..	
<b>Total</b>	<b>100.0</b>	<b>..</b>	<b>..</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>..</b>	<b>..</b>	
No. of Employees ('000)	4,453	..	..	1,300	595	1,386	608	490	74	..	..	
Average Wage (ruble)	4,067	..	..	5,202	4,962	2,884	4,833	2,661	2,150	..	..	
N O N M A T E R I A L S P H E R E												
	All Sectors			Housing & Communal Economy & Consumer Services	Education, Culture and Arts, Science & Scientific Services	Health and Social Security	Finance, Credit & Insurance	Government	All Sectors			
	Total	Workers	Others						Total	Workers	Others	
Wage Amount (ruble):												
Under 901	1.2	..	..	3.3	0.7	1.3	1.8	1.8	1.2	..	..	
901-1800	13.6	..	..	11.3	15.5	11.0	4.5	16.9	9.1	..	..	
1801-2700	20.9	..	..	18.7	18.2	30.9	4.2	17.9	13.5	..	..	
2701-4500	28.8	..	..	24.3	27.1	35.5	9.7	29.0	21.4	..	..	
4501-7200	20.5	..	..	23.0	23.2	14.8	14.7	20.3	19.9	..	..	
7201-10800	10.4	..	..	12.9	12.1	4.7	25.0	8.5	19.6	..	..	
10801-13500	2.3	..	..	3.4	2.0	1.1	15.2	2.4	7.1	..	..	
13501-18000	1.4	..	..	2.3	0.8	0.4	12.7	1.7	6.5	..	..	
18001 and more	0.9	..	..	0.8	0.4	0.3	12.2	1.5	1.7	..	..	
<b>Total</b>	<b>100.0</b>	<b>..</b>	<b>..</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>..</b>	<b>..</b>	
No. of Employees ('000)	1,507	..	..	158	777	420	45	107	5,960	..	..	
Average Wage (ruble)	2,353	..	..	2,625	2,229	1,910	5,603	3,234	3,634	..	..	

*Source: State Committee of Statistics.*

**TABLE 9-3: KAZAKHSTAN - MONTHLY WAGES BY SECTOR \_1/**

	1980	1985	1986	1987	1988	1989	1990	1991	1992
	(in current rubles)								
<b>Economywide</b>	167	187	193	199	215	234	265	441	4,625
<b>Material Sectors</b>	..	201	..	..	..	..	287	467	5,100
<b>Industry</b>	188	212	218	224	245	267	296	534	6,161
Electricity	178	204	206	214	242	268	316	737	8,555
Fuels	303	339	344	355	382	409	456	825	11,636
Metallurgy (ferrous and nonferrous)	237	256	264	269	297	326	350	657	10,088
Machine-building and metal working	86	224	229	228	249	273	303	508	4,450
Chemicals and petrochemicals	199	231	239	244	272	291	315	587	6,241
Forestry, woodworking and paper-pulp industry	177	200	204	208	234	248	278	462	4,214
Construction materials	187	208	214	224	240	265	292	495	5,122
Light industry	138	160	162	166	187	203	224	406	3,547
Textile	153	189	191	194	216	236	261	504	4,562
Clothing	124	136	138	144	164	176	194	329	2,613
Leather and shoe industry	150	180	181	183	203	221	248	441	3,250
Food industry	155	170	176	188	205	219	244	447	4,820
Meat and dairy	165	179	185	194	212	224	251	501	5,255
Fish	162	169	177	185	204	225	239	375	3,172
Other food processing	145	165	168	175	193	208	248	495	4,745
Construction	206	234	240	250	276	305	330	536	5,727
Agriculture	167	198	211	217	225	244	292	414	5,001
Transport	206	221	226	235	255	273	303	493	5,797
Communications	134	145	147	156	185	198	228	389	3,726
Trade (retail and wholesale)	125	137	140	140	149	169	213	354	3,349
Other	107	121	126	137	144	161	176	293	3,531
<b>NonMaterial Sectors</b>	..	141	..	..	..	..	203	356	2,853
Municipal services	130	142	144	148	164	178	199	337	3,283
Science, research and development	183	203	213	221	261	293	320	476	4,459
Education	125	139	144	156	162	172	182	319	2,484
Culture	102	105	106	109	118	129	161	285	2,011
Arts	115	120	122	126	131	141	170	298	2,160
Health care, social security, sports	121	125	127	134	141	158	178	352	2,199
Banking, finance, credit, insurance	144	158	169	173	176	202	354	743	8,340
Government	148	155	161	173	197	228	335	474	4,665
	(1990 = 100)								
<b>Economywide</b>	62.9	70.3	72.6	75.1	80.9	88.0	100.0	166.1	1742.7
<b>Material Sectors</b>	..	70.0	..	..	..	..	100.0	162.7	1777.0
<b>Industry</b>	63.5	71.8	73.6	75.5	82.6	90.1	100.0	180.5	2081.4
Electricity	56.3	64.6	65.2	67.7	76.6	84.8	100.0	233.2	2707.3
Fuels	66.4	74.3	75.4	77.9	83.8	89.7	100.0	180.9	2551.8
Metallurgy (ferrous and non-ferrous)	67.7	73.1	75.4	76.9	84.9	93.1	100.0	187.7	2882.3
Machine-building and metal working	61.4	73.9	75.6	75.2	82.2	90.1	100.0	167.7	1468.6
Chemicals and petrochemicals	63.2	73.3	75.9	77.5	86.3	92.4	100.0	186.3	1981.3
Forestry, woodworking and paper-pulp industry	63.7	71.9	73.4	74.8	84.2	89.2	100.0	166.2	1515.8
Construction materials	63.4	71.2	73.3	76.7	82.2	90.8	100.0	169.5	1754.1
Light industry	61.6	71.4	72.3	74.1	83.5	90.6	100.0	181.3	1583.5
Textile	58.6	72.4	73.2	74.3	82.8	90.4	100.0	193.1	1747.9
Clothing	63.9	70.1	71.1	74.2	84.5	90.7	100.0	169.6	1346.9
Leather and shoe industry	60.5	72.6	73.0	73.8	81.9	89.1	100.0	177.8	1310.5
Food industry	63.5	69.7	72.1	77.0	84.0	89.8	100.0	183.2	1975.4
Meat and dairy	65.7	71.3	73.7	77.3	84.5	89.2	100.0	199.6	2093.6
Fish	67.8	70.7	74.1	77.4	85.4	94.1	100.0	156.9	1327.2
Other food processing	58.5	66.5	67.7	70.6	77.8	83.9	100.0	199.6	1913.3
Construction	62.4	70.8	72.8	75.6	83.6	92.2	100.0	162.3	1733.9
Agriculture	57.1	67.5	72.1	74.3	77.1	83.4	100.0	141.5	1710.3
Transport	68.1	72.9	74.7	77.5	84.3	90.1	100.0	162.8	1915.1
Communications	58.9	63.8	64.6	68.7	81.3	86.9	100.0	170.9	1637.8
Trade (retail and wholesale)	58.8	64.4	65.8	66.0	70.2	79.4	100.0	166.5	1575.3
Other Material Production	60.8	68.8	71.7	77.5	81.7	91.1	100.0	166.5	2005.1
<b>NonMaterial Sectors</b>	..	69.5	..	..	..	..	100.0	175.4	1405.4
Municipal services	65.4	71.2	72.3	74.5	82.5	89.6	100.0	169.3	1650.6
Science, research and development	57.2	63.3	66.4	69.0	81.5	91.3	100.0	148.7	1392.6
Education	68.6	76.4	78.9	85.7	88.9	94.4	100.0	175.2	1364.1
Culture	63.3	65.4	66.0	67.8	73.0	80.3	100.0	177.2	1248.3
Arts	67.8	70.8	72.2	74.2	77.1	83.3	100.0	175.5	1274.3
Health care, social security, sports	68.0	70.3	71.5	75.5	79.2	88.9	100.0	197.6	1235.4
Banking, finance, credit, insurance	40.7	44.7	47.7	48.9	49.6	57.0	100.0	209.7	2354.6
Government	44.2	46.2	48.0	51.7	58.9	68.2	100.0	141.7	1393.8

1/ For workers and employees.

Source: State Committee of Statistics.

**TABLE 10-1: KAZAKHSTAN - MONEY INCOME AND EXPENDITURE OF THE POPULATION**
*(millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993 <i>mill. tenge</i>
<b>INCOME</b>										
<b>LABOR INCOME</b>	14,548	17,796	18,253	18,950	20,548	23,160	26,697	44,478	340,060	7,221
Regular Wages	12,863	15,424	15,961	16,585	18,056	20,206	23,033	37,654	281,043	6,578
of which: Wages paid by Cooperatives	..	..	..	..	116	684	1,167	1,712	20,496	83
Other Wages and Compensations	459	530	538	547	630	742	850	1,945	10,281	271
Income paid by Collective Farms	465	564	572	606	618	614	702	1,701	8,919	90
Income from Sale of Farm Products	761	1,278	1,182	1,212	1,244	1,598	2,112	3,178	19,300	199
<b>TRANSFER RECEIPTS</b>	2,644	3,491	3,734	3,928	4,447	4,611	5,606	15,231	140,830	1,556
Pensions and Allowances	1,812	2,399	2,575	2,693	2,861	3,012	3,430	13,467	81,340	1,510
Scholarships	147	153	153	159	167	166	184	546	2,878	46
Income from the Financial System (Insurance, Interest, etc.)	421	657	641	700	946	795	1,286	1,329	10,495	..
Other Income	264	282	365	376	473	638	706	889	46,117	..
<b>TOTAL INCOME</b>	17,192	21,287	21,987	22,878	24,995	27,771	32,303	60,709	480,890	8,777
<b>EXPENDITURE</b>										
<b>PURCHASES</b>	14,244	17,236	17,594	18,375	19,671	21,366	24,039	41,237	227,188	3,815
Retail Goods	12,809	15,515	15,731	16,365	17,383	18,945	21,512	35,591	190,936	3,324
Services	1,435	1,721	1,863	2,010	2,288	2,421	2,527	5,646	36,252	491
Rent and Utilities	433	557	598	626	656	693	667	760	7,688	..
Transport and Communications	686	794	872	939	1,023	1,064	1,113	1,860	18,581	..
Health and Other Services	316	370	394	442	556	586	636	2,300	9,723	..
Cooperatives	..	..	..	3	53	78	111	725	260	..
<b>TRANSFERS AND SAVINGS</b>	2,442	3,253	3,659	3,922	4,373	5,139	6,349	11,011	118,100	1,788
Taxes, Fees, Dues and Other	1,858	2,415	2,536	2,653	2,901	3,256	3,864	4,715	43,342	1,540
Savings	418	616	932	1,054	1,244	1,692	2,274	6,061	74,083	248
Other	166	222	191	215	228	191	211	235	675	..
<b>TOTAL EXPENDITURE</b>	16,685	20,489	21,253	22,297	24,044	26,505	30,388	52,248	345,288	5,603
<b>INCOME less EXPENDITURE</b>	507	798	734	581	951	1,266	1,915	8,461	135,602	3,174

*Sources: State Committee of Statistics.*

**TABLE 11-1: KAZAKHSTAN - CAPITAL INVESTMENT FINANCING BY INSTITUTIONAL SECTOR***(millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
Public Sector a/	8,583	9,331	10,399	11,485	12,241	12,659	12,142	16,891	229,055
Cooperatives	115	154	183	189	212	236	309	287	2,139
Private Sector	43	75	82	126	200	190	225	465	5,898
Other Sources	307	335	343	341	344	369	383	1,104	24,217
<b>Total Capital Investment</b>	<b>9,048</b>	<b>10,495</b>	<b>11,007</b>	<b>12,141</b>	<b>12,997</b>	<b>13,454</b>	<b>13,059</b>	<b>18,747</b>	<b>261,309</b>

*a/ Including infrastructure investment.**Sources: State Committee of Statistics.*

**TABLE 11-2: KAZAKHSTAN - CAPITAL INVESTMENT BY PUBLIC SECTOR 1/**
*(millions of current rubles)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993
	<i>mill. teng</i>									
<b>Material Sphere</b>	6,347	7,321	7,550	8,032	8,903	9,037	8,661	11,841	160,850	2,957
Agriculture including forestry	2,154	2,321	2,396	2,330	2,460	2,535	2,656	4,576	65,160	866
Agriculture excluding forestry	2,154	2,312	2,387	2,320	2,451	2,525	2,646	4,553	65,003	859
Forestry	..	9	9	10	9	10	10	23	157	7
<b>Industry, total</b>	3,116	3,868	4,001	4,531	5,213	5,193	4,635	6,108	84,688	1,831
Industry, other	2,904	3,590	3,709	4,146	4,689	4,586	4,032	5,544	81,646	1,797
Construction	212	278	292	385	524	607	603	564	3,042	34
<b>Other, material sphere</b>	1,077	1,132	1,153	1,171	1,230	1,309	1,370	1,157	11,002	260
Transport, total	828	888	91	911	939	1,047	1,091	755	8,169	210
Maintenance of roads	..	..	..	..	..	..	..	..	..	..
Communication for material production	73	112	115	136	149	149	150	189	1,137	18
Trade, catering and material supply	98	79	76	72	84	83	87	140	913	8
Procurement	78	53	46	52	58	30	41	72	783	24
Information and computing services	..	..	..	..	..	..	1	1	..	..
Other branches of material production	..	..	..	..	..	..	..	..	..	..
<b>Nonmaterial Sphere</b>	2,236	2,610	2,849	3,453	3,338	3,622	3,481	5,050	68,205	1,205
Transportation	..	..	..	..	..	..	..	..	..	..
Communication	..	..	..	..	..	..	..	..	..	..
Housing	1,176	1,513	1,643	2,090	2,134	2,144	2,167	3,210	41,296	738
Public utilities and personal services	..	..	..	..	..	347	388	680	11,180	197
Health care, social security, physical culture and sports	..	..	..	..	..	160	150	280	4,051	69
Education	..	..	..	..	..	396	361	666	8,526	134
Culture and art	..	..	..	..	..	49	50	99	1,076	17
Science and scientific services	..	..	..	..	..	..	..	9	48	0
Credit	..	..	..	..	..	..	..	..	..	..
Insurance	..	..	..	..	..	..	..	..	..	..
General administration and defense	..	..	..	..	..	..	..	..	..	..
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	..	..
Other	1,060	1,097	1,206	1,363	1,204	526	365	106	2,028	50
<b>Other, material and nonmaterial spheres</b>	3,313	3,742	4,002	4,624	4,568	4,931	4,851	6,207	79,207	1,465
<b>Total Capital Investment</b>	8,583	9,931	10,399	11,485	12,241	12,659	12,142	16,891	229,055	4,162

*1/ Government, state enterprises and other state organizations.*
*Sources: State Committee of Statistics.*

**TABLE 11-3: KAZAKHSTAN - LEVEL OF STOCKS**
*(millions of current rubles, end of period)*

	1980	1985	1986	1987	1988	1989	1990	1991	1992
<b>Material Sphere</b>	<b>14,161.0</b>	<b>20,013.2</b>	<b>19,062.5</b>	<b>18,819.6</b>	<b>19,426.1</b>	<b>19,862.1</b>	<b>23,428.7</b>	<b>40,272.2</b>	<b>668,971.5</b>
Agriculture including forestry	4,847.6	7,302.2	9,045.7	9,963.8	10,535.9	10,008.6	9,811.4	14,632.8	137,110.3
Agriculture excluding forestry	4,847.6	7,302.2	9,045.7	9,963.8	10,535.9	10,008.6	9,811.4	14,632.8	137,110.3
Forestry	..	..	..	..	..	..	..	..	..
Industry, total	6,467.6	9,622.5	6,790.1	6,611.3	6,701.8	7,499.6	8,076.5	19,771.1	363,573.0
Industry, other	3,666.6	5,304.0	5,552.0	5,483.5	5,496.1	6,230.4	6,598.2	17,185.0	332,947.7
Construction	2,801.0	4,318.5	1,238.1	1,127.8	1,205.7	1,269.2	1,478.3	2,586.1	30,625.3
Other, material sphere	2,845.8	3,088.5	3,226.7	2,244.5	2,188.4	2,353.9	5,540.8	5,868.3	168,288.2
Transportation	264.6	433.9	380.9	382.4	417.1	448.1	516.7	974.8	13,791.4
Maintenance of roads	..	..	..	..	..	..	..	..	..
Communication for material production	31.3	40.1	50.1	47.3	52.1	55.8	60.9	141.1	869.0
Wholesale trade	..	..	..	..	..	..	..	..	..
Retail trade and catering	..	..	..	..	..	..	..	..	..
Material supply	898.7	1,149.7	1,208.8	431.7	461.7	587.3	638.1	2,722.1	59,370.9
Procurement	1,651.2	1,464.8	1,586.9	1,383.1	1,257.5	1,262.7	4,325.1	2,030.3	94,256.9
Information and computing services	..	..	..	..	..	..	..	..	..
Other branches of material production	..	..	..	..	..	..	..	..	..
<b>Nonmaterial Sphere</b>	<b>464.4</b>	<b>919.3</b>	<b>650.6</b>	<b>633.7</b>	<b>603.0</b>	<b>1,416.8</b>	<b>1,460.4</b>	<b>3,493.3</b>	<b>6,743.6</b>
Transportation	..	..	..	..	..	..	..	..	..
Communication	..	..	..	..	..	..	..	..	..
Housing	..	..	..	..	..	..	..	131.3	2,455.3
Public utilities and personal services	138.8	216.3	224.7	217.7	205.8	218.9	217.9	312.2	1,657.3
Health care, social security, physical culture and sports	..	..	..	..	..	..	..	..	..
Education	..	..	..	..	..	..	..	..	..
Culture and art	..	..	..	..	..	..	..	..	..
Science and scientific services	185.9	342.6	..	..	..	..	..	203.7	2,631.0
Credit	..	..	..	..	..	..	..	..	..
Insurance	..	..	..	..	..	..	..	..	..
General administration and defense	..	..	..	..	..	..	..	..	..
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	..
Other	139.7	360.4	425.9	416.0	397.2	1,197.9	1,242.5	2,846.1	..
<b>Other, material and nonmaterial (res)</b>	<b>3,525.7</b>	<b>5,344.5</b>	<b>4,793.4</b>	<b>4,413.5</b>	<b>4,324.4</b>	<b>4,560.2</b>	<b>5,391.1</b>	<b>4,993.6</b>	<b>90,949.9</b>
<b>Total Stocks (end of year)</b>	<b>18,151.1</b>	<b>26,277.0</b>	<b>24,506.5</b>	<b>23,866.8</b>	<b>24,353.5</b>	<b>25,839.1</b>	<b>30,280.2</b>	<b>48,759.1</b>	<b>766,665.0</b>

*Sources: State Committee of Statistics.*

**TABLE 11-4: KAZAKHSTAN - WORK IN PROGRESS IN CONSTRUCTION OF PUBLIC SECTOR 1/**

(millions of current rubles)

	1986	1985	1986	1987	1988	1989	1990	1991	1992
Material Sphere	..	..	..	..	..	..	..	12,324	87,289
Agriculture including forestry	..	..	..	..	..	..	..	2,464	16,291
Agriculture excluding forestry	..	..	..	..	..	..	..	2,458	16,239
Forestry	..	..	..	..	..	..	..	6	52
Industry, total	..	..	..	..	..	..	..	8,991	63,651
Industry, other	..	..	..	..	..	..	..	8,265	61,405
Construction	..	..	..	..	..	..	..	726	2,246
Other, material sphere	..	..	..	..	..	..	..	869	7,347
Transportation of goods and passengers	..	..	..	..	..	..	..	578	5,694
Maintenance of roads	..	..	..	..	..	..	..	..	..
Communication, total	..	..	..	..	..	..	..	142	712
Trade, catering and material supply	..	..	..	..	..	..	..	111	590
Procurement	..	..	..	..	..	..	..	37	351
Information and computing services	..	..	..	..	..	..	..	1	..
Other branches of material production	..	..	..	..	..	..	..	..	..
Nonmaterial Sphere	..	..	..	..	..	..	..	4,514	45,637
Transportation	..	..	..	..	..	..	..	..	..
Communication	..	..	..	..	..	..	..	..	..
Housing	..	..	..	..	..	..	..	2,543	25,433
Public utilities and personal services	..	..	..	..	..	..	..	841	8,525
Health care, social security, physical culture and sports	..	..	..	..	..	..	..	372	3,072
Education	..	..	..	..	..	..	..	530	5,846
Culture and art	..	..	..	..	..	..	..	106	924
Science and scientific services	..	..	..	..	..	..	..	3	50
Credit	..	..	..	..	..	..	..	..	..
Insurance	..	..	..	..	..	..	..	..	..
General administration and defense	..	..	..	..	..	..	..	..	..
Private nonprofit institutions serving households	..	..	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..	119	1,787
Other, material and nonmaterial spheres	..	..	..	..	..	..	..	5,383	52,984
<b>Total work in progress in construction</b>	..	<b>7,380</b>	<b>8,098</b>	<b>8,657</b>	<b>10,166</b>	<b>11,413</b>	<b>12,969</b>	<b>16,838</b>	<b>132,926</b>

1/ Government, state enterprises and other state organizations.

Sources: State Committee of Statistics.