A robust economic recovery in 2010

- After a modest 1.2% growth in 2009, the economy expanded by a robust 7% in 2010.
- Strong government response was vital in stabilizing the banking sector and turning the economy around.
- Recovery in global demand for oil and other mineral products was reflected in the strong performance of industrial production, which expanded by nearly 10% in 2010. Manufacturing output increased by some 20% and the mining sector by 5.5%.
- The agricultural sector, however, contracted significantly, as grain harvests were badly affected by severe droughts.
- Domestic demand and the labour market continued to improve through the year. Unemployment rate fell to 5.5% by December 2010, down from 7% in January 2009.
- Business conditions also continued to improve. Kazakhstan moved up 15 places in the World Bank’s *Doing Business 2011* ranking, owing to better measures for starting a business, protecting investors and trading across borders.

Inflation is on the rise, however, driven by higher food prices

- Average annual inflation was at 7.1% in 2010, within the central bank’s target range of 6~8%. Inflation has exceeded 8% since January this year, as global food prices continue to rise rapidly and as the country is still recovering from the severe droughts of last year.
- In an effort to stabilize food prices, the Government introduced price ceilings for essential food items in February.
- The central bank also raised the refinancing rate by 50 basis points in March, after keeping it low for 18 months. To support the economy during the financial crisis, the central bank had lowered the refinancing rate and reserve requirements in 2009, and this accommodative monetary policy was maintained through 2010. The recent tightening came as inflationary pressure increased in recent months.

Active fiscal policy continues on the back of strong revenues

- Government budget deficit fell to 2.6% of GDP in 2010, with tax revenue growing faster than expenditure. Higher oil prices and some 20% increase in export duty as well as recovery in domestic economic activity all contributed to boosting revenues.
The Government continues to support the economy, including through higher social spending. The budget for fiscal year 2011 was recently revised, reflecting higher revenue and expenditure targets.

The Government in 2010 initiated a five-year Industrial and Innovative Development Programme, designed to improve the diversity and competitiveness of the economy. Under this programme, greater investment in infrastructure and labour training for enhanced productivity are envisioned.

**Strong growth in trade and a stable exchange rate have supported the economy**

- The current account balance returned to a surplus of 4.5% of GDP in 2010, from a deficit previous year. This was led by a large trade surplus on the back of strong global demand for the country’s oil exports.
- Tenge, the national currency, was devalued in early 2009 amidst the financial crisis. As the economy began to recover, the authorities widened the currency trading band in early 2010 to avoid sharp currency appreciation that could hurt the recovery. Such measures helped the exchange rate to remain stable through the year.
- In recent months, higher oil prices have led to greater currency appreciation, but the authorities are committed to avoiding sharp appreciation, so as to keep the economy competitive, including in the non-oil sector. To this end, the central bank recently introduced a managed float in place of the existing trading band.
- Gross international reserves climbed to $28.3 billion and assets of the National Fund (the sovereign oil wealth fund) rose to $30.6 billion by the end of 2010.

**Future outlook and policy challenges**

- Owing to a favourable external environment and sound fiscal and monetary policies, the economy is expected to expand by 6.2% 2011.
- In the medium term, steady efforts to diversify the economy and pursue a more inclusive development path will be important.
- Trade and energy cooperation with the major regional economies will become more prominent in the coming years. A customs union with the Russian Federation and Belarus was established in January 2010, leading to removal of most duties on trade among members and adoption of common external tariffs. Customs clearance and control procedures at the Kazak-Russian border will be abolished this year. Exports to China and India are also expected to increase, as the country remains the world’s largest uranium producer and its oil production capacity is set to increase further.
- Connectivity within the country is also expected to improve. A new high-speed rail link between Astana and Almaty is being discussed in collaboration with China, and will cut travel time to four hours once completed.
- Improved regulation of the banking sector and maintenance of financial stability will continue to be important. In the aftermath of the financial crisis, a number of Kazakh banks had to be nationalized due to high external debt and go through restructuring. Economic recovery and continued reform of the financial sector has led to greater operational efficiency of the banking sector, but continued progress is needed in addressing the high level of non-performing loans.