Kazakhstan

Macroeconomic Situation

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June 2008

Summary

- The government estimates economic growth at 5.3% yoy in 2008. Nominal GDP is expected to settle at around KZT 15.6 trillion (USD 130.3 billion). This means that GDP per capita will grow to almost USD 8,000 this year from USD 6,700 in 2007. In addition, the government has revised its forecast of economic growth in 2009–2010 from 9.2% and 8.6% to 6% and 5.6%, respectively.

In April, industrial production totaled USD 27.3 billion, growing by 3.5% yoy. The mining sector slightly decelerated from the previous month and advanced by 6.3% yoy in January-April compared to 8.3% yoy a year ago. This was mainly driven by slower expansion of crude oil extraction. In January-April, Kazakhstan extracted 19.3 million tons of crude oil, up by 6.6% yoy (7.1% yoy the year before). In April, output in manufacturing continued to lag behind last year's level, falling by 0.9% yoy from January-April 2007. Above all, shrinking production of non-metallic mineral products, including construction materials (down by 21.2% yoy), and sluggish performance of metallurgy (down by 0.8% yoy) remained a major drag on growth in manufacturing.

By and large, the Kazakh economy is still rather sensitive to growth of the energy sector. The government has recently revised its forecast for global crude oil prices in 2008. According to the projections, a barrel of Brent crude oil will cost about USD 95. As a result, the volume of Kazakh oil transported through the Caspian Pipeline Consortium (CTC) oil pipeline, Kazakhstan's major oil transit route, is expected to be upgraded from its current 32 million tons to 67 million tons per year by 2013. The government has already signed a treaty with Azerbaijan on crude oil exports through the Baku-Tbilisi-Ceyhan (BTC) pipeline. The BTC is an alternative transit route for exporting Kazakh oil to Europe and will be used to ship crude oil from the giant offshore Kashagan oil field. The initial capacity of the BTC will be 25 million tons per year, and will be later expanded to 38 million tons.

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Economic Growth

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Fiscal Policy

In January-April 2008, the state budget registered a surplus in the amount of KZT 14.3 billion (or nearly USD 120 million). State budget revenues grew by 25.5% yoy as tax revenues advanced by 18% yoy. Budget expenditures accelerated by 25% yoy as the government pumped in more funds to support the real economy. In April 2008, public spending on industry and public housing more than doubled compared to the same period of 2007. Budget transfers to transport and communication sectors surged by 60% yoy. Meanwhile, spending on social security grew at a modest 6.9% yoy. This may imply that higher budget spending is unlikely to create additional inflationary pressures, while, at the same time, it will help to support economic growth.

In an attempt to streamline the national taxation system and accelerate tax reform, the government made several amendments to the Tax Code. Starting January 1st 2009, oil producing companies registered in Kazakhstan (with the exception of entities operating under the contracts ratified by the Parliament) will be required to pay royalties and export duties on crude oil. At present, this levy is applied to about 30% of all crude oil produced in the country.

Monetary Policy

In May, the consumer price index grew by 4.5% from the beginning of the year (ytd) as compared to 3.4% ytd a year before. Growing prices of foods remain the key driver of inflationary trends. Indeed, food prices accelerated by 28.3% yoy in May. All in all, tight global agricultural markets continue to influence local markets for grain and grain derived products. In particular, prices of rice and bakery jumped by 9.4% mom and 2.7% mom in May, respectively. Prices of non-food commodities have been on an upward trend.
Credit to Households

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to USD 21.5 billion, up by 3.9% mom. The gross for-
ment remains solid as well. In May, the forex reserves
The international liquidity position of the govern-
bank and the government appear to be working well
of their external obligations. As a result, the, the Kazakh
us billion or by 75.8% to USD 45.5 billion.
To support the liquidity of the national banking sys-
requirements on external obligations from 8% to 6%. This
measure, according to monetary authorities, will
send back an additional KZT 100 billion (or about USD
383 million) to the assets of banks.

In summary, the banking sector remains in a healthy
shape. Not a single bank has ceased operations, while
all repayments of external liabilities are being made on
time and in the full amount. Commercial banks
have already serviced USD 6 billion since the begin-
ing of the year, with another USD 5.6 billion left in
2009 and USD 4.1 billion in 2010.

The central bank anticipates further moderation of
credit growth, which will ease inflationary pressures.
However, rapid acceleration of food and fuel prices
on the back of tight domestic supply still carries mate-
rial risks for inflation. Thus, to stabilize fuel prices,
the government has recently banned export of all re-
finied oil products until September 1st to alleviate
short-term supply shortages.

International Trade and Capital

In the first quarter of 2008, the foreign trade surplus
amounted to USD 8.69 billion, growing by nearly
143% yoy as exports surged by 57% yoy, while im-
ports cooled to 9.6% yoy. Further expansion of the
trade in goods surplus is expected during the rest of the
year as Kazakhstan continues to enjoy high commodity
prices. Meanwhile, a visible deceleration of imports
(imports jumped by over 60% yoy in January-March
2007) is a clear sign of weakening domestic demand.
This means that booming export revenues and slowing
imports are increasingly likely to help reduce the cur-
rent account gap in 2008. Indeed, the government esti-
mates the current account deficit to settle at around 6%
of GDP in 2008, compared to nearly 7% in 2007.

Other Developments Affecting
Investment Climate

The World Bank intends to allocate nearly USD 150
million in direct credits to the Kazakh government for
the implementation of several projects on education,
healthcare and customs administration. These three
new loans have to be ratified by the parliament. The
loans carry a maturity of 15 years and have a five year
grace period. These funds will be used to finance the
introduction of international standards and institu-
tional capacity-building in the healthcare sector,
to improve education research and to increase efficiency
and productivity of the customs administration.

A new investment fund, CITIC Kazyna Investment
Fund I, has been founded to finance infrastructure pro-
jects in Kazakhstan. The treaty was signed between
the two major shareholders, JSC Kazyna Capital Manage-
ment (the daughter company of JCS Kazyna) and
CITIC Capital Holdings Limited. The capitalization
of the fund is set at USD 200 million.

Asset quality in the banking sector has improved
since the beginning of 2008. In January-April, the to-
total volume of assets grew by KZT 7.8 billion or by
0.1% ytd, while the gross equity capital of the bank-
king sector increased to USD 15.3 billion, gaining
3.4% ytd. The quality of banks' credit portfolios has
marginally improved as well. The share of standard
credits grew from 39.7% to 41.1%, while the propor-
tion of doubtful loans decreased from 58.8% to
56.3%. At the same time, the share of non-performing
loans slightly increased to 2.4%. This means that lo-
cal commercial banks still face a formidable chal-
lenge of revamping their risk and liquidity manage-
ment on the back of moderating credit growth. On a
positive note, the ratio of banks' assets to liabilities in-
creased slightly since the beginning of the year and
stood at 1.2% in April. Finally, during the first four
months of 2008, Kazakh banks repaid USD 6 billion
of assets of the National Oil Fund, stood at USD
45.5 billion.

Impressive FDI inflows into the Kazakh economy are
also a positive factor for mitigating pressures on exter-
nal imbalances. Despite some turbulence in the finan-
cial sector, foreign investors are strengthening their
presence in the country. Kazakhstan recently signed
several multi-billion investment contracts during the
Middle East session of the World Economic Forum
held in Egypt on May 18–20. The contract on creating a
Qatar-like energy hub in western Kazakhstan to
maintain the Caspian region oil and gas industry will
attract USD 400 million, with further expansion to
USD 10 billion. In addition, an agreement was signed
to create the Islamic Finance Bank (with a capitaliza-
tion of USD 750 million) in Kazakhstan and the first
ever in the region. In addition, the state-controlled de-
velopment fund JSC Kazyna is to partner with an in-
vestment company of the United Arab Emirates to es-
ablish a financial institution that will allocate over
USD 500 million to Kazakhstan. Arab businessmen
are also interested in the tourist industry of
Kazakhstan and may commit over USD 1.5 billion to
develop resort zones in the Caspian Sea.

The international liquidity position of the govern-
ment remains solid as well. In May, the forex reserves
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stood at 1.2% in April. Finally, during the first four
months of 2008, Kazakh banks repaid USD 6 billion
of their external obligations. As a result, the, the Kazakh
banking system has been withstanding the global
credit crunch, while policies enacted by the central
bank and the government appear to be working well
to maintain financial stability.

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