

AN OVERVIEW OF KAZAKHSTAN BUDGETARY SYSTEM

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Abstract

This article is mainly devoted to a description of how the budgetary system of Kazakhstan is structured, with an attempt to show the general picture and an in-depth overview of the revenue and expenditure parts of the budget. In the first part we provide the general structure of the Kazakhstan's budgetary system and main policies, in second part we provide an overview and decomposition of revenue and expense components of the consolidated budget with main focus on the Government budget and the National Fund. The third part is a summary.

Key Words: Kazakhstan budgetary system. Expense. Revenue

KAZAKİSTAN BÜTÇE SİSTEMİNE BİR BAKIŞ

Özet

Bu makalede Kazakistan'ın bütçe sisteminin tanıtılmasının yanısıra, bütçenin gelir ve harcama kalemlerinin irdelenmesi amaçlanmıştır. Birinci bölümde Kazakistan'ın bütçe sisteminin genel yapısı ve temel politikaları, ikinci bölümde ise konsolide bütçenin harcama ve gelir kalemleri bileşenleri, Devlet Bütçesi ve Hazine üzerinde odaklanılmak suretiyle sunulmaktadır. Sonuç bölümünde genel bir değerlendirme yapılmaktadır.

Anahtar Kelimeler: Kazakistan bütçe sistemi. Harcama. Gelir

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1. GENERAL ECONOMIC OVERVIEW OF REPUBLIC OF KAZAKHSTAN

Passing the second decade of its independency, Kazakhstan was faced somewhat different priorities compared to those which were on the agenda in the first decade. In the new century the objectives set by the government were mainly identified by the decrees of the president related to sustainable development and economic diversification of the economy. Kazakhstan is dominated by a formal political elite and a highly centralized country (Knox, 2008). Cummings (2005) argues that the elite system is a compelling factor behind the emergence and maintenance of authoritarianism in Kazakhstan.

The new budgetary system, with its major implication on formation of the National and budgetary system in 2007 was developed as part of the general development program.

The last decade may objectively be characterized by sustainable and high growth of the economy, with real GDP growing at an average rate of about 9% per annum and inflation, as measured by the CPI, being around the set figure of 7% per year. However, Kazakhstan economy is still dependent on its natural resources as about 70% of the exports of its goods are oil and gas. The main economic statistics for Kazakhstan presented in the Table 1 provide a picture of growth of national economy.

Formation of the National Fund was fostered by the two needs. First and a more important one is to provide a stabilization tool so that all extra funds which are accumulated in good years, when the prices for natural resources are at their highs, do not overheat the local economy but rather used to provide sustainable development and aid in development of long-term projects of the economy-wide importance which are expected to provide economic diversification and decrease the country's dependency on the natural resources sector. The second objective of the National Fund is to save the wealth for future generations.

Table 1: General economic indicators of Kazakhstan 2006-2010

	2006	2007	2008	2009	2010
GDP at current market prices (bln KZT)	10213,7	12849,7	16052,9	17007,6	21815

GDP at current market prices (mln USD)	81003,5	104853	133440,7	115306,1	148052
Growth of real GDP (percent)	10,7%	8,9%	3,3%	1,2%	7,3%
GDP deflator (as a percentage of the previous year's amount)	121,5%	115,5%	121,0%	104,7%	119,6%
CPI (as a percentage of the previous year's amount)	108,6%	110,8%	117,0%	107,3%	107,1%
GDP per capita (KZT)	667211	829865,3	1024175	1056803	1336466
GDP per capita (USD)	5291,6	6771,6	8513,5	7164,8	9070,0
GNI at current market prices (bln KZT)	9021,8	11261,9	13727,9	15146,1	19116,0
Net national savings (bln KZT)	1738,0	2040,66	2859,96	2618,59	3784,87
Net lending (borrowing) to other world (bln KZT)	-249,65	-993,97	782,81	-607,95	1609,51
KZT/USD exchange rate	126,09	122,55	120,30	147,50	147,35
Average population (mln people)	15,308	15,4842	15,674	16,0934	16,3232

Source: The agency of statistics of the Republic of Kazakhstan, 2012

2. BUDGET STRUCTURE AND BUDGETARY POLICY OF REPUBLIC OF KAZAKHSTAN

2.1 Budget structure of Republic of Kazakhstan

In 2007 by decree of Government of Republic of Kazakhstan No.1297 was introduced the New Concept of the system of government planning, called “result-oriented system of government planning” which proposes new methods of documentation related to the budgeting process along with a more important issue of the procedure of development of new budget programs. The new program of government planning of the Republic of Kazakhstan consists of the following layers, which are depicted in the Exhibit 1 below.

The budgeting process starts with the general program on development of Republic of Kazakhstan “2030”. Then the general system of planning combines different layers of planning including long-term strategic planning programs, messages of the president, 3-year plans of government, republic, and local bodies; the last three layers are strengthened by 1-year memorandums.

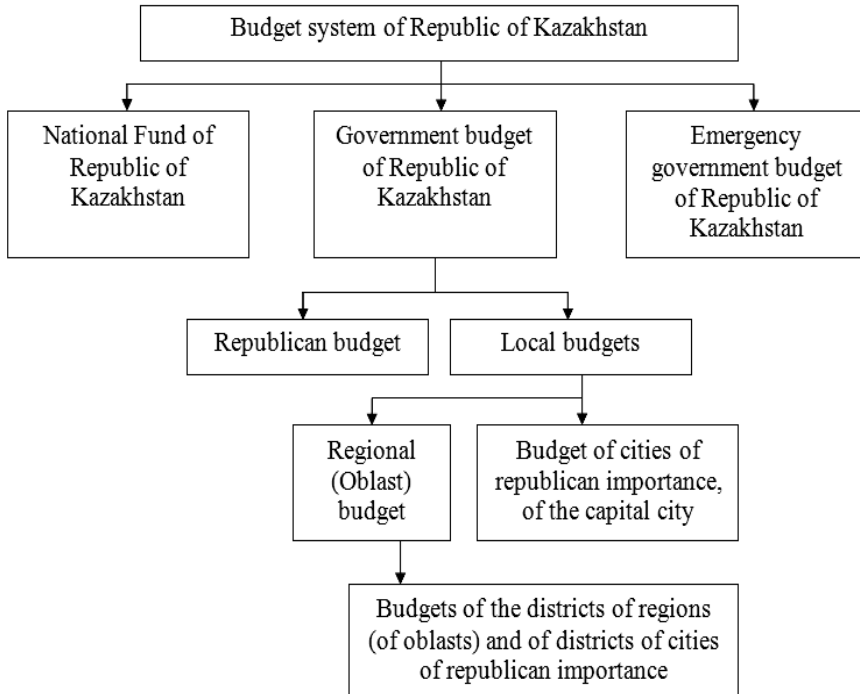
The long-term strategy called “Kazakhstan-2030”, formed in 1997 is based on seven priorities, which are: national security, internal political stability and social tolerance, economic development, healthcare, education and wellbeing of citizens, energy resources, development of infrastructure with main focus on transport and communication, and professional government. These long-term priorities are always taken into account when conducting planning and development programs.

Exhibit 1: New system of government planning



Source: Institute of Economic Research of the Ministry of economic and budgetary planning of the Republic of Kazakhstan, 2012

Exhibit 2: Budget system of Republic of Kazakhstan



Source: Institute of Economic Research of the Ministry of economic and budgetary planning of the Republic of Kazakhstan, 2012

For realization of the “Kazakhstan-2030” strategy new bodies, namely fund of national wellbeing “Samruk-Kazyna”, national holding “Kazagro”, were formed, which play a role of effective management of government resources.

Budget system of Kazakhstan is based on the principles defined by the clause 4 of the Budget Code of Republic of Kazakhstan. The budget system consists of the republic budget along with the National Fund, combined with an emergency budget which is used in emergency cases such as war or other emergency conditions. The structure of the budget system of Kazakhstan is depicted in the Exhibit 2.

State budget is an aggregate of the republic budget and local budgets, excluding mutually offsetting operations (such as transfers between republic and local budgets) between these two budgets.

Republic budget is a centralized pool of funds formed from tax and nontax revenues, which are defined by the Budget Code. It is

used mainly for financial needs and to facilitate functions of the central government bodies, their subsidies, and for execution the republic-wide government policies. The republic budget for a particular fiscal year is set by the related Law of Republic of Kazakhstan. The fiscal year coincides with the calendar year and thus starts on 1st January and ends on 31 December.

Regional budget, budgets of cities of republic importance and of the capital city are defined as the centralized pools of funds also formed from tax and nontax revenues, which are defined by the Budget Code. They are used mainly for financial needs and to facilitate functions of the local government bodies of regional levels, cities of republic importance and the capital city levels, their subsidies, and for execution government policies in the particular administrative-territorial unit. These budgets are set by the *Maslikhats* of the particular administrative-territorial unit.

The emergency budget comes into action only in the presence of different emergency conditions. This budget is being turned on and off by the decree of the president of the Republic of Kazakhstan on imposing and ceasing of the emergency or the war conditions on the territory of the republic. During the use of the emergency budget the use of laws regulating the republic budget and the decrees of *Maslikhats* on the local budgets of all levels are ceased. The parliament is immediately informed about the entry of the emergency conditions on the territory of the republic.

One very important feature of the budget system of Kazakhstan is the presence of the stabilization fund called the National Fund of Republic of Kazakhstan, which was formed pursuing the need for a stable social-economic development of the country, saving of financial wealth for the future generations, and decreasing dependency of the country's economy on negative external factors. National Fund was organized by the decree of the president of Republic of Kazakhstan dated 23rd August 2000, named "On National Fund of Republic of Kazakhstan". The main two functions of the National Fund are:

1. Stabilization function – decrease of the dependency of the republic budget on the world prices of natural resources.
2. Saving function – a saving pool for use by the future generations.

2.2 Budget Policy Of Republic Of Kazakhstan

The budget setting procedure of the republic budget and of local budgets is undertaken in the following manner.

The project of the law on republic budget is prepared by the Government of Republic of Kazakhstan not later than the 1st September of the current year. Then majilis and senate of the parliament oversee the project during their meetings taking into consideration reports of the representative responsible for the forecasts of social-economic development and budget parameters, and for the project of the law on republic budget. The representative responsible for above stated forecasts and project is the minister of the economy and budget planning.

The republic budget is set during separate meetings of parliament, first during the meeting in the Majilis, and then in the Senate, not later than 1st December of the current fiscal year. If the parliament fails to set a law on a republic budget till 1st December president has a right to make a decree on republic financial plan for the first quarter of the following fiscal year. In the case of a situation where the parliament fails to set a budget and the first quarter budget is represented by the decree of the president, the republic budget for the whole fiscal year should be set not later than the 1st March of the year.

Fiscal policy of Kazakhstan currently is oriented towards three main objectives which are:

- a. Development of sustainable fiscal system along with strengthening of fiscal discipline, execution of moderately-tight fiscal policy, and effective use of National Fund assets.
- b. Implementation of tax policy oriented on growth of business activity among households and individuals, through continuous optimization of the tax burden among the economy along with increasing transparency and simplicity of tax procedures.
- c. Use of government funds directed on achieving of main objectives of the social-economic policy of the government.

In 2008 new Budget and Tax Codes were introduced to foster implementation of the above three objectives.

Main directions of the medium-term fiscal policy for the period of 2009-2013 are set in a document named "Forecast of social-economic development and budget parameters of Republic of Kazakhstan on the years 2009-2013". Medium-term fiscal policy of Kazakhstan for the general economy is developed by the central-authorized unit in charge of budgetary planning, and locally by local-authorized unit in charge of budgetary planning. These bodies act

with accordance of the yearly messages of the president to the people of Kazakhstan, budget and tax codes, government programs and other strategic and program documents of the country.

The main directions of the medium-term fiscal policy are:

- Development of competitive tax system which will strengthen the competencies of the country;
- Tuning of the tax system in accordance with objectives of the new stage of development of Kazakhstan, to foster growth and diversification of the local economy;
- Optimization of subsidies and a decrease of tax burden on non-natural-resources sector of the economy, settlement of tax system for businesses with accordance to world standards;
- Setting value-added tax policies in accordance with best world practices;
- Unification of excise rates on import and on domestic production;
- Reformation of the tax system for the subsurface resource users;
- Simplification of administrative procedures, rising quality of tax services and transparency of tax procedures, decreasing the amount of tax reporting, rearranging the schedule of tax audits.

Inter budget relations of the Kazakhstan budget system are being held by the three tools which are transfers from one budget to another, budget credits, and norms of allocation of budget revenues. Inter budget relations between republic budget, regional budgets, budgets of cities of republic importance and budget of the capital city are regulated by the way of transfers and budget credits.

Inter budget relations between regional and district (and of the cities of regional importance) are regulated by the way of transfers, budget credits, and norms of allocation of budget revenues.

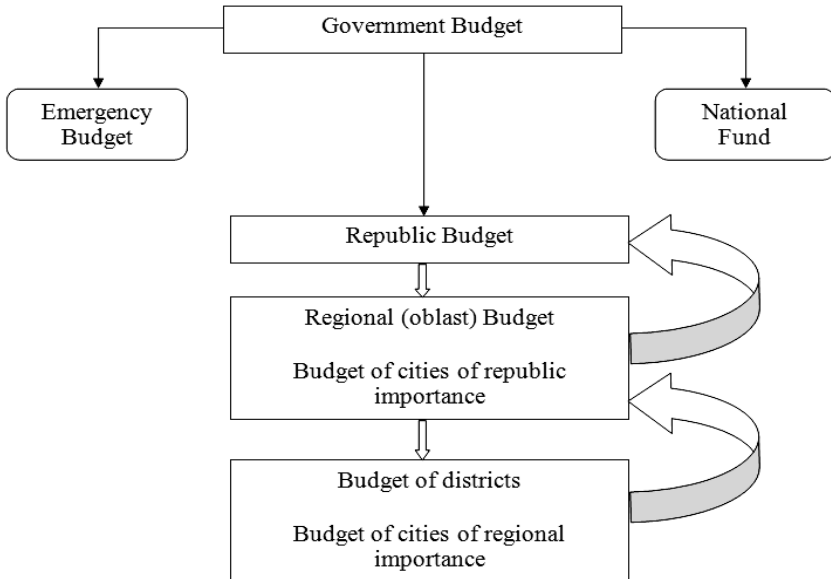
Interactions between the following budget layers are prohibited:

- Interaction of the republican budget with budgets of district (or with budgets of cities of regional importance)
- Horizontal interaction between the regional budgets, and between the cities of the republic importance with each other and with the capital city.
- Horizontal interaction between budgets of different district (or with budgets of cities of regional importance between each other). (Institute of Economic Research of

the Ministry of economic and budgetary planning of the Republic of Kazakhstan, 2012); (Law of Republic of Kazakhstan “On the amounts of general transfers between republic and local budgets, budgets of cities of republic importance, capital city on 2008-2010”, 27 November, 2007)

Exhibit 3 summarizes the logic of interaction between the budgets of the Republic of Kazakhstan.

Exhibit 3: Interaction among budgets of different levels



Source: Institute of Economic Research of the Ministry of economic and budgetary planning of the Republic of Kazakhstan, 2012

Budget financing policy is linked to the market value of the assets of the National Fund. For example, medium-term government liabilities are oriented towards 50-70 percent ratio of government debt to market value of total assets of the National Fund. Government of republic of Kazakhstan expects to attract funds from external sources for realization of large infrastructure and socially-important projects. Repayment of external debts is organized according to schedules of repayment of government debt worked out with related international financial organizations, governments of foreign countries, foreign commercial banks and organizations.

In the Table 2 you may see the main cost objects of the Kazakhstan budgeting system, namely the Government Budget and the National Fund of the Republic of Kazakhstan.

Due to the world financial crisis the and associated decline in the growth of local economy we may observe that, with constant-growing government expenditures, revenues have declined in 2009 leaving the government budget with a negative operational balance of KZT 241.52 bln. However, as the growth of the Kazakhstan economy stabilizes at higher levels as seen from increase in the real GDP growth for the 2011 we may expect the positive operational balance to show up in the near future.

Generally we may state that Kazakhstan is proceeding with a healthy budget deficit taken into account although negative but low operational balance which is magnified by the net budget lending and acquisition of financial assets.

Notable is that Kazakhstan is trying to remain dependable on the internal sources of funds in financing its budget deficit (Exhibit 4).

The data from the Table 3 shows the net inflows of funds to the National Fund from the time of its creation. We may observe that the growth of net inflows have decreased after 2007 mainly due to large outflows in the period of 2008-2010 which are mainly the tranches to the government budget in the years of crisis. More to note, as will be presented below, the decrease in net inflows for the year 2004 and the high net inflow figure for the year 2009 are mainly due to exchange rate effect caused by high respective appreciation and devaluation of the KZT/USD rate.

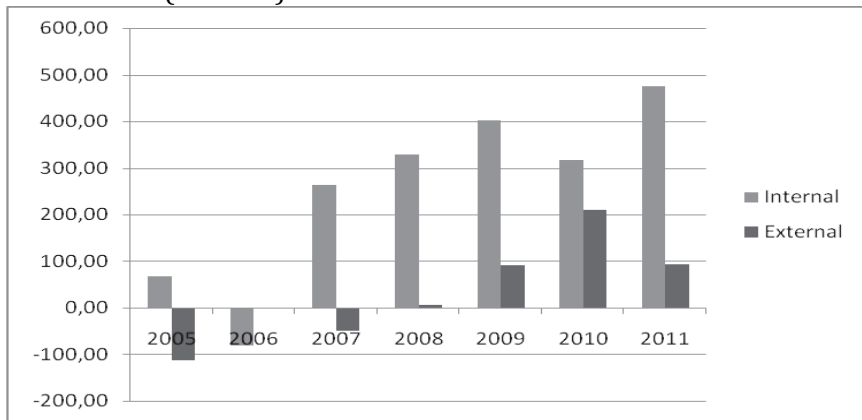
Table 2: Government Budget (Bln. KZT)

	2007	2008	2009	2010	2011
Revenues	2887,87	4034,41	3505,32	4299,12	5370,83
Expenditures	2678,28	3394,06	3746,84	4457,16	5423,23
Operational balance	209,59	640,35	-241,52	-158,04	-52,41
Net budget lending	8,10	42,46	27,48	22,19	69,18
Balance on operations with financial assets	416,79	931,13	223,72	347,04	447,12
Budget surplus (deficit)	-215,30	-333,24	-492,72	-527,27	-568,70
Financing of deficit (use of surplus)	215,30	333,24	492,69	527,26	568,60

Internal	264,27	328,24	401,02	316,42	475,98
Borrowing	297,26	488,70	640,11	595,06	738,10
Repayment	32,99	160,46	239,09	278,64	262,12
External	-48,98	5,00	91,67	210,84	92,62
Borrowing	12,56	12,14	101,65	222,31	105,58
Repayment	61,53	7,14	9,97	11,47	12,96

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Exhibit 4: Sources of financing the deficit for Republic of Kazakhstan (Bln KZT)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2005-2011

Table 3: National Fund of Republic of Kazakhstan (Bln. KZT)

	2005	2006	2007	2008	2009	2010
Balance as of the beginning of the period	667,02	1080,01	1853,40	2733,35	3310,78	4500,7
Inflows of funds	413,71	774,31	1139,27	1652,53	2297,42	2407,7
Outflows of funds	0,72	0,92	259,32	1075,10	1107,50	1203,9
Net inflows (outflows)	412,99	773,39	879,95	577,43	1189,92	1203,7
Balance as of the end of the period	1080,01	1853,40	2733,35	3310,78	4500,70	5704,4

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2005-2010

2.3 Budget Revenues

Revenue components of the government budget may be subdivided into four main parts, namely tax and non-tax revenues which compose the operating revenue of the government budget along with capital gains, which mainly consists of revenues received from sale of government property, sale of goods from government reserves, sale of land and intangible assets, and transfers received from the National Fund. The list and structure of the components of the government budget is presented in Table 4.

Tax revenues have been traditionally the main revenue of the government budget, however in the crisis years large transfers from the National Fund were needed to help government budget deficit not to leave the target values. We may see the historical contribution of the tax revenue, non-tax revenue, capital gains revenue, and transfers from the National Fund for the first decade of the 21st century in the Exhibit 5.

A deeper look on the tax revenue of the government budget shows the historical dominance of the corporate income tax, value-added tax, social tax, and the personal income tax in the total tax revenue, with increasing importance of the taxes on international trade. Tax on gaming business, first introduced in 2008, is the consequence of the government programs directed on controlling of gambling business in the country, as one part of this program all the casinos and other gambling facilities were taken outside of the cities. You may observe these trends in the Exhibit 6.

A glance at the main revenue subdivision of the National Fund suggests that the core stable source of revenue is the tax received from oil-sector companies. Note that the tax revenues correlate in a high extent with world prices for the crude oil, in the exhibits 7 and 8 the reader may compare the trends of the tax revenues and the prices for the Brent crude oil for the same periods. Exhibits 7 and 8 are accompanied by the Exhibit 7 which shows yearly percentage changes in tax revenue of the National Fund and prices for the Brent crude oil. As we can see, in most cases increase in oil prices in a particular year is very often accompanied by increase in the tax revenue of the National Fund. If we assume that the funds from the oil sector are spent in the near future after they are earned then varying prices on oil might have caused high inflationary pressures as the budget revenues and thus subsequent budget spending would increase, whereas in the bad years for oil market the government budget would end with deficits. This is what the government authorities thrived to while initiating the National Fund in 2000,

without stabilization function provided by the National Fund the economy of Kazakhstan would have been much more dependent on the world prices of oil and gas.

Contribution of different components of the tax revenue of the National Fund is shown in the Exhibit 8. The main sources of tax revenue are the corporate income tax and royalty. However, the reader may mention the increasing importance of rental tax in the years 2009 and 2010.

Table 6 shows balance sheet of the National Fund for the period of 2003-2010. Combining the information from the table and Exhibit 9. we may conclude that, except for the year 2003 where high long and short positions on derivatives are reported, assets of the national fund are held in investment securities with derivative positions most probably being used as a hedge instrument.

Analysis of the return on net assets of the National Fund reveals an arithmetic average return on net assets at 4.84% per annum and geometric average return on net assets at 5.35% per annum. This suggests that the funds of the National Fund are slightly been eroded as the inflation rate as measured by the CPI is around 7% for the same period. Taking into account exchange rate effects we need to underline the 2004 when the exchange rate of KZT\USD has sharply increased by about 9.8% which led to understated return on net assets in 2004 of -2.24% and the subsequent devaluation of Tenge in 2009 by about 23% which led to overstated return in that year of 25.12%. See the Exhibit 10.

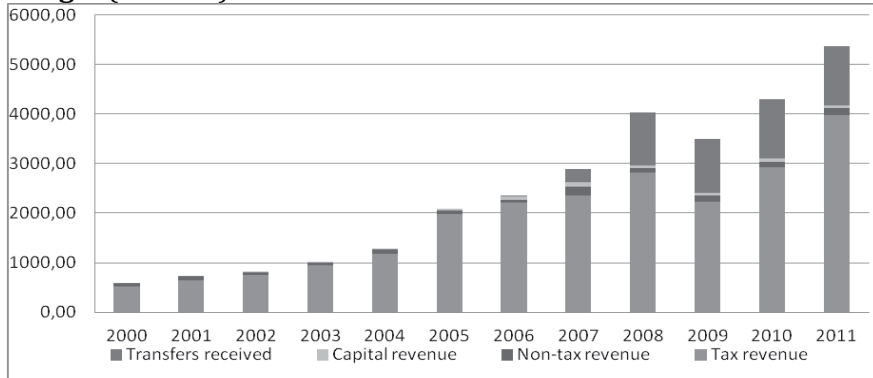
Table 4: Sources of revenue for Government budget (Bln. KZT)

	2007	2008	2009	2010	2011
Tax revenue	2356,04	2819,51	2228,66	2934,07	3982,34
Corporate income tax	758,30	920,91	643,67	837,22	1050,38
Personal income tax	221,03	267,36	268,73	312,33	376,25
Social tax	295,73	251,22	232,84	253,83	296,84
Property tax	82,93	103,33	122,97	148,41	161,17
VAT	629,28	640,98	515,93	677,23	865,21
Excises	58,75	56,53	57,39	61,42	76,40
Natural resources use revenue	132,18	131,08	201,19	231,27	298,04

Business and professional licences	7,35	7,76	8,35	9,73	11,95
Tax on gaming business		0,05	2,38	5,31	5,91
Taxes on international trade	150,36	421,39	152,23	373,80	813,79
Other tax revenue	0,91	0,04	0,02	0,01	0,00
Mandatory payments charged for performance of legal actions	19,22	18,86	22,97	23,51	26,40
Non-tax revenue	181,10	85,54	136,18	104,40	138,60
Total operating revenue	2537,14	2905,05	2364,83	3038,47	4120,94
Capital revenue	92,69	56,94	35,89	60,65	49,89
Transfers received	258,05	1072,42	1104,60	1200,00	1200,00
Total revenue of Government budget	2887,87	4034,41	3505,32	4299,12	5370,83

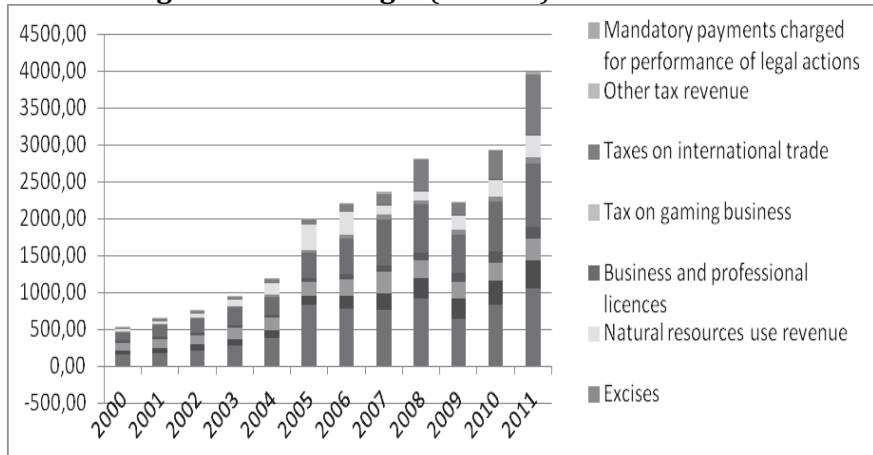
Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Exhibit 5: Contribution of tax, non-tax, capital revenues, and transfers from the national fund in total revenue of government budget (Bln KZT)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2000-2011

Exhibit 6: Contribution of individual components of the tax revenue of government budget (Bln KZT)



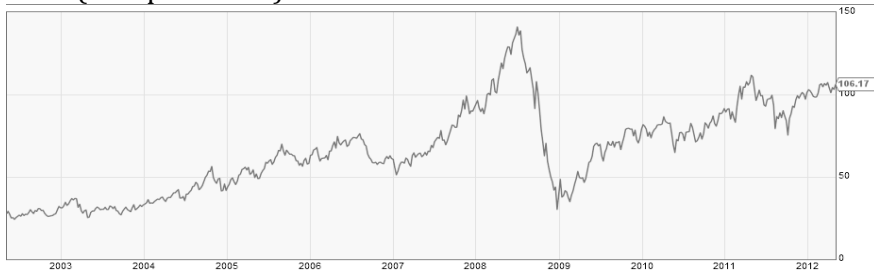
Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2000-2011

Table 5: Sources of revenue of the National Fund (Bln. KZT)

	2006	2007	2008	2009	2010
Tax Revenue	758,31	1037,09	781,10	1371,36	2256,35
Corporate income tax	470,51	693,04	102,15	559,48	807,09
Excess profits tax	75,65	116,74	198,54	233,32	105,88
Royalty / tax on the extraction of natural resources	177,99	171,24	367,09	317,07	775,00
Portion of the Republic of Kazakhstan under the production sharing	22,98	44,50	88,51	52,53	93,96
Rental tax on exported crude oil and gas	0,24	0,61	0,96	204,36	470,81
Other tax revenue	11	11	24	5	4
Non-tax Revenue	75,04	96,77	-49,56	925,40	150,85
Investment income on NF funds	75,04	95,92	-66,24	919,32	134,17
Other non-tax revenue	0,00	0,85	16,68	6,08	16,68
Capital Revenue	16,54	5,41	1,61	0,65	0,53
From sale of land into private property	3,98	5,41	1,61	0,65	0,53
Other capital revenue	12,56	0,00	0,00	0,00	0,00

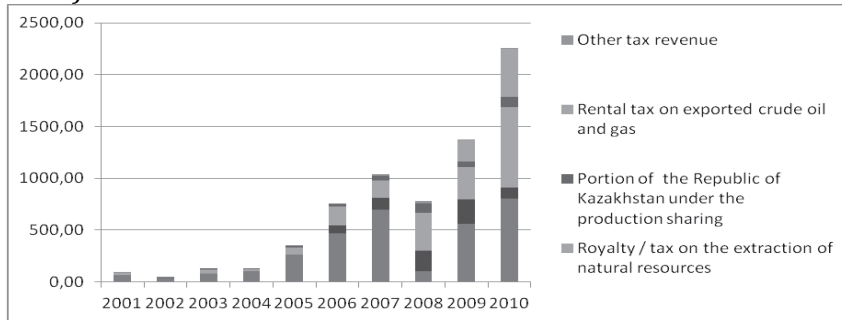
Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2006-2010

Exhibit 7: Price of the Brent crude oil for the period of 2002-2012(USD per barrel)



Source: YCharts, 2012

Exhibit 8: Contribution of different components of the tax revenue of the National Fund (Percent of total tax revenue, 2001-2010)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2001-2010

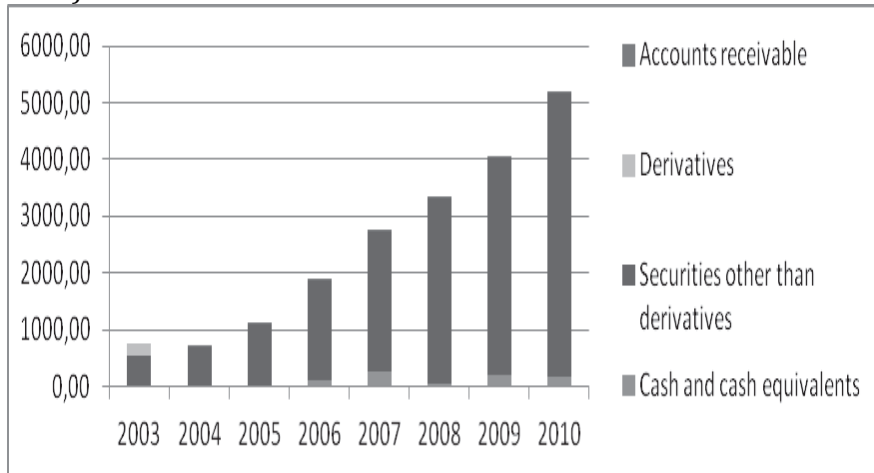
Table 6: Balance Sheet of the National Fund (Bln KZT)

	2007	2008	2009	2010
Assets				
Cash and cash equivalents	272,87	49,16	200,43	176,44
Securities other than derivatives	2458,21	3258,92	3813,70	4983,55
Derivatives	0,95	4,90	1,57	4,23
Accounts receivable	2,57	1,26	0,00	5,33
Total assets	2734,59	3314,25	4015,70	5169,56
Liabilities				
Derivatives	1,06	2,47	1,96	3,03
Repo				60,95
Accounts payable and accrued expenses	2,65	2,41	4,22	7,05

Total liabilities	3,71	4,87	6,17	71,03
Net assets	2730,89	3309,37	4009,53	5098,53

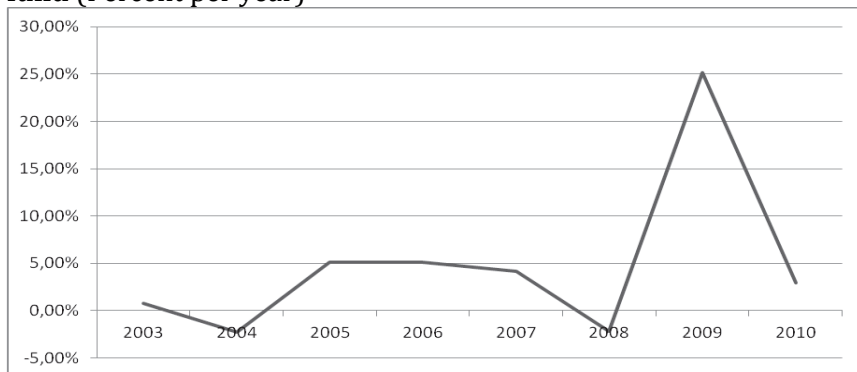
Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2010

Exhibit 9: Structure of assets of the National Fund (Bln KZT, 2003-2010)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2010

Exhibit 10: Investment income on the net assets of the national fund (Percent per year)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2010

2.4 BUDGET EXPENDITURES

In this part we present expenditures of the government budget from two standpoints and the sources of outflows from the national fund.

First, to mention from the Table 7 and the Exhibits 14, 15, and 16, we present the economic classification of government budget outflows. The main sources of outflows are the current and capital expenditures with the rest minor part being used to provide loans to local economy and the repayment of principal on the government debt. Note that the repayments of internal debts have increased substantially in proportion to external repayments after 2008.

Current expenditures are spent mainly on wages and salaries of the public sector employees, purchases of goods and services by government, and subsidies and current transfers to domestic units which represent such payments as pension plans of retired individuals, disabled people, educational and other grants and subsidies.

Capital expenditures are mainly devoted to fixed capital creation and repairs, as an example, repair of roadways, buildings under public management, etc; acquisition of fixed assets, and financial assets mainly after 2005.

Interest payment on government debt have decreased with time as a proportion of total government expenditures from about 5-6 percent of total expenditures in 2000-2001 to about 2 percent in 2005-2011. But we may expect this figure to be somewhat higher for the next years as the level of government debt has increased after the financial crisis of 2008.

If we look at what is the main portion of government expenditures the largest three categories are education, healthcare, and social security and welfare, followed by general public services, defense, public order and safety, housing, and transport and communications (Exhibit 11).

Government budget expenditures are closely linked to the "Kazakhstan-2030" long-term strategy of development. In the Table 9 we present the government expenditures by the main types according to their links to the related main priorities of development formulated in the "Kazakhstan-2030" program.

Table 10 summarizes the uses of funds of the National Fund. Main outflows from the National Fund include yearly charges for management of the fund and transfers to the government budget as specified by the long-term government programs. Note that government budget has first used the help of the National Fund in the 2008 crisis years.

In every year of the period between 2003 and 2011 we may observe an increase in government lending as well as positive balance on operations with financial assets. Note that these

transactions presuppose future cash inflows to be received by government of Kazakhstan and thus should not be treated as expense (Tables 11 and 12).

Table 7: Economic classification of government budget outflows(Bln. KZT)

	2007	2008	2009	2010	2011
Current expenditures	1902,0	2272,3	2737,7	3273,3	4094,5
Wages and salaries	429,63	467,07	591,01	681,23	823,55
Social security contributions	51,79	38,96	44,34	50,52	61,57
Goods and services	828,20	1002,7	1196,1	1447,4	1847,4
Interest payments	34,01	61,39	69,04	94,62	121,69
Interest payments on domestic debt	25,85	55,94	62,69	88,06	113,57
Interest payments on external debt	8,17	5,44	6,35	6,56	8,12
Subsidies and current transfers	558,39	702,17	837,15	999,53	1240,3
Current transfers to domestic units	556,95	700,48	819,68	995,89	1236,7
Current transfers abroad	1,44	1,70	17,47	3,64	3,59
Capital expenditures	1195,7	2053,9	1233,7	1531,9	1777,4
Acquisition of fixed assets	116,42	135,91	85,39	114,99	170,93
Acquisition of financial assets	416,54	1063,2	236,94	351,52	459,19
Fixed capital creation and repairs	604,79	788,37	852,71	991,91	1147,2
Capital transfers	57,98	66,44	58,68	73,49	0,00

Loans given from government budget	15,89	47,28	31,54	110,81	141,29
Repayment of principal on government debt	94,51	167,60	249,06	290,11	275,08
Internal debt repayment	32,97	160,46	239,09	278,64	262,12
External debt repayment	61,53	7,14	9,97	11,47	12,96
Total outflows from government budget	3208,13	4541,19	4252,04	5206,1	6288,3

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Table 8: Expenditures of the government budget by categories(Bln. KZT)

	2007	2008	2009	2010	2011
General public services	164,74	224,01	166,06	224,94	296,48
Defense	166,65	185,36	187,62	221,35	264,50
Public order and safety	240,99	271,47	316,19	368,78	448,50
Education	455,43	572,40	660,92	755,30	986,77
Healthcare	299,38	363,21	450,89	551,33	626,31
Social security and welfare	502,38	622,02	758,31	905,27	1133,5
Housing	199,94	233,93	304,05	334,16	389,24
Culture, sports, tourism and informational space	122,21	163,97	173,62	227,56	201,64
Fuel, energy and sub-surface use	52,27	60,51	58,58	79,72	112,49
Agriculture	100,96	170,37	168,12	207,07	270,76
Industry and construction	10,47	40,08	30,92	28,24	24,82

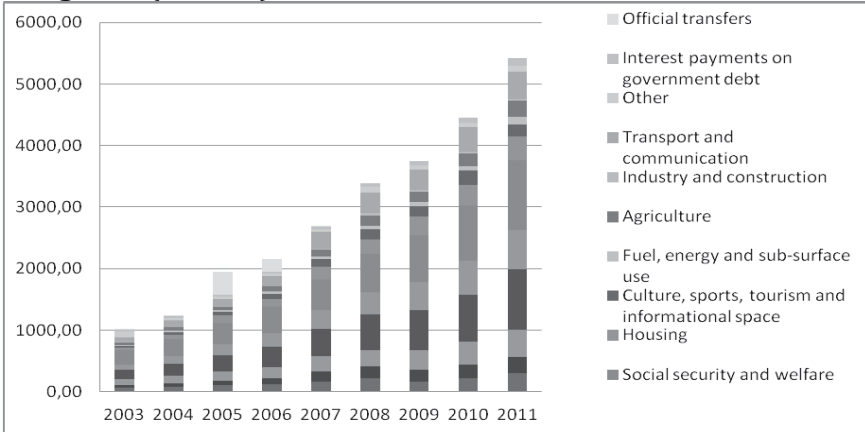
Transport and communication	289,65	332,71	337,51	390,67	449,21
Other	39,17	96,16	64,85	68,17	97,26
Interest payments on government debt	34,01	57,88	69,21	94,62	121,68
Official transfers	0,04	0,00	0,00	0,00	0,00
Total expenditures	2678,2	3394,06	3746,8	4457,1	5423,2

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Table 9: Relation of government expenditures to the strategy “Kazakhstan-2030”

Type of government expenditure	Related priority of the strategy “Kazakhstan-2030”
General public services	Professional government
Defense, and public order and safety	National security
Education	Health, education, and wellbeing of citizens of Kazakhstan
Healthcare	Health, education, and wellbeing of citizens of Kazakhstan
Social security and welfare	Health, education, and wellbeing of citizens of Kazakhstan
Housing	Health, education, and wellbeing of citizens of Kazakhstan
Culture, sports, tourism and informational space	Health, education, and wellbeing of citizens of Kazakhstan
Fuel, energy and sub-surface use	Energy resources
Agriculture	Economic development based on open market economy with high level of foreign investment
Industry and construction	Economic development based on open market economy with high level of foreign investment
Transport and communication	Infrastructure, particularly transport and communication
Debt servicing	Economic development based on open market economy with high level of foreign investment

Source: Institute of Economic Research of the Ministry of economic and budgetary planning of the Republic of Kazakhstan, 2012
Exhibit 11: Expenditures of the government budget by categories (Bln KZT)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2011

Table 10: Uses of funds of the National Fund (Bln. KZT)

	2007	2008	2009	2010
Transfers to other budgets	258,00	1072,42	1104,60	1200,00
Operating expenses of the National Fund	1,32	2,67	2,90	3,98

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2010

Table 11: Net budget lending (Bln. KZT)

	2007	2008	2009	2010	2011
Net budget lending	8,10	42,46	27,48	22,19	69,18
Lending	15,89	47,28	31,54	110,81	141,29
Repayment	7,79	4,82	4,06	88,63	72,11

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Table 12: Balance on operations with financial assets (Bln. KZT)

	2007	2008	2009	2010	2011
Balance on operations with financial assets	416,79	931,13	223,72	347,04	447,12

Acquisition of financial assets	419,44	932,44	224,59	348,07	448,81
Sale of financial assets	2,65	1,31	0,87	1,03	1,69

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

2.5 Debt Of Government Sector Of Republic Of Kazakhstan

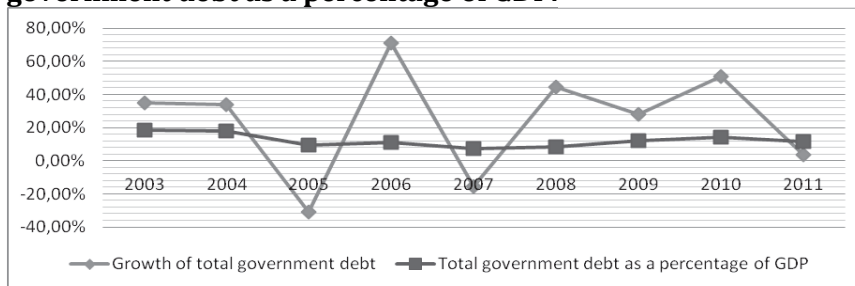
As seen from the Exhibit 12, although the government debt growth figures tend to be volatile, that is, sometimes growing on 60% per year and sometimes falling by 40%, the total government debt stays stable when measured as a percentage of GDP. More important is the declining trend in the total government debt as a percentage of GDP which has never been higher than 20% and is around 12% for 2011.

During the first decade of the century we may observe the increase in total government debt being caused mainly by increasing internal government debt. As a result, Kazakhstan is now less dependent on external debt than it was in early 2000s. (Table 13, Exhibit 13)

Although external debt is a small portion of the government debt of Kazakhstan, it is interesting to know to whom government sector of Kazakhstan owes. Historically Kazakhstan has been dependent on multilateral debt agreements, with IBRD being the largest creditor. (Table 14, Exhibit 14)

Internal debt of the government sector is represented by government bonds of different maturity and repayment structure. The list of debt instruments used to finance government internally for the period 2003-2011 is presented in Table 15. The areas shaded grey show the periods where some bond issue was absent, for example State long-term treasury balanced liabilities are indexed bonds which have been first issued in 2006.

Exhibit 12: Growth of total government debt and total government debt as a percentage of GDP.



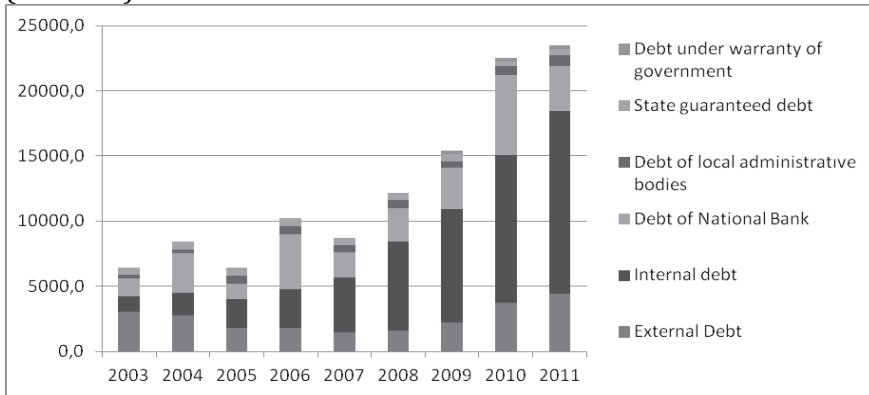
Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2011

Table 13: Total government debt, state-guaranteed debt, and debt under warranty of government.(Mln .USD)

	2007	2008	2009	2010	2011
External Government Debt of Republic of Kazakhstan	1431,2	1618,2	2218,1	3751,2	4455,9
Internal debt	4253,6	6791,5	8688,2	11323,3	14019,3
Debt of National Bank	1903,0	2585,7	3190,2	6102,7	3435,3
Debt of local administrative bodies	585,8	618,4	492,7	726,4	843,0
To government of RK	542,7	597,7	475,9	621,3	738,6
To other creditors	43,1	20,7	16,8	105,1	104,4
Total Government Debt	7630,9	11016,1	14113,3	21282,3	22014,9
State guaranteed debt	546,1	563,0	536,2	358,6	488,3
Debt under warranty of government	0,0	0,0	264,7	272,4	270,4
Total government debt, state-guaranteed debt, and debt under warranty of government	8177,0	11579,1	14914,2	21913,3	22773,6

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Exhibit 13: Government sector debt of Republic of Kazakhstan (Mln USD)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2011

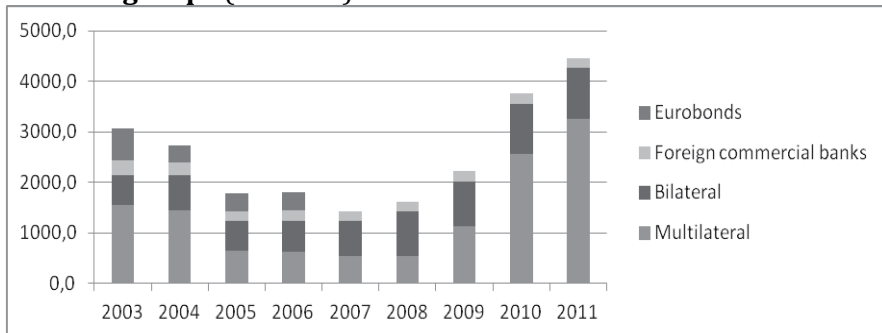
Table 14: External government debt of Republic of Kazakhstan (Mln. USD)

	2007	2008	2009	2010	2011
External Government Debt of Republic of Kazakhstan	1431,20	1618,20	2218,10	3751,20	4455,90
Multilateral	532,40	539,40	1120,70	2556,30	3247,20
IBRD	300,80	300,40	357,10	1634,40	2105,30
ADB	79,30	83,80	626,10	713,50	853,60
EBRD	115,30	118,40	102,90	112,80	138,90
IDB	37,00	36,80	34,60	95,60	149,40
Bilateral	698,80	878,80	897,40	994,90	1008,70
Saudi Development Fund	8,60	7,80	7,00	6,20	5,40
Kuwait Arab Economic Development Fund	14,10	13,60	12,30	11,70	11,00
Abu-Dabi Development Fund	15,90	14,70	13,50	12,30	11,20
Austria	0,00	0,00	0,00	0,00	0,00

Sweden	0,00	0,00	0,00	0,00	0,00
ExImBank of Korea	0,00	0,00	0,00	0,00	0,00
Japanese Bank of International Cooperation	635,50	819,20	841,80	944,60	962,40
Credit Agency of German Government	24,70	23,50	22,80	20,10	18,70
Foreign commercial banks	200,00	200,00	200,00	200,00	200,00
Eurobonds	0,00	0,00	0,00	0,00	0,00

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

Exhibit 14: Composition of external government debt as to main creditor groups.(Mln USD)



Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2003-2011

Table 15: Internal government debt of Republic of Kazakhstan(Mln. USD)

	2007	2008	2009	2010	2011
Total Internal debt	4253,6	6791,5	8688,2	11323,3	14019,3
State short-term treasury liabilities	463,4	1470,5	986,6	1031,1	643,0
State medium-term treasury liabilities	2013,0	2349,7	2945,9	3173,4	3316,6

State long-term treasury balanced liabilities	1148,9	1832,5	2485,5	3410,8	4439,0
State long-term treasury liabilities	417,8	695,7	1844,0	3279,5	5195,1
State index-tied treasury liabilities	1,8				
State special entitlement treasury bonds					
State index-tied long-term treasury liabilities	203,7	438,1	356,6	358,9	356,5
State special medium-term treasury liabilities for individuals			64,6	64,6	64,1
Other liabilities	5,0	5,0	5,0	5,0	5,0

Notes: Compiled by authors; source - Ministry of Finance of Republic of Kazakhstan, 2007-2011

CONCLUSION

In this study we wanted to show an unbiased view of the budget system of Republic of Kazakhstan so that the reader could see the clear picture of the system in terms of facts, without being disturbed by overwhelming writings.

Kazakhstan economy is characterized by the dominance of one economic sector, namely – the oil and gas sector, which accounts for 55% of the country’s industrial production, 85% of the mining industry, and 70% of the exports of goods. Currently Kazakhstan has initiated the program of “Forced Industrial Development” which is intended to provide more diversification to the economy of the country by developing sectors other than mining using the funds earned from the mining industry and particularly from the oil and gas industry.

Budgeting system of Kazakhstan is integrated with the strategic development planning and makes a use of effective tools, such as stabilization fund, which foster continuous and sustainable development of the Kazakhstan economy. The role of the “National Fund of Republic of Kazakhstan” to provide stabilization function is done by pooling excess profits earned in prosperous years, characterized by high prices for natural resources, without letting

these funds to flow immediately into economy thus triggering high inflationary pressures on the local economy. Another important function of the National Fund, to increase wealth of the future generations of citizens of Kazakhstan, is undertaken through the programs like the above-mentioned “Program for Forced Industrial Development” where the funds withdrawn from the National Fund are used to finance long-term capital investments intended to diversify local economy from the oil and gas dependence.

Kazakhstan has passed through a prosperous decade during which the country has shown record growth rates for the Central Asian region along with stability, both economical and political. The idea behind the Kazakhstan budgeting system and its structure are tailored to the needs of the country in a very good manner. The main threats for the Kazakhstan we generally see not in the way the budgeting system is structured but rather how the actions that lie beneath the budgeting system are undertaken, i.e., how effectively the expenditures from government budget are used, are the expenditures tied to the objectives depicted in Table 9 really strengthen each of the priorities of the “Kazakhstan-2030” strategy in the most effective way? For example, are the money spent on healthcare lead to better medical services to citizens, better health physical conditions of people, lower mortality, especially among new-born children, lower rates of unborn children, and higher birth rate? Another example is what is the reasoning behind the decision to provide loans to oil producers from the National Fund, whereas this investment may increase the riskiness of the net inflows of the later? (Bukeyeva, 2012) Shortly, for every action leading to an outflow from any budget, will it be the republic or local budget, or the National Fund, Kazakhstan public authorities need to provide that every tenge spent is spent in the most effective way, and here is a lot of things to improve.

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