ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 54188-001
June 2020

Proposed Countercyclical Support Facility Loans Republic of Kazakhstan: COVID-19 Active Response and Expenditure Support Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 14 May 2020)

Currency unit	–	tenge (T)
T1.00	=	$0.00249
$1.00	=	T401.8000

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CPRO	–	COVID-19 pandemic response option
CSF	–	Countercyclical Support Facility
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOH	–	Ministry of Healthcare
NFRK	–	National Fund of the Republic of Kazakhstan
NPI	–	non-pharmaceutical intervention
PRC	–	People’s Republic of China
SMEs	–	small and medium-sized enterprises

NOTE

In this report, “$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		**Project Number:** 54188-001	
Project Name	COVID-19 Active Response and Expenditure Support Program	**Department/Division**	CWRD/CWPF
Country	Kazakhstan	**Executing Agency**	Ministry of Finance
Borrower	Republic of Kazakhstan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54188-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54188-001-PortAtaGlance		

2. Sector	**Subsector(s)**	**ADB Financing ($ million)**
✓ **Public sector management**	Economic affairs management	450.00
	Social protection initiatives	450.00
Health	Disease control of communicable disease	100.00
	Total	**1,000.00**

3. Operational Priorities

- ✓ Addressing remaining poverty and reducing inequalities
- ✓ Accelerating progress in gender equality
- ✓ Strengthening governance and institutional capacity
- ✓ Fostering regional cooperation and integration

Climate Change Information

GHG reductions (tons per annum)	0
Climate Change impact on the Project	Low
ADB Financing	
Adaptation ($ million)	0.00
Mitigation ($ million)	0.00
Cofinancing	
Adaptation ($ million)	0.00
Mitigation ($ million)	0.00

Sustainable Development Goals

SDG 1.a, 1.b
SDG 3.3, 3.8
SDG 5.1
SDG 8.5, 8.8
SDG 10.4

Gender Equity and Mainstreaming

Effective gender mainstreaming (EGM) ✓

Poverty Targeting

General Intervention on Poverty ✓

4. Risk Categorization: Complex

5. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

6. Financing

Modality and Sources	**Amount ($ million)**
ADB	**1,000.00**
Sovereign COVID19 Pandemic Response Option (Regular Loan): Ordinary capital resources	1,000.00
Cofinancing	**750.00**
Asian Infrastructure Investment Bank - COVID19 Pandemic Response Option (Not ADB Administered)	750.00
Counterpart	**0.00**
None	0.00
Total	**1,750.00**

Currency of ADB Financing: Euro

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on two proposed loans to the Republic of Kazakhstan for the COVID-19 Active Response and Expenditure Support Program (the Program), under the Countercyclical Support Facility–COVID-19 pandemic response option (CPRO).[1]

2. The economy of Kazakhstan in 2020 is expected to contract between 0.9% and 2.4% in real terms. Economic growth was strong in early 2020 in Kazakhstan—above 4%—and the previous outlook for 2020–2022 of average 4% growth and continuous fiscal consolidation was in line with the good performance of recent years. But the recessionary effects of the coronavirus disease (COVID-19) pandemic have significantly worsened Kazakhstan's macroeconomic situation. The country's non-oil fiscal deficit as a percentage of gross domestic product (GDP) for 2020 is now set to widen to 11% (from 8% in 2019, and an originally expected 7% for 2020), interrupting its recent downward trajectory (it was 10% in 2017).

3. **Early health and epidemic-control responses.** The pre-COVID-19 efforts initiated in early January to build health system response capacity helped cope with current hospitalization needs. Strict social lockdown measures were implemented since March 15 when the first COVID-19 cases in the country were confirmed. But the medical emergency remains dangerous.

4. **Economic and social costs of COVID-19 response.** The strict social lock-down measures introduced in March to slow down the spread of the virus imposed significant restrictions on Kazakhstan's non-oil economy and seriously hurt the country's macroeconomic outlook. Several enterprise surveys undertaken in early April indicated that (i) by the end of March, 48% of employees had been put on leave without pay and 13% had been terminated; and (ii) for the second quarter of 2020, an estimated 40% of employees could be put on leave without pay and 12% could be terminated. Tourism, hospitality, education, food services, retail trade, and manufacturing were among the areas hit hardest. Women can be most affected by these economic restrictions—they account for more than 65% of the labor force in hospitality, education, and wholesale and retail trade; own/manage most of the microenterprises; and are a large share of the informal labor market. Estimates are of a loss of 1% of GDP per week of social lockdown.

5. **The pandemic-caused global recession hits Kazakhstan.** The economic and social difficulties that Kazakhstan began experiencing in March are now being compounded by the effects of (i) a new oil price shock (and the collapse in the prices of other commodities), and (ii) the sudden stop of financial flows into emerging markets (EMs). These direct consequences of the global pandemic halved the prices of 80% of Kazakhstan's exports. Exchange rate pressures were eased by allowing a 20% depreciation of the tenge and by raising the policy rate, which increased the debt-servicing costs across the economy. Pressures on the asset quality of banks are already constraining the provision of new liquidity to microenterprises and small and medium-sized enterprises (SMEs). This added to the ongoing disruptions of the social lock-down. Without a fiscal response, the economy could contract by 5.5%. The poor and vulnerable, including women, can be disproportionately affected. Poverty rates may reach 11%–13% (from 6.6% now).

6. **Robust and comprehensive government response.** To counter this sequence of shocks, the government adopted comprehensive medical, public health, and fiscal stimulus measures totaling T5.9 trillion (8%–9% of GDP, or about $13 billion). The government will self-fund more than 81% of this, including with transfers of $4.7 billion–$5 billion from the National

[1] Asian Development Bank (ADB). 2020. Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic. Manila.

Fund of the Republic of Kazakhstan (NFRK). $2 billion of net new borrowing will be required (see details in para. 25). The sound pre-shock macroeconomic management record of the government is being instrumental in projecting credibility to recent monetary and macroprudential policy decisions in banking and exchange-rate markets. The proposed assistance from the Asian Development Bank (ADB) will help the government mitigate the medical, social and economic impacts of the COVID-19 pandemic on Kazakhstan, by supporting its (i) immediate COVID-19 health policy response, (ii) social protection and employment protection measures, and (iii) overall stimulus measures.[2] Kazakhstan's CPRO eligibility is summarized in Table 1 and detailed in Appendix 4. The Program is aligned with ADB's Strategy 2030 in helping Kazakhstan address remaining poverty and inequality risks, accelerate progress in gender equality, strengthen governance and institutional capacity, and foster regional cooperation and integration (para. 23).[3]

Table 1: Summary of Assessment of Compliance with Access Criteria for CPRO

Criteria	ADB staff assessment
1. Adverse Impact of Exogenous Shocks	Health costs are rising with the COVID-19 epidemic. Significant economic and fiscal costs of the social lockdown measures have been produced by ongoing disruptions in business turnover and employment. The second pandemic-related shock was dealt by the significant oil price slump. Exchange rate pressures have also led to a hike in financial costs across the economy. **Taking into account the current government anti-crisis response, the depth of the economic recession in 2020 is now expected to be between 0.9% and 2.4%.**
2. Countercyclical Development Expenditures	A countercyclical response package (including both tax and expenditure plans and quasi-fiscal measures to ensure social and employment protection, and to relaunch the economic recovery) was approved in March–April, 2020. It is comprehensive, and sizable. **It implies a stimulus of 8%–9% of GDP in 2020 (about $13 billion).** Fiscal measures to mitigate disruptions to business and employment are targeted and gender-inclusive (including transfers to the vulnerable population and the potentially most affected segments of the labor market, such as women).
3. Pre-shock Record of Sound Macroeconomic Management	Kazakhstan's new monetary regime has served its macroeconomy well, with stable inflation (within 4%–6% of the target) and added exchange rate flexibility. The NBK improved its systemic liquidity management and interest rate transmission mechanism. Kazakhstan's fiscal management has been credible, with non-oil fiscal deficits on a downward trajectory and with sustainable levels of public debt. Kazakhstan's PFM systems are reliable and well tested. As observed by different institutions (e.g., IMF Assessment Letter), **macroeconomic management prior to the shock was sound, and growth performance was strong (4% on average)**.
4. Structural Reforms (Health Sector Response to Covid-19 Epidemic)	The authorities: (i) initiated COVID-19 readiness preparations in early-January, i.e. more than 2-months before the first COVID case in Kazakhstan, and immediately built-up the capacity of the health-care system to cope with worst-case hospitalization scenarios; and (ii) announced a 30-day state of emergency from 16 March onwards (first cases reported on 13 March), and extended to mid-May; with a series of other strict quarantine and social lockdown measures. **Comprehensive health response measures are being fully implemented and are perceived to have been effective so far at dealing with the medical emergency.**
5. Debt Sustainability	**Kazakhstan's public sector debt remains sustainable (30% of GDP by 2025, versus the projected 20% pre-COVID) and its net creditor status is now expected to only last until 2024.** Large tapping of the NFRK to finance the crisis response ($10.9 billion in total in 2020) is expected to bring its assets from 34.5% of GDP in 2019 to 30% GDP by 2024, furthering its recent downward trajectory. Borrowing from ADB (e.g. through the proposed CPRO) and other concessional sources will have a negligible but beneficial impact on debt-to-GDP ratio, and should be a priority at this stage in view of lower levels of gross debt. See Debt Sustainability Analysis (accessible from the list of linked documents in Appendix 2).
6. Coordination with the IMF	ADB keeps consulting with the IMF and discusses forecasts and emerging risks. ADB and the IMF agree on the appropriateness of the government's anti-crisis response plans. The IMF updated its debt sustainability analysis for the government and ADB, and provided an assessment letter to ADB that describes ongoing consultations with the government.

ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 pandemic response option, GDP = gross domestic product, IMF = International Monetary Fund, NBK = National Bank of Kazakhstan, NFRK = National Fund of the Republic of Kazakhstan, PFM = public financial management.
Source: ADB.

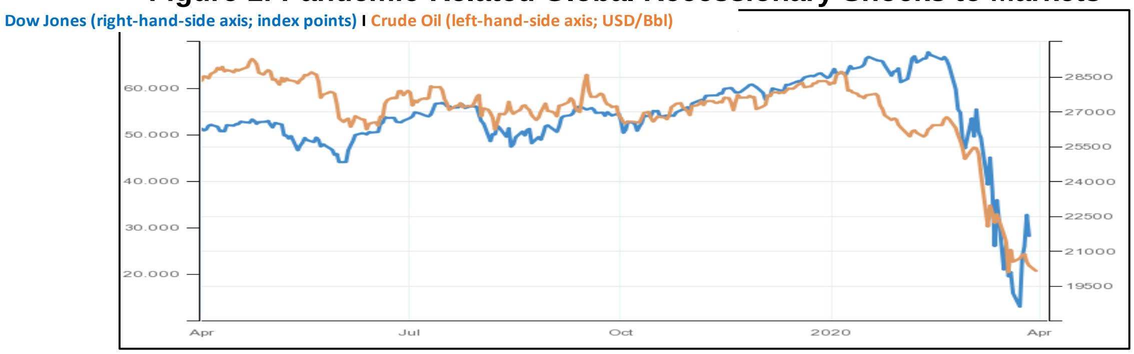
[2] The design and monitoring framework is in Appendix 1.
[3] ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

7. **First pandemic-related shock.** As of 2 June 2020, 11,796 COVID-19 cases have been confirmed in Kazakhstan (the first cases were recorded on 13 March) and 44 related deaths were registered. The epidemiological situation remains dangerous. The national health system was rapidly upgraded to cope with the epidemic, thanks to the measures initiated in early January 2020, i.e., before the epidemic had arrived in the country. This has been recognized to have been effective so far at coping with hospitalization challenges.[4] But strict social lockdown measures introduced to slow the spread of the virus imposed very significant restrictions on businesses and employment and brought a recessionary outlook to Kazakhstan. Microenterprises and SMEs were impacted in particular—their turnover fell by 75%.[5] The activities hardest hit directly are tourism, hospitality, education, food services, and manufacturing. Restrictions on economic activity can particularly affect women.[6] The health emergency remains a serious challenge and its fiscal costs are sizable. OECD estimates point to a loss of 1% of GDP per week of social lockdown.[7]

Figure 1: Pandemic-Related Global Recessionary Shocks to Markets



Source: Trading Economics. https://tradingeconomics.com/.

8. **Second pandemic-related shock.** While the COVID-19 pandemic rapidly overwhelmed health systems and shut down large segments of economies across the world, from the People's Republic of China (PRC) to Europe to the United States, it is becoming particularly damaging in developing and emerging economies that are highly dependent on commodity exports or tourism revenues. Kazakhstan's experience is of particular significance. The collapse of the international prices of oil and other commodities (which determine more than 80% of Kazakhstan's export revenue) is sustained by the global recessionary outlook for 2020 (Figure 1).[8] Also, a sudden stop in capital flows hit EMs. The cumulative outflows from these markets since the onset of the COVID-19 crisis are extraordinary in magnitude, even by the standards of the global financial crisis.[9] This will directly affect banks in Kazakhstan with foreign-currency refinancing needs, and all firms, individuals and projects in Kazakhstan with debt denominated in foreign currency.

[4] https://twitter.com/hans_kluge/status/1260277518327844866.

[5] Several enterprise surveys undertaken in early April indicated that (i) by 23 March, 48% of employees had been put on leave without pay and 13% had been terminated; and (ii) for the second quarter, an estimated 40% of employees would be put on leave without pay and 12% would be terminated.

[6] Women account for more than 65% of the labor force in some of the most affected sectors (e.g., hospitality, education, and wholesale-retail trade); own or manage 42% of SMEs; and represent a large share of the informal labor market.

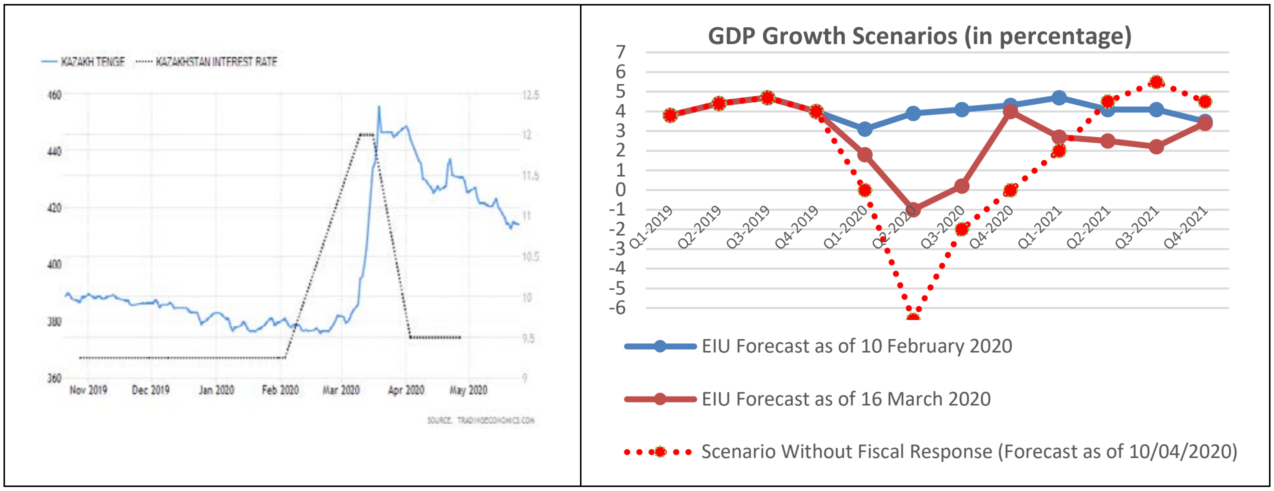
[7] OECD. 2020. *Tackling Coronavirus (COVID-19), Contributing to a Global Effort: The COVID-19 Crisis in Kazakhstan*.

[8] The sustained drop in global demand continues to weigh on investors' sentiment in world commodity markets. Global demand for oil may fall as much as 30% in 2020. Outstanding surpluses also threaten to overwhelm storage capacity in many oil-producing countries such as Kazakhstan, and halt production and investments in their oil industries.

[9] Institute of International Finance: https://www.iif.com/Publications/ID/3829; https://www.iif.com/Publications/ID/3840.

9. **Without a fiscal response, the economy could contract in real terms by 5.5% in 2020 (instead of the 4% average growth that had been projected for 2020).**[10] The collapse in export revenues brought about exchange rate pressures that the monetary authorities allowed to take hold while raising the policy rate to 12% (from 9.25%) to smooth the currency depreciation process. As a consequence, debt-servicing costs in the economy have risen for both local currency credit and foreign currency credit contracts, even if the policy rate was subsequently lowered to 9.75% in the face of weakening aggregate demand. This is now affecting the asset quality of banks, and will further constrain access to finance for microenterprises and SMEs.

Figure 2: Macroeconomic Pressures on Kazakhstan



EIU = Economist Intelligence Unit, GDP = gross domestic product, Q = quarter.
Sources: Asian Development Bank; EIU. https://www.eiu.com/n/; Trading Economics. https://tradingeconomics.com/.

10. **Social vulnerabilities, poverty, and gender risks**. Unless countered, the shocks that hit Kazakhstan can exacerbate levels of poverty and social vulnerability. Gender risks are also recognizable. These dimensions and risks can be disaggregated by each of the three shocks:

(i) The COVID-19 crisis could increase hospitalization and medication costs to a level that would overwhelm the budgets of the poor and most vulnerable, if infected. It also puts health workers, of whom 70% are women, at risk.

(ii) The strict social lockdown measures of the government are crucial in containing the medical emergency. But these measures pose significant risks to livelihoods and income generation in business activities where women's participation is high. Women account for more than 65% of the labor force in some of the sectors most affected by the current lockdowns. Some hard-hit informal activities include a large share of women.

(iii) Without a well-targeted fiscal response to the current recessionary pressures, poverty rates could reach 11%–13%.[11] Women could also be disproportionally affected by a deep recession, given existing gender disparities in wage levels (in 2015, women workers earned only 65.9% of men's average wages) and unemployment rates (the unemployment rate for women was 5.7% in 2015, compared with 4.3% for men), and already disadvantaged access to finance in normal times (businesses with female managers face a 77% rejection rate on average, compared with 17% for businesses with male managers).[12]

[10] ADB staff and IMF staff projections.
[11] The poverty rate was 6.6% in 2019. Differentials between men (2.6%) and women (2.7%) are not significant.
[12] Women also face higher collateral requirements (loan–value ratio of 260%) than men (170%).

11. **Fiscal challenges.** The health budget is expected to swell, as are other expenditure items. The revised state budget indicates a 10.5% increase in overall expenditure.[13] Tax revenue related to the extractive industries is expected to plummet in 2020, and other tax revenue will also be affected by ongoing business and employment distress. The total reduction in tax revenues in 2020 is estimated at 20%.[14] Originally-allocated transfers from the NFRK to the state budget of $6.2 billion will receive an additional and sizable top-up, bringing it to an estimated total of $10.9 billion in 2020 (total transfers in 2018 were $7.6 billion). This depletion of NFRK will be further compounded by lower inflows due to sharp drops in oil revenues and a marked reduction in the market value of its financial assets. This is significant in view of the NFRK's crucial role in intergenerational equity and the risks to this mandate (see discussion in para. 27).[15] Kazakhstan's domestic securities market is still nascent (see para. 26), and the government's access to international capital markets is now very limited, as indicated by the rise in the risk spreads of regional sovereign Eurobonds (figures 3–4; Kazakhstan is in the lowest rank of investment grade).

Figure 3: Eurobonds Sovereign CIS (Spread with US Treasuries)

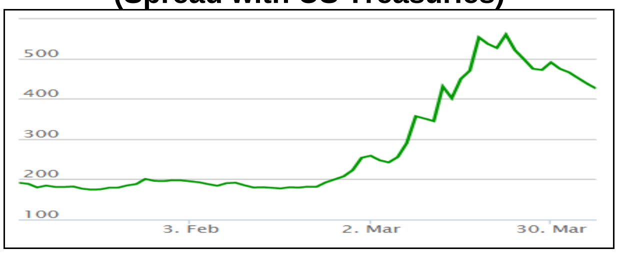
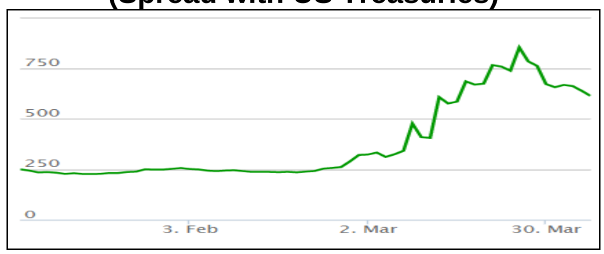


Figure 4: Eurobonds NIG Sovereign CIS (Spread with US Treasuries)



CSI = Commonwealth of Independent States, NIG = non-investment grade, US = United States.
Source: Cbonds Financial Information. [Index group: Euro-Cbonds Sovereign CIS](#).

12. **A recession in the Kazakhstan's economy (which represents 50% of Central Asia's GDP) has a substantial regional impact through sharp drops in trade and remittance flows.** ADB established the CPRO to support its developing member countries in countering the severe health, fiscal and macroeconomic impacts of the COVID-19 pandemic currently spreading across borders. This was also meant to generate a regional public good and promote an internationally coordinated effort to lower the transmission of infections and mitigate negative cross-border social and economic spillovers. The number of nationals from the Kyrgyz Republic, Tajikistan, and Uzbekistan that work in Kazakhstan and send home remittances has increased substantially in recent years. More than three and a half million migrants of all categories live in Kazakhstan.[16] Even though a substantial share of remittance outflows takes place through informal means, formal money-transfers recorded by the NBK for April 2020 already showed a decrease of 13% versus April 2019. Kazakhstan is a significant importer of food and other products from the Kyrgyz Republic and other Central Asian countries. It is a major wheat exporter to regional countries, and

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[13] On the expenditure side, the government also had to optimize spending according to evolving priorities, including a budget reallocation of T533 billion, cancellation of some international and local events, and deferment of some capital expenditures. There is also a risk of a further increase in outlays for the import of capital goods.

[14] The state budget for the fiscal year 2020 was approved in September 2019 on the premise of global oil prices in the range of $55 per barrel. After Kazakhstan declared a state of emergency, the new base-case scenario assumes an oil price of $20 per barrel. In 2019, the 30 largest oil and gas companies in Kazakhstan paid almost 50% of all taxes to the budget, or T4.6 trillion. While customs duties on crude oil exports constituted 16.9% of tax revenues in 2019, they are estimated to drop by more than 71%, and vanish completely if oil prices remain below $25 per barrel in the medium term. Moreover, the state of emergency and the quarantine measures significantly hurt the service industry.

[15] National Fund of the Republic of Kazakhstan (accessible from the list of linked documents in Appendix 2).

[16] Central Asian Bureau for Analytical Reporting, February 2020.

a serious crisis with prolonged border closures could threaten the food security in Central Asia.[17] Kazakhstan's pandemic and recession mitigation effort has aspects of a regional public good.

B. Proposed Program, Impacts and ADB's Value Addition

13. A major anti-crisis package was approved of about $13 billion (8%–9% of GDP; Appendix 4, tables A4.1–A4.2 present the measures by on-budget and off-budget categorization),[18] with: an effective health policy response ($338.4 million); properly targeted measures to protect employment and the segments of the population that are most vulnerable to the current crisis, including women ($7.18 billion); and economic stimulus measures ($5.97 billion).[19]

1. COVID-19 Health Policy Response

14. **Early pre-COVID-19 readiness and public health response plans**. The government started preparations well ahead of the infection breakout in the country and took several swift and decisive containment, health care, and other social measures in response to the COVID-19 threat, in close coordination with development partners and neighboring countries (Table 2).

Table 2: Summary of COVID-19 Preparation Measures

#	Measures ($338.4 million)
1	On 6 January 2020 the Ministry of Healthcare (MOH) approved the main preparedness activities to mitigate epidemiological outbreaks. International travelers, depending on the country of origin, were placed under mandatory 14-day isolation or self-quarantine. An Inter-sectoral Committee on COVID-19, chaired by the Deputy Prime-Minister, was set up to ensure full coordination, and an action plan was approved on 29 January 2020 for immediate implementation. All transportation between Kazakhstan and countries highly affected by the coronavirus disease (COVID-19) has been suspended since 3 February 2020, and screening at entry points and medical monitoring of those coming from countries affected by COVID-19 were established.
2	MOH approved the COVID-19 infection treatment clinic protocol in early February. The protocol is continuously discussed with leading international specialists and updated to reflect latest developments in the diagnostics and treatment of COVID-19. MOH, with the support of the World Health Organization and the involvement of national stakeholders, continues to identify possible improvements in the overall response. During February–March 2020, more than 28,492 beds were deployed in the country for the hospitalization of COVID-19 patients and contact persons.[a] Three fully equipped medical complexes were newly set up.
3	Overall, the government allocated $53.4 million for the procurement of supplies, including central and regional procurement of personal protective equipment, disinfectants and medicines, and medical devices; and an additional $285 million to boost the capacity of the health care system.[b] The government also extended free access to full COVID-19-related medical care for all citizens, through the state medical system in public hospitals.
4	Systematic public communication was established. A hotline was set up for medical professionals and the public. Information on the ongoing COVID-19 emergency and on individual protection measures is being circulated through various channels such as daily briefings on TV, radio, and social media (e.g., Facebook, Telegram). A newly created webpage (www.coronavirus2020.kz) also provides information and updates.

[a] Of which 2,669 are for infectious cases, 8,098 are of the pharmacist type, and 17,725 are for quarantine purposes. Hospitals designated for the treatment of COVID-19 received 182 resuscitation beds with proper equipment (e.g., mechanical ventilation devices and monitors). MOH also mobilized more than 10,000 medical workers to provide COVID-19-related medical care and has an additional 802 trained specialists on standby.
[b] These are also for anti-epidemiological measures. The total of T125.2 billion includes T40.6 billion for premiums to doctors in the front line, T19.5 billion for payment to medical organizations, T14.8 billion for the preparation of three medical complexes, T30.8 million for food and household sets, T8.1 billion for premiums to employees and medical workers of law enforcement, T4.1 billion for communication services, and T5.6 billion forensic medical examination.
Source: Government of Kazakhstan.

[17] Kazakhstan placed a quota on the export of wheat flour. This has sparked concerns that the economic crisis brought about by the coronavirus pandemic could spark a wave of food security concerns, with certain countries left short of certain products in the face of hoarding by states. Kazakhstan is a key supplier to Central Asian neighbors, including Uzbekistan and countries further away such as Afghanistan.
[18] All these measures are fiscal in nature, but we refer to those that are off-budget as quasi-fiscal.
[19] A more comprehensive description of all the different anti-crisis initiatives is in COVID-19 Public Health Response and Countercyclical Response Policies (accessible from the list of linked documents in Appendix 2).

15. **Medical and social lockdown interventions upon the outbreak of COVID-19**. When the first imported cases were detected on 13 March 2020, all were immediately isolated and treated. Initial infections spread in Nur-Sultan (the capital city) and Almaty (the largest city), and all contacts were quarantined and tested. Table 3 summarizes the new actions.

Table 3: Summary of Non-Pharmaceutical and other COVID-19 Interventions

#	Measures
1	As an immediate reaction, the just-established Emergency Operations Center (EOC) began 24-hour monitoring of the COVID-19 situation globally, regionally, and nationally, and started collecting information on persons arriving from affected countries. Those arriving from highly affected countries were placed in 14-day quarantine.
2	When the World Health Organization (WHO) declared COVID-19 a pandemic, Kazakhstan declared a state of emergency. All places of mass gatherings were closed, public events were cancelled, large family commemorative events were banned. Stringent enforcement measures aimed at preventing the spread of the disease, such as penalties for persons evading medical examinations, were applied. Quarantines and lockdowns were announced on 17 March 2020 for the country's three largest cities and were subsequently introduced in other regions. The government deployed regional response teams consisting of local government, health care, social care, civil society, and private sector representatives to identify evolving needs, support vulnerable groups, and establish feedback to central coordination teams. Mobile teams were assigned in every region to provide care and to transport suspected and confirmed COVID-19 cases to hospitals.
3	The National Reference Laboratory in March received test kits from the People's Republic of China, the Russian Federation, and WHO, and jointly with the National Biotechnology Center started to develop own testing systems. To date, no other developing member country in Asia tests more in per capita terms than Kazakhstan.
4	Kazakhstan intensified its surveillance by enhancing the capacity for active case finding. The Ministry of Healthcare, with the support of WHO, continues to improve the system for contact tracing and monitoring. The EOC also developed geographic information system tools to monitor the COVID-19 spread.

Source: Government of Kazakhstan.

2. Social Protection and Employment Protection Measures

16. The government is implementing initiatives that combine liquidity relief, income support, unemployment insurance, and support to the most vulnerable sectors of activity (Table 4; more details on targeting are included in the design and monitoring framework [DMF], in Appendix 1).

Table 4: Fiscal Response to Protect Incomes, Jobs, and the Most Vulnerable

#	Measures ($7.18 billion in total)	Cost
1	**Income support.** Cash payments ($95 per month) for those who lost labor income under the state of emergency.[a] The target is 3 million people, and this is implemented by the State Social Security Fund. All those that work in the informal labor market—mostly women—can apply.	$877 million
2	**Food support.** A lower value-added tax rate was set for food,[b] and various other responses help mitigate the impact of higher food prices. A nationwide food supply program was established with T45.8 billion for local authorities to provide free food sets to more than 1.1 million people (primarily elderly people, large families, and people with disabilities, i.e., those registered in the social vulnerability ledger). In parallel, the government introduced price caps on essential foods.	$113 million
3	**Social transfers increase.** To help vulnerable groups (e.g. pensioners) cope with possible hikes in food prices, the government increased all social payments by 10%. This would include about 32,000 households currently covered by the unconditional cash transfer program, and 129,000 households covered by conditional cash aid under the government's targeted social support.	$503 million
4	**Tax and utility cost relief.** In addition to significant utility subsidies and automatic reductions in the tax base, in March 2020 the government introduced tax support measures targeting mainly micro and small and medium-sized enterprises (SMEs) in agriculture, trade, and services. This includes a reduction to zero in the rates of property tax (for retail, trade, catering, entertainment, tourism, and hospitality businesses), land tax (for agricultural producers), and income tax (for individual entrepreneurs). A six-month exemption from payroll taxes was also introduced for SMEs in these sectors. Tax reporting deadlines were also extended until September 2020. [c]	$5.68 billion.

[a] The government partnered with civil society organizations and the private sector to monitor this program.
[b] The value-added tax on the import and sale of food products of social significance was reduced from 12% to 8%.
[c] All payments of taxes and other compulsory payments for SMEs were deferred. Collection of overdue tax obligations was suspended, as well as the accrual of penalties for overdue tax obligations until August 2020.
Source: Government of Kazakhstan.

3. Economic Stimulus Measures

17. The government prioritized existing major development programs to integrate additional measures in 2020 in support of employment, business activity and financial stability— e.g. the (i) Economy of Simple Things (EST); (ii) Business Development Roadmap 2020 (BDR-2020); and (iii) Employment Roadmap 2020 (EM-2020).

Table 5: Economic Stimulus Measures

#	Measures ($5.97 billion in total)	Cost
1	**Promotion of rural employment through microloans and grants.** Additional state budget funding for the Enbek and Auyl Besygi Program, which includes vocational and entrepreneurship training and financial support in rural towns dominated by a single activity or company.	$239 million
2	**Support for employment among vulnerable population.** Additional state budget funding for the BDR-2020, for subsidized loans to SMEs to support employment among vulnerable populations (targeting 535,000 jobs mostly in rural areas).	$306 million
3	**Employment promotion.** Additional state budget funding for the Employment Roadmap 2020 (EM-2020; see next entry).	$682 million
4	**Rural and youth employment promotion.** To support financial stabilization, the Baiterek National Management Holding (Baiterek) will also provide significant liquidity under the EM-2020, to boost lending under subsidized rates. This program is off-budget, and includes support for (a) new projects related to the reconstruction of social, transport, and public utility infrastructure, and (b) to incentivize the unemployed youth to participate in the new jobs program in flood control, spring field work, construction, and other works, the government will provide one-time financial assistance of T85,000 on top of the standard salary. [a]	$1.59 billion
5	**Financial stabilization of Firms.** Through the Economy of Simple Things program, a wide range of industries will be covered for support, including through financial guarantees (30%–50% of funding) and subsidized rates (6%–8%) for ultimate borrowers. This will be coordinated by, and cost $1 billion to Baiterek. As part of the Economy of Simple Things program, the NBK will also facilitate the provision of $1.27 billion to second-tier banks to subsidize loans to micro and SMEs, through the KSF (a 100% subsidiary of NBK). [b]	$2.27 billion
6	**Mortgage finance to the most vulnerable.** To promote the expansion of homeownership among the most vulnerable and simultaneously renew demand for construction activity, Baiterek will finance a housing finance program (i.e. mortgages) to cover 120,000 borrowers (with at least 60% women; see details on targeting in the DMF, Appendix 1. The housing finance program will be implemented off-budget, financed by the issuance of municipal bonds to Baiterek.	$886 million

BDR = Business Development Roadmap; DMF = design and monitoring framework; EM = emerging markets; KSF = Kazakhstan Sustainability Fund; NBK = National Bank of Kazakhstan; SMEs = small and medium-sized enterprises.

[a] These programs will also provide soft loans to manufacturing and agribusiness sectors, fuel price subsidies for farmers, interest rate subsidies and new guarantee instruments to facilitate leasing operations and bank guarantees. The government has tightened the local-content criteria for new projects, covering both goods and services (90% must come from local content) and jobs (50% of employees must be hired through regional employment centers). The EM-2020 will be implemented off-budget by Baiterek.

[b] The KSF will place a conditional deposit with accredited banks under conditions: 12 months tenor; pricing will be 5% for banks for on-lending to SMEs at up to 8%; the explicit purpose is to facilitate new working capital to SMEs and individual entrepreneurs under stress due to the state of emergency. Maximum exposures per borrower were set.

Source: Government of Kazakhstan.

18. The Baiterek National Management Holding (Baiterek) was instructed to be a key anti-crises agency during the state of emergency.[20]

Box: Other Financial Support and Financial Stabilization Actions

The NBK and the Agency on Regulation and Development of the Financial Markets (ARDFM) jointly laid out comprehensive support measures for the borrowers in affected sectors.[a] Scheduled to be in effect from 1 April to 1 October 2020, temporary countercyclical prudential regulation measures were

[20] Baiterek was founded in 2013 to manage the government's interests in a set of specialized development financial institutions. This contrasts with JSC Samruk Kazyna, which was founded in 2008 to manage the government's interests in non-financial state-owned enterprises in priority sectors such as: oil and gas; energy; metallurgy; chemicals and petrochemicals; and infrastructure.

introduced with the aim of reducing pressure on capital and liquidity.[b] Banks were instructed by the NBK and the financial supervisory agency to defer loan repayments and refrain from charging crisis-affected borrowers with penalties and additional payments for overdue interest. To encourage credit institutions to implement this restructuring, deferred loan payment efforts will not entail impairment or provisioning for regulatory requirements. This is expected to release an additional T168.0 billion ($385 million) for lending. To ensure the efficient implementation of the measures, the ARDFM is launching mechanisms to ensure that a moratorium on payments does not entail negative information on borrowers being sent to the Credit Bureau, and mechanisms to ensure that total loan contract payments do not exceed the initially scheduled ones. Borrowers have recourse to the ARDFM for additional review. The ARDFM also expanded the list of collaterals in financing projects under state business support programs and introduced a low risk weighting on loans to SMEs, public–private partnerships, and syndicated loans. The ARDFM also announced new regulatory measures (tightening of provisions calculation), based on the results of a recent asset quality review (AQR) of the banks, will be postponed until 1 October 2020.[c]

[a] Among other things, this included a ban on interest accrual for consumer loans overdue more than 90 days, no fines and penalties for late payments on loans and microcredits if caused by the state of emergency, and a grace period of up to 90 days for SMEs and individual borrowers that experience financial hardship.

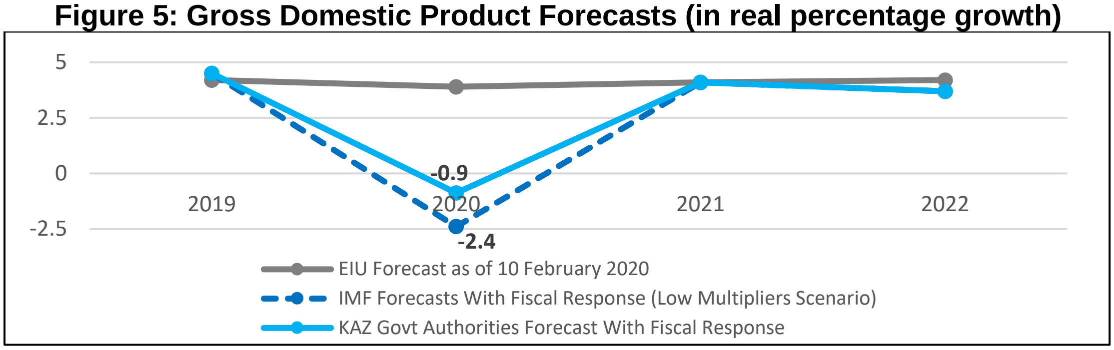
[b] Including a regulatory loosening for lending to SMEs, with a reduction in risk weights for SME exposures.

[c] In August 2019, the NBK had announced the start of a sweeping AQR of the top 14 banks of the country, covering 87% of total banking assets. The AQR report, published in February 2020, concluded that the majority of assessed banks had sufficient capital to comply with the regulatory standards and to cover expected credit losses.

Source: Government of Kazakhstan.

19. **Program outcome, impact and outputs.** The outcome of the Program is: “Spread of the disease managed and of poverty contained.” The Program’s impact is: “Adverse impacts of COVID-19 on the population’s health, incomes, and economic opportunities mitigated.”[21] The three outputs of the Program are: (i) immediate COVID-19 health response implemented; (ii) social protection and employment protection measures implemented; and (iii) economic stimulus delivered. The Program is designed to ensure that the overall fiscal stimulus package is implemented and monitored, since the complementarity of all its components is crucial to sustaining incomes and employment recovery, and the individual targets across all three outputs. To reinforce this requirement, output 3 also includes it as an indicator, implying that 8%–9% of GDP in automatic and discretionary stimulus measures will be necessary. The development problem for the proposed ADB assistance requires this to ensure an effective mitigation of the currently heightened social vulnerability risks. Taking into account the range of policy responses of the government, the depth of the economic recession in 2020 is now expected to be between a 0.9% contraction (the government assessment) and a 2.4% contraction (assuming very small fiscal multipliers, in line with International Monetary Fund [IMF] forecasts) (Figure 5). The Asian Development Outlook Supplement for 2020 forecasts a contraction of 1.2% for Kazakhstan.

Figure 5: Gross Domestic Product Forecasts (in real percentage growth)



EIU = Economist Intelligence Unit; Govt = government; IMF = International Monetary Fund.
Sources: EIU and IMF.

[21] The design and monitoring framework contains gender targets at both the outcome and output levels.

20. **Development partner coordination has been open and effective.** The frequency of consultations on macroeconomic surveillance between ADB, the IMF, and the World Bank (WB) has increased, and the dialogue with the government and the NBK is well coordinated, frank, and productive. Although the IMF is not involved in the financing side of the government's countercyclical support efforts,[22] it engages with the government across all the key areas related to macroeconomic surveillance, fiscal risks, financial sector stability, and also in ongoing work on financial supervision and monitory policy. Current ADB discussions with the IMF team focused on macroeconomic and fiscal projections, and on key risks to the current outlook.[23] ADB has also been exploring, with the United Nations Children's Fund (UNICEF) and WHO, potential health-related support. The WB was approached for potential budget support for 2021.[24] The ADB team is closely working with the Asian Infrastructure Investment Bank (AIIB) to secure cofinancing for $750 million of budget support. ADB and AIIB agreed with the government to conduct joint review missions for implementation of the Program.

21. **Lessons learned.** The government's anti-crisis plan and the Program benefit from the experience of past crises and of previous ADB Countercyclical Support Facility (CSF) assistance to Kazakhstan:

(i) With regards to the government's macroeconomic policy response to the present crisis, the exchange rate adjustment by the monetary authorities of Kazakhstan in early 2020 was of substantial importance. Failure to do so early enough in 2015 was a significant mistake, as ADB and other development partners subsequently analyzed. Also, the abrupt and disorderly nature of the currency depreciation, when it finally happened in 2015, exacerbated pressures in the banking system and the credit contraction that ensued then led to a steeper contraction in the economy and likely delayed the economic recovery.[25]

(ii) The current emphasis on social protection, income support and use of existing state programs also reflects an important lesson from past countercyclical efforts in general: it is difficult to credibly fast-track conventional public works or have a list of "shovel-ready" projects when a crisis arrives.

(iii) With regards to coordination, implementation, and reporting, Kazakhstan's institutional division of responsibilities for the anti-crisis plan and PFM systems are effective, and have been well tested by previous ADB CSF assistance. The lessons from past operations (some of which are formally addressed in program completion reports) were discussed with the government and also informed the currently proposed implementation arrangements—by establishing the Ministry of Finance (MOF) as the executing agency for the proposed ADB assistance, in charge of monitoring and submitting to ADB quarterly reports on budget execution and on the flow of funds related to countercyclical measures (as well as appointing other key line ministries as implementing agencies to report on the ultimate results

[22] By law, the government is not allowed to seek IMF fiscal financing. It can only seek budget support from development institutions such as ADB and the World Bank. IMF financing can only be sought by the National Bank of Kazakhstan (as the issuer of the liability), and presumably for balance-of-payment reasons.

[23] ADB discussions with the IMF have been frequent and productive. In January, the IMF had conducted an Article IV consultation. In March 2020, after the COVID-19 crisis reached Kazakhstan, the IMF held a series of comprehensive consultations with the Ministry of National Economy and the Ministry of Finance (MOF) on the revised macroeconomic outlook, fiscal projections, and the government's crisis response measures.

[24] Discussions between ADB and the WB are frequent. WB budget support for 2020 is likely not possible due to the difficulties in designing a meaningful policy-based loan that could still be disbursed in 2020.

[25] Details in: ADB. 2017. *Countercyclical Support to Kazakhstan: Project Completion Report*. Manila (para. 40).

on site), transaction costs can be minimized and the implementation is effectively integrated in the government's overall coordination architecture.[26]

(iv) Lessons learned from previous CSF assistance are also integrated in the disbursement arrangements for the proposed Program.[27]

22. **ADB's Value Addition.** ADB and Kazakhstan have a trusted and multi-faceted partnership, including in managing recent crises and designing appropriate countercyclical responses. A key part of the recent and ongoing policy dialogue does benefit from past joint reviews and assessments of the completed crises response programs, which assessed successes and weaknesses and identified ways of improving design and implementation of future programs. Technical assistance and knowledge collaboration have been another key means of engagement, which helped establish the current avenues of crisis and reform related policy engagement of ADB: (i) technical assistance initiatives of immediate relief to help pilot better-targeting approaches are under preparation;[28] and (ii) technical assistance to support key crisis-management policy decisions is both being implemented[29] and under processing (e.g. public debt management, fiscal risk management, etc.)[30] Ongoing and planned technical assistance will help monitor the implementation of the government's anti-crisis initiatives, allow for ADB to monitor and provide real-time feedback on the implementation of these. In addition, ongoing technical assistance on public debt and fiscal risk management will contribute to the design of ADB's comprehensive medium-term engagement with Kazakhstan in support of comprehensive reforms in economic management and economic diversification. ADB's budget support and success in catalyzing cofinancing from the AIIB will help reduce the worrisome depletion of the NFRK (see paras. 27–28). This joint ADB-AIIB financing effort will support the regional public goods nature of Kazakhstan's anti-crisis support efforts (with its potential health, employment and income spillovers onto Uzbekistan, Kyrgyz Republic and Tajikistan). As discussed in para. 12, the Program will directly support the implementation of the regional public goods pillar of ADB's Regional Cooperation and Integration Operational Plan 2019–2020,[31] and the operational cluster five of CAREC 2030, related to transboundary communicable diseases.

23. **Strategic Context of ADB Engagement in Kazakhstan.** Under ADB's country assistance in Kazakhstan, reform-focused technical assistance is also being designed to help mitigate the potential crisis-induced scarring of Kazakhstan's non-oil economic potential. This reform-focused engagement includes priority areas such as micro and SMEs' access to finance and financial inclusion reforms, green finance, and other reforms to enhance the economic recovery and the productive potential of the non-oil economy. These TA areas complement the ongoing programming of ADB's assistance pipeline for 2021–2023, which focuses on supporting agricultural productivity and commercialization, SMEs development, and the greening of the

[26] Past CSF experience in Kazakhstan was satisfactory on the fiduciary front. Several measures in the government's anti-crisis program are very well targeted, and the program's design and monitoring framework fully reflects it. ADB technical assistance will accompany the implementation effort. Quarterly reporting will ensure frequent consultations.

[27] Tranching raises the question of what to make disbursement conditional on. Previous experience of "tranching" the CSF disbursements was not positive, and it does not seem that it should be repeated. Para. 38 of the completion report for the 2015 CSF highlighted the lack of justification for the special features introduced then as tranche release conditions, and its potential counterproductive role in delaying financial support disbursement as a critical design setback. It also questioned the emphasis on issues that were not relevant to the then circumstances of Kazakhstan.

[28] Through the ADB–Kazakhstan Solidarity Fund (to be cofinanced in parity terms with the Government of Kazakhstan). This includes the piloting of better approaches to food and medicine relief to vulnerable people, establishing dedicated business support services to affected SMEs, and assist in skills re-training programs for unemployed.

[29] ADB. 2018. *Technical Assistance to the Republic of Kazakhstan for Improving Public Debt Management*. Manila.

[30] Other areas are financial stability surveillance and banking supervision, and social protection. These are crucial to the effectiveness of the government's anti-crisis measures and efforts during the crisis-recovery phase.

[31] ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific.* Manila.

economy through both policy engagement initiatives and non-sovereign operations.[32] Policy-based lending, anchored on the prospective set of TA-supported reform efforts that is under preparation, is also being discussed with the government (Development Policy Letter, in Appendix 3). This will be explored in close coordination with WB and AIIB. The Program is aligned with ADB's Strategy 2030. Its focus on helping to address current poverty, inequality and gender risks is in line with Operational Priority (OP) 1–Addressing Remaining Poverty and Reducing Inequalities, and with OP2–Accelerating Progress in Gender Equality. Its support for macroeconomic and financial stabilization and to ring-fence public service-delivery from ongoing fiscal shocks is in line with OP6–Strengthening governance and institutional capacity. As discussed in paras. 12 and 22, the Program is also in line with OP7–Fostering Regional Cooperation and Integration.

24. **Kazakhstan's Structural Reform Momentum.** Kazakhstan is among the top 30 countries in the World Bank's Doing Business ranking, and the government has been adopting unprecedented system-wide reforms aimed at improving the business climate and reducing administrative barriers and business costs. These reforms have been reducing red tape for entrepreneurs and are moving the whole country toward global good practices in business regulation.[33] But reform processes are medium-term in nature and it is crucial to ensure that the current moment of economic and social distress does not affect ongoing reform preparation processes or the reform drive of stakeholders. The government is committed to ensuring that the ongoing crisis will not affect its reform momentum, and it has re-affirmed its commitment to, for example, (i) continue its structural reforms and its ambitious agenda for the greening of the economy, and (ii) fiscal consolidation to reduce public sector dependency on oil-revenues.

C. Development Financing Needs and Budget Support

25. All the off-budget anti-crisis measures are self-funded by the government. All the on-budget anti-crisis measures have already been reflected in the recently approved revisions to the government budget.[34] These include a combination of automatic and discretionary reductions in tax revenue of about $3.9 billion, and of new expenditures (net of cuts and some expenditure rationalizations)[35] of about $3.1 billion. Overall, the on-budget anti-crisis package (and net new financing needs) of the government total about $7 billion.[36] On the funding side, additional transfers from the NFRK, the country's sovereign wealth fund, will be able to close this gap by about $4.7 billion–$5 billion equivalent. With these additional transfers, the total transfers from the NFRK will amount to $10.9 billion in 2020, representing a significant use of NFRK resources (it will deplete more than 18% of the accumulated funds of the NFRK),[37] and it is at the limit of what would be consistent with the NFRK's medium-term main mandate. The remaining $2 billion will need to come from additional domestic and external debt issuance (Table 6).

[32] The government is embarking on ambitious green economy reforms, aiming to reduce environmental pollution through sustainable waste management, the diversification of coal-based energy mix through use of renewable energy sources, and the reduction of energy intensity through comprehensive sector reforms and the development of geothermal energy regulations. ADB and the government are working on formulating sector reforms and in modernizing national legislation (e.g. on district heating, waste management and environmental sustainability).

[33] Doing Business – Kazakhstan.

[34] The state budget for 2020 was approved in September 2019 on the premise of global oil prices of $55 per barrel. The new base-case scenario assumes an oil price of $20 per barrel.

[35] On the expenditure side, the government also had to optimize and reallocate spending according to evolving priorities, including a budget reallocation of T533 billion. It already had cancelled international and local events, and announced plans to cancel or delay some capital expenditures. There is a risk of a further increase in expenditure outlays for imports of capital goods because of the sharp local currency depreciation.

[36] The off-budget anti-crisis measures of about $5.6 billion are all funded by other government institutions and SOEs.

[37] As of the end of February 2020, NFRK assets were estimated at $57 billion or 38% of 2019 GDP.

Table 6: Development Financing Needs in 2020
(in T billion, unless otherwise stated)

Item	Original State Budget	Revised State Budget	Change	Change [T/$=430] (in $ billion)
Revenues	8,616.2	6,950.0	(1,666.2)	(3.90)
Expenditures	12,914.2	14,270.7	1,356.5	3.10
Budget balance	(4,298.0)	(7,320.7)	(3,022.7)	(7.00)
Total budget financing needed:	4,298.0	7,320.7	3,022.7	7.00
NFRK transfers (including return transfer) [a]	2,700.0	4,882.0	2,182.0	5.00[a]
Borrowing	1,598.0	2,438.7	840.7	2.00
Net domestic borrowing	1,366.9	1,682.2	315.3	0.70
Net external borrowing	*231.2*	*755.8*	*524.6*	*1.30*
a) From the ADB Program		*430.0*	*430.0*	*1.00*
b) From AIIB (cofinancing the Program)		*322.5*	*322.5*	*0.75*
c) others [b]	*231.2*	*3.3*	*(227.9)*	*(0.53)*

( ) = negative, ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, NFRK = National Fund of Republic of Kazakhstan

[a] When set in the revised budget, the foreign currency equivalent was $4.7 billion, at a different exchange rate than the one in this table. This makes its presentation in the last column (and of the numbers below it) challenging.

[b] In the original budget, this included the issuance of external bonds totaling T500 billion. But this was now revised down to T220 billion (which is still a challenge in view of market conditions), and it also includes minor possible additional financing of ongoing bilateral projects. Total figures in this entry are all net of external debt repayments.

Source: Ministry of Finance.

26. **Sustainable Public Debt.** Kazakhstan's public debt will remain sustainable for the foreseeable future (ADB's DSA is in linked document 7). The current fiscal effort is making a much-needed use of the available fiscal space. But the domestic debt market, which was still nascent before the crisis, is still illiquid.[38] Up until now, government securities issuance had focused on the tenors (i.e. medium to long-term) that were of least interest to most financial market players (and mostly of interest to pension funds, which display hold-to-maturity behavior and don't contribute to price discovery), for (i) lack of capacity to manage refinancing risk and (ii) because the NBK issues the shorter tenors of the yield structure (for systemic liquidity management purposes).[39] The resulting lack of trading liquidity in government securities has now been exacerbated by heightened uncertainty in financial markets regarding future short-term rates, which impairs pricing. Even though from May 2020 the government securities issuance plan already reflects a sharp shift in priority towards shorter, potentially more liquid tenors,[40] it will still be a challenge to fulfill current borrowing plans through an asset class that is still incipient in terms of outstanding amounts.[41] Government borrowing from ADB or any other form of concessional finance (like the proposed Program) will have a minimal impact on debt-to-GDP ratio going forward, and should be a priority. From a fiscal management perspective and in line with what has been the consensus technical advice, the government should maximize all affordable borrowing options at the current crisis stage to avoid tapping on the NFRK given that the currently-planned sale of depressed international financial assets will likely result in additional realization of valuation losses.[42] Kazakhstan public sector remains a net creditor today, but projected debt levels are now expected to reach 30% of GDP by 2024–2025.

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[38] ADB TA is supporting MOF's State Borrowings Department in developing a medium-term debt strategy and market-based borrowing practices to: (i) better optimize risk-cost trade-offs; (ii) chart key actions to develop the government securities market (and investor base); and (iii) improve agency coordination for cash and debt management.

[39] 95% of the amount issued in government securities in 2019 was for tenors of 10–20 years.

[40] https://kase.kz/en/gsecs/release_schedule.

[41] The trading liquidity of an asset class significantly depends on an adequate level of already outstanding amounts.

[42] After the currency shocks of 2015, which had an extremely negative impact on the debt portfolio of the government, the MOF adhered to a policy of borrowing preferably in the domestic market, in order to gradually level out the

27. **The National Fund of the Republic of Kazakhstan.** Large withdrawals from NFRK in 2020–21 to finance the current crisis response[43] will further worsen a declining trend and bring its level to 30% of GDP by 2024–2025, which will breach a key threshold buffer in Kazakhstan's fiscal rules. [44] The government might also therefore no longer be a net creditor by 2024. In 2017, the WB had concluded that unless the new set of fiscal rules and consolidation plans were adopted, a full depletion of net fiscal savings in around 5–10 years would be the result.[45] A 2018 EBRD report for Kazakhstan actually gave Kazakhstan only a 12-year window to build fiscal resilience.[46] ADB has also been providing policy advice on debt management development that is consistent with the concerns expressed before the crisis by the World Bank, IMF and EBRD, and has emphasized the need to (i) target net debt objectives in a way that fully takes into account all the financial and institutional trade-offs involved in borrowing vis-a-vis tapping on NFRK, and (ii) fully-incorporate the urgency to ring-fence the NFRK against foreseeable depletion risks. As a result of the current crisis and the significant transfers already approved to the revisions to the State Budget for 2020, the NFRK is expected to end the year at $57 billion (38% of GDP), which compares with $73 billion at its peak in 2014. Drawing down further on NFRK could affect the sovereign rating and increase refinancing costs, and also make market access more sensitive to swings in investor sentiment due to external factors (e.g., global or regional developments).[47] Further depletion of NFRK also puts at risk its mandates of inter-generational equity and fiscal stabilization. By significantly using fiscal savings sourced from exploring a finite national asset in the recent past, the NFRK de-facto stood behind the capacity of the government to keep macroeconomic and banking stability.[48] But these mandates are now at risk, also due to the frequency of significant and correlated shocks to which Kazakhstan is exposed: the current dollarization-related financial fragilities in Kazakhstan, the lack of a developed non-mineral tradables economy (and of a non-oil tax base), and the significant exposure to terms-of-trade shocks are all, in many ways, the other side of the past oil revenue boom "coin".

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currency risks of its debt portfolio. However, the currently higher term premiums in the domestic market and lack of liquidity, as well as need for supporting the currency, force a revision in borrowing policy, towards external borrowing.

[43] $10.9 billion in 2020 and $5.8 billion in 2021 (based on fiscal projections). By 2022–2025, in both ADB and IMF DSAs, additional debt issuance is actually factored in to finance replenishment of the NFRK.

[44] The government adopted a new NFRK framework of rules in late 2016. These include the following: (i) the non-oil deficit, the main anchor of fiscal policy, was to be progressively decreased to 7 percent of GDP by 2020, and 6 percent by 2025; (ii) guaranteed transfers from the NFRK were to be reduced from the US$8 billion of the time to US$6 billion by 2020 (at 2016 exchange rates); (iii) the NFRK assets are to be maintained at least at 30 percent of GDP; (iv) privatization revenues are to flow to the NFRK; and (v) general government debt and external debt of state-owned enterprises are not to exceed the size of NFRK assets. These rules are enforced by the Commission on Control of Usage of NFRK Funds, which is chaired by NBK Governor and includes Prosecutor General, Chairman of National Security Committee, Chairman of Accounts Committee, Chairman of Anti-Corruption Committee, as well as ministers of finance and national economy as members. Any deviation from the rules need to be approved by the President of the Republic of Kazakhstan and the Parliament.

[45] Kostopoulos, Christos; Sarsenov, Ilyas. 2017. *Kazakhstan - Enhancing the fiscal framework to support economic transformation: public finance review (English).* Washington, D.C.: World Bank Group.

[46] European Bank for Reconstruction and Development. 2018. *The Fiscal Implications for Kazakhstan of Worldwide Transition to a Greener Global Economy*. London: PricewaterhouseCoopers LLP.

[47] IMF. 2017. *Republic of Kazakhstan: Selected Issues, Country Report No. 17/109*. Washington, D.C. In this 2017 report, IMF noted that while the debt-to-GDP ratio was expected to remain low in the medium-term scenario, market access on favorable terms could come under question with continued drainage of NFRK assets, as markets would expect Kazakhstan to accumulate financial assets, rather than to drain them, given its oil resources. The IMF has had TA discussions with MOF to simplify the fiscal rule design when timing is appropriate. As a key credibility consideration, fiscal rules should not be changed when they are binding. A key objective however will remain to ring-fence the NFRK from further depletion.

[48] Kazakhstan benefited greatly from the oil price super-cycle of 2000–2014. But funds accumulated at the NFRK were (i) used for anti-crisis programs in 2007–2010 (during which the fiscal stimulus program totaled US$18 billion, or 15 percent of GDP), (ii) used in foreign-currency interventions in 2014–2015 (more than US$30 billion), and (iii) used to finance part of the economic recovery package in 2014–2017 of more than US$20 billion (12 percent of GDP).

28. The government has requested two loans from ADB—(i) a regular loan of €454,298,000 ($500 million equivalent) and (ii) a regular loan of €454,298,000 ($500 million equivalent), both from ADB's ordinary capital resources but with different tenors, to help finance the proposed Program. The first loan will have a 10-year term, including a grace period of 3 years, with an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. For the first loan, based on the straight line method, the average maturity is 6.75 years and there is no maturity premium payable to ADB. The second loan will have a 5-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's LIBOR-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. For the second loan, based on the straight line method, the average maturity is 4.25 years and there is no maturity premium payable to ADB. The loans are expected to be disbursed by November 2020. AIIB is expected to provide $750 million support in parallel cofinancing.

D. Implementation Arrangements

29. MOF will be the Program's executing agency, responsible for monitoring the implementation and reporting on its progress (centralizing all the reporting on the DMF indicators and its sex-disaggregated data requirements). The implementing agencies will be the Ministry of National Economy (responsible for the overall coordination of the government's anti-crisis measures and the implementation of SME support), MOH (responsible for implementing the health sector response), the Ministry of Labour and Social Protection of the Population (responsible for social protection and the implementation of the Employment Roadmap), and the Ministry of Industry and Infrastructure Development (in charge of implementing the affordable housing program). MOF will monitor the activities and expenditures under the Program and submit to ADB quarterly reports;[49] it will also remain in dialogue with ADB until 6 months after the date of loan effectiveness on (i) the macroeconomic and fiscal situation (including financial stability challenges), and (ii) the implementation of the Program. Ongoing and new ADB technical assistance will also support monitoring and reporting on all countercyclical measures in 2020. The proceeds of the loan will be withdrawn in one disbursement in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The Program implementation period is January 2020 to July 2021. The loan closing date is 31 December 2021.

III. DUE DILIGENCE

30. **Governance.** An effective system of budget preparation and reporting has been in place for years in Kazakhstan, with periodic budget execution made public on MOF's website. Migration to accrual-based accounting and financial reporting, in line with the International Public Sector Accounting Standards, has been an effective process, and improved budget efficiency and control.[50] Recent audit-related legal reforms had a positive impact on fiduciary control. Revenue collection is consolidated in one authority to create a favorable climate for businesses and reduce

[49] To the extent possible, monitoring and reporting will include sex-disaggregated data collection on beneficiaries of all programs, and not only the data collection that is necessary to measure achievements against the targets of the Gender Monitoring Matrix (accessible from the list of linked documents in Appendix 2).

[50] ADB. 2017. *Republic of Kazakhstan: Country Governance Risk Assessment*. Manila. ADB completed a governance risk assessment in 2017 according to the implementation guidelines of ADB's Second Governance and Anticorruption Action Plan. In 2018, the Public Expenditure and Financial Accountability (PEFA) report on Kazakhstan highlighted many of the same strengths—e.g., budget reliability; public debt management; policy-based fiscal strategy and budgeting in general, and legislative scrutiny of budgets in particular; predictability and control in budget execution in general, and internal controls and audit in particular; accounting and reporting in general, as well as external scrutiny and audit—and also identified weak areas for improvement.

administrative barriers. Procurement is decentralized to national and regional bodies and is executed through the government's electronic procurement portal. Public procurement laws also were continually updated to accommodate elements of e-procurement and the requirements of the Eurasian Economic Union. A legal and institutional framework for combating corruption is in place, [51] and recent progress has been noteworthy.[52] ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOF.

31. **Poverty and social.** Between 2000 and 2019, Kazakhstan made substantial progress in reducing poverty. As the economy grew by an average of 7% during 2001–2016, the national poverty rate dropped from 46.7% in 2001 to 6.6% in 2019. Since 2011, Kazakhstan consistently recorded low unemployment rates, with more than 25% of the employed being self-employed. The current recessionary pressures, if not immediately addressed, may increase poverty levels.[53] The government's anti-crisis package is sizable and comprehensive enough to counter these risks. It includes a combination of (i) funding for additional health-related expenditures (which also ring-fences the poor and most vulnerable from COVID-19-related health costs); (ii) initiatives to provide financial relief to SMEs and households; (iii) social protection initiatives that target the poor and most vulnerable (including women); and (iv) other fiscal and quasi-fiscal expenditure measures to help employment recover faster.

32. **Gender.** The Program is categorized as *effective gender mainstreaming* because the countercyclical response involves social sector measures to preserve the health, incomes, and livelihoods of women, children, and low-income households. The Program reflects key features of an effective gender mainstreaming effort, in full recognition of the social vulnerability risks that were identified. The participation of the working-age population in the labor force of Kazakhstan is 71.1%, and the country has the highest female labor force participation rate in Central Asia. However, the gender wage gap (in average wages, unemployment, and access to finance) that prevailed until the current crisis implies a disproportionate impact of the ongoing economic disruption on women. The government's planned efforts are an important mitigating factor. Gender targets were fully integrated into the design and monitoring framework of the Program (Appendix 1), both at the outcome level and across all outputs. The proposed program will help manage key gender risks, such as the (i) need for protection of frontline health workers (estimated to be at least 55% women); (ii) loss of business by individual entrepreneurs (52% of whom are women), particularly smaller-scale entrepreneurs (42% of which are women); (iii) loss of income by those employed in the most affected sectors, most of whom are women; and (iv) need for social assistance to poor households. The proposed Program will ensure that health workers who are directly handling COVID-19 cases (at least 55% women) will be provided with properly fitting personal protective equipment and receive salary bonuses. Women entrepreneurs as well as women workers will be provided with tax and other financial incentives. Poor households, including women-led families, will be provided with social payments and assistance.

33. **Safeguards.** In compliance with ADB's Safeguard Policy Statement (2009), the Program is classified *category C* for environment, involuntary resettlement, and indigenous peoples. The Program is not expected to have any environmental or social safeguard impacts within the meaning of the Safeguard Policy Statement. The ADB proceeds of the loan will not finance any

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[51] The criminal code criminalizes active and passive bribery, attempted corruption, extortion, money laundering, abuse of office, and bribe facilitation by third parties. The Agency for Civil Service Affairs and Fight against Corruption has been coordinating the implementation of a comprehensive Anticorruption Strategy 2015–2025, adopted in 2014.

[52] Kazakhstan provides annual reports disclosing revenues from natural resource extraction. Companies disclose what they have paid, and the government discloses what it has received.

[53] The estimates presented earlier in the text are in line with J. Bulan et al. 2020. "COVID-19 and Poverty: Some Scenarios." Unpublished note prepared for ADB's Economic Research and Regional Cooperation Department.

new physical construction activities (temporary or permanent) or an expansion of existing medical facilities. This general statement will be confirmed through MOF's quarterly reporting.

34. **Risk mitigation.** Major risks and mitigating measures are summarized in Table 7 and in the respective linked document.[54]

Table 7: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
An unexpected rise in the spread rate of the coronavirus disease (COVID-19) delays the lifting of the social distancing rule and thus the implementation of key economic recovery measures, making it impossible to deploy part of the stimulus measures.	The government continues to strengthen health system preparedness beyond the current COVID-19 crisis. The Asian Development Bank (ADB) engages continually with the government and other development partners to devise an effective and appropriate contingency plan, which can include a reorientation of resources from recovery measures to additional income support.
Women may be more affected by the pandemic because they seem to have a higher probability of vulnerability to COVID-19-related shocks.	The government's anti-crisis measures seem targeted and sizable enough to ensure that the different dimensions of gender risk are fully addressed. ADB coordinates with the government and other stakeholders in monitoring the situation, and in building the capacity of implementing agencies for gender-based monitoring.

Source: Asian Development Bank.

IV. ASSURANCES

35. The government has assured ADB that the implementation of the Program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in the loan agreement.

V. RECOMMENDATION

36. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

(i) the loan of €454,298,000 to the Republic of Kazakhstan for the COVID-19 Active Response and Expenditure Support Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 10 years, including a grace period of 3 years; and such other terms and conditions as are substantially set forth in the draft loan agreement presented to the Board; and

(ii) the loan of €454,298,000 to the Republic of Kazakhstan for the COVID-19 Active Response and Expenditure Support Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's LIBOR-based lending facility; for a term of 5 years, including a grace period of 3 years; and such other terms and conditions as are substantially set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

17 June 2020

[54] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective
Adverse impacts of COVID-19 on the population's health, incomes, and economic opportunities mitigated[a]

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Program Spread of the disease managed and of poverty contained.[b]	a. COVID-19 confirmed cases doubling rate reaches 30 days at least by December 2020 (baseline: 7 days on average in April 2020). b. In 2021, poverty rate held to less than 10% (2019 baseline: 6.6% [$5.5/day]). c. In 2021, independent growth forecasts for 2022–2023 are at pre-crisis levels (4%). d. By 2020, at least 90% of the 2.2 million poor (of which 51% are women and girls) benefited from more than one special support initiative of the program. [c]	a. National Statistics and Ministry of Healthcare b. National Statistics and World Bank reporting c. Economist Intelligence Unit d. Government reports to ADB. Sample-based survey to assess adequacy of support provided to households (to be funded by technical assistance)	A global worsening of the COVID-19 pandemic will depress global and national economic conditions beyond projections.
Outputs 1. Immediate COVID-19 health response implemented	1.1 Full availability of properly-sized protective equipment for health workers in the COVID-19 front line during 2020 (70% of health workers are women, and those in the front line are estimated at 55%). (Baseline: not applicable) 1.2 55% of the bonuses paid to health professionals in the COVID-19 front line go to women during 2020.[d] (Baseline: not applicable) 1.3 Health care for COVID-19-related hospitalization and medication remains free of charge for all citizens during 2020. (Baseline: not applicable) 1.4 At least 1,500,000 high-risk people tested for COVID-19 by December	1.1–1.4 MOF annual budget reports and program progress reports	Ongoing recessionary pressures have been under-estimated, causing planned medical and fiscal measures to fall well short of necessary levels and volumes. A worsening of the COVID-19 pandemic in Kazakhstan may undermine the implementation of measures to fight the pandemic and the current

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	2020 (Baseline: 300,000 in May 2020).		recessionary pressures.
2. Social protection and employment protection measures implemented	2.1 Income tax incentives provided for workers in service sectors most affected by the lockdown (e.g., tourism, hotels, restaurants), at least 53% of whom to be women. (Baseline: not applicable) 2.2 Tax incentives or support provided to reestablish SMEs, at least 42% of which are owned or managed by women. (Baseline: not applicable) 2.3 Food package distribution to socially vulnerable citizens reaches 1.1 million citizens by December 2020. (Baseline: not applicable) [e] 2.4 Monthly financial assistance of close to $100 to all those that lost income because of the state of emergency reaches 4.5 million people in 2020 (including individuals that were in the informal labor market), 50% of whom are women. 2.5 Increased social payments and social assistance to 160,000 vulnerable households, benefiting at least 50% female members in 2020 [f]	2.1–2.5 MOF annual budget reports and program progress reports	
3. Economic stimulus delivered	3.1 Full implementation of planned volume of fiscal and quasi-fiscal measures in 2020 (8.9% of GDP). [g] 3.2 At least 80% of individual entrepreneurs (of whom 52% are women) benefited from the program-supported tax and credit initiatives in 2020. 3.3 Housing finance program covers 120,000 borrowers	3.1–3.3 MOF annual budget reports and quarterly program progress reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	(of whom at least 60% are women) in 2020.[h]		

Budget Support ADB: 2 loans totaling $1 billion-equivalent Asian Infrastructure Investment Bank: $750 million loan

ADB = Asian Development Bank, COVID-19 = coronavirus disease, GDP = gross domestic product, MOF = Ministry of Finance, SMEs = small and medium-sized enterprises.

[a] ADB. April 2020. *ADB's Comprehensive Response to the COVID-19 Pandemic*. Manila.

[b] Given the uncertainties about the pandemic's further course, its economic effects, the need for the government response to be flexible as the situation evolves, and because new data collection and reporting systems to monitor the crisis are being developed and evolving, it is not yet possible to set more specific and realistic targets than those provided in the design and monitoring framework (DMF). Additional indicators to measure the effects may be identified later and used to discuss the program's effectiveness as comprehensively as possible in the program completion report.

[c] The national poverty line is defined at 70% of the minimum subsistence rate or, on average for the first quarter of 2020, T21,302.

[d] The bonuses are paid on top of the salary, on a monthly basis for the 3 months of March–May, according to the risk categorization of each medical employee. The highest-risk group (doctors and medical staff of intensive care and COVID-19-designated facilities) receive 20 minimum wages (T850,000). The high-risk group (doctors and medical staff of ambulance services, sanitation aviation staff) receive 10 minimum wages (T425,000). The moderate-risk group (e.g., sanitary epidemiology service staff, laboratory staff, doctors and medical staff of regular hospitals, members of regional emergency command centers) receive 5 minimum wages (T212,500). The payments are based on actual work time spent by medical staff, based on work attendance and distribution data (which is available). Even though more than 70% of health workers are women, ADB estimates that women will account for 55% of those in the front line. This proportion will be monitored on a regular basis to ensure that the DMF indicator is updated as needed.

[e] The ledger of food package recipients includes: children (6–18 years) subject to social payments (201,600 people); children with disabilities under 16 years and people with disabilities of all groups and ages (692,000); people in charge of caring for a disabled child (82,000); and officially registered unemployed people (150,000). This totals 1,125,600 target beneficiaries.

[f] This would include about 32,000 households currently covered by the unconditional cash transfer program, and 129,000 households covered by the conditional cash transfer program (footnote f). The transfer programs include unconditional and conditional cash aid under the government's targeted social support (TSS). TSS provides comprehensive social assistance to low-income citizens, divided into 2 types: unconditional and conditional cash aid. Unconditional cash aid is provided to families with disabled members or families in which the only able-to-work family member cannot find a job for objective reasons (such as caring for a child aged less than 3 years, a disabled child, disabled persons, or an elderly person dependent on care and assistance). Unconditional cash aid is assigned for the current quarter from the month when a person applies and is paid on a monthly basis. Conditional cash aid is intended for families with at least one able-bodied member, employed under the government's social contracts, and is paid for a maximum of 3 months. To receive TSS, low-income families (citizens) must contact the Population Employment Center at the place of residence or, in rural areas, the *akim* of the village, settlement, or rural district with an application and an identification card. TSS is assigned to citizens with a per capita income that does not exceed the poverty rate per each family member. Thus, the TSS amount per person (family) is calculated as the difference between the average per capita income and the poverty rate established in the region, taking into account each family member.

[g] As discussed in Para 19 of the main text, the program is designed to ensure that the overall fiscal stimulus package is implemented and monitored, since the complementarity of all its components is crucial to sustaining incomes and employment recovery, and the individual targets across all three outputs. To reinforce this requirement, output 3 also includes this as an indicator, implying that 8%–9% of GDP of net stimulus measures will be necessary. The logical framework for the proposed ADB assistance requires this to ensure an effective mitigation of the currently heightened social vulnerability risks.

[h] According to the Ministry of Industry and Infrastructural Development, as of 1 January 2020, 540,200 people had applied to the local executive bodies for the subsidized housing finance program, of which 212,500 were civil servants and employees of budgetary organizations (a majority of which are women); 120,500 were families with a single parent (who tend to be single mothers); 60,800 were orphans; 43,500 were from people with disabilities (groups 1 and 2); 47,800 were from large families; 21,100 were families with children and disabilities; 18,000 were pensioners; and 16,000 represented other categories. The housing finance program will be implemented off-budget, financed by the issuance of municipal bonds to Baiterek.

Source: ADB.

LIST OF LINKED DOCUMENTS

http://www.adb.org/Documents/RRPs/?id=54188-001-3

1. Loan Agreement
2. Development Coordination
3. International Monetary Fund Assessment Letter
4. Summary Poverty Reduction and Social Strategy
5. Risk Assessment and Risk Management Plan
6. List of Ineligible Items
7. Debt Sustainability Analysis
8. Gender Monitoring Matrix

Supplementary Documents

9. Safeguards Assessment Matrix
10. COVID-19 Public Health Response and Countercyclical Response Policies
11. National Fund of the Republic of Kazakhstan

DEVELOPMENT POLICY LETTER

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ
ҰЛТТЫҚ ЭКОНОМИКА
МИНИСТРЛІГІ

MINISTRY
OF NATIONAL ECONOMY OF THE
REPUBLIC OF KAZAKHSTAN

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5.06.2020 № 04-23/7010

President of the Asian Development Bank
Mr. Masatsugu Asakawa

Kazakhstan: COVID-19 Active Response and Expenditure Support (CARES) Program
Development Policy Letter

Dear Mr. Asakawa,

Let me first express on behalf of the Government of the Republic of Kazakhstan (Government) our gratitude to the Asian Development Bank (ADB) for the effective dialogue following our formal request for assistance, and for the operative support extended to the Government in preparation of the budget support under the COVID-19 Pandemic Response Option of the ADB. We would also like to highlight and thank the ADB for its supportive role in helping us explore and establish a sizable co-financing opportunity with the Asian Infrastructure Investment Bank (AIIB).

The Government acknowledges and is fully supportive of the ADB's commitment to helping its developing member countries tackle the medical, social, economic and fiscal consequences of the current global pandemic. As you know, Kazakhstan has a long border with the People's Republic of China (PRC) as well as several transport routes connecting our economies. Our Government was, therefore, keenly aware of the vulnerability when the first reports on COVID-19 emerged in late-2019. This prompted international coordination efforts along with the PRC authorities and the World Health Organization, as well as identification of key steps to enhance our preparedness.

Our Government started preparations well ahead of infection outbreak in the country and undertook a set of swift and decisive containment, healthcare and other social measures in response to COVID-19. On 6 January 2020, the Ministry of Healthcare of the Republic of Kazakhstan (MoH) approved the set of forefront activities to mitigate epidemiological outbreaks. International travelers, depending on the country of origin, were placed under fourteen days of mandatory self-isolation. All transport connections between Kazakhstan and countries highly affected by COVID-19 have been suspended since 3 February 2020. Screening checkpoints upon entry and medical monitoring of those coming to Kazakhstan from countries affected by COVID-19 were established. MoH approved the COVID-19 infection clinical treatment protocol in early February. During February-March 2020, more than 28,492 beds were deployed in the country for hospitalization of patients with COVID-19 and contact people. In hospitals, 182 resuscitation beds enhanced with the corresponding equipment have been deployed (mechanical ventilation devices, monitors, perfusion devices, etc.). MoH has also mobilized more than 10 thousand medical workers to provide COVID-related medical care and has reserved additional 802 trained specialists on standby.

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On 13 March, the first imported cases were detected and confirmed. All these patients were immediately isolated and provided a treatment, while all their contacts were quarantined and tested. This event triggered a range of medical measures and Non-Pharmaceutical Interventions (NPIs). The Emergency Operations Center (EOC), established by the Government to monitor the COVID-19 situation on a 24/7 basis, started collecting information on how many persons arrived from affected countries. Those who arrived from highly affected countries were placed on 14-day quarantine. Following the announcement that COVID-19 has been recognized a pandemic, the state of emergency was declared in Kazakhstan, which lasted until 11 May 2020. Some of the social distancing measures still remain in place to date. The Government deployed regional response teams, consisting of local authorities, healthcare, social care, civil society, and private sector representatives to identify corresponding needs, support vulnerable groups, establish feedback mechanism and monitor response transmission. Dedicated ambulatory teams were assigned in every region to provide care and transport of suspected and confirmed COVID-19 patients to designated hospitals. To date, no other DMC in Asia tests more in per capita terms than Kazakhstan. The country has intensified its surveillance by enhancing capacity of active case finding. The EOC developed a geographic information system tools to conduct monitoring of COVID-19 spread.

Overall, the Government allocated $53.4 million for procurement of supplies, including the purchase of personal protective gears, disinfectants and medicines, as well as medical devices on a central and regional level. In March 2020, the Government has announced plans to allocate additional $285 million to enhance the capacity of the healthcare system. Three new fully equipped medical complexes were set up in record time. In terms of direct healthcare support, the Government immediately extended access of uninsured citizens to receive full medical care until 1 July 2020.

We believe our response to the medical and public health emergency has been very effective, as recently publicly acknowledged by the WHO officials, and that our enhancement in early 2020 of our healthcare system capacity to cope with worst-case hospitalization scenarios were all very timely. But to date, we have had more than 11,796 COVID-19 cases and 44 related deaths. The current rate of epidemiological growth is dangerous and remains a challenge. This continues to deserve our utmost attention. If the fiscal resources allocated in 2020 to fighting this pandemic require an additional effort, the Government is ready to address this need.

Unfortunately, the range of strict lockdown measures that were taken from mid-March onwards aimed at slowing down the spread of the virus imposed significant economic restrictions on Kazakhstan's non-oil economy. This economic shock has been unprecedented, and it has now been compounded by (i) a new oil price shock (and a collapse in the price of other commodities), and (ii) the global drop in capital inflows to emerging markets (EMs). These are the consequences of the global pandemic that had a halving price effect on 60% of Kazakhstan's export revenues. The downside pressure on the quality of bank assets is already constraining the provision of new liquidity to micro, small and medium enterprises (MSMEs), in addition to the ongoing disruptions in business activity and employment that the NPI measures triggered. We have had downward revisions to our expectations of both oil and non-oil fiscal revenues. But without a fiscal response, the economy may contract 5% or more. The poor and vulnerable, including women, can be disproportionately affected. The rise in poverty levels is a real risk at this stage.

To counter this sequence of shocks, the Government adopted a comprehensive medical, public health, and significant countercyclical fiscal package of KZT5.9 trillion (8.5% of gross domestic product [GDP], or more than $13 billion). These efforts have been

self-funded by the Government in more than 81%, including the additional $4.7 billion of transfers from the National Fund of the Republic of Kazakhstan.

Our anti-crisis package includes cash payments to the unemployed ($95 per month per person for all those who have lost their wages because of the Emergency regime), a lower VAT rate on food items, as well as additional spending to strengthen the healthcare sector and support employment and business. The Government has introduced number of responses to mitigate the impact of higher food prices. We quickly launched a nationwide food supply program and disbursed KZT31 billion to local authorities to provide free sets of food to 1.1 million people, primarily elders, large families and people with disabilities. In parallel, the Government introduced price caps for essential food items and allocated KZT14.8 billion to purchase 41.6 thousand tons of food. In April 2020, to support the vulnerable groups, the Government increased all social payments (pensions, benefits, etc.) by 10%, allocating additional KZT200 billion ($540 million). Under the package of anti-crisis measures, SMEs and individual entrepreneurs are also eligible for new tax incentives. In March 2020, the Government introduced wide-ranging tax support package targeting mainly SMEs in agriculture, trade and service sectors. The package includes complete, though temporary, exemptions from property tax (for retail, trade, catering, entertainment and hospitality sectors), land tax (for agricultural producers), and individual income tax for individual entrepreneurs. For SMEs in catering, lodging, transportation, consulting and tourism sectors, the Government has also introduced six-month exemption from payroll taxes.

The Government has also approved a comprehensive set of measures to support employment recovery, including new projects related to the reconstruction of social, transport and public utilities infrastructure as a part of the ongoing Employment Roadmap Program. The Government will provide additional KZT1.0 trillion to finance this program, KZT300 billion of which will be sourced from the state budget. The Government has tightened the criteria for the local sourcing in the new projects, covering both goods and services (90% must come from local producers) and jobs (50% of employees must be hired through regional employment centers). Accordingly, the Government expects 250,000 new jobs to be created. For unemployed youth, Government deployed new jobs in flood control, spring field, construction and other works, within the Employment Roadmap Program as well. To induce greater interest in these jobs, Government will provide one-time financial assistance of KZT85,000 tenge (approximately $200) on top of the standard salary. The Government has committed additional KZT123.0 billion in subsidized loans to SMEs to support employment among vulnerable population, targeting 535,000 jobs, mostly in rural areas. We have increased financing of three major ongoing state development programs to integrate additional measures to support employment and business activity in response to COVID-19 pandemic: (i) the "Economy of Simple Things" increased by KZT1.0 trillion; (ii) the "Business Roadmap 2020" increased by KZT85.0 billion; and (iii) the "Employment Roadmap 2020" scaled up by KZT1.0 trillion.

The series of pandemic-related health and economic shocks now hitting Kazakhstan have interrupted our strong economic growth trajectory and fiscal consolidation effort. We expect that the strong anti-crisis response currently being deployed can quickly bring safety to our population and a stabilization to social, employment and economic conditions. The Government remains ready to make adjustments in its anti-crisis response, to better address rising social vulnerability risks or implementation difficulties. Similar to what has been observed in the two previous crises, the ADB assistance is significantly appreciated and the ongoing close engagement with the ADB team will also be appreciated during the implementation of the proposed Kazakhstan CARES Program.

The Government is also committed to ensuring that the ongoing crisis does not derail our economic policy efforts on structural reforms, 'greening' of the economy, and fiscal consolidation to reduce our public sector dependency from oil-revenues. These are crucial development processes on which we hope to work together with the ADB. Let me give you a short update on the following key items:

Structural Reforms Record. The Government is adopting unprecedented system-wide reforms aimed at improving the business climate, and reducing administrative barriers and business costs. Kazakhstan's most recent reform achievements have been widely acknowledged, particularly in making it (i) easier to start a business and integrating business incorporation with value-added tax registration, (ii) easier to deal with business licensing requirements, (iii) cheaper to register and transfer property, and (iv) easier to obtain credit (e.g. via automatically extending security interests to the products, proceeds, and replacements of the original assets, giving secured creditors absolute priority during insolvency proceedings, improving access to credit information). These reforms are conducted at a noticeably fast pace across Kazakhstan. The reforms reduce the red tape for entrepreneurs and are moving the whole country toward global good practices in business regulation. As a result, Kazakhstan is among the top-30 countries in the World Bank's Doing Business ranking.

Current Program Assistance from the ADB. The Government has robust development cooperation with the ADB. We have worked closely together in recent years in developing local currency operations, non-sovereign public sector financing and updated Partnership Framework Agreement, which enabled substantial expansion of joint cooperation. As a result, the ADB today is a lead development partner of the Government in agriculture, transport, finance and urban sectors. In agriculture sector, both parties are currently working on formulation of agriculture sector reforms, improvement of water resources management practices, modernization of major irrigation networks, and development of livestock value chain. In transport sector, the ADB is providing multi-faceted support to enhance Kazakhstan's internal and external connectivity with other countries in the Central Asian region, including financing the rehabilitation and modernization of main Central Asia Regional Economic Cooperation (CAREC) transport corridors, supporting improved cross-border infrastructure and customs, and developing a national integrated transport model. In finance sector, the ADB and the Government are supporting access to finance, prioritizing women in rural areas through SMEs, housing and green finance programs. Both parties are also working on policy development and reforms to expand access to SME finance, improve public debt management, and develop Government securities' markets. In urban services, the ADB is leading critical development work on modernization of water treatment facilities across Kazakhstan and formulation of modern financing schemes for the sector. The ADB is providing substantial policy and non-sovereign support to energy sector, particularly development and promotion of renewable energy. On capacity building, the ADB is our key and trusted knowledge partner through our joint Knowledge and Experience Exchange Program, which supports demand-driven policy dialogue and capacity development. The ADB is also the main partner in promoting Sustainable Development Goals in Kazakhstan. Over the next three years, we will continue working closely to (i) deepen cooperation in priority sectors, such as agriculture, finance, transport and municipal infrastructure; (ii) expand our policy dialogue and knowledge collaboration to support structural reforms; and (iii) explore new opportunities and financing mechanisms to respond to evolving country needs, including policy based lending, PPPs, and blended financing options. We are currently jointly working on the updated country operations business plan to formulate lending and non-lending programs that support these priorities.

Development Strategy and 'Greening' of the Economy. The Government is embarking on ambitious 'green economy' reforms, which aim to reduce environmental pollution through sustainable waste management, the diversification of coal-based energy mix through use of renewable energy sources, and the reduction of energy intensity through comprehensive sector reforms. The ADB and the Government are jointly working on formulating and implementing sector reforms, in modernizing national legislation, especially in areas of district heating, waste management, and environmental sustainability, and in developing geothermal energy sources.

The Government would like to reiterate its request for budget support, under the Kazakhstan CARES Program, and commits to working closely with the ADB to monitor its implementation and impact. Please allow me to express my sincere gratitude again to the ADB for the continuous and close partnership with the Government.

Sincerely yours,

Ruslan Dalenov
Minister of National Economy
of the Republic of Kazakhstan
Governor of ADB

ASSESSMENT OF COMPLIANCE WITH THE ACCESS CRITERIA FOR THE COUNTERCYCLICAL SUPPORT FACILITY AND COVID-19 PANDEMIC RESPONSE OPTION

Access Criteria	ADB Staff Assessment
1. Adverse Impact of Exogenous Shocks[a]	a. Fiscal Health costs are rising with the COVID-19 epidemic, with not only the medical emergency but also the implementation of health system preparedness measures, and the monitoring and tracing systems since early-January, ramping up dedicated capacity in the health system to cope with worst case hospitalization scenarios, and subsidizing in 100% the COVID-related health costs. The medical emergency is being kept under control also as a result of the costly COVID-19 readiness implementation measures initiated in early-January 2020 to build health system response capacity before the epidemic arrived in the country. The significant effort to ramp up the testing operation and the inherent logistics are reinforcing the confidence in the entire operation. On the other hand, the strict social containment measures implemented from March onwards, i.e. right after the first confirmed cases, have been effective at dampening the epidemiological growth of COVID-19 in Kazakhstan. The healthcare emergency remains a serious challenge and its fiscal costs are likely to become sizable. b. Significant economic and fiscal costs of the social lockdown measures will result from can be observed in the ongoing disruptions in business turnover and employment. A recent OECD report[b] highlights that "*Experts estimate that 300,000 SMEs have stopped working nation-wide. In Almaty, the number of workers in factories decreased by 266,000 people and 80% of entrepreneurs have suspended their activities. At least 1.5 million citizens are estimated to be on unpaid leave or have lost their jobs due to the outbreak of COVID-19. According to official data, SMEs in the sectors most likely to be severely affected (trade, tourism, and catering) are estimated to employ over 1.6 million workers*". This economic disruption, if prolonged, can be devastating in the non-oil economy if sustained job losses and bankruptcies cannot be avoided. The lockdown is impacting the micro, small and medium enterprise (MSME) sector in particular, as its turnover dropped by 75% according to recent enterprise surveys undertaken in early-April. These indicate that: (i) by 23 March, 48% of employees were already put on leave without pay and 13% had been terminated; and (ii) for Q2, 40% of employees were expected to be put on leave without pay and 12% would be terminated. Some of the activities hardest hit directly were: tourism, hospitality, education, food services, and manufacturing. Women can be most affected by restrictions on economic activity. Women account for more than 65% of labor force in some of the most effected sectors (e.g. hospitality, education, wholesale and retail trade), own/manage a significant number of microenterprises, and are also a significant share of the informal labor market. c. The second economic shock came with the significant oil price shock, with large fiscal and financial sector consequences. As the COVID-19 pandemic is shutting down large segments of economies from the People's Republic of China (PRC) to Europe to the United States since late February 2020, it is also becoming lethal in many developing and emerging economies for its global external effects. This is hitting Kazakhstan now with particular significance as well. The collapsing of international prices of oil and other commodities (which determine 85% of Kazakhstan's export revenue), is now reinforced by a clear global recessionary outlook for 2020. The resulting exchange rate pressures have also led to a hike in financial costs across the economy. A sudden stop in capital flows has also hit emerging markets (EMs). April data shows cumulative outflows from EMs since the COVID-19 crisis began that are extraordinary in magnitude, even by the standards of the global financial crisis. This sudden stop, coupled with low commodity prices and global recession, is closing down wholesale external funding lines to both financial and non-financial corporate sectors in Kazakhstan alike. This will directly hit financial firms (e.g. banks) with outstanding foreign-current debt that needs to be refinanced, but indirectly it will also affect the refinancing possibilities of all firms and individuals with foreign-currency denominated debt.

	d. Without a fiscal response, the economy can contract in real terms by 5.5% in 2020 (instead of the 4% growth that had also been projected on average for 2020-2023 as late as in February 2020). The ongoing collapse in export revenues brought about exchange-rate pressures that the monetary authorities allowed to sway while raising policy rates to 12% (from 9.25%) to smooth the currency depreciation process. The foreign-exchange reserves that were spent were appropriately geared to simply smooth this exchange-rate realignment. But debt-servicing costs in the economy have—also as a consequence—gone up in both local currency credit and foreign currency credit contracts. This is adding pressures to the asset quality of the banking sector, which can also further constrain access to finance to SMEs going forward. These developments have forced significant downward revisions in the macroeconomic and fiscal outlook of Kazakhstan for 2020 now mired in deep recession risks. The ongoing disruptions can leave medium-term scars in the productive potential of its non-oil economy too. Poverty rates could reach 11%–13%, and vulnerable segments of the population (including women) can be severely affected. e. Social Vulnerabilities, Poverty and Gender Risks. Unless countered, the sequence of shocks that have hit Kazakhstan can also impact poverty and social vulnerability levels, and poverty rates could reach 11%–13%. Gender risks are also recognizable. The several vulnerability dimensions of the current situation can be disaggregated by each of the three shocks: (i) the COVID-19 outbreak could bring a hike in hospitalization and medication costs that can overwhelm the budgets of the poor and most vulnerable, if infected. It also puts workers in health most at risk of coming into contact with infected cases (more than 70% of health workers are women); (ii) the strict social lockdown measures and other Non-Pharmaceutical Interventions (NPIs) of the government are crucial to slowing-down the medical emergency. Non-Pharmaceutical Interventions (NPIs) are actions, apart from getting vaccinated and taking medicine, that people and communities can take to help slow the spread of illnesses (NPIs are also known as community mitigation strategies). But these measures pose significant risks to the livelihoods and income-generation in very specific activities where women have a high degree of participation. Women account for more than 65% of the labor force in some of the most affected sectors by the current lockdowns. Some hard-hit activities in the informal labor market also include a significant share of women. These could imply a potentially disproportionate impact on women; (iii) Women could also be disproportionally affected by a deep recession, given existing gender disparities in wage levels and unemployment rates, and already disadvantaged access to finance in normal times. f. The country’s non-oil fiscal deficit as a percentage of gross domestic product (GDP) for 2020 is now set to widen to 11% (from 8% in 2019, and an originally expected 7% for 2020), also a result of the current discretionary countercyclical efforts and interrupt its downward trajectory (it was 10% in 2017).
2. Countercyclical Fiscal Response development expenditures (more generally, a countercyclical fiscal response)[c]	a. **The government has laid out a strong countercyclical fiscal response to mitigate the health, economic and social impacts of the pandemic-related shocks that are now hitting Kazakhstan.** Fiscal measures to mitigate the disruptions on business and employment have been targeted and gender-inclusive (including transfers to the vulnerable population and the potentially-most affected segments of the labor market, which includes women). Countercyclical response plans were approved (including both tax and expenditure plans, and quasi-fiscal programs) to ensure financial stability and relaunch the economic recovery), in addition to devising a safety-net to those that lose income. This is presented in detail in the Supplementary Document and in the main text. It is crucial to prevent firm bankruptcies, extended job losses, and financial instability. The proposed ADB assistance will help the government mitigate the medical and economic impacts caused by

coronavirus disease 2019 (COVID-19) pandemic on Kazakhstan, supporting its immediate COVID-19 Health Policy Response, measures to mitigate social distancing disruptions on businesses and employment; and countercyclical fiscal stimulus plans. The different measures are described in detail in the RRP and in the DMF. For example, in terms of social protection and efforts to protect employment, here is what is already described in Table 4:

- Cash payments ($95–$100 per month per person) for those who lost labor income under the state of emergency.a The target is to reach 3 million people. All those that work in the informal labor market—mostly women—can apply. This is implemented by the State Social Security Fund, and estimated to cost $877 million.
- A lower value-added tax rate was set for food,b and various other responses help mitigate the impact of higher food prices: a nationwide food supply program was quickly established and allocated T45.8 billion to local authorities to provide free food sets to more than 1.1 million people (primarily elderly people, large families, and people with disabilities, i.e., those registered in the social vulnerability ledger of the government). In parallel, the government introduced price caps on essential foods. In sum, this initiative is estimated to cost $113 million.
- To help vulnerable groups such as pensioners absorb the shock of a possible increase in food prices, the government increased all social payments by 10%. This would include about 32,000 households currently covered by the unconditional cash transfer program, and 129,000 households covered by conditional cash aid under the government's targeted social support. This implied an allocation of an additional $503 million.
- In addition to significant utility subsidies and automatic reductions in the tax base, in March 2020, the government introduced tax support measures targeting mainly micro and small and medium-sized enterprises (SMEs) in agriculture, trade, and services. This includes a reduction to zero in the rates of property tax (for retail, trade, catering, entertainment, and hospitality businesses), land tax (for agricultural producers), and income tax (for individual entrepreneurs). For SMEs in catering, lodging, transportation, consulting, and tourism, the government also introduced a 6-month exemption from payroll taxes. The government deferred until 1 June 2020 all payments of taxes and other compulsory budget payments for SMEs, stopped enforcing the collection of overdue tax obligations, suspended the accrual of penalties for overdue tax obligations until August 2020, and extended tax reporting deadlines until September 2020. These are estimated to cost close to $5.68 billion.

b. The planned fiscal response effort is not only sizable but also properly calibrated to target the segments of the population that are most vulnerable to the current sequence of shocks and risks. **It implies a stimulus of 8%–9% of GDP in 2020.** This positive assessment is also shared by the IMF. As stated in the IMF Assessment Letter (Para 8), **"the immediate priority is to mitigate the effect of the shocks on the economy. The authorities' anti-crisis package has the appropriate mix of measures and targeting to achieve this."** In tables A4.1–A4.2 below we present how the different initiatives fit within the overall fiscal stimulus package (split between on-budget and off-budget measures). All these measures are fiscal in nature, but we refer to those that are off-budget as quasi-fiscal. The proposed Program captures them all, through three outputs:

(i) Immediate COVID-19 Health Response Implemented (costing $338 million);
(ii) Social Protection and Employment Protection Measures Implemented ($7.18 billion); and
(iii) Economic Stimulus Delivered ($5.97 billion).

c. It is crucial for the intended objectives of the government response that the entire package is implemented in 2020, which will imply about 8–9% of gross domestic product (GDP) in automatic and discretionary stimulus measures (a total of about $13 billion). This of course also includes the fiscal implications of the COVID-19 Health Sector and Social Risk Mitigation measures that were described above. All these measures are part of the package considered in the proposed logical framework for the ADB assistance. We also present here how the entire package of measures is divided between what is explicitly reflected in the government budget on one-hand, and what is off-budget, in terms of initiatives that are not financed by the government budget directly.

Table A4.1

Net Fiscal Response: $7.0 billion (4.6% of GDP), ON-BUDGET			
*Amount**	*Purpose*	*Notes*	*Output*
$503 million	Social payments increase and social assistance (equal to minimum wage)	Pension, stipends and other payments	**2**
$682 million	Employment Roadmap program	Additional allocation from state budget	**3**
$239 million	Enbek and Auyl Besygi program (130,000 jobs)	Monotowns and rural employment stimulus (microloans and grants)	**3**
$306 million	Business Road Map and support for Agribusiness	Import substitution and manufacturing projects	**3**
$285 million	Epidemiological and other healthcare measures	Including financial stimulus for healthcare workers	**1**
$53.4 million	Procurement of supplies, including personal protective gears, disinfectants and medicines, and medical devices	For use at both central and regionals levels	**1**
$4.6 billion	Compensation of the budget losses (including taxes, republican and local)	Includes compensation for tax expenditures, tax losses and exchange rate losses	**3**
$1.09 billion	Other outright expenses (including utility bills subsidies)		**2**
$113 million	Food distribution	The significant costs of reduction in food-related taxes are not counted here	**2**
Total: $7.9 billion (5.2% of GDP)	**After deductions from and cancellations of original state expenditure plans of around $0.9 billion: Total new tax and expenditure plans: $7.0 billion**		

Note: All amounts are in KZT at the exchange rate of KZT440 per USD.
Source: Ministry of Finance.

Table A4.2

Quasi-Fiscal Expenditures: $5.6 billion (3.7% of GDP), OFF-BUDGET			
*Amount**	*Purpose*	*Notes*	*Output*
$1.59 billion	Employment Roadmap program, off-budget resource mobilization by Baiterek Holding (SOE)	Aims to create **250,000 jobs** through project financing sourced from local bond issuances	**3**

$877 million	Monthly social assistance of $100 to workers who lost jobs due to the State of Emergency	Financed from existing savings of the State Social Security Fund (off-budget fund)	**2**
$2.27 billion	'Economy of Simple Things' program and working capital finance from NBK to SMEs	6% interest rate on loans and 8% for working capital financed by NBK	**3**
$886 million	Financing construction of affordable housing	Financed through municipal bonds in 16 regions	**3**

Note: All amounts are in KZT at the exchange rate of KZT440 per USD.
Source: Ministry of Finance.

d. As head of the State Commission on the State of Emergency, the President of Kazakhstan has taken leadership for the public announcement of measures, in complement to the approved decrees. The sequence of decisions and announcements is presented here as a way of formalizing the list of official sources for what is presented above:

(i) On March 15, a decree was approved 'On introduction of state of emergency': http://www.akorda.kz/ru/legal_acts/decrees/o-vvedenii-chrezvychainogo-polozheniya-v-respublike-kazahstan.
(ii) On March 16, the state of emergency was announced: http://www.akorda.kz/ru/speeches/internal_political_affairs/in_speeches_and_addresses/televizionnoe-obrashchenie-glavy-gosudarstva-kasym-zhomarta-tokaeva.
(iii) On March 16, a decree was approved 'On measures for ensuring socio-economic stability': http://www.akorda.kz/ru/legal_acts/decrees/o-merah-po-obespecheniyu-socialno-ekonomicheskoi-stabilnosti.
(iv) Also on March 16, another decree was approved 'On further measures for stabilizing the economy': http://www.akorda.kz/ru/legal_acts/decrees/o-dalneishih-merah-po-stabilizacii-ekonomiki.
(v) On March 23, all these instructions to government were made public: http://www.akorda.kz/ru/speeches/internal_political_affairs/in_speeches_and_addresses/vystuplenie-prezidenta-kasym-zhomarta-tokaeva-na-zasedanii-gosudarstvennoi-komissii-po-chrezvychainomu-polozheniyu.
(vi) On March 31, all the anti-crisis measures were re-stated during a public update on the COVID-19 situation: http://www.akorda.kz/ru/speeches/internal_political_affairs/in_statements_and_congratulations/zayavlenie-glavy-gosudarstva-kasym-zhomarta-tokaeva.
(vii) On April 10, a first report to the State Commission on the State of Emergency was delivered: http://www.akorda.kz/ru/speeches/internal_political_affairs/in_speeches_and_addresses/vystuplenie-glavy-gosudarstva-na-zasedanii-gosudarstvennoi-komissii-po-chrezvychainomu-polozheniyu.
(viii) On April 14, a decree extending the state of emergency was approved: http://www.akorda.kz/ru/legal_acts/decrees/o-prodlenii-deistviya-chrezvychainogo-polozheniya-v-respublike-kazahstan.
(ix) On April 21, in complement to the decree 'On measures for ensuring socio-economic stability', additional measures were approved: http://www.akorda.kz/ru/legal_acts/decrees/o-nekotoryh-merah-po-stabilizacii-ekonomiki.
(x) On April 29, a new decree extended the state of emergency: http://www.akorda.kz/ru/legal_acts/decrees/o-prodlenii-deistviya-chrezvychainogo-polozheniya-v-respublike-kazahstan-1.

	(xi) On May 11, the President of Kazakhstan announced, at the final meeting of Commission on the State of Emergency, that the State of Emergency was finished, and that the State Commission was reorganized into a Commission for restoring economic growth. Some measures for promoting economic recovery were also announced: http://www.akorda.kz/ru/speeches/internal_political_affairs/in_speeches_and_addresses/vystuplenie-glavy-gosudarstva-na-zaklyuchitelnom-zasedanii-gosudarstvennoi-komissii-po-chrezvychainomu-polozheniyu. (xii) On May 19, a comprehensive economic recovery plan for measures until the end 2020 was adopted by the government: https://online.zakon.kz/Document/?doc_id=39292197#pos=416;-35 . It was also announced on the same day: https://primeminister.kz/ru/news/pravitelstvo-prinyalo-kompleksnyy-plan-po-vosstanovleniyu-ekonomicheskogo-rosta-194594 .
3. Pre-shock Record of Sound Macroeconomic Management[d]	a. Growth was relatively strong in early 2020 —above 4%— and the macroeconomic outlook for 2020-22 was in line with the good performance of recent years: growth projections were of about 4% on average on the back of a projected continuation of strong growth in the Kazakhstan non-oil economy. As generally observed by different institutions and the ADB team (and explicitly stated in the IMF Assessment Letter), **Kazakhstan's macroeconomic management prior to the shock had been generally sound and the country's growth performance had been strong**. b. Kazakhstan's new monetary regime has served its macroeconomic management well, with stable inflation (within the 4–6 percent band of the inflation target) and added exchange-rate flexibility. The NBK improved its systemic liquidity management and interest rate transmission mechanism, and it remains committed to developing it further. This is a priority to help monetary policy's traction over credit conditions in the economy and dedollarization. c. Kazakhstan's fiscal management had been credible before the crisis, and with the non-oil fiscal deficit (and the cyclically-adjusted non-oil deficit) on a downward trajectory and with sustainable levels of public debt. Kazakhstan has substantial fiscal space and sustainable levels of public debt, and the planned use of buffers in the current juncture is fully justified. As assessed by the ADB team and confirmed by IMF analysis (IMF Assessment Letter), Kazakhstan's public sector debt will remain comfortably sustainable for the foreseeable future, and the current countercyclical fiscal effort is making a very appropriate and much needed use of the available fiscal space. Public finances are this expected to remain sound, as also shown by projections of fiscal balances in relation to the economy's cyclical position: the planned adjustments in the primary deficit are properly calibrated to continue supporting growth while dampening the growth of Gross Public Debt Ratio. d. The sound pre-shock sound macroeconomic management record of the government has now been instrumental in projecting credibility to its recent monetary and macroprudential policy decisions in banking and exchange-rate markets. The latter have been very effective at managing key trade-offs: in early March, the NBK raised its policy rate and intervened for a time to stabilize the foreign exchange (FX) market (interventions were intended to avoid disruptive corrections and did not target any particular level of the exchange rate), but it has since adjusted its policy rate given emerging weaknesses in aggregate demand (while keeping some controls on to limit speculative FX trading). The tenge initially depreciated by about 18 percent; it has stabilized and regained some of its value recently. e. Kazakhstan's PFM systems are reliable and well-tested. This will be Kazakhstan's 3rd ADB CSF, which will also benefit from an overall sound institutional budgetary framework. In 2018, a Public Expenditure and Financial Accountability (PEFA) report on Kazakhstan[e] highlighted many of the same strengths as the ADB Governance Risk Assessment[f] that had been

	completed a few months earlier, which were: budget reliability, public debt management, policy-based fiscal strategy and budgeting in general and legislative scrutiny of budgets in particular, predictability and control in budget execution in general and internal controls and audit in particular, accounting and reporting in general, as well as external scrutiny and audit. The weaknesses that were also identified have been important areas of ongoing improvement as well. d. As assessed by the ADB team and confirmed by IMF analysis (IMF Assessment Letter), Kazakhstan's public sector debt will remain comfortably sustainable for the foreseeable future, and the current countercyclical fiscal effort is making a very appropriate and much needed use of the available fiscal space.
4. Structural reforms (in the case of the CPRO: health sector response to COVID-19 epidemic) [g]	a. The government implemented a robust response to control the spread of the COVID-19 and provide urgent medical support to affected population. The government has collaborated closely with the WHO, UN agencies and international development partners to strengthen the health response. b. The authorities: (i) initiated readiness preparations in early-January, i.e. more than 2-months before the first COVID case in Kazakhstan, (ii) immediately built-up the capacity of the health-care system to cope with worst-case hospitalization scenarios; and (iii) announced a 30-day state of emergency from 16 March onwards (first cases reported on 13 March), now extended; with a series of other strict quarantine and social lockdown measures. All these are extensively described in the Supplementary Document, and summarized in the main text of this RRP and here: • **Early Pre-COVID-19 Readiness and Public Health Response Measures**. The Government of Kazakhstan started preparations well ahead of infection breakout in the country and undertook a set of swift and decisive containment, healthcare and other social measures in response to COVID-19. This was done in close coordination with development partners and governments of neighboring countries. On 6 January 2020 the Ministry of Healthcare (MoH) approved the main preparedness activities to mitigate epidemiological outbreaks. International travelers depending on the country of origin placed under the fourteen days mandatory isolation of self-quarantine.[h] All transportation between Kazakhstan and countries highly affected by COVID-19 has been suspended since 3 February 2020. Screening points on entry and medical monitoring of those coming to Kazakhstan from countries affected by COVID-19 was established. MOH approved the COVID-19 infection treatments clinic protocol in early February.[i] During February–March 2020, the government prepared 27,000 beds (28% of total hospital beds in the country) for hospitalization of COVID-19 patients and contact persons, including 182 resuscitation beds with appropriate equipment (mechanical ventilation devices and monitors, etc.). MOH also mobilized more than 10 thousand medical workers to provide COVID-related medical care and has reserved additional reserve of 802 trained specialists for standby deployment. • **Medical and Non-Pharmaceutical Interventions upon the outbreak of COVID-19.** On 13 March 2020, the first imported cases were detected, confirmed, all immediately isolated and treated. Initial infections were spread in Nur-Sultan (the capital city) and Almaty (the largest city) and all contacts were quarantined and tested. As an immediate reaction, the Emergency Operations Center (EOC) was established by the government and the EOC started monitoring (on a 24 hours basis) COVID-19 situation globally, regionally, and on the country level. The EOC also collected information on how many persons arrived from affected countries, and those that arrived from highly affected countries were placed on 14-day quarantine.[j] Following the announcement of COVID-19 as a pandemic, the

	state of emergency was declared and still remains in place to date.[k] The government deployed regional response teams, consisting of local government, healthcare, social care, civil society, and private sector representatives to identify corresponding needs, support vulnerable groups, establish feedback mechanism and monitor response transmission. Dedicated ambulatory teams were assigned in every region to provide care and transport of suspected and confirmed COVID-19 case to designated hospitals. The National Reference Laboratory in Almaty received test kits from Russia, PRC, and WHO in March, and jointly with the National Biotechnology Center started to develop own testing systems. On 6 April, the country received additional 250,000 tests and ordered an additional 300,000. To date, no other DMC in Asia tests more in per capita terms than Kazakhstan. Kazakhstan has intensified its surveillance by enhancing capacity of active case finding.[l] The EOC developed a geographic information system (GIS) tools to conduct monitoring of COVID-19 spread.[m] MOH with assistance of development partners conducting continuous procurement of additional stockpiles to ensure the availability of essential medical disposables and equipment in the designated healthcare facilities. Overall, the government allocated $53.4 million for procurement of supplies, including for the procurement personal protective gears, disinfectants and medicines and medical devices on a central and regional level. In March 2020, the government has announced plans to allocate additional $285 million to enhance the capacity of the healthcare system (these $285 million are also for anti-epidemiological measures such as, e.g., payment of bonuses to doctors and other employees, grocery and household packages, communication services; the total of T125.2 billion includes T40.6 billion for premiums to doctors in the front line, T19.5 billion for payment to medical organizations, T14.8 billion for the preparation of three medical complexes, T30.8 million for food and household sets, T8.1 billion for premiums to employees and medical workers of law enforcement bodies as well as military personnel of the National Guard, T4.1 billion for communication services, and T5.6 billion forensic medical examination). Three new fully-equipped medical complexes were set-up in record time. In terms of direct healthcare support, the government immediately extended access of uninsured citizens to receive full medical care until 1 July 2020. Appropriate public communication has also been established.[n] c. The government's health readiness plans are comprehensive, are being fully Implemented, and are perceived to have been **effective at keeping the medical emergency under control so far, in terms of capacity to cope with current and worse hospitalization scenarios.** As publicly stated by the WHO Regional Director on May 13, 2020,[o] the Kazakhstan experience is a great example of proactive efforts to stabilize the COVID-19 situation, with strong surveillance, extensive testing, including Health Workers, digitalized data collection, timely prevention & intensified contact tracing, and of treating patients appropriately. But the situation remains dangerous, and the authorities remain ready to deploy additional measures.
5. Debt sustainability[p]	a. Kazakhstan's public sector debt will remain comfortably sustainable for the foreseeable future. The current fiscal effort is making a very appropriate and much needed use of the available fiscal space. Kazakhstan public sector remains a net creditor at this stage, and its projected debt levels are expected to remain sustainable for the foreseeable future (and projected to rise to 29-31% by 2025). See the debt sustainability analysis (DSA) conducted by ADB in early-May 2020. The fundamental conclusions of the exercises presented in the DSA are very much in line with the following key statements in the IMF Assessment Letter: "*With consolidation over the medium-term, public debt is projected to rise moderately—from 20 percent of GDP in 2019 to 29 percent in 2025. Debt remains sustainable, and buffers are expected to remain strong—at around 30 percent of GDP, in line with the threshold under the authorities' fiscal rules* (Para 8)".

	b. The current fiscal effort is making a very appropriate and much needed use of the available fiscal space. Kazakhstan public sector remains a net creditor at this stage, and its projected debt levels are expected to remain sustainable for the foreseeable future (29% by 2025). c. Borrowing from ADB[q] (and from any other source of concessional finance) will have a minimal (or negligible) but still beneficial impact on debt-to-GDP ratio going forward (and therefore on debt sustainability). This is implicit in the comparison with the counterfactual scenario (on which a DSA is normally and conservatively based on, implicitly) in which deficit-financing was were to be done on market-based pricing terms (even if not available in 2020). Sovereign interest rates on the 10-year bonds issued in tenge have increased by about 10% since the beginning of March; likewise, the value of the associated credit default swaps (CDS) has increased by about 40%. Any concessional financing will have a positive impact on Kazakhstan's projected gross debt levels, as the latter are predicated on market-based borrowing terms. d. Large tapping of the NFRK to finance the crisis response is not expected to affect the target of 30% GDP by 2025, a threshold in Kazakhstan's fiscal rules and still a significant buffer. Thus, the Kazakhstan government is expected to remain an external new creditor till 2024–2025 at least. See the debt sustainability analysis (DSA) conducted by ADB in early-May 2020. e. International foreign-exchange reserves are projected to continue at import coverage ratios above 6–6.5, which is both sizable and fully adequate to address external debt financing issues and episodes of exchange-rate pressure.
6. Coordination with the IMF[r]	a. ADB keeps consulting with IMF and discusses macroeconomic forecasts, emerging risks to the macroeconomic and fiscal outlook, and the assumptions that underpin projected impact of the government's countercyclical fiscal (and quasi-fiscal) stimulus efforts. The World Bank (WB) also holds frequent discussions with ADB on these issues, and the frequency of these have increased with the COVID-19 pandemic. ADB and IMF agree with the appropriateness of government's countercyclical response to the current crisis. IMF has updated its DSA for ADB benefit after its recent informal consultations with the government (post Article IV report), and discussions took place on its assumptions. This work is the basis for the forecasts in the IMF Assessment Letter. b. IMF has also provided an its Assessment Letter to ADB in April 2020, which also describes states, amongst other issues, its support for the government's anti-crisis measures as an appropriate and well-calibrated use of available fiscal space. It also describes the constructive consultations between the IMF and with the Government of Kazakhstan. As follows. "Article IV consultations are conducted annually, and Kazakhstan receives technical assistance (TA) from the IMF. Relations with Kazakhstan continue to be characterized by a fruitful policy dialogue, and recent TA has focused on monetary operations, revenue administration, public financial management, and statistics. The last Article IV consultation was concluded on January 27, 2020 and the staff report was published shortly thereafter (IMF Country Report No. 20/32). The report noted that the authorities' track record of macroeconomic management prior to the shock had been generally sound and that growth performance had been strong, in an often-challenging environment. It noted that further work is needed to step up structural reforms and diversification and to improve governance." Although the IMF is not involved in the financing side of the government's countercyclical support efforts,[s] it is currently actively engaged with the government across all the key areas related to macroeconomic surveillance and fiscal risks, financial sector stability, and also on-going work in financial supervision and monitory policy efforts.

ADB = Asian Development Bank, CSF = countercyclical support facility, DSA = debt sustainability analysis, GDP = gross domestic product, IMF = International Monetary Fund, NBK = National Bank of Kazakhstan, NFRK = National Fund of the Republic of Kazakhstan, NPI = Non-Pharmaceutical Interventions, OECD = Organisation for Economic Co-operation and Development, PFM = public financial management.

[a] This sub-criteria reads as: "(…) In the case of the CPRO, the DMC should demonstrate that, as a result of the COVID-19 pandemic, it has experienced, or is likely to experience: (i) a severe decline in growth; and (ii) fiscal and financial sector stress. This may be demonstrated through the economic, and health and population impacts of the COVID-19 pandemic, with a focus on poor or vulnerable groups."

[b] https://www.oecd.org/eurasia/competitiveness-programme/central-asia/COVID-19-CRISIS-IN-KAZAKHSTAN.pdf

[c] This subcriteria reads as: "The government has an effective countercyclical development expenditure/policy program to be supported by the CSF; and is committed to its implementation. The program includes social protection measures targeting the poor or vulnerable groups. In the case of the CPRO, the DMC's countercyclical development expenditure/policy program should also include measures that directly address COVID-19 related impacts. The development policy letter should describe the government's countercyclical expenditure/policy program including its COVID-19 relates measures and its commitment to implement such program".

[d] This sub-criteria reads as: "In the case of the CPRO, the DMC should demonstrate that the quality and size of the planned adjustment measures, are conducted within a sound budgetary framework. This may include the presentation of fiscal response measures that are comprehensive, but which are still within a broadly sustainable macroeconomic framework. DMCs with debt sustainability issues will be required to closely follow the requirements set out in para. 1(v)."

[e] https://www.pefa.org/assessments/summary/266

[f] ADB. 2017. Kazakhstan Republic: Country Governance Risk Assessment. Manila. ADB completed a governance risk assessment (GRA) in 2017 according to the implementation guidelines of ADB's Second Governance and Anticorruption Action Plan. The assessment had already concluded in 2017 Kazakhstan had made good progress in building institutions to manage fiscal revenues and expenses and in strengthening country systems in PFM, public procurement and combating corruption with due consideration of the checks and balances between the executive and other branches of the government.

[g] This sub-criteria reads as: "(…) In the case of the CPRO in place of the emphasis on structural reforms, the DMC should demonstrate that credible and proactive steps are being taken to address the spread of COVID-19 and mitigate its economic impacts on the population, particularly on poor and vulnerable groups. The DMC's COVID-19 pandemic response plan may include a wide range of measures to address the public health or economic impacts of the pandemic. Where relevant, reference may also be made to medium and longer-term public health and preventative measures that the DMC plans to adopt, particularly those which are intended to receive support from conventional PBL".

[h] An Inter-sectoral Committee on COVID-19 chaired by the Deputy Prime-Minister was established to ensure full coordination and an action plan was approved on 29 January 2020 for immediate implementation.

[I] The protocol is continuously discussed with leading international specialists and updated to reflect the latest developments on diagnostics and treatment of coronavirus infection. MoH with the support of WHO and the involvement of national stakeholders continues to identify main areas of improvement in the overall response.

[j] Those coming from other affected countries were putted under medical monitoring via primary health care centers.

[k] All places of mass gatherings were closed, public events were cancelled, large family commemorative events have been banned. Stringent enforcement measures aimed at preventing the spread of the disease, such as penalties for persons evading medical examinations, have been applied. A declaration of quarantine and lockdown was announced on 17 March 2020 for the country's three largest cities, and subsequently introduced in other regions.

[l] Currently MoH with the support of WHO continues to improve the system for contact tracing and monitoring.

[m] The Biosafety Research Institute (BIR) jointly with the National Center for Biotechnology announced a start of coronavirus vaccine research and development in Kazakhstan. BIR has a formal agreement with WHO for this work.

[n] A hotline was established for medical professionals and the general population. Information on the ongoing COVID-19 outbreak, and measures of the individual protection, is circulated through various means including daily briefings on TV, radio and social media (Facebook, Telegram and etc.). A web-page (www.coronavirus2020.kz) with exhaustive information, including updates on the situation, prevention measures, the state support and fact-checking features. The Ministry of Industry and Infrastructure Development created interactive communication map with the live update information on availability and accessibility of transportation throughout the country.

[o] https://twitter.com/hans_kluge/status/1260277518327844866.

[p] This sub-criteria reads as: "The borrower's debt sustainability, including potential impacts of prospective CSF assistance, should be confirmed. International reserves are determined to be adequate, taking into account the imports coverage ratio and the short-term external debt financing requirement. Relevant indicators may be based on the debt sustainability analysis by the International Monetary Fund (IMF) and the World Bank, or a similar assessment when such a joint analysis is not

conducted. In the case of the CPRO, the expansion of eligibility to include group A DMCs means that many will be at high or moderate risk of debt distress. To be eligible for CPRO support, all DMCs must be able to demonstrate that the assistance provided by ADB will be integrated into a fiscal framework that does not jeopardize the borrower's debt sustainability or exacerbate weaknesses in fiscal sustainability. Specific reference should be made to the size of the CPRO assistance relative to the borrower's debt sustainability. Reference to support being received from other development partners should also be made.

[q] The proposed CPRO assistance to Kazakhstan will constitute less than 3% of the country's gross public debt by end-2020, and 0.6% of GDP.

[r] This sub-criteria reads as: "If the IMF is not involved in crisis response, ADB will ensure that the country has had constructive consultations with the IMF, such as recently completed or ongoing Article IV consultations. For both CSF and CPRO, ADB should secure an assessment letter from the IMF confirming the soundness of the government's macroeconomic management and other policies before the Board of Directors considers the proposed assistance. ADB should work closely with its counterparts at the IMF to determine that the CSF or CPRO and any related conventional PBL are appropriate, despite the absence of an IMF program."

[s] By law, the Government of Kazakhstan is not allowed to seek IMF fiscal financing (budget support). By law, the Government of Kazakhstan can only seek budget support from development institutions like ADB or WB. By law, IMF financing can only be sought by the NBK (as the issuer of liabilities), which would probably only occur for balance-of-payments stress reasons. As stated above, Kazakhstan foreign-exchange reserves are projected to continue at import coverage ratios above 6-6.5, which is both sizable and fully adequate to address external debt financing issues or episodes of exchange-rate pressure.

Source: Asian Development Bank.