



# *Republic of Kazakhstan*

**Budapest, April 2007**

# Republic of Kazakhstan

## General Information

|                          |   |
|--------------------------|---|
| <b>Capital</b>           | <b>ASTANA</b>   |
| <b>Population</b>        | <b>15.3 mln</b>   |
| <b>Territory</b>         | <b>2.7 mln sq km</b><br><b>(9th place in the world)</b> |
| <b>Currency</b>          | <b>TENGE (127/1USD)</b>                                 |
| <b>Length of borders</b> | <b>12.187 km.</b>                                       |



# **Major achievement of the Republic of Kazakhstan for the last 15 years**

- **An effective democratic society. A sustainable internal political situation. A multi-party system. An electoral system of the President and parliament.**
- **A transition from command-administrative to market economy – a reform leader among CIS countries. The introduction of national currency – the tenge.**
- **A stable multi-national cooperation and multi-confessional world.**
- **A strategic partnership with many countries: diplomatic relations with 120 states, a membership into 64 international political and economic organizations.**
- **Closure of the 4th most powerful in the world nuclear testing ground in Semipalatinsk.**
- **Improvement of the quality of life for Kazakh citizens: GDP per person in the past 4 year increased by 2.5 times, in 2006 the amount was \$ 5100 (the 2nd place amongst CIS countries)**
- **Establishment of the National Fund of the Republic of Kazakhstan (NFRK) for future generations.**
- **Implementation of a housing and social reform, residential property privatization.**
- **A priority development of national education and science.**
- **Construction of a new capital Astana that accounts for 11.6 % of all capital investments.**

# The major country's reforms

- Constitutional law "On Independent Statehood of the Republic of Kazakhstan"
- A privatization reform, a significantly decreased state sector ownership.
- Formed domestic business community actively supported by the state.
- State Insurance Corporation for the insurance of export credit and investment.
- A law of private ownership on land was introduced, a land market was created.
- A completely new taxation system was created
- An advanced banking industry and a banking regulation system based on Basel Framework and International Financial Reporting Standards (IFRS).
- Efficient financial defined contributions.

# State social policy

1. A social protection of mother and child:
  - The children's allowance increase;
  - An obligatory social maternity insurance;
2. Increase in pension payments including at the expense of financial defined contributions.
3. An increase of salary of the public sector servants.
4. Development of social infrastructure: kindergarten, school, and hospital constructions.
5. Government residential development program.
6. The antipoverty program, a targeted support of the most vulnerable public groups. The poverty level has been decreased in 4 times over last 9 years, unemployment rate is 0.9 % of gainfully occupied population.
7. Improvement of all levels of the educational system. The International Presidential Scholarships Program "Bolashak": yearly 3 thousand scholars in another counties.
8. Increase of science financing by 25 times. Science expenses will be 5% of GDP by 2012.

# Legislation of Kazakhstan

| Legislation                 | Law   |
|-----------------------------|---|
| Investment                  | The Law of the Republic of Kazakhstan "On Investments" dated 08 January, 2003   |
| Banking                     | The Law of the Republic of Kazakhstan "On Banks and Banking Activity in the Republic of Kazakhstan" dated 31 August, 1995                       |
|                             | The Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan" dated 30 March 1995                                  |
|                             | The Law of the Republic of Kazakhstan "On state regulation and supervision of financial market and financial organizations" dated 04 July, 2003 |
|                             | The Law of the Republic of Kazakhstan "On the development Bank of Kazakhstan  |
| Stock market and securities | The Law of the Republic of Kazakhstan "On the market of securities"   |
| Exchange regulation         | The Law of the Republic of Kazakhstan "On exchange regulation and exchange control" dated 13 July, 2005   |
| Tax                         | Internal Revenue Code of the Republic of Kazakhstan   |

# International organizations membership

| <b>№</b> | <b>Organization</b>  | <b>Entrance date</b> | <b>Member states</b>   |
|----------|--|----------------------|--|
| 1        | SCO (The Shanghai Cooperation Organisation)                | June 15, 2001        | Kazakhstan, China, Russian Federation, Kyrgyzstan, Tajikistan and Uzbekistan     |
| 2        | EurAsEC (Eurasian Economic Community)                      | October 10, 2000     | Kazakhstan, Belarus, Kyrgyzstan, Russia, Tajikistan and Uzbekistan               |
| 3        | CES (Common Economic Space)                                | February 23, 2003    | Belarus, Russian Federation and Ukraine  |
| 4        | ECO (Economic Cooperation Organization)                    | November 1992        | 10 countries in the Organization (including founders Iran, Pakistan and Turkey). |
| 5        | NATO/EAPC  | 1992                 |  |
| 6        | UNO (United Nations Organization)                          | 1992                 | 191 member states  |
| 7        | OSCE (Organization of Security and Co-operation in Europe) | January 1992         |  |

# Rating of the Republic of Kazakhstan

## Fitch Ratings

| Issuer     | Sovereign rating | Outlook                    |
|------------|------------------|----------------------------|
| Russia     | BBB+             | Stable                     |
| Kazakhstan | BBB              | Positive                   |
| Azerbaijan | BB+              | Stable                     |
| Armenia    | BB-              | Stable                     |
| Ukraine    | BB-              | Positive<br>Negative (S&P) |
| Moldova    | B-               | Stable                     |

## Long-Term Ratings

|                |             |                         |
|----------------|-------------|-------------------------|
| <b>S&amp;P</b> | <b>BBB</b>  | <b>stable outlook</b>   |
| <b>Moody's</b> | <b>Baa2</b> | <b>positive outlook</b> |
| <b>Fitch</b>   | <b>BBB</b>  | <b>positive</b>         |
| <b>outlook</b> |             |                         |

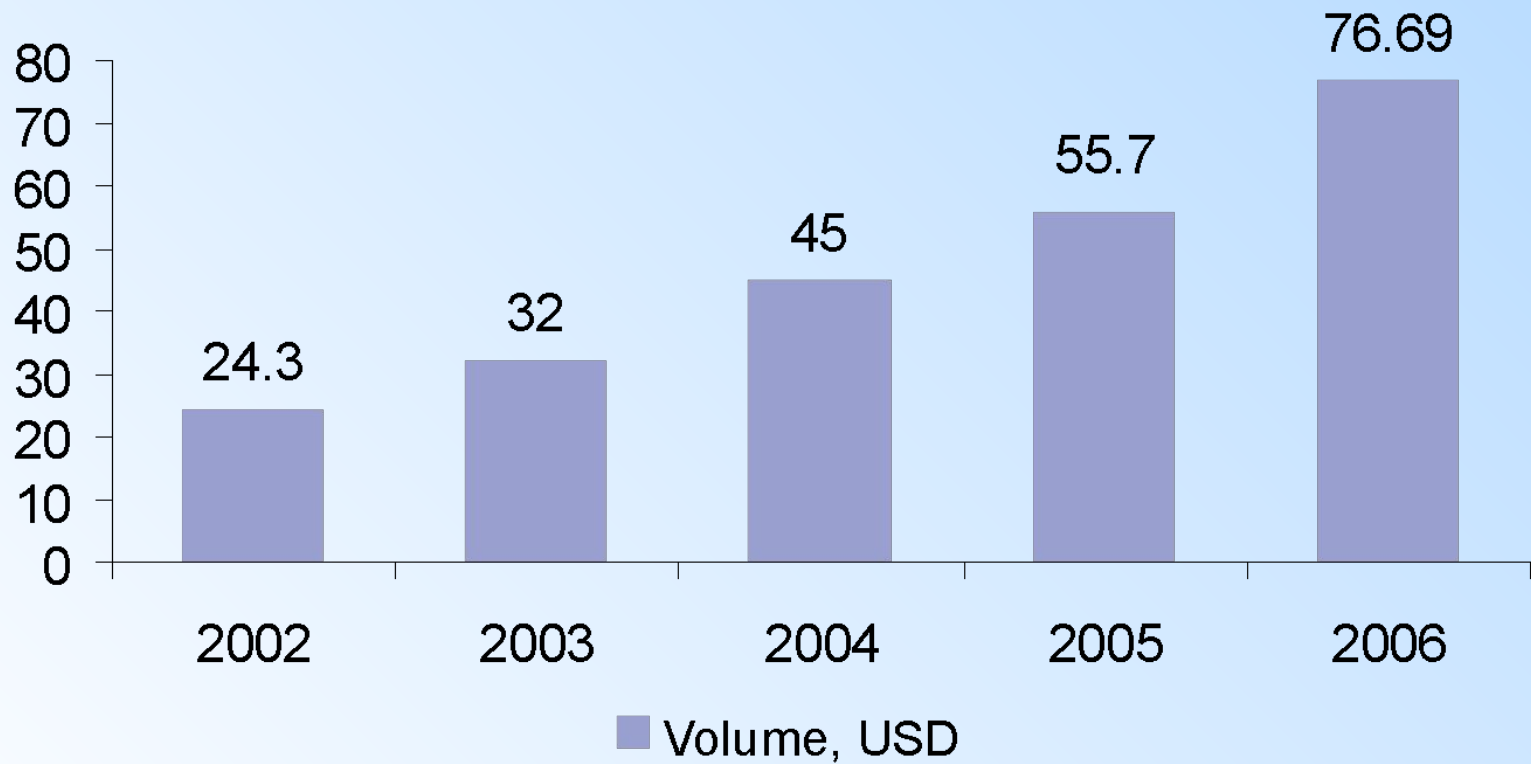


# Main Macroeconomic Indicators

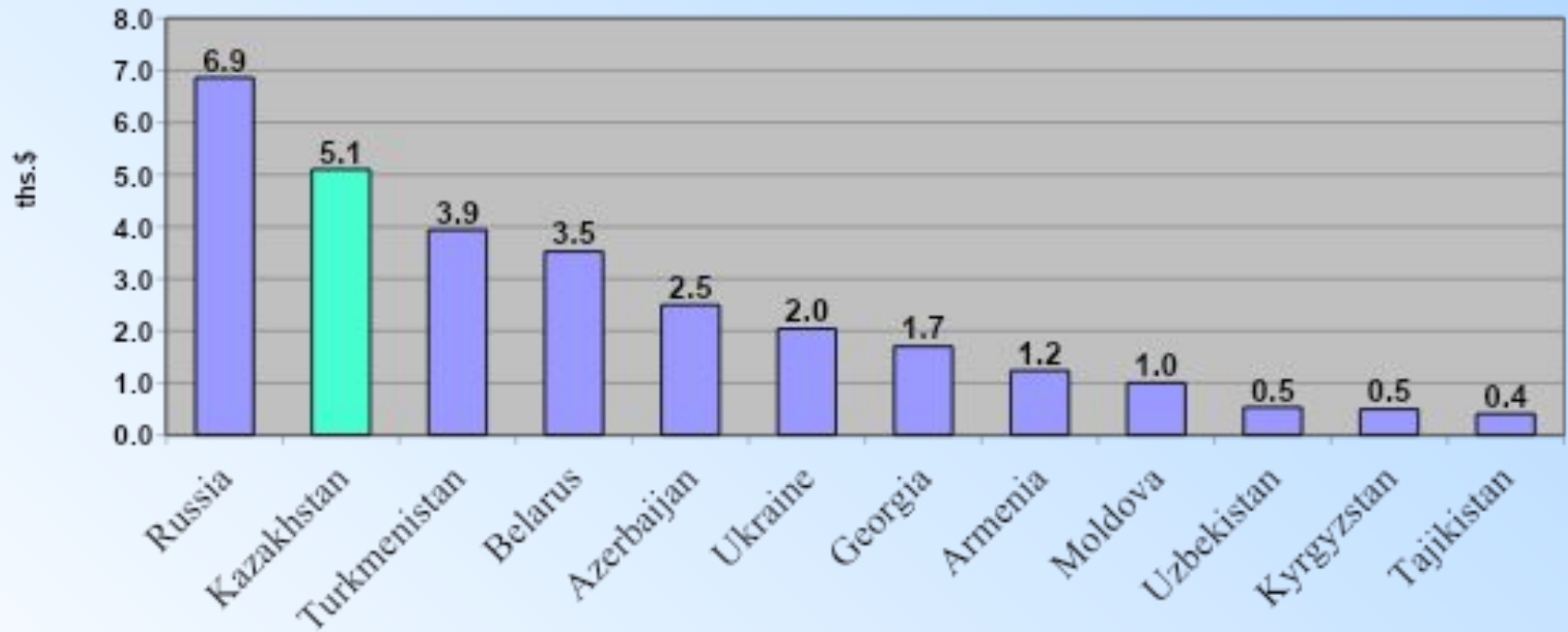
| Indicators  | 2003   | 2004   | 2005   | 2006   |
|---|--------|--------|--------|--------|
| <b>GDP, bln.\$</b>  | 30.86  | 43.19  | 55.74  | 76.69  |
| <b>GDP per capita, thous. \$</b>  | 2      | 2.7    | 3.7    | 5.1    |
| <b>Consumer price index (%),annual average</b>                                | 6.4    | 6.9    | 7.6    | 8.6    |
| <b>Money supply, mln.\$</b>   | 11,041 | 15,195 | 14,945 | 29,260 |
| <b>Export of goods, bln.\$ (FOB)</b>  | 13.2   | 20.6   | 28.3   | 38.8   |
| <b>Import of goods, bln.\$ (FOB)</b>  | 9.6    | 13.8   | 17.9   | 24.2   |
| <b>Investments in fixed assets, bln. \$</b>                                   | 8.42   | 11.26  | 16.48  | 22.13  |
| <b>Deficit(-)/ surplus of Republican Budget** in % to GDP</b>                 | -1.1   | -0.3   | 0.6    | 0.6    |
| <b>Official unemployment rate ( in % to active population), end of period</b> | 1.8    | 1.5    | 1.2    | 0.9    |
| <b>Monthly average nominal salary, \$</b>                                     | 188.64 | 240.23 | 336.07 | 421.72 |

\*\* without off-budgetary funds

# GDP growth remains impressive



# GDP per capita in CIS countries



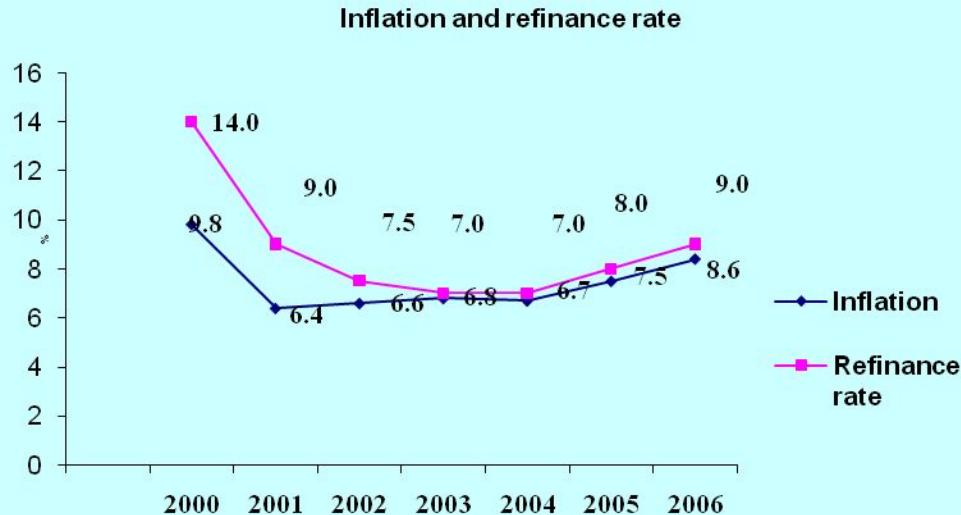
# International reserves and assets of NF of RK

Mln \$

| <b>Indicators</b>                    | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>International gross reserves</b>  | 3,140.8     | 4,962.3     | 9,276.7     | 7,069.2     | 19,113.0    |
| <b>International net reserves</b>    | 3,138.3     | 4,959.2     | 9,273.4     | 7,065.4     | 19,109.2    |
| <b>Assets of National fund of RK</b> | 1,919.2     | 3,662.6     | 5,130.7     | 8,073.7     | 14,085.5    |
| <b>International state reserves</b>  | 5,060.0     | 8,624.9     | 14,407.4    | 15,143.0    | 33,198.5    |

Source: NBRK

# Inflation and refinancing rate

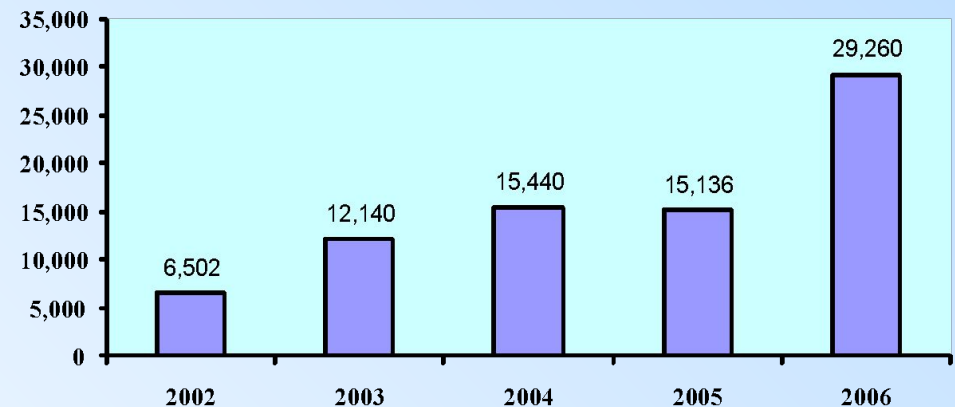


**In 2006 annual inflation was 8,6%, whereas planned range was 6,9-8,5%.**

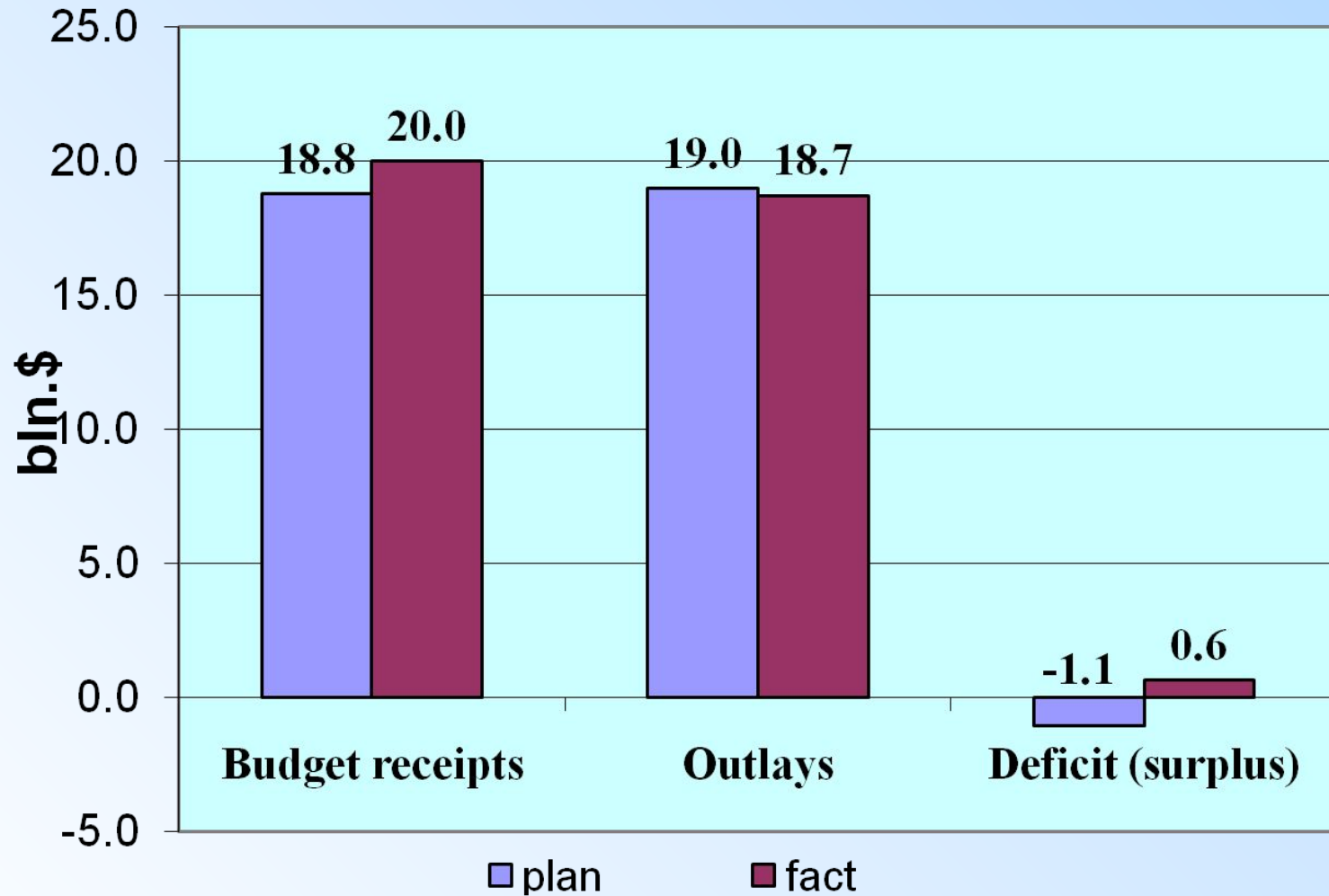
**Refinance rate has decreased by 5% since 2000.**

**Growth of money supply (95%) occurs due to increase in net foreign assets of banking system as well as increase of internal assets by 68,0%.**

**Money supply, mln \$**



# State budget execution, 2006



# Investment climate of Kazakhstan

**Prerequisites for arrangement of favorable investment climate.**

- **In October 2000 European Union granted status of the Market Economy Country to Kazakhstan**
- **The “Law on Investments” was adopted on 8 January, 2003**
- **The Government of the Republic of Kazakhstan approved the program of industrial and innovative development of the Republic of Kazakhstan for 2003-2015**
- **Foreign Investors Council to provide with consulting and normative support was founded under the President of the Republic of Kazakhstan**

**Arrangement of basic conditions to attract investments:**

- **Political stability, religious and national tolerance;**
- **Fair industrial potential of the country;**
- **Transparency and equilibration of financial, customs and tax regulation (agreement to avoid double taxation, products division and other);**
- **High educational level of the country’s population.**

# Investments attraction as of 01.01.07.

Kazakhstan is a leader among CIS countries by investments attraction level.

Investment ratings of international agencies like Moody's, Standard&Poor's and Fitch Ratings evidence it.

- As of 0.01.07 total direct foreign investments flow in Kazakhstan's economics amounts to 47,9 mlrd.\$ (since 2003).
- More than 80 % of direct investments in Central Asia are related to Kazakhstan economics

Main investors of Kazakhstan:

Netherlands – свыше 29%

USA – 16%,

Great Britain- 11,5%,

France - 4,2%,

Japan and Germany - 3%.

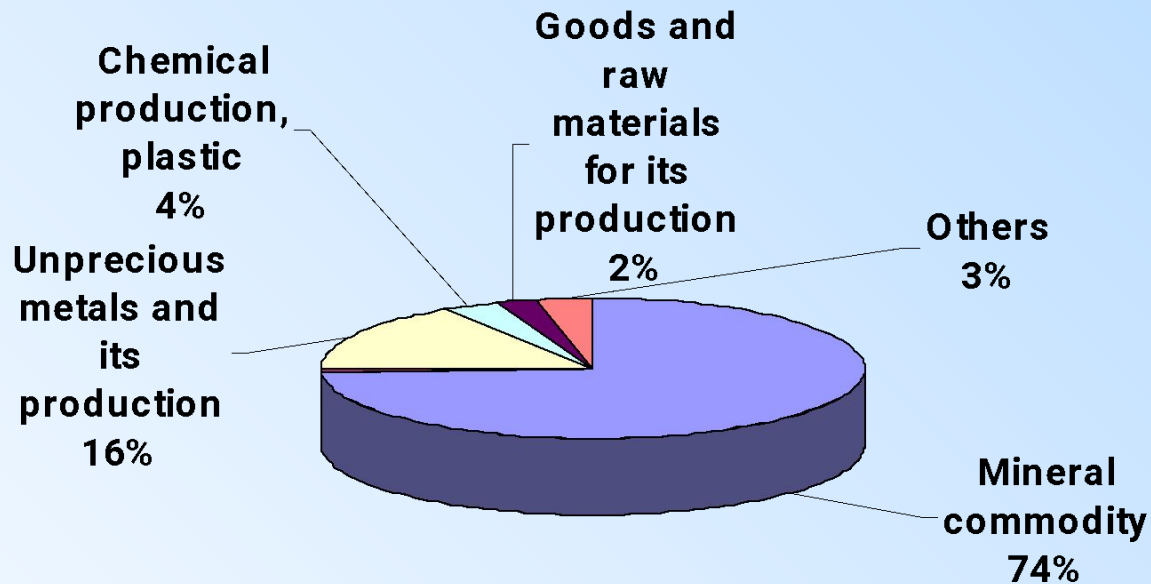


# Major foreign companies in Kazakhstan

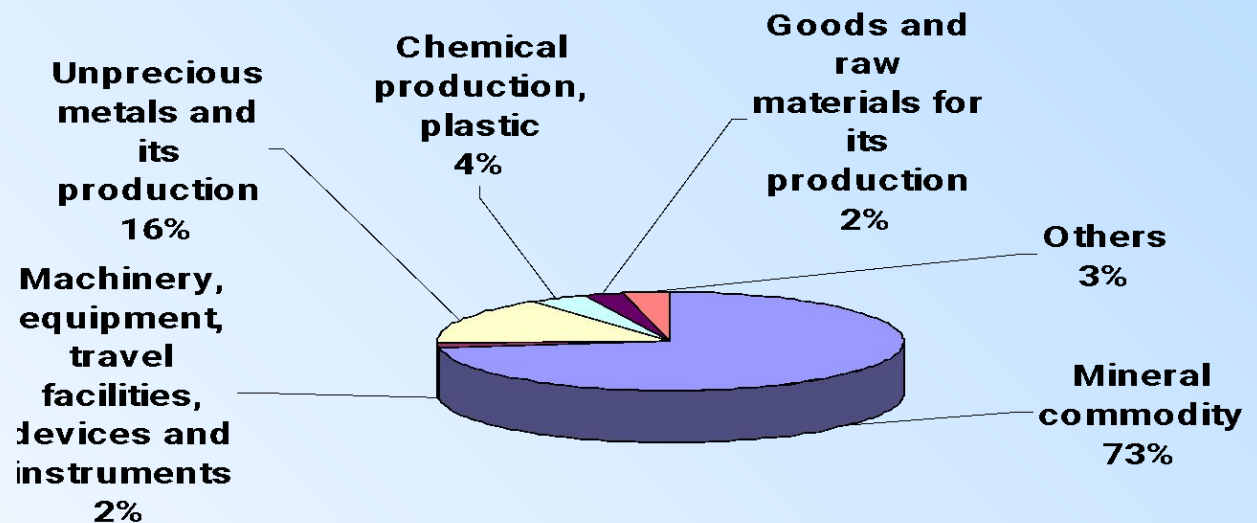
| Company  | Shareholders   |
|--|--|
| <b>Oil-gas sector</b>                                      |  |
| «TengizShevroil»   | Shevron, Mobil   |
| «Karachaganak Petroleum Operating»                         | BG Group(GreatBritain), Eni (Italy), ChevronTexaco (USA) , LUKOIL (Russia) |
| «CNPC-AktobeMunayGaz»                                      | CNPC - China National Petroleum Corporation                                |
| «TurgaiPetroleum»  | Lukoil Oversi, Harrikein Kumkol Munai                                      |
| <b>Oil service</b>   |  |
| Baker Hughes Services International Inc.,                  | Baker Hughes Services International Inc., USA                              |
| «Schlumberger» in Kazakhstan                               | Schlumberger   |
| «Halliburton International, Inc» in Kazakhstan             | Halliburton International, Inc   |
| «Parker Drilling Company International, LTD» in Kazakhstan | Parker Drilling Company International, LTD                                 |
| <b>Road-building</b>                                       |  |
| «Alsim Alarko Sanayi Tesisleri Ve Ticaret A.S.»            | Turkish company  |
| «Todini Costruzioni Generali S.p.A»                        | Italian company  |
| <b>Telecommunication</b>                                   |  |
| GSM Kazakhstan   | FinTur Holdings B.V. (Finland, Turkey)                                     |
| «Kar-tel»  | «Vypelcom» (Russia)  |
| <b>Tobacco field</b>                                       |  |
| «Filip Morris Kazakhstan»                                  | «Filip Morris Kazakhstan» (USA)  |
| «Gallaher Group Plc»                                       | «Gallaher Group Plc» (USA)   |

# Exports structure

2005

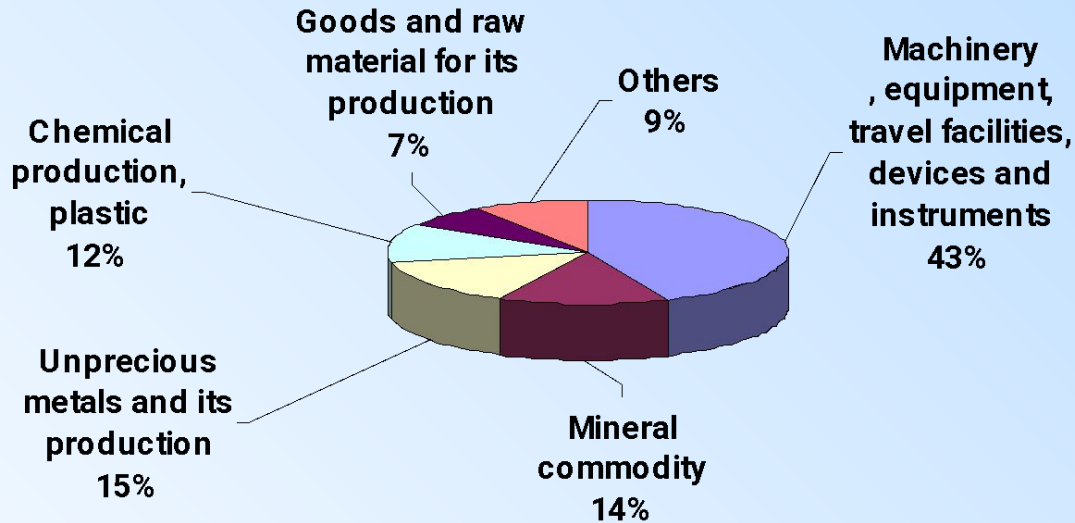


2006

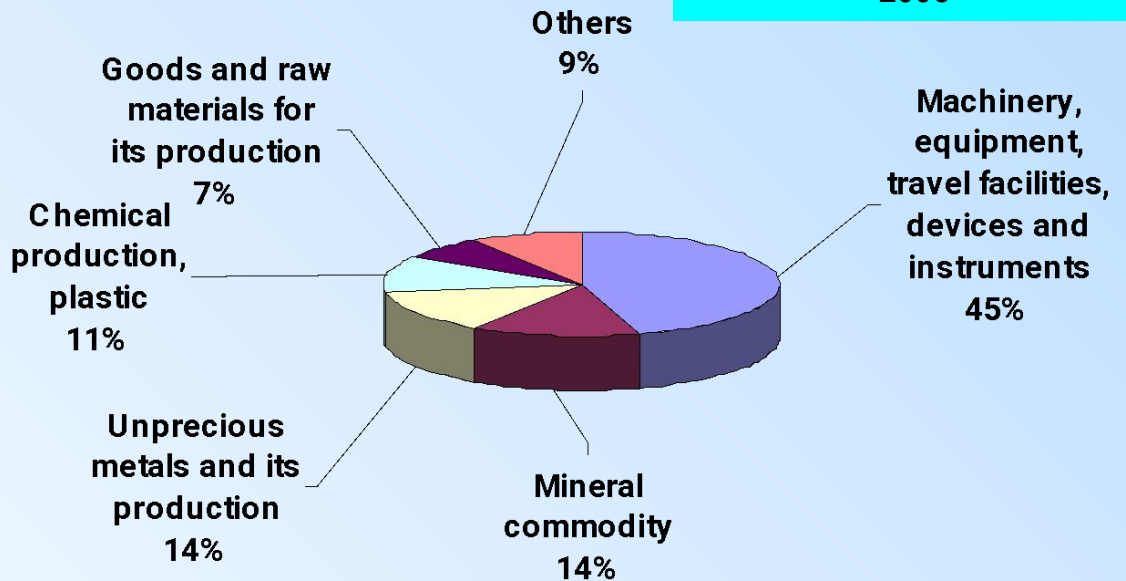


# Imports structure

2005

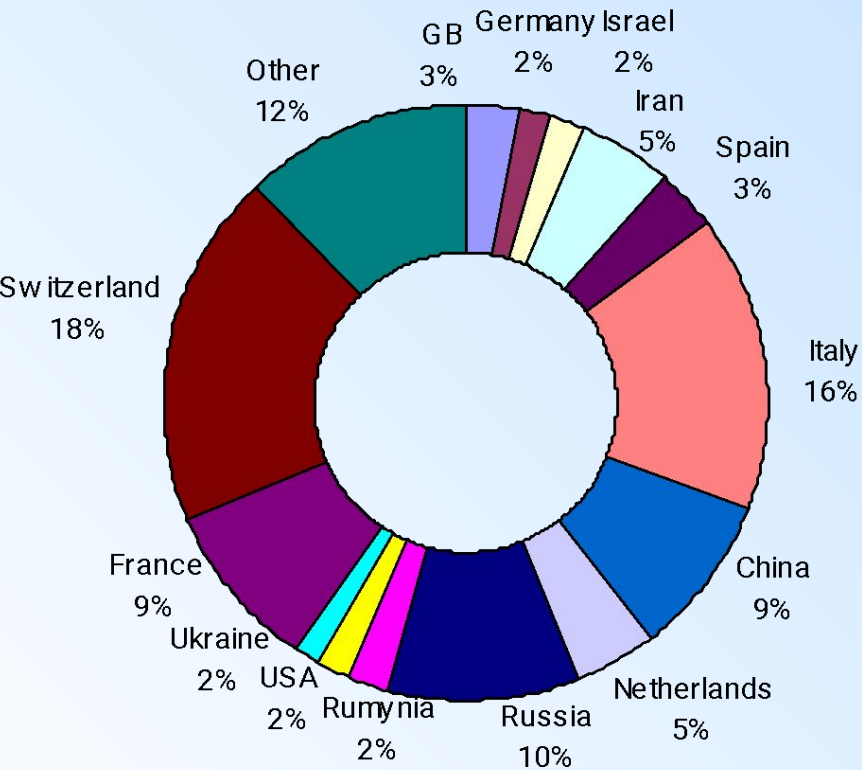


2006

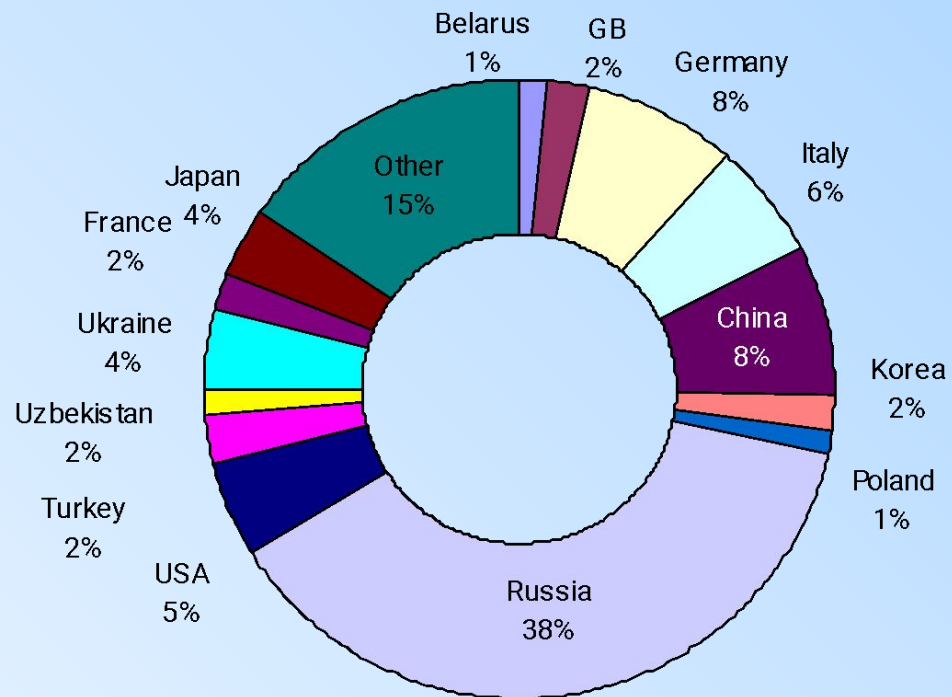


# Foreign Trade Breakdown

Major export partners by country as 2006



Major import partners by country as 2006



Source: StatAgency

# Natural recourses of Kazakhstan

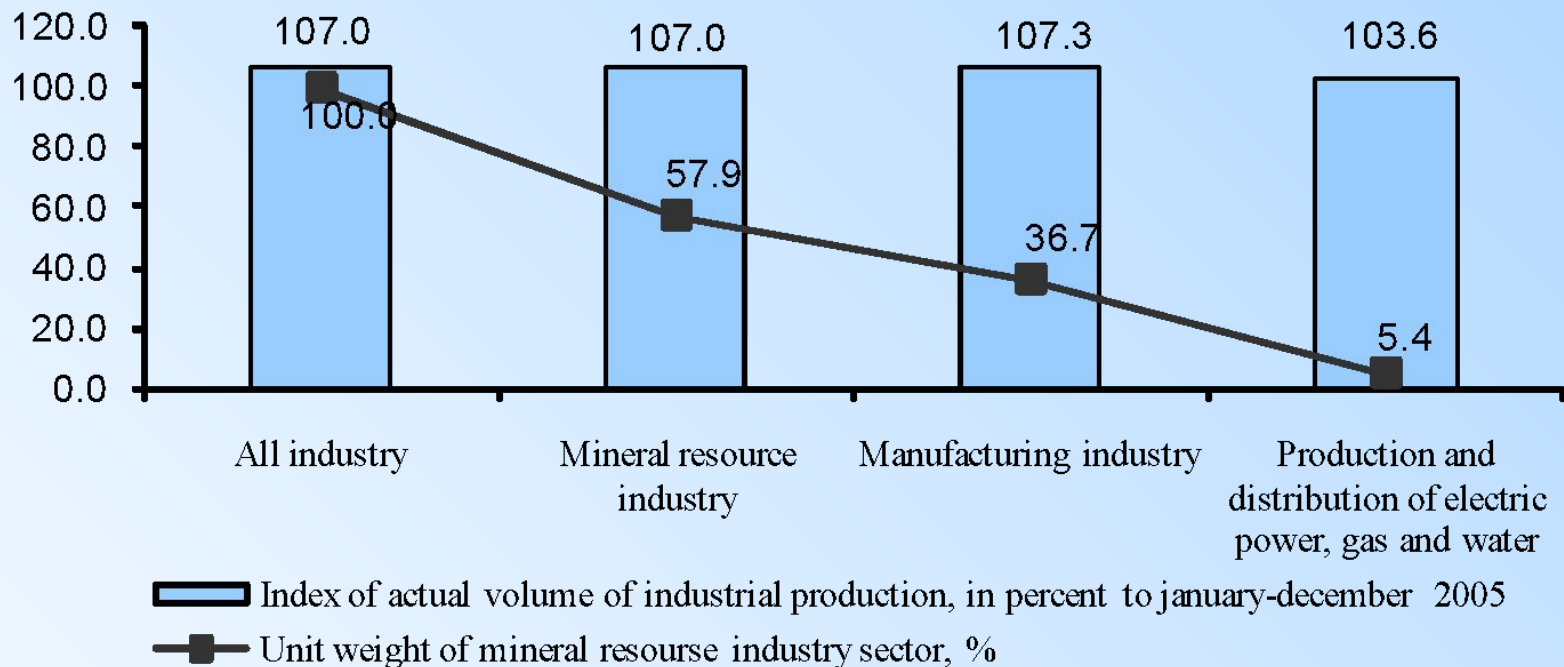
**Kazakhstan takes 6th place in the world by natural resources.**

**Kazakhstan is one of the richest countries of the world by its resources of oil, gas, titanium, magnesium, uranium, gold and other non-ferrous metals.**

**493 deposits which contain 1225 kinds of mineral resources are well-known today.**

- **1<sup>st</sup> place in the world – by zinc, wolfram resources,**
- **2<sup>nd</sup> place – by silver, lead, chromic and phosphoric ore,**
- **3<sup>rd</sup> place – by copper and fluorite resources,**
- **4<sup>th</sup> place – molybdenum,**
- **5<sup>th</sup> place – gold.**

# Index of actual volume of industrial production and sector structure of industry, 2006

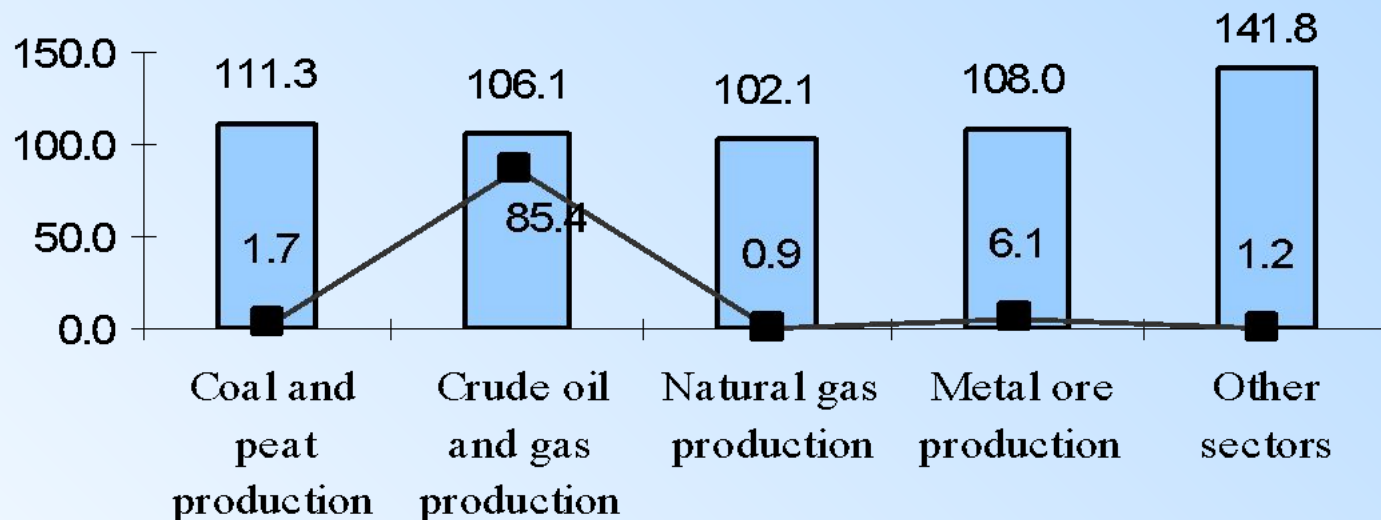


Mineral resource industry –58%,

Manufacturing industry –36,7%,

Production and distribution of electrical energy, gas and water - 5,4%

# Index of actual volume and unit weight of particular activities of mineral resource industry, 2006



■ Index of actual volume of industrial production, in percent to january-december 2005  
—■— Unit weight of mineral resource industry sector, %

Oil, gas production—85,4% (growth 6% in )

Metal ore —6,1% (growth 8% in 2006)

Oil-gas sector in percent to GDP – 16% (1,4 mln.barr/day, 2005 year)

# Construction

| <b>Names of articles</b>  | <b>2005</b> | <b>2006</b> | <b>Growth</b>      |
|---|-------------|-------------|--------------------|
| Carried out byilding and assembling job (billions USD)            | 4.7         | 9.8         | 109%               |
| Quantity of workers engaged in construction (thousands of people) | 177         | 209.0       | 32 thousand people |
| Construction share of GDP ( in %)                                 | 7.8         | 8.2         | -                  |
| Investments into housing construction (billions USD)              | 1.2         | 2.6         | 117%               |
| Houses placed in operation, total area (milions of square metres) | 2.8         | 6.2         | 121%               |

Agents of private ownership patterns have constructed 87,2 % from the total amount of placed housing



# Main stages of financial sector development

- **1998 – Pension reform (accumulating pension system);**
- **1998 – Development of small business lending programs (EBRD);**
- **1999 – Establishment deposits Guarantee Fund;**
- **2000 – Transition to international standards of financial accounting;**
- **2000 – Development of mortgage lending, establishment of Kazakh mortgage company (KMC) to redeem mortgage pools;**
- **2000 – Establishment of housing construction-savings system;**
- **2004 – Task sharing of the National bank and banking supervision (the Agency of financial supervision);**
- **2004 – Adoption of “Law on investment trusts”. Establishment of private Unit investment Trusts;**
- **2006 – Establishment of Regional Financial Centers.**
- **Adoption of standardized Basel – II norms in the banking sector by the regulator.**

# Pension reform

- **First stage — 1998—2001 years.**  
**Beginning of pension reform. State reserves regulatory functions and determines strategic line of system development, provides protection of pension savings and guarantees pension compensation;**
- **Second stage — 2002—2004 years.**  
**State guarantee of safety of mandatory pension contribution taking into account level of inflation was introduced;**
- **Third stage — beginning from 2006.**  
**Continuation of pension reform.**

# **The European Bank for Reconstruction and Development in Kazakhstan**

**1998 - EBRD was financing small and average business in Kazakhstan.**

**2007 – In Kazakhstan EBRD will finance projects to the amount of €700 mln., including:**

- 80% – to private sector;**
- 23% – to government and public enterprises.**

## **Asian Development Bank in Kazakhstan**

**1994 – ADB started project financing in Kazakhstan**

**ADB portfolio (01.01.07) consists of 11 loans for the amount of \$467 mln to implement 7 projects in the areas of agriculture, educations, transport, pension system reform, including \$34.6 mln to implement branch project on water supply and rural areas sewage system.**

# **Kazakhstan Deposit Insurance Fund**

**To increase the general public's confidence in the domestic financial system and draw the people's savings to the banking system:**

**on November 15, 1999 the Closed Joint Stock Company «Kazakhstan Insurance of Deposits of Individuals» was established. The National Bank of the Republic of Kazakhstan is the founder of the KDIF.**

**According to Deposit Insurance rule coverage limit is 5,700 \$.**

# Mortgage lending development

- **2001 – First mortgage credit in Kazakhstan was issued. This credit was issued by the program of Kazakhstan Mortgage Company.**
- **2002 – Kazakhstan Mortgage Company issued mortgage bonds, which were included in the official list of category «A». KMC was first among CIS countries.**
- **2003 – Kazakhstan Mortgage Company obtained a status of financial agency.**
- **2004 – Special program of mortgage lending of available accommodation was developed and accepted**

# Housing Construction-Saving System

**Housing construction savings system targets citizens, who have a stable income, but do not have enough funds to pay an initial installment for mortgage loan in commercial banks.**

**From its side, the state pays an annual premium on deposits – 20% from the saving.**

**To introduce the system, a statute “On Housing Construction Savings” was adopted in 2000. A stock company “Housing Construction Saving Bank of Kazakhstan” was established in 2003. The state holds 100% stock in the capital (as per Germany experience).**

# **Establishment of Financial Supervision Agency**

**Agency of the Republic of Kazakhstan on Regulation and Monitoring over the Financial Market and Financial Organizations was established in January 2004 (FSA).**

**FSA work is aimed at detecting and settling system crisis and analysis and control over every sector of financial market (banking, insurance, pension and securities).**

**According to independent evaluation by JP Morgan («Global Emerging Markets Bank Systemic Risk Metrics», August, 2006), the quality of banking supervision in Kazakhstan, based on best international practices, is recognized as perfect, progressive and geared towards increase of transparency and information disclosure.**

**FSA immediate plan include: improvement of the system for prudential regulation of financial organizations through introduction of risk based supervision; improvement of consolidated supervision; assurance of shareholders and investors rights' protection.**

# Regional Financial Center in Almaty

**Regional Financial Center in Almaty is a special legal regime regulating relationship between financial center members and other involved entities and aimed at the development of financial market of Kazakhstan.**

## **RFCA Goals**

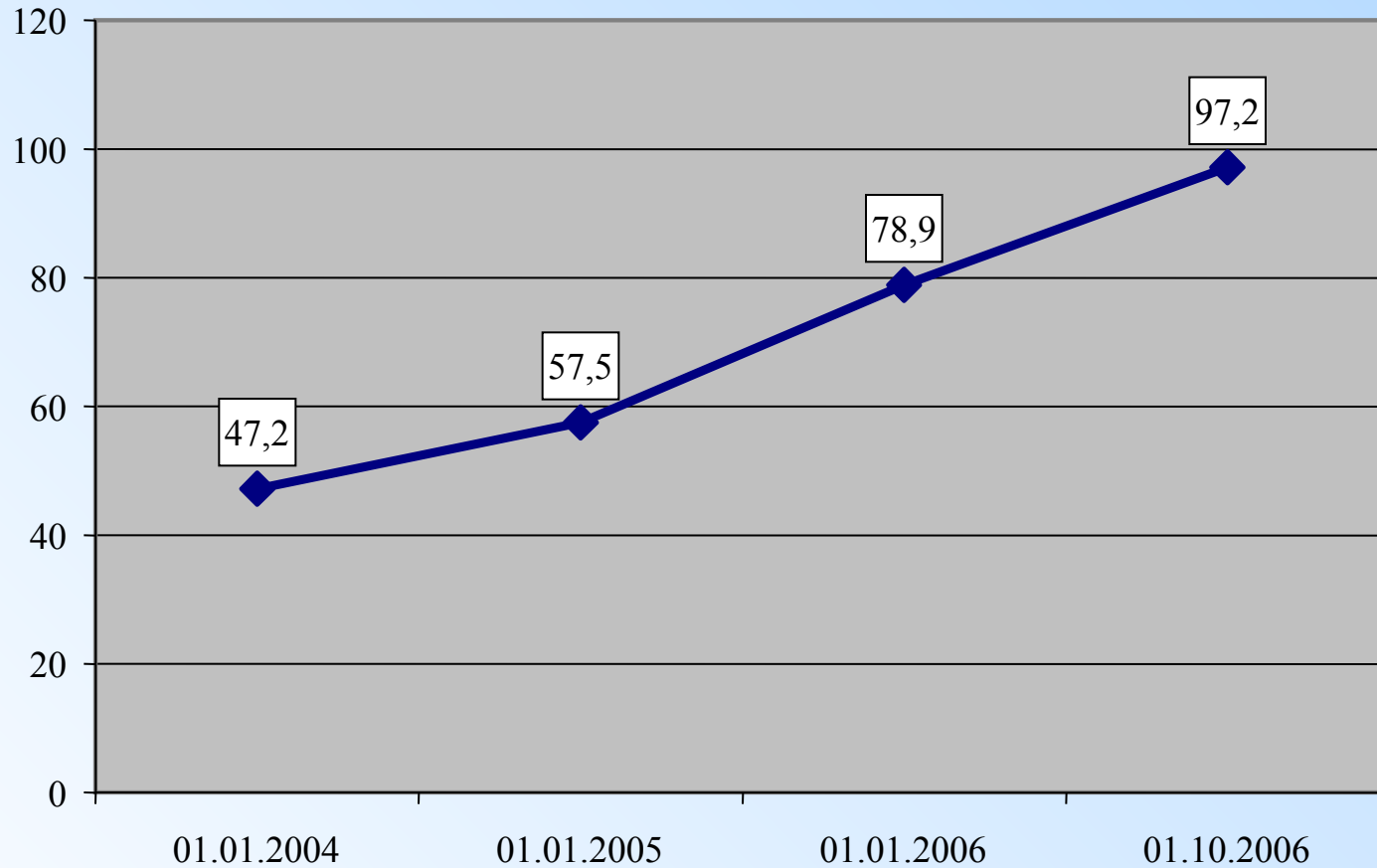
- Development of securities market, new financial tools, index funds (ETF), securitized assets (SPV), futures, options, Islamic facilities (sukuk etc.), available for different types of investors (both institutional and individual);**
- Integration with international capital markets;**
- Investments to Kazakhstan economy, IPOs of national companies and banking entities using the special trade floor of financial center;**
- Kazakhstan capital on external stock exchanges.**

**Other features include introduction of low tax rates, elimination of corporate and individual income taxes. Instead, annual fee payments will be introduced.**



# Part of financial sector in economics

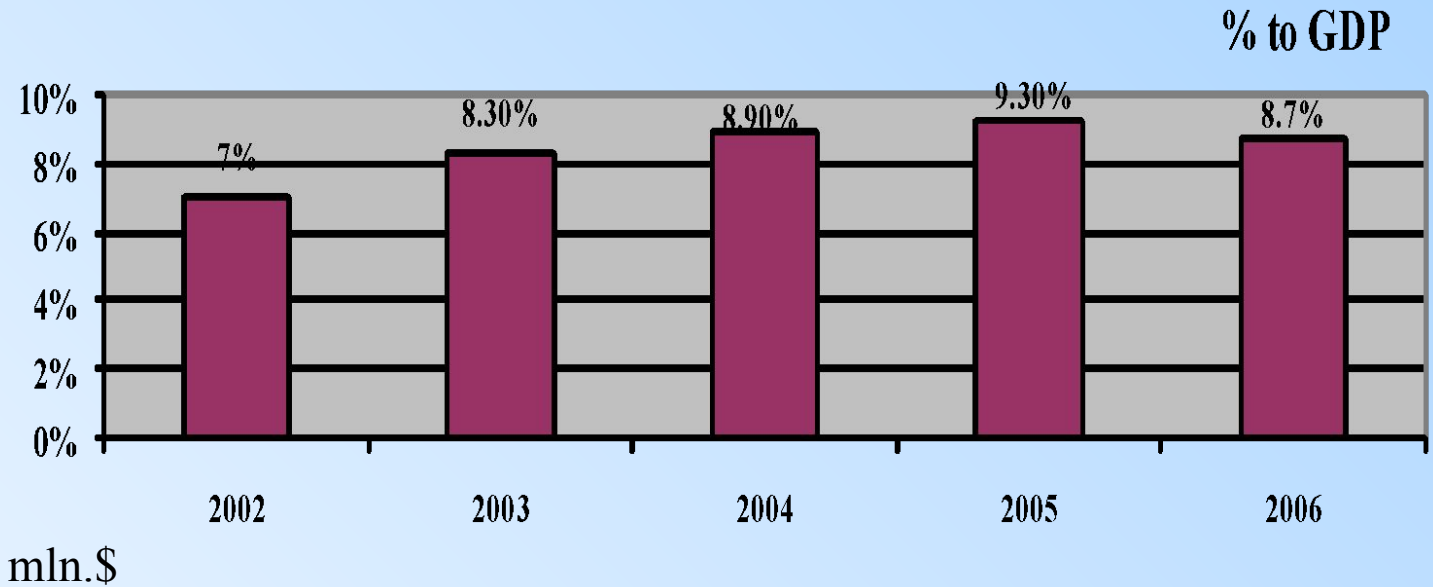
Assets of financial sector in % to GDP



# Number of financial institutions

| Institution                                   | 01.01.2004 | 01.01.2005 | 01.01.2006 | 01.01.2007 |
|---|------------|------------|------------|------------|
| Two-tier banking system                       | 35         | 35         | 34         | 33         |
| Insurance companies                           | 32         | 36         | 37         | 39         |
| Pension Funds                                 | 16         | 16         | 14         | 14         |
| Pension asset investment management companies | 7          | 7          | 7          | 7          |
| Mortgage companies                            | 2          | 3          | 7          | 8          |
| Organizations providing banking services      | 39         | 43         | 50         | 12         |
| Brokers-dealers                               | -          | 17         | 10         | 9          |
| Registrators                                  | 19         | 18         | 18         | 17         |
| Investment portfolio managers                 | 10         | 14         | 28         | 35         |

# Pension Sector

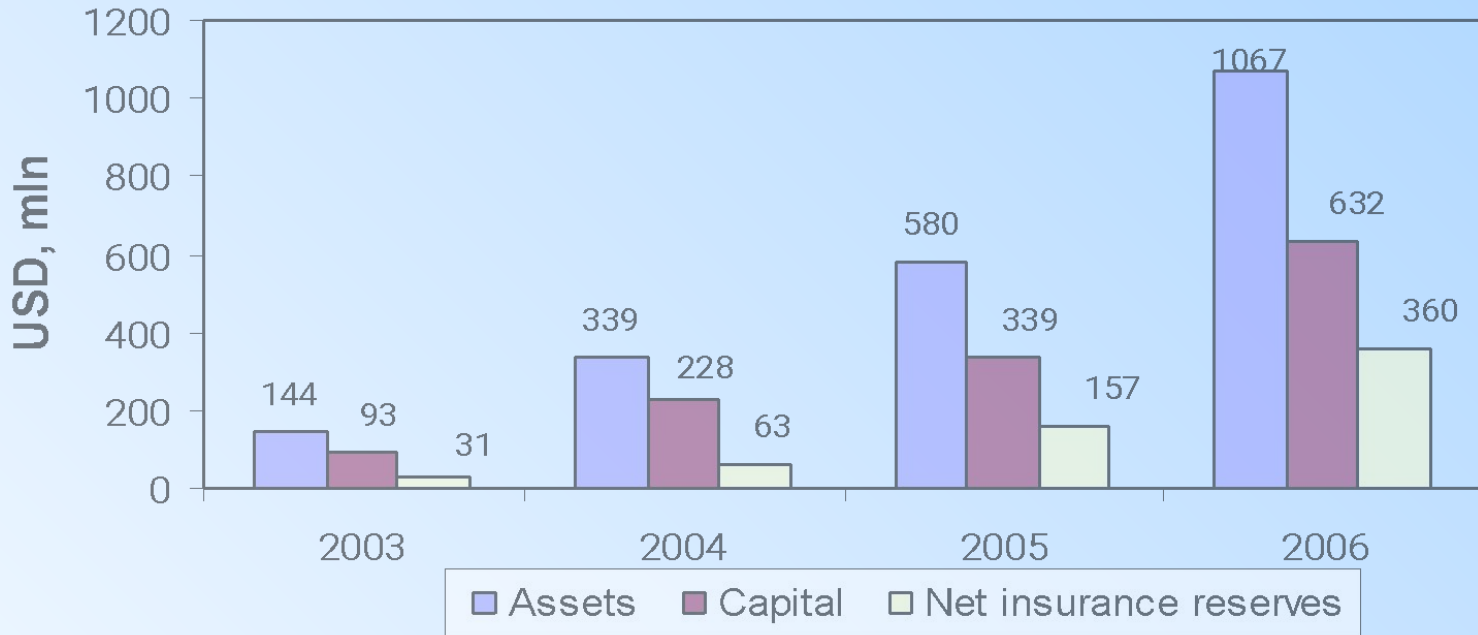


|                   |             |
|-------------------|-------------|
| <b>Assets</b>     | <b>6670</b> |
| <b>Equity</b>     | <b>175</b>  |
| <b>Net profit</b> | <b>64</b>   |

**14 private pension funds as of 01.01.07, 78 branches и 77 representative offices.**

**Top 5 funds control 80% of the total market share**

# Insurance



**As of 01.01.07 40 insurance companies operate in Kazakhstan : 5 life insurance companies, 6 with non-resident's share;  
12 insurance brokers and 33 actuary also operate in Kazakhstan;  
33 insurance companies are members of JSC «Kazakhstan Insurance of Deposits»;  
Share of 5 first insurance companies in total insurance amounts to 46.8%.**

# Securities market

|              | mln.\$          |                 |
|--------------|-----------------|-----------------|
|              | <b>01.07.06</b> | <b>01.10.06</b> |
| Total Assets | 965             | 1,238           |
| Liabilities  | 721             | 973             |
| Equity       | 244             | 265             |

|  | mln.\$          |                 |
|--|-----------------|-----------------|
| <b>Circulating government securities in Kazakhstan</b> | <b>01.01.06</b> | <b>01.10.06</b> |
| Total, including                                       | 3474            | 4764            |
| Notes of National Bank                                 | 1204            | 1913            |
| Securities of Ministry of Finance                      | 2222            | 2851            |
| Securities of local executive powers                   | 48              | -               |

**Assets of brokers and dealers – 142 mln.\$, Liabilities – 115 mln.\$**

**Assets of registrar – 12 mln.\$, Liabilities – 0.6 mln.\$.**

**Assets of Investment portfolio manager – 1073 mln.\$ .**

# Kazakhstan development plans till 2015

**Kazakhstan plans to join 50 most development countries till 2015:**

**1. Kazakhstan's successful integration into the world economy is a base for quality break-through for the country's economic development:**

**\* Forecasted annual average for real GDP growth is 8.5%.**

**\* Total economy growth over a three year period till 2010 will be at 27.7%.**

**\* Average annual inflation rate will be between 5-7.3%.**

**2. Further modernization and diversification of Kazakhstan economy for a stable economic growth:**

**\* Average industrial production growth will be at 5%, including processing industry at 6.7%.**

**3. Modern social policy aimed at protecting the "weakest" layers of population and supporting the development of economy:**

**\* GDP per capita will reach \$5,450 in 2008.**

**4. Creation of effectively operating stock market.**

**5. Accession to WTO by 2009 on terms, favorable for Kazakhstan.**

**6. Improving the efficiency of the mining sector, development of processing enterprises to produce higher value-added cost products.**

# Priorities of Kazakhstan financial sector development till 2011

- Assurance of Kazakhstan's regional economic leadership and becoming a CIS and Central Asia business-center;
- Development of Securities market in Kazakhstan, as the most liquid and accessible market in the CIS and Central Asia;
- Development of the most liquid currency market by principal form of currency in Kazakhstan;
- Development of Kazakhstan financial institutions (banks, pension funds, insurance companies, and other financial institutions), as the largest regional financial organizations, capable to meet the requirements in financial resources of the CIS region and Central Asia, also to maintain and facilitate investments and interests of Kazakhstan enterprises to regional markets;
- Achievement of developed countries standards on the following indicators by Kazakhstan financial sector: stability, soundness, transparency; and leadership in CIS and Central Asia by level, quality and diversity of financial products.
- Improvement of antimonopoly regulation of financial organizations, aimed at development of fair competition in financial sector, and also for protection of legal rights and interests of financial service consumers.

**Thank you for attention!**