Kazakhstan : Fiscal Governance and Financial Sector Reforms Program

1. Project Information

Project ID:	P000789	Instrument ID:	L0789A
Member:	Kazakhstan	Region:	Central Asia
Sector:	CRF-Economic Resilience/PBF	Sub-sector:	N/A
Instrument type:	☒Loan:52740.00 Yen million ☐Guarantee	Lead Co-financier (s):	Asian Development Bank
ES category:	C	Borrowing Entity:	Ministry of Finance, Kazakhstan
Implementing Entity:	Ministry of Finance, Kazakhstan		
Project Team Leader:	Emil Zalinyan		
Responsible DG:	Xiaohong Yang		
Responsible Department:	PSC2		
Project Team Members:	Mengmeng He, Finance Officer; Gulru Azamova, Environment & Social Development Specialist; Guoping Yu, Procurement Specialist; Nurul Mutmainnah, Financial Management Specialist; Luiz Eduardo Rodrigues, Project Lawyer; Hanting Qi, Project Info Focal		
Completed Site Visits by AIIB:			
Planned Site Visits by AIIB:	Sep, 2026 The team is considering a site visit to Kazakhstan as part of preparation activities for a standalone CPBF operation. It will use that opportunity to follow up on the implementation progress of this PBF.		
Current Red Flags Assigned:	0		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2025/10		

2. Project Summary and Objectives

The Program provided budget support to help the Government of Kazakhstan (GoK) implement critical reforms to accelerate economic recovery from the COVID-19 pandemic. It also aligned with the priorities of the GoK and aimed to assist in addressing its heightened macroeconomic and financial vulnerability to external shocks. Achieving this medium-term development goal required deep institutional reforms in fiscal management and the financial sector to close legal, policy, and institutional gaps.

Adopting a programmatic approach, ADB developed a two-year program comprising two sequential subprograms, supporting reforms in 1) fiscal sustainability, transparency, and governance, and 2) banking and capital market development. AIIB co-financed Subprogram 1 (the Program) under the AIIB COVID-19 Crisis Recovery Facility (CRF) in the amount equivalent to USD 350 million.

Under the Reform Area 1, several legal reforms were approved to (i) set explicit fiscal consolidation targets till 2030

for non-oil deficit, overall deficit, public debt (as a ceiling), government debt (as a ceiling), National Fund of the Republic of Kazakhstan (NFRK) assets, net financial assets ratio (NFRK/financial debt ratio), and government debt service as a percentage of budget expenditures (as a ceiling); (ii) set new fiscal rules to govern fiscal policy (non-oil deficit path) in a way that becomes countercyclical and imposes annual limits for transfers from NFRK; (iii) set new debt service limits for municipalities; and (iv) establish expanded formal monitoring of external and domestic debt of all state-owned enterprises.

Under Reform Area 2, ambitious reforms were implemented to re-establish the banking system's loan origination capacity and make financial intermediation more sustainable and accessible to small and medium-sized enterprises (SMEs) in Kazakhstan, strengthening the financial system's resilience to external shocks. The Strategic Concept for 'Development of the Financial Sector of Kazakhstan until 2030' was approved by the Presidential Decree, together with a time-bound action plan. Legislative amendments and operational modifications were implemented to ensure risk-based pricing of premiums into the reserve fund and payouts within one year after bank license revocation to enhance the confidence in and the effectiveness of the deposit insurance safety net. Reforms also improved transparency about non-performing loans (NPLs), creating preconditions for the development of an active market for Non-Performing Assets as a mechanism to eliminate bad asset legacies from past macroeconomic shocks and enable faster recoveries by the financial system in the future. Furthermore, reliable and socially responsible personal bankruptcy and solvency restoration options were established to protect creditors' rights. To promote sustainable banking practices, the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan (ARDFM) developed regulatory recommendations on the disclosure of information about the degree of exposure to ESG-related risks, as well as the procedure for identifying, assessing, and managing such risks in accordance with international ESG disclosure standards.

3. Key Dates

Approval:	Dec. 11, 2023	Signing:	Aug. 21, 2024
Effective:	Dec. 19, 2024	Restructured (if any):	
Orig. Closing:	Dec. 31, 2024	Rev. Closing (if any):	

4. Disbursement Summary (JPY million)

Contract Awarded:		Cancellation (if any):	
Disbursed:	52,740.00	Latest disbursement (amount/date):	52,740.00/Dec. 27, 2024
Undisbursed:	0.00	Disbursement Ratio (%)[1]:	100.00

5. Project Implementation Update

The implementation of the Program is underway. The PBL funds were fully disbursed on December 27, 2024. Following the conclusion of Subprogram 2 and the overall two-year program, AIIB will prepare a Project Completion Note (PCN) in consultation with ADB to verify the results achieved. The PCN is planned for late 2026, contingent on ADB's approval and disbursement of Subprogram 2. The team is considering a site visit to Kazakhstan as part of preparation activities for a standalone CPBF operation. It will use

[1] Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

that opportunity to follow up on the implementation progress of this PBF.

Components	Physical Progress	Environmental & Social Compliance	Procurement
$350.00 1) Fiscal sustainability, management, transparency, and governance, 2) Banking and capital markets development.			

Financial Management:

The 2025 PEFA assessment highlights steady and notable progress in Kazakhstan's PFM since the 2018 assessment, driven by robust IT systems that strengthen budget execution and cash management. Recent amendments to the Budget and Tax Codes have enhanced fiscal transparency and accountability, while aggregate fiscal discipline remains stable, supported by effective revenue administration and timely payments. Strategic resource allocation has improved through stronger links between medium-term budgeting and strategic planning. Revenue administration is guided by a clear legal framework and risk-based tools, contributing to low tax arrears. Budget execution benefits from strong internal controls, the operation of a Treasury Single Account managed by the Treasury Committee under the Ministry of Finance, and effective commitment controls, with no significant expenditure arrears. Accountability mechanisms are reinforced by regular publication of state budgets and execution reports, and by strengthened internal and external audit functions. The internal control and audit function is overseen by the Committee on Internal Public Audit (CIPA), and since 2022 the Supreme Audit Chamber (SAC) has expanded its mandate to issue annual audit opinions on consolidated government financial statements, which are publicly disclosed.

Additionally, reforms in Kazakhstan's accounting and financial reporting system are underway, with a government priority to completely transition to International Public Sector Accounting Standards (IPSAS) as outlined in the Kazakhstan Concept of Public Finance till 2030. Additionally, the International Standards of Supreme Audit Institutions (INTOSAI) Standards are not consistently applied in practice by either the SAC or CIPA. Strengthening adherence to these standards will require sustained effort, time, and resources. Currently, the World Bank is supporting the transition to INTOSAI by strengthening the capacity of Supreme Audit Institutions across Central Asia, including in Kazakhstan, through the Strengthening Supreme Audit Institutions in Central Asia Advisory Services and Analytics initiative.

6. Status of the Grievance Redress Mechanism (GRM)

Complaints brought by third parties relating to compliance with ADB's SPS will be addressed by the Special Project Facilitator or Compliance Review Panel, each established under ADB's Accountability Mechanism Policy. Information on ADB's Accountability Mechanism Policy is available at: https://www.adb.org/site/accountability-mechanism/main. No complaints have been received to date.

7. Results Monitoring

The Ministry of Finance is the executing and monitoring agency, while the Ministry of National Economy, the ARDFM, and the National Bank of Kazakhstan are the implementing agencies. The GoK completed all prior actions under the Program. Following the conclusion of Subprogram 2 and the overall two-year program, AIIB will prepare a Project Completion Note (PCN) in consultation with ADB to verify the results achieved. The PCN was originally scheduled for late 2026, contingent on ADB's approval and disbursement of Subprogram 2 by the end of 2025; however, the government has not yet provided all required documentary evidence of Subprogram 2's completion. Consequently, the timelines for both the ADB Subprogram 2 loan approval and the subsequent PCN will likely be adjusted. Hence, progress against the target result indicators is not yet available at this stage.

Project Objective: To support Kazakhstan in mitigation of the negative consequences of COVID-19 pandemic and post-pandemic shocks through (a) strengthening fiscal sustainability, governance and effectiveness, (b) development of financial and capital markets, and (c) enhancing oversight in the banking sector.

Project Objective Indicators

Monitoring end year：2025

Indicator Name	Unit of Measure	Baseline	Actual (Previous)	Actual (Current)	Current Target	End Target
Number of 'annual financial performance' reports and 'annual audited financial statements' (in line with international standards) are published by NFRK	Custom	0			At least 3 'annual financial performance' reports and 2 'annual audited financial statements'	At least 3 'annual financial performance' reports and 2 'annual audited financial statements'
Share of gross public debt plus SOE debt in GDP	Percentage	42%			<50%	<50%
Share of SOE debt in GDP	Percentage	21%			<22%	<22%
Share of debt service by local government in local government revenues	Percentage	10%			<10%	<10%
Average annual transfers from NFRK to the state budget over the last 3	Number	T3.37 trillion			< T3 trillion	< T3 trillion

years						
Share of all new project investments entering the MTEF that come from the new PIM legal framework for appraisal and approval	Percentage	0			50%	50%
Share of all ongoing public investment projects disclosed in the new state investment projects module of SPIS	Percentage	0			100%	100%
Number of regions submitting GRB requests for FY2026	Number	0			At least 2 regions	At least 2 regions
Volume of the secondary market trading of government securities	Number	$2.2 billion			$8 billion	$8 billion
Share of non-residents in total gross turnover of the secondary market for government securities	Percentage	7.5%			15%	15%
Reduction of distressed assets in the banking system	Percentage	T2.5 trillion			by 20%	by 20%
Ratio of regulatory capital to risk weighted assets in the banking system	Percentage	13%			>20%	>20%
Share of corporate loans in total loan portfolio	Percentage	27%			35%	35%
Share of SME loans in total loan portfolio	Percentage	27%			35%	35%

Comments:

Remarks: