



Kazakhstan: on the wave of structural reforms

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New economic reality: transformation of global economy

- Over the last 12 months, the world economy as well as the Kazakhstani economy has faced some major changes:
 - **Decreased commodity prices** like oil price drop from above 100 USD/bbl to below 50 USD/bbl;
 - **Debt crisis** in the Euro zone;
 - **High volatility** with many frontier market FX rates;
 - **High volatility** in stock markets;
 - **Shifts in the geo-economic balance** of the world.
 - Chinese growth has been a key locomotive for the whole world economy for more than 15 years. We have taken the high commodity prices that resulted from that as our basic assumption. It is important to remember, that oil price of 40-50 USD per barrel and copper price of 5000 USD per tonne are not low if we take a 20 year time horizon instead of 5-10 year time horizon.
- One thing is clear; the volatility and uncertainty in the world economy will only increase. Global experience has shown that the countries that have been able to build the highest degree of flexibility in their economy are the strongest. They are the most robust to navigate through turbulent times, and they grow over time fastest.

Long term priorities and strategic vision till 2050



Kazakhstan
2050

In 2012 President N.Nazarbayev in his Annual address announced **new Strategy “Kazakhstan 2050”**, which sets a target to enter TOP 30 most developed countries by year 2050.

Development of diverse, modern and innovative knowledge based economy

- SME contributes **50% of GDP**
- Share of **services** amounts to **70%** of GDP
- GDP per capita will be **60,000 USD**
- Non-oil exports rise up to **70% of GDP**

Improvement of institutional environment for sustainable growth

- In the **Top 30** of the Corruption perception and Government Effectiveness Indexes
- In the **Top 20** of Competitive entrepreneurship and Doing Business Rankings

Accessible and inclusive human capital development

- Increase of life expectancy from **70 to 84** years
- In the **Top 30** of PISA ranking
- 2 Universities in the **Top 100**

Accelerated infrastructure development for knowledge based economy

- Astana and Almaty will be world class cities with **6-7 mln people**
- Green energy will grow up to **50%** of total energy production

Strengthening integration with global and regional economy

- **Deeper integration** with world economies
- **Immigration policy** will be directed at attracting investors and skilled workforce



Kazakhstan signed a Country Program with OECD which will allow us to adopt OECD standards and best practices in order to implement structural reforms.

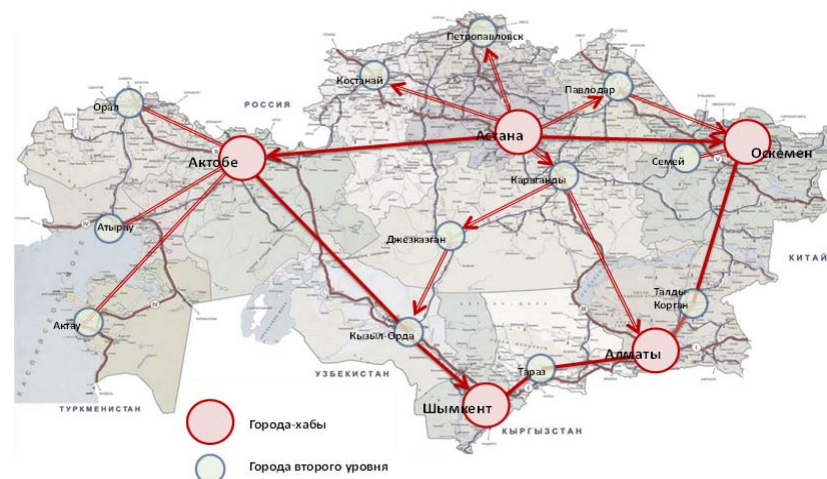
5 institutional reforms and the National Plan “100 concrete steps”

- President Nazarbayev announced **5 institutional reforms** that will increase the efficiency of public policy and lead to sustainable and balanced economic growth in the long-term:
 - 1. Formation of the modern, professional and autonomous state apparatus** that will ensure effective implementation of economic programs and the provision of public services.
 - 2. Guaranteeing the rule of law and property rights**, creating conditions for entrepreneurial development and it will eventually become the basis for economic growth.
 - 3. Industrialization and economic growth based on diversification.**
 - 4. Strengthening national identity.**
 - 5. Creation of more transparent and accountable government.**
- **National Plan “100 concrete steps”** was initiated to implement stated above institutional reforms.
- There are **5** working groups covering **5** directions of the reforms within **Commission on Economic modernization** chaired by the Prime-Minister of RK to effectively deliver the reforms.

Structural reforms will be implemented in framework of a New Economic Policy "Nurly Zhol"

In November 2014 the President announced a **New Economic Policy "Nurly Zhol"**, which mainly focuses on the infrastructure development.

The Government developed the State Program "**Nurly Zhol**". Its **purpose** is to **create a united market** by territorial development based on a hub principle. **Hub cities** will act as centers accumulating capital, resources and new technologies.



Directions of the Program:

- 1) Creating an effective transport and logistics infrastructure: 3.8 thousand km of modern highways starting from Astana in three directions Center–South, Center–East and Center–West.
- 2) Development of industrial and tourism infrastructure: growth of transit and freight up to 4 million tons per year.
- 3) Strengthening energy infrastructure: construction of the power lines, which connect the north, east and south of the country into a single network.
- 4) Modernization of utilities infrastructure: modernization of 1 thousand km of heating networks and 7 thousand km of water supply.
- 5) Construction of available houses: construction of 1.4 million sq. meters of rental housing.
- 6) Development of social infrastructure: construction of new schools and kindergartens.
- 7) Improving businesses climate: increasing the credits availability to businesses by lending for 10 years at the interest rate of 6% per annum.

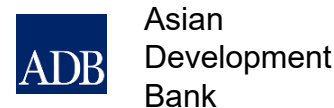
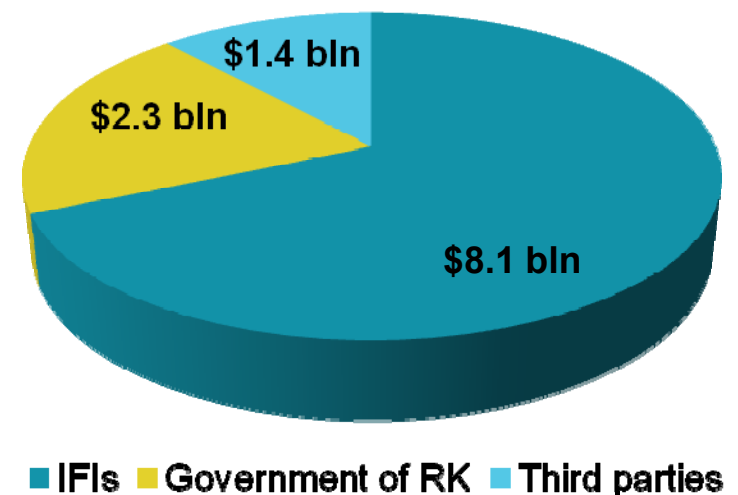
Kazakhstan enhanced cooperation with other IFIs

In 2014 along with EBRD, Kazakhstan also signed Partnership Framework Agreements with other International Financial Institutions (WB, ADB, IDB) for enhancing cooperation to promote sustainable development and growth in the Republic of Kazakhstan.

With assistance from IFIs, structural reforms will be implemented in the following areas:

1. Financial Sector development
2. SME development and improvement of business climate
3. Science and innovations
4. Human capital and labor market
5. Attraction of investments to the economy and PPP
6. Sustainable development, transport infrastructure
7. Support in implementation of structural reforms
8. Regional collaboration and integration

Total portfolio of investment projects, institutional loans and technical support with IFIs amounts to **\$11,8 billion**



Key reform initiatives done in 2014 and planned for 2015

- **Signing of Partnership Framework Agreements with EBRD, WB, ADB and IDB** in order to enhance implementation of structural reforms and promote sustainable development and growth
- **New Investment Law** provides additional measures of state support to investors in the framework of investment contracts
- In partnership with the EBRD and IFC **necessary amendments to legislation in PPP** for improvement of investment attractiveness for creditors and concessioners introduced
- By introducing a **Law “On permissions and notifications”**, permissions and notifications have been decreased by **3 times**, while an introduction of new restrictions without conducting an Impact Assessments Analysis is not allowed
- By implementing a “good bank and bad bank” resolution scheme with KKB and BTA while introducing necessary amendments to legislation **a level of NPLs decreased from 31.7% to 23.5%, 10% is a target level for 2016**
- To further enhance the overall investment climate, **tariff ceilings have been set for a period of five or more years in order to ensure** predictability of long term tariffs in certain
- **A second wave of privatization applying “Yellow Pages Rule”** has been conducted to increase a private sector share in the economy
- **Transformation of “Samruk-Kazyna”** to improve efficiency and productivity of its operations while eliminating “a crowding out” of private sector by quasi-public companies

Recent initiatives for improvement of business climate

Kazakhstan set a target to enter Top 30 countries in the **World Bank's Doing Business rating by 2016**. In this regard the following initiatives are introduced:

- 1) **Cancellation** of planned business **audits**. Audits are conducted only in accordance with the **risk management system**.
- 2) **Cancellation** of more than **1,800 regulations** that impede business development.
- 3) Adoption of a new **Law on permits and notifications** will be followed by the reduction of permits **by 50%**. The new permits are now introduced only after conducting an analysis of the regulatory impact and identification of potential risks, associated with the introduction of a regulation.
- 4) **“One stop shop“** mechanism was introduced for dealing with construction permits.
- 5) **Business registration** time is decreased to **1 hour**.
- 6) Simplified procedure for the elimination of small businesses is established.
- 7) **«Yellow Pages Rule»** to be introduced in order to minimize state participation in the economy.
- 8) Law on self-regulation of business

Improvement of investment climate is a top priority

Government introduced new incentives package for investors.

1) State support for investors under the contracts negotiated with the Government:

- Exemption of the **corporate income tax** and **land tax for 10 years**,
- Exemption of a **property tax for 8 years**.

2) Providing **compensation** of up to **30% of capital expenditures** (investment subsidy) from the government after commissioning.

3) Guarantees for investors of **stable tax rates and fees** (except VAT and excise taxes) **for 10 years** starting from the date of signing the investment contract

4) Right to **employ foreign labour force** for a duration of the investment project and one year after the launch of the project.

5) A **visa-free** travel regime for citizens of 10 OECD countries.

6) “**One-stop shop**” **services** for investors as a single contact point at the Investment committee under the Ministry of Investments and Development.

7) Active work on **PPP legislation** improvement.

The new package will be offered for new investment projects worth at least **\$20 million** in 8 priority industries of economy, such as agriculture, processing, manufacturing etc.

To further enhance the overall investment climate the **predictability of long term tariffs** is ensured, whereby tariffs are set for a period of **five or more years**.

A stimulus package to support growth and employment is introduced

Due to uncertainties and slowdown in the global and regional economy, a **stimulus package** to support economic growth was developed.

1) **A tight fiscal policy:** macroeconomic forecast and budget parameters were revised based on oil price of \$50/barrel

2) Supporting **the real sector of economy** through:

- State Program of Infrastructural Development “Nurly Zhol”, which aims at improving the domestic infrastructure
- State Program of Industrial and Innovative Development, which aims at opening new enterprises in manufacturing
- Action Plan for Supporting Industrial Enterprises (75 systemic measures)
- Increasing financial support to agricultural producers
- Supporting the food industry through increasing the volume of lending and refinancing
- An active policy on import substitution and launch of the campaign “Made in Kazakhstan”.

3) Supporting **small and medium enterprises:**

- Financing working capital and refinancing loans in the manufacturing industry
- Increasing financing of the projects in the manufacturing industry
- Implementing reforms with IFIs in order to enhance competitiveness of SMEs and providing credit lines to support entrepreneurs.

4) **Diversification of export geography** by using potential of new railway lines on the west, highway “Western Europe - Western China” and development of the special economic zone “Khorgos – Eastern Gate” to boost economic activity between Kazakhstan and China

Regional Trade Initiatives

1. An active initiator of economic integration processes:

- On January 1, 2015 the **Eurasian Economic Union** together with Russia and Belarus came into effect. The EEU provides more opportunities for further economic development by expanding our market by tenfold to 170 mln people with a two trillion dollar economy
- Kazakhstan joined the **World Trade Organization** in 2015.

2. Enhancing bilateral trade relations:

- In December 2014 **Kazakhstan and China signed joint projects** worth a total \$ 14 billion on establishment of variety of new industries in the manufacturing sector which includes mining and metallurgical complex; energy and oil refining; mechanical engineering; the construction and chemical industry; transport infrastructure and logistics, food and light industry
- **EU is a leading trade partner of Kazakhstan** enhanced by **renewal of Partnership and Co-operation Agreement with the EU** in 2014
- **South Korea invested in Kazakhstan** for the last two year \$4 billion
- **Mutual trade between Japan and Kazakhstan** exceeded \$1,7 billion in 2013 while Japan invested \$5,5 billion in Kazakhstan for the last 20 years
- **Kazakhstan at the 4th Caspian Summit** announced an initiative to establish a free trade zone in the Caspian region