



REPUBLIC OF KAZAKHSTAN

MINISTRY OF ECONOMY AND BUDGET PLANNING

STRICTLY PRIVATE AND CONFIDENTIAL

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Executive Summary

- After a decade of exceptionally strong economic growth and development, Kazakhstan's ability to withstand shocks has been tested since the onset of the global liquidity crisis in 2007. Against expectations by many, appropriate policy responses and strong financial ratios have enabled Kazakhstan, which was identified as being among the worst affected, to avoid a severe banking crisis with a run on deposits, a currency crisis and depletion of FX reserves and a recession.
- Prudent macroeconomic policies in recent years have strengthened the authorities' position from which to navigate the financial storm. However, with the deteriorating global economic outlook and the sharp fall in oil prices, economic and financial risks remain high. The government has adapted its expectations to the deteriorated environment (GDP growth in 2009 is now forecast at 0,1%) while it continues strongly committed to mitigate the negative impact of the global crisis on Kazakhstan's economy.
- The government's key priorities for the next two years include the stabilisation of the financial sector, supporting the small and medium sized enterprise (SME) sector, develop the agro-industrial sector and the real estate market, advance the diversification of the economy, boost employment and support socially vulnerable groups of the population.
- Fiscal policies, despite the government's planned support for the economy, remain prudent. The original oil price assumption in the 2009 budget of US\$60 pbl has been revised to US\$50 pbl. and contingency plans have been made in case oil prices fall to US\$25 pbl. The consolidated fiscal balance in 2009-10 is forecast to continue to show moderate deficits, if smaller than previously due to low oil prices. State budget balances planned at around 3.6% of GDP in 2009 should be comfortably financed given the amounts of government's assets and low debt levels.
- Inflation has set on a rapid declining trend and ended as of January-August 2009 of 6.2%, compared with the same period of 2008 of 20.1%. Despite the recent devaluation of the tenge, inflation is expected to remain around 9% in the near-term on the back of slowing growth of monetary aggregates and the slowdown in economic activity.
- External liquidity position strengthened in 2008 as a result of improved balance of payments dynamics. Although the current account is expected to show a deficit in 2009 due to low oil prices, FDI inflows will continue to fund most of the external gap.
- Long-term prospects remain good given Kazakhstan's vast endowment of natural resources and the government policies to support the economy's diversification through infrastructure development and improvements to the business environment.

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Resilient fundamentals supported by a strong sovereign balance sheet...

Key macroeconomic indicators

	2003	2004	2005	2006	2007	2008	1H 2009
GDP growth rate (% change oya)	9.3	9.6	9.7	10.7	8.9	3.3	-2.5
Per capita GDP (US\$)	2,070	2,870	3,770	5,290	6,772	8,514	n/a
Current account (% GDP)	(0.9)	0.8	(1.8)	(2.4)	(7.8)	5.2	(6.3)*
Trade balance (% GDP)	11.9	15.7	18.1	18.1	14.4	25.1	9.3*
Exports of goods (% \$ change)	42.9	47.7	49.5	47.9	46.1	54.4	39.4*
International reserves (US\$ bln)	5	9.3	7.1	19.1	17.6	19.4	18.6
FDI (% of GDP)	7,2	12,6	3,7	8,2	16,7	14,8	10,3
Gross general government debt (% GDP)	15	11.4	8.1	6.7	5.9	6.4	7.1
National fund (% of GDP)	11.5	11.4	14.2	18.1	21.3	20.6	23.7

*Estimate

Key macroeconomic indicators - forecasts

Indicators	2007	2008	2009	2010	2011
			forecast	forecast	forecast
GDP, bln USD	104.9	133.4	106.6	116.1	128.8
GDP, tln KZT	12.8	16	15.9	17.4	19.3
GDP growth, %	8.9	3.3	0.1	2.4	2.5
GDP per capita, USD	6,772	8,514	6,499	7,078	7,852
Consumer prices index, %(eoy)	18.8	9.5	8.0-8.5	7.5-8.0	7.5-8.0
Average oil price \$pbl	72.7	97.6	50	50	60
Oil and gas production, mln tons	67.5	70.7	75	80	81

Sources: National Bank of Kazakhstan and Government forecast

...and a government's broad ranging Anti-Crisis Plan to limit the extent of the economic slowdown

Real Estate

- From NFRK assets 120 bln tenge directed for refinancing of mortgages and 240 bln tenge for solving of problems in real estate through Samruk-Kazyna' Real Estate Fund, which purchases uncompleted objects, completes construction and hands them over for a long-term renting to the people.
- There were allocated 48,8 bln tenge and 46,3 bln tenge to complete the construction of objects in Astana and Almaty by a way of deposits allocating in ST banks. By banks there have already been directed 40,7 bln tenge in Astana and 25,7 bln tenge in Almaty. Construction completed: 19 houses in Astana with 3 284 shareholders, 8 houses in Almaty with 1071 shareholders.
- Besides, 40,8 bln tenge directed to purchase apartments by an Akimat of Astana. As of present 5 635 apartments are purchased.
- In 4Q 2007 there were in construction around 450 houses with 62 thousands of shareholders. 214 objects completed and problems of more than 31 thousands of shareholders have been solved, including as of January-August 55 object with 9,5 thousands of shareholders.

SME's

- From NFRK assets 120 bln tenge are allocated to SME support: through DAMU Fund to banks 117 bln tenge have been directed for the further financing of SME (70% for refinancing of started projects and 30% to new projects by a rate of 12.5%); 3 bln tenge will be directed to the direct lending for SME
- In the framework of SME subjects support there were financed more than 6 thousands of SME projects and supported 12 thousands of jobs
- Micro-project programs, operated through "Kazpost" offices
- Measures to reduce "red tape" and to improve business environment for SME

Employment and Social Protection

- Moratorium on the immigration of non-skilled workforce and increasing control regarding illegal immigration
- Reaching agreements with large and medium enterprises on preserving employment, the financing of social projects
- (Re-)schooling and training programs
- Review of further need of budget funds for unemployment benefits and various kinds of social aid
- Free school catering
- Improved pre-school education
- Continued work on the establishment of stabilization funds for prices of vital goods such as meat, dry milk, sugar etc..

Other Industrial Sectors

- Funding of KazAgro via emission of bonds (USD 1 bln) to the Oil Fund
- Channeling of investments into areas with high export potential
- Mainly financial and institutional support for projects in the agriculture and food industry through the central state and regional budgets, the National Welfare Fund, and the state holding "KazAgro"
- Mainly infrastructure and electricity sector projects. KZT 120 bln from the Oil Fund

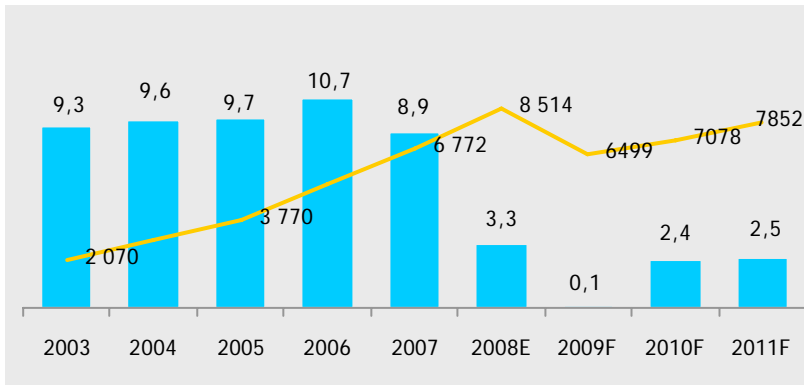
Disburse of assets for the realization of Anti-crisis measures of the Government for the period of 2007-2009

	<i>mln. tenge</i>						<i>quantity</i>
	2007		2008		2009		Supported SME projects/shareholders
	allocated	disbursed	allocated	disbursed	allocated	disbursed	
1 Financial sector stabilization			550 040	-	550 040	285 917	204
2 Houses building	70 325	-	169 722	99 237	465 064	73 189	60 718
3 SME	48 800	-	141 315	181 677	79 638	127 000	8 194
4 Agroindustry	24 400	-	74 821	70 821	124 000	55 200	1
5 Implementation of innovative, industrial and infrastructural projects					120 000	-	492 584
Total	143 525	-	1 079 423	351 735	2 066 430	541 306	
6 Reduction of minimal reserve requirements					350 000	350 000	
7 Reduction of tax burden					500 000	500 000	
Total					850 000	850 000	
Amount					2 916 430	1 391 306	
Amount in \$					19 443	9 275	

Note: * exchange rate is \$1=150 tenge

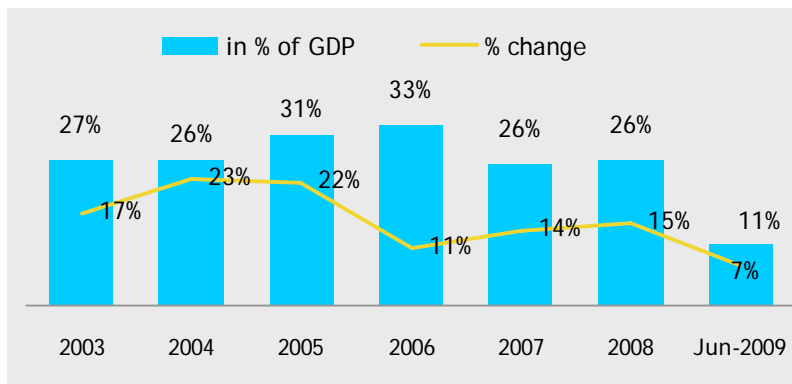
In recent years, sources of economic growth have been well balanced, with the largest contribution coming from private investment

GDP % change and GDP per capita in \$'000



Source: National Bank of Kazakhstan and government forecasts

Investment in % of GDP and % yoy change

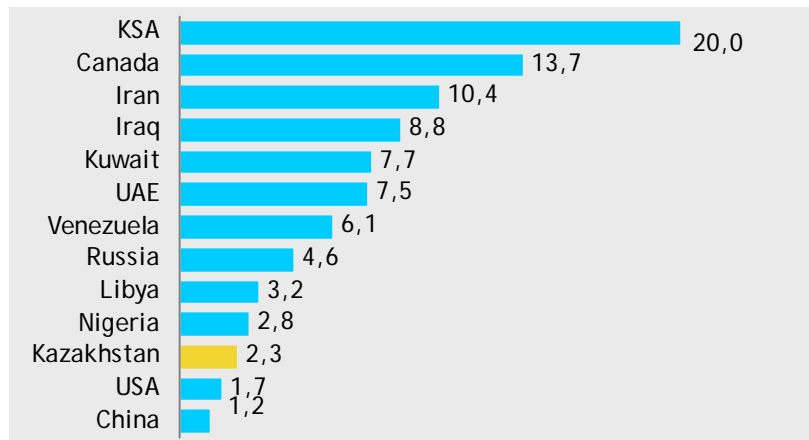


Source: Statistics Agency of the Republic of Kazakhstan

- In recent years, growth has been led by the non-oil economy that has been thriving on the back of rapidly increasing consumer purchasing power and strong investment
- Standards of living in Kazakhstan are rapidly approaching those of the Baa peers, despite the fact that the country started from a very low base
- The government remains strongly committed through various policies to support the development on the non-commodity sector and reduce the economy's dependence on O&G
- In the framework of 7 priority directions, being said by President on the 12th Nur-Otan congress, the Program of forced industrial-innovative development:
 1. Agriculture
 2. Construction industry and production of construction materials
 3. Oil processing, infrastructure of oil & gas sector
 4. Metallurgy and production of finished metal products
 5. Chemical and pharmaceutical industry
 6. Energy (including "clean", renewable sources)
 7. Transport and telecommunication infrastructure

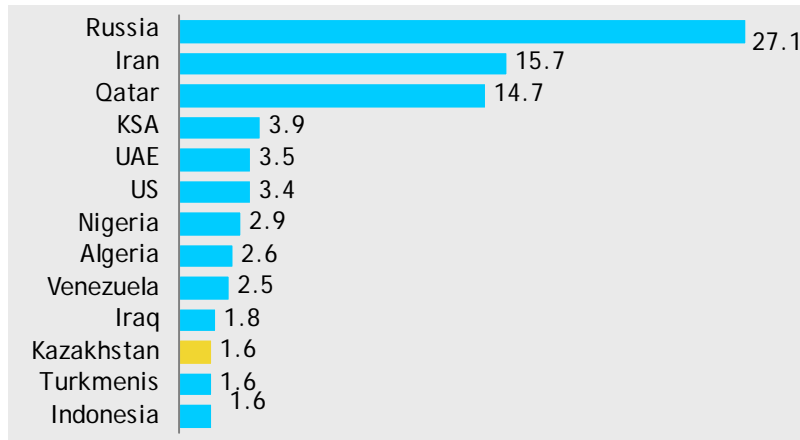
Outstanding and diverse natural resource endowment supports long-term growth prospects

Oil reserves (% total world reserves)



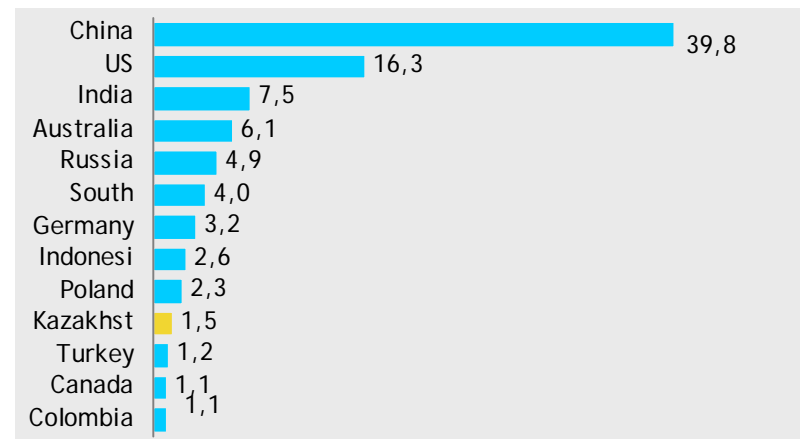
Source: Global Insight

Natural gas reserves (% total world reserves)



Source: EIA

Coal production (% total world reserves)

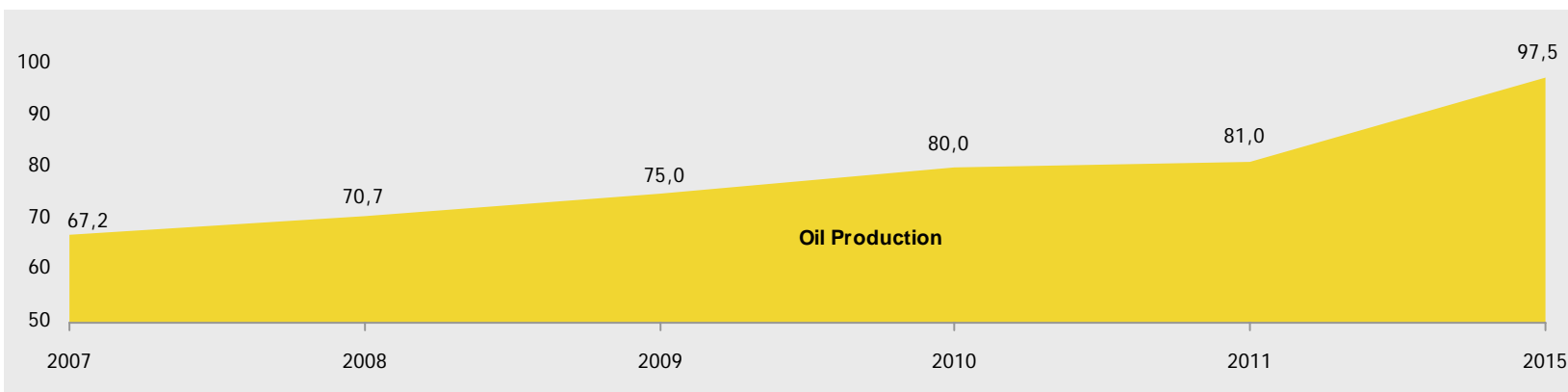


Source: EIA

- The country holds about 2.3% of the world's total proven oil reserves. Estimates suggest that possible hydrocarbon reserves of the Republic exceed proven reserves by at least two to three times
- The republic also owns 1.6% and 1.5% of the total world reserves of natural gas and coal, respectively
- In addition, Kazakhstan also has deposits of chrome, lead, tungsten, copper, zinc and iron ore, as well as several large gold deposits
- Kazakhstan is also a significant exporter of grain, ranking among the world's leading ten exporting countries

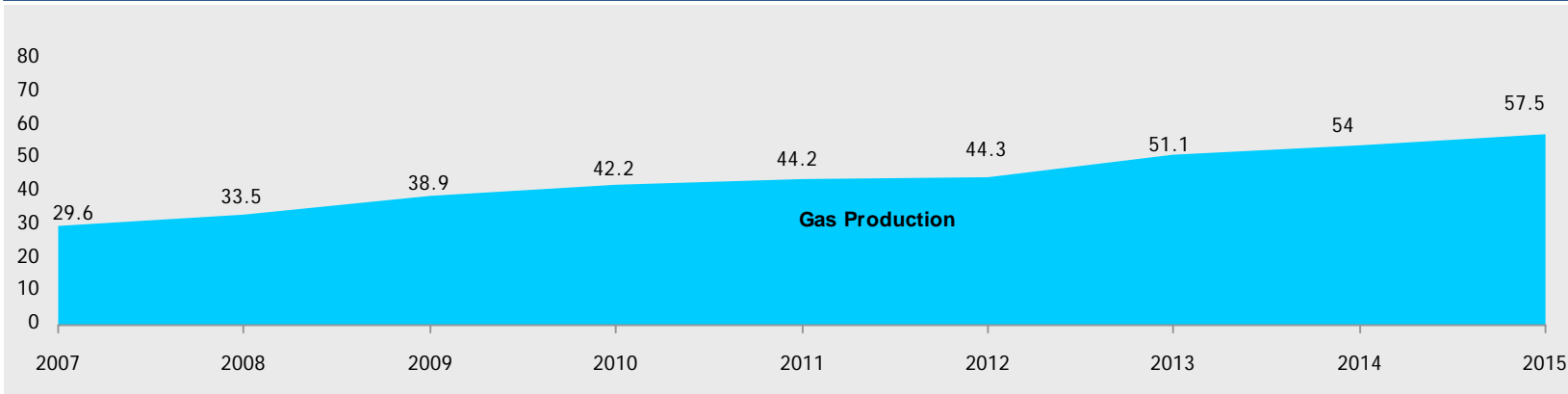
Rising energy production will partially compensate for the decline in prices

Oil production (mln ton)



Source: Ministry of Energy and Natural Resources

Natural gas production (bln m3)

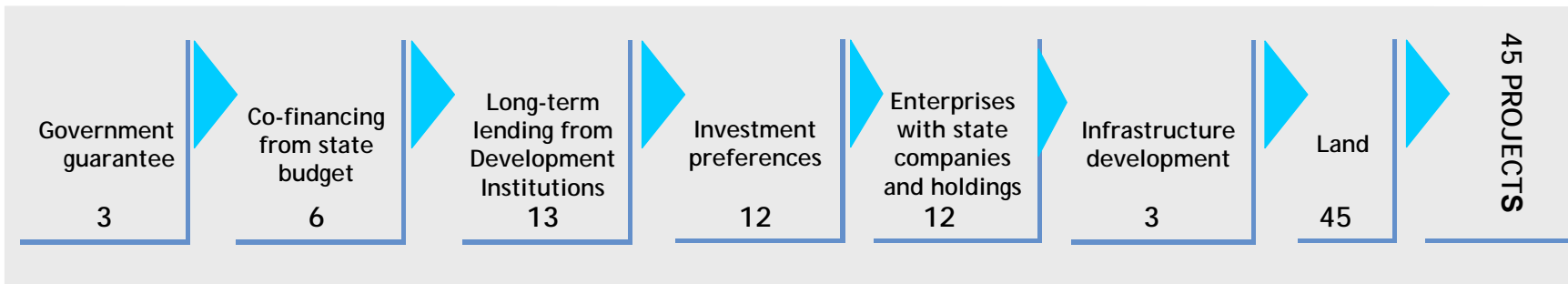


Source: Ministry of Economy and Budget Planning

- Oil production is rising rapidly as a decade of exploration and development is starting to pay off. Ministry of Energy and Natural Resources expects production to increase by more 15% between 2008 and 2010, subsequently doubling by 2020
- Natural gas production has more than doubled over the past five years. That trend is expected to continue as the country continues to invest in the development of the gas sector

Infrastructure development in support of diversification goals

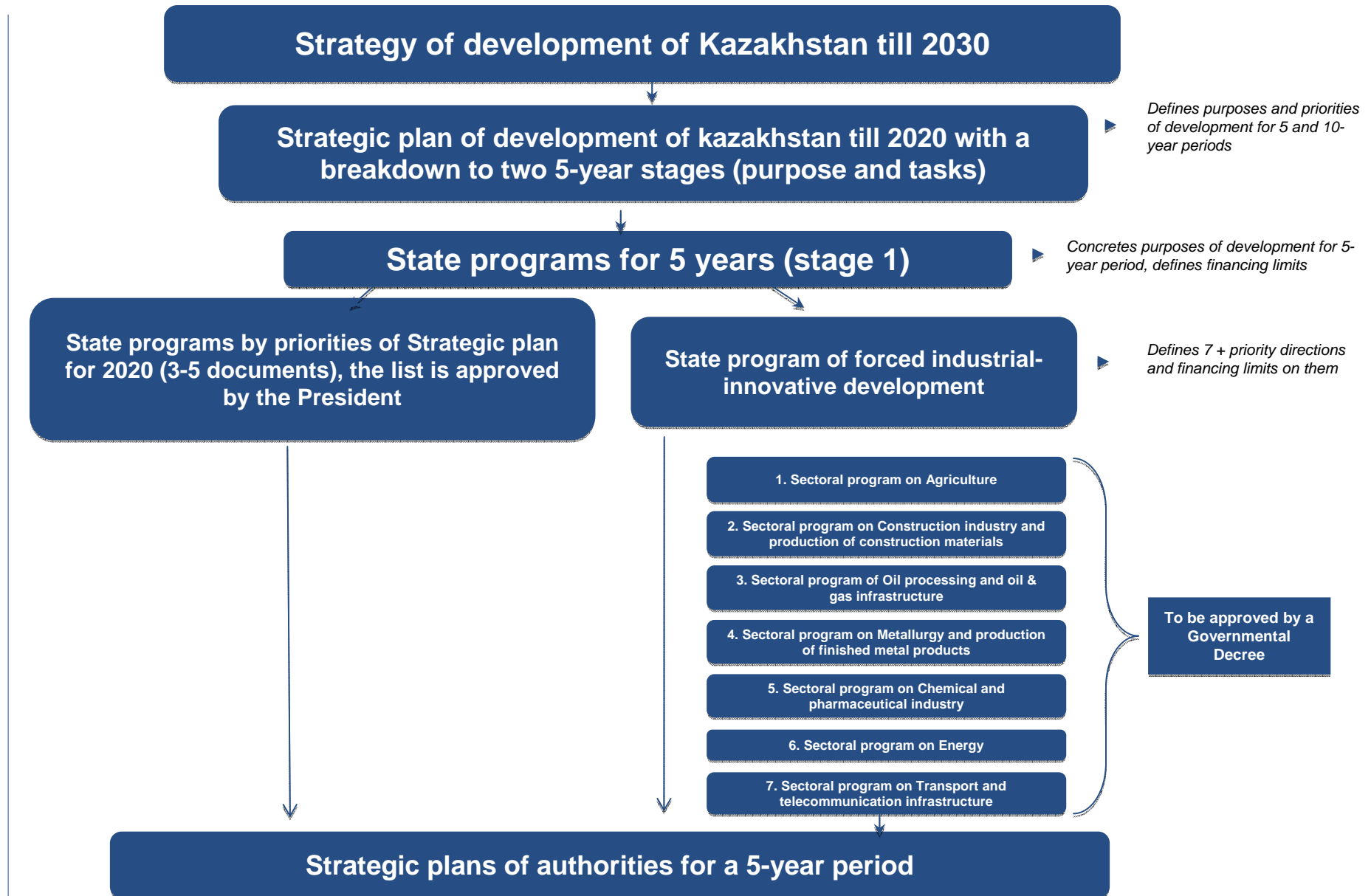
Government financial support program areas 2008-2011 (KZT mln)



Source: Ministry of Economy and Budget Planning;

- The government has laid out a medium-term plan for co-financing 45 different projects and areas of economic development that mostly focus on infrastructure projects throughout the country. More than \$54bln will be spent under the Corporate Leaders initiative with the government contributing only a small portion through public-private partnerships
- In 2008 the amount of budget funds spent under the initiative was to \$532.1 mln. In 2009-2011, budgets will allocate a total of \$2.865 bln
- Almost 70% of the committed funds are expected to be spent on infrastructure development in various sectors throughout the economy: tourism, electric power, petrochemical industry, and etc
- All other sectoral programs, “30 corporate leaders” and others (totally 52 programs) will be integrated in the Program of forced industrial-innovative development, and all projects will be in a Industrialization map

Programs implementation scheme



New measures of the Government for the industry development

The Program of forced industrial-innovative development of Kazakhstan for 2010-2014 (PFIID)

- **Main goal of PFIID** – maintenance of diversification and competitive recovery of Kazakhstan economy for a long period
- **PFIID Objectives:**
 - consolidation of business and government effort and concentration of state resources on development of priority sectors of economy;
 - forming of favorable macroeconomic and investment climate and forming of efficient institutions and mechanisms of government and business interaction
- Within the framework of PFIID the Industrialization Map is being implemented
- In present the preliminary portfolio of 115 investment projects with amount of 11,26 trln. tenge has been selected.
- **Expected results:**
 - sustained pace of economic development with the annual EVA growth approx. to 50%
 - competitive recovery of economy and structural shifts in economy and industry in benefit to productions with high-technological products and high added value
 - improvement of growth rates of working efficiency and shifts in the structure of GDP with increase of share of manufacture up to 14,5%

Largest projects of Industrialization Map

1

Agriculture: Construction of grain elevator complex in Mangystau oblast, 7 bln. tenge

2

Construction industry and production of construction materials: Construction of cement plant in EKO, 19.5 bln tenge

3

Oil processing, infrastructure of oil & gas sector: Modernization and reconstruction of Atyrau Oil processing plant, 395 bln. tenge

4

Metallurgy and production of finished metal products: Reconstruction of Taraz metallurgy plant, 12 bln. tenge

5

Chemical and pharmaceutical industry: Construction of Gas-Chemical complex in Atyrau oblast, 945 bln. tenge

6

Energy: Construction of Balkhash **thermal power-station**, 375 bln. tenge

7

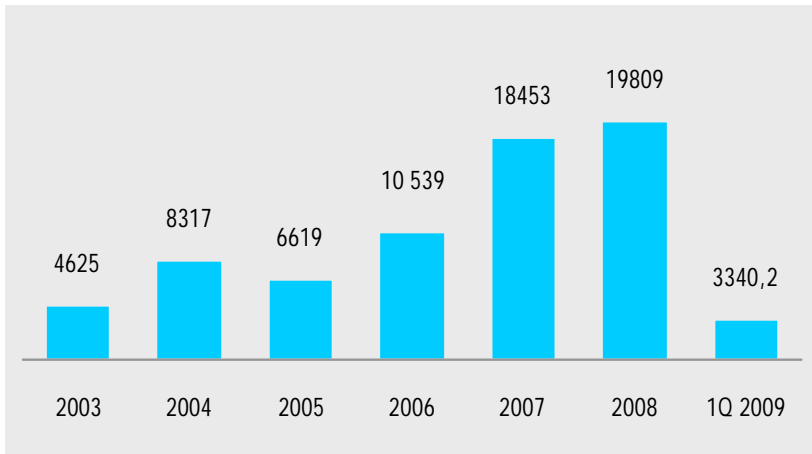
Transport and telecommunication infrastructure: Reconstruction of "Astana-Schuchinsk" automobile road, 114 bln. tenge

Others: Locomotive-assembly plant in Astana, 21 bln. tenge

In purpose of realization of industrial, innovative, infrastructure projects it is projected to attract credit lines of "Eximbank" of China and China Development Bank in amount of \$ 13 bln. and "Vnesheconombank" of Russia in amount of \$3 bln.

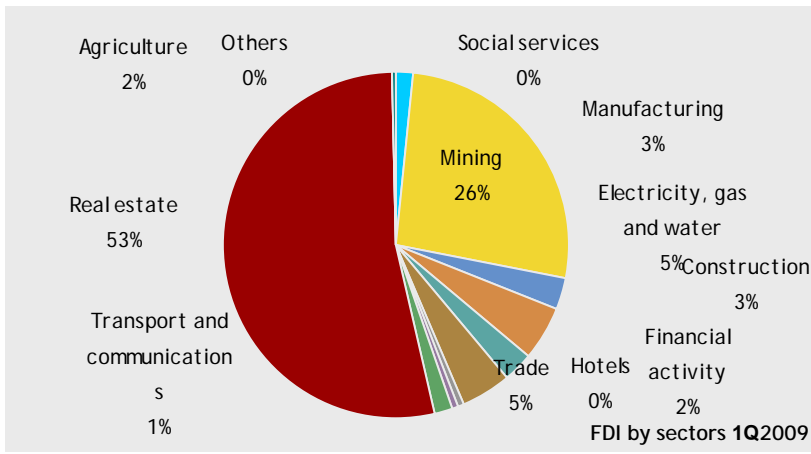
Multi- annual foreign investment projects ensures sustainability of FDI inflows despite the global crisis

Foreign direct investment, \$ mln



Source: National Bank of Kazakhstan

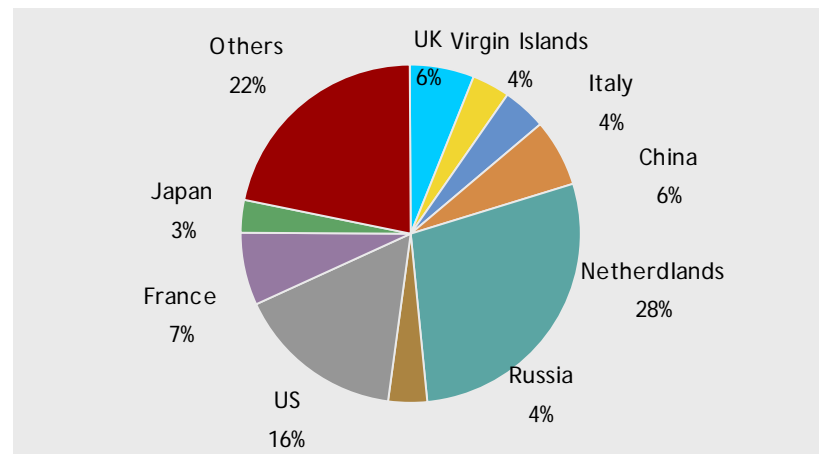
The real estate and mining sector dominate in FDI activity



Source: National Bank of Kazakhstan

- Kazakhstan has become a regional leader in FDI accumulation, with EU and the US amongst the largest investors in the country
- While FDI has mostly targeted the natural resources sector, the inflows have become increasingly diversified flowing into various non-oil sectors of the economy such as manufacturing, transport and the financial sector
- The long term nature of O&G development should ensure that FDI into such projects holds up despite the global crisis

FDI inflow by several main countries (1Q 2009)



Source: National Bank of Kazakhstan

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State budget deficits remain moderate in 2009-2011 as prudent fiscal policies are maintained

State budget indicators and forecasts 2008–2011 (KZT bln)

Indicator	2008		2009E		2010F		2011F	
	bln tenge	% to GDP	bln tenge	% to GDP	bln tenge	% to GDP	bln tenge	% to GDP
Receipts	4040,5	25,2	3491,6	21,8	3634,1	20,9	4197,0	21,7
Tax	2819,5	17,6	2081,9	13,0	2352,7	13,5	2819,1	14,6
Non-tax	85,5	0,5	88,2	0,6	66,8	0,4	69,2	0,4
Transfer from National Fund	1072,4	6,7	1191,0	7,5	1075,7	6,2	1171,0	6,1
Expenditures	4373,8	27,2	3967,8	24,8	4355,1	25,0	4931,0	25,5
Current programs	2482,4	15,5	2965,8	18,6	3349,5	19,2	4146,0	21,5
Development programs	1891,4	11,8	1002,0	6,3	1005,6	5,8	784,9	4,1
Deficit (Surplus)	-333,2	-2,1	-573,6	-3,6	-721,0	-4,1	-734,0	-3,8
Volume of state debt	1015,6	6,3	1647,4	10,3	2368,4	13,6	3102,4	16,1
GDP	16052,9		15986,5		17411,9		19316,0	
Annual average exchange rate of tenge to \$	120,3		150		150		150	
World price for oil (Brent), \$bar.	97,6		50		50		60	
National Fund Assets (\$ mln.)	27521,1	20,6	23419,4*	20,8	25375,1	17,8	28290,2	22,0

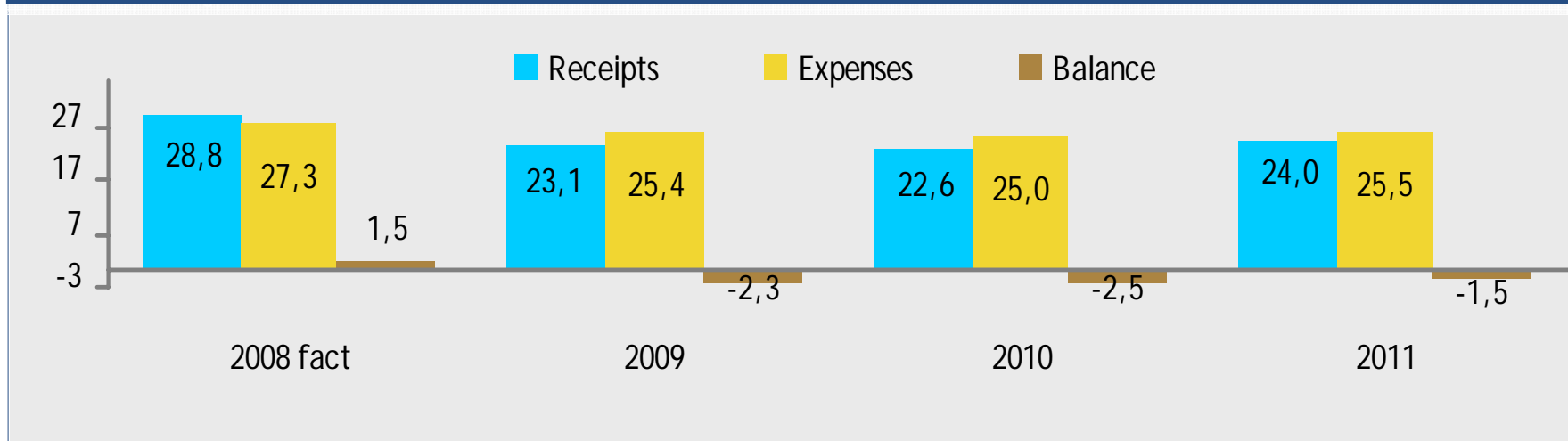
* Estimate

Source: MEBP

The consolidated budget feels the impact of lower oil prices, continues to show a moderate deficit

Consolidated budget indicators and forecasts 2008–2011 (KZT bln)*								
Indicator	2008		2009		2010F		2011F	
	bln tenge	% to GDP	bln tenge	% to GDP	bln tenge	% to GDP	bln tenge	% to GDP
Receipts	4620,6	28,8	3695,5	23,1	3929,4	22,6	4636,4	24,0
Non-oil	2903,5	18,1	2300,9	14,4	2560,7	14,7	3028,3	15,7
Oil	1717,2	10,7	1394,6	8,7	1368,7	7,9	1608,1	8,3
Expenditures	4376,4	27,3	4067,0	25,4	4357,0	25,0	4933,1	25,5
Current programs	2485,0	15,5	2967,6	18,6	3351,4	19,2	4148,1	21,5
Development programs	1891,4	11,8	1099,3	6,9	1005,6	5,8	784,9	4,1
Balance	244,2	1,5	-371,5	-2,3	-427,6	-2,5	-296,7	-1,5

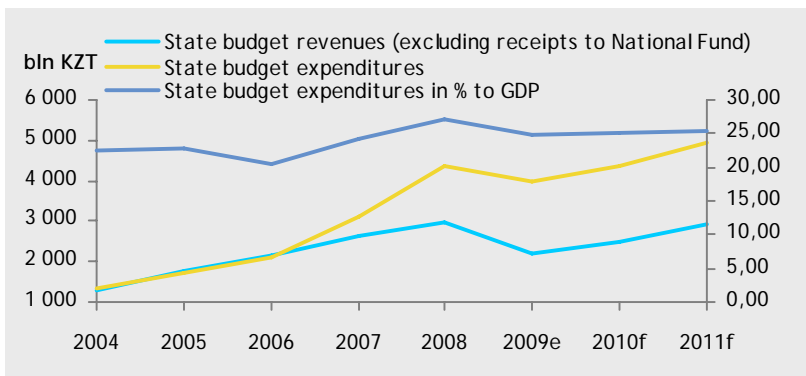
Consolidated budget, % of GDP



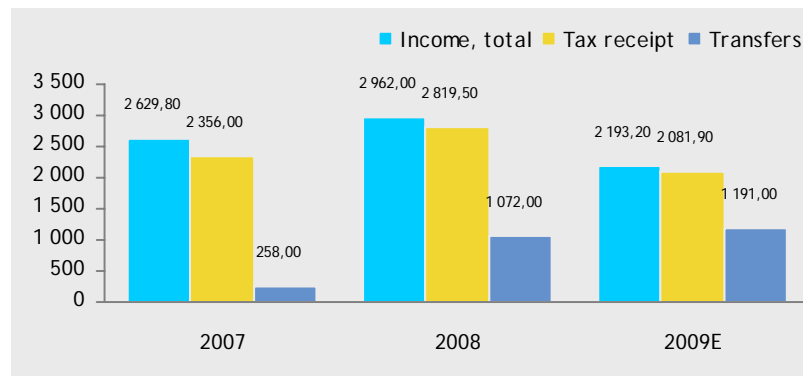
* Consolidated budget receipts include budget receipts plus National Fund receipts (oil); Current expenditures include budget expenditures plus National Fund management related expenditures

Authorities continue to demonstrate commitment to conservative fiscal policy despite the economic crisis

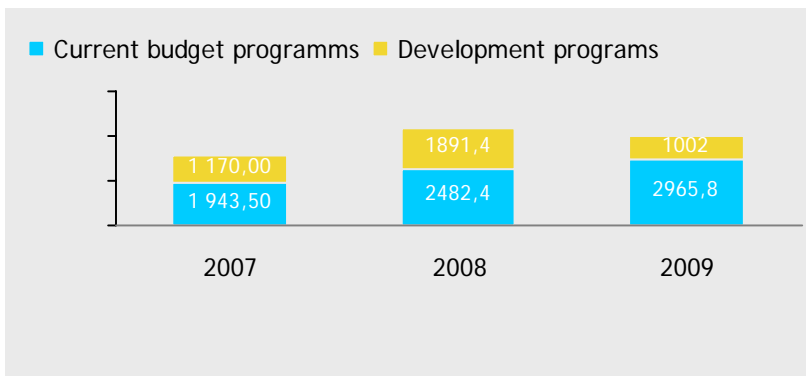
State budget expenditures (KZT bln and % GDP)



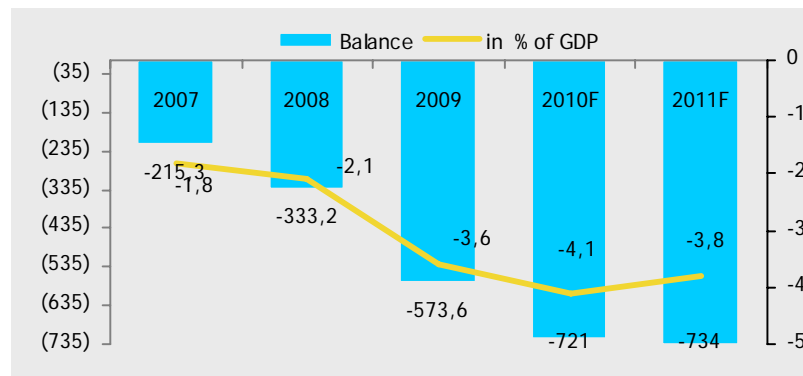
Government revenues (bln KZT)



Government expenditures (bln KZT)



State budget deficit for 2007-2011



Source: MEBP

New tax code aims to support economic diversification and general economic activity

Measures in the New Tax Code

- Accommodation of all changes/amendments/interpretations to the Tax Code made during the last 5 years
- Adjustment of the Tax Code for the application of IAS, IFRS
- Revocation of advance payments of corporate income tax for all but 300 largest enterprises
- Extension of loss deferral period to 10 years
- Stage-by-stage introduction of traditional VAT payment scheme (introduce reimbursement of VAT receivables from the budget)
- Introduction of common social tax rate (11%) instead of regressive scale
- Reduction of VAT to 12% from 13%

Corporate Income Tax Reform

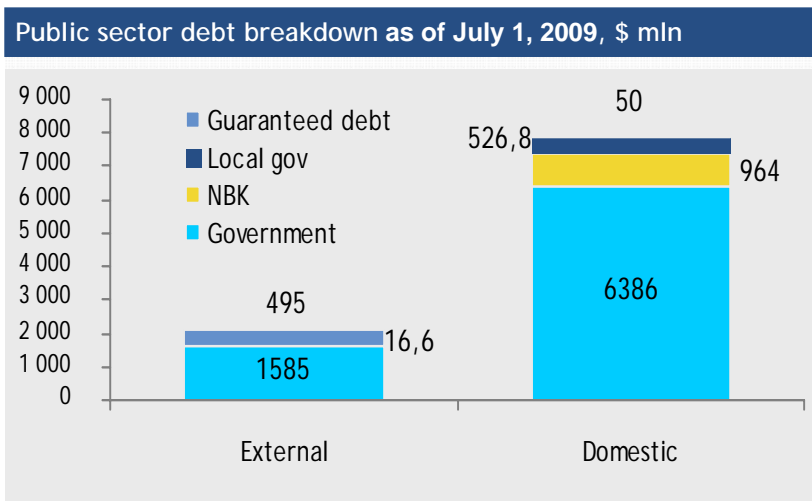
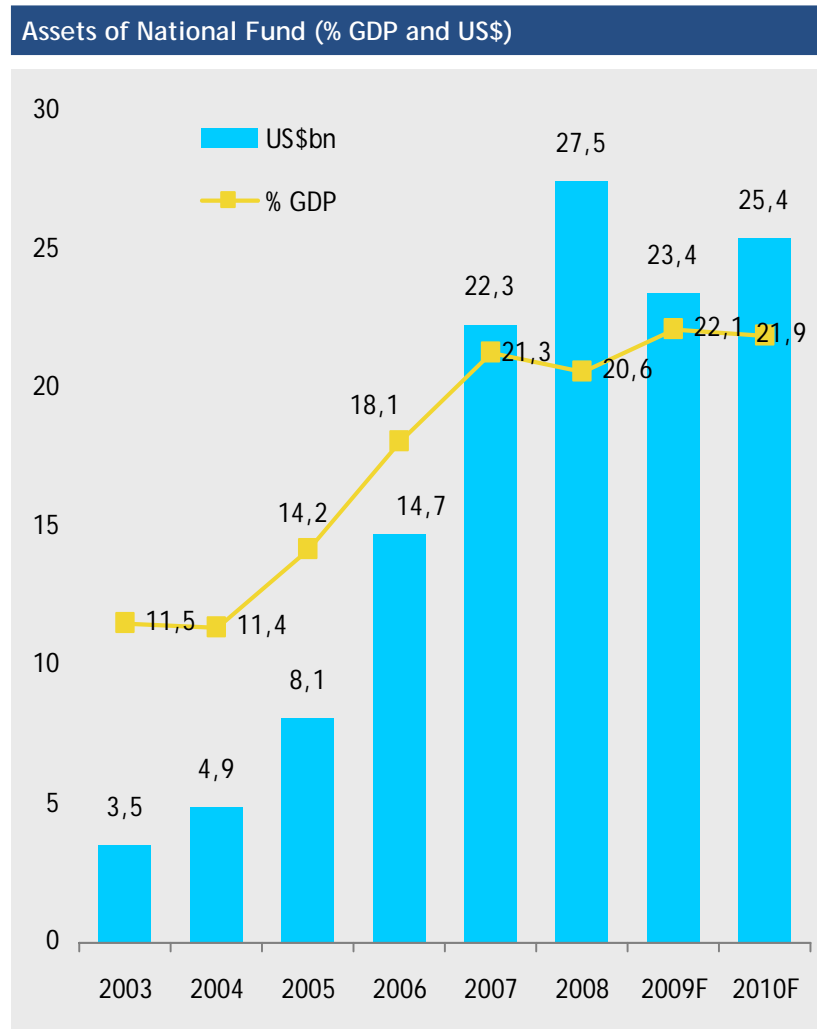
- Optimization of investment tax preferences
- Revocation of advance payments of corporate income tax all but 300 largest enterprises
- Extension of loss deferral period from 3 to 10 years
- Reduction of CIT from 30% to 20% in 2009
- Allow processing industries to file for tax deductions for construction expenditures and cost of fixed assets within a three year period

Taxation of Mineral Extractive Sector

- Replace the old royalty-based tax system with the new Mineral Extractive Tax that directs flow of the new tax by oil and tax companies to the National Fund and by other energy sector to the budget
- Change the calculation of rent taxes, including change of base price levels from selling price to the world price levels and inclusion of coal in the tax base
- Starting from January 2009 the government stopped issuing production sharing agreements (existing agreements will stay in force)
- Increase tax burden of the energy sector from 49% to 62% (at base price 72.7 \$/b)
- Introduction of a more flexible EPT calculation

- Draft law on Republican budget for 2010-2012 provides for retention of current 20% CIT rate for 2010-2012
- Efficient tax system that supports diversification of the economy and expansion of tax base through legalization of shadow business
- Kazakhstan is ranked 52nd in Paying taxes metric by WB “Doing business” report in 2010

Very low sovereign debt and substantial assets allow the government to finance comfortably the projected deficits



Source: Ministry of Finance

Source: MEBP

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Taken measures on stabilization and support of liquidity of financial sector

- From 487,5 bln. tenge for financial sector stabilization measures there were directed about 476 bln. tenge.
- These funds were allocated in 4 major banks. One part is to purchase simple and privileged shares, the second - to support economic activity (crediting).
- 75,1% of simple shares of BTA Bank (212,1 bln. tenge) have been purchased. Now BTA Bank works on external debt restructuring.
- 120 bln. tenge allocated in Halyk Bank (60 bln. for shares purchase, 60 bln. to finance the real sector of economy). All funds have been drawn in full. By this activity 15418 acting jobs were supported.
- 120 bln. tenge allocated in Kazkommertsbank (84 bln. to finance the real sector of economy, 36 bln. for shares purchase). All funds have been drawn in full. By this activity there have been supported 27653 currently acting jobs.
- 24 bln. tenge allocated in deposit of Alliance Bank.

Since the government decided to enter to banks' capital they have become an active instrument of governmental support to economy. Due to these measures the crediting pace of economy had been supported successfully, there were no bankrupts of financial institutes, the collapse in financial system is also avoided.

Current situation with some major banks...

- BTA bank

BTA Bank continues to cooperate with KPMG LLP company on financial reliability testing focused on a credit portfolio and other financial investments, and also off-balance report.

BTA Bank is preparing detailed business-plan and the debt restructuring plan, which includes several variants to allow the creditors to choose it themselves in September 2009. It is also planned to sign a memorandum of mutual understanding with the creditors committee.

Total liabilities of BTA Bank including off-balance debt amount \$ 12,1 bln, net balance liabilities amount \$ 10,3 bln.

- Alliance Bank

As of today, the total amount of borrowings to be restructured is about \$ 4 bln.

In July, 2009 after series of negotiations in London and Almaty there was signed a Memorandum of mutual understanding between Creditors Committee and the bank with several options of restructuring process.

The bank introduced to FSA the plan of restructuring and recapitalization which was approved by FSA on 21st of July, 2009.

As a whole the process of borrowings restructuring of the bank to a mid November, 2009.

In spite of there were several downgrades of ratings of several banks, in Q1 2009 it was observed a growth in prices on Euro obligations of kazakh banks excluding BTA and Alliance which are in a restructuring process.

A Customs Union forming

The international legal base of the Customs Union in the framework of EurAzEC

By a Tax Code of the Customs Union there will be defined a tax policy, tax territory and a tax boundary in the framework of the Customs Union, a structure of tax legislation.

The Tax legislation consists of international contracts of member states of the Customs Union and of decisions of the Tax Union organs, and of tax legislation of each member states of the Customs Union.

In the framework of the Customs Union it is projected the following:

- create an attractive system of simplified procedures for conscientious partners of external economic activity and for various kinds of transports;
- forming a secure system of guaranteeing of tax payments
- introduction of efficient procedures of providing by a customs service of the Customs Union a mutual administrative cooperation on collection of tax debts

A Tax Code draft of the Tax Union will provide with real advantages to participants of external trade and is an important step on the way of integration to international economic cooperation.

Implementation of Government's measures on the "Road Map"

- For implementation of the Strategy of regional employment (Road Map) there is provided 191 bln. tenge, incl. 140 bln. tenge from republican budget, 51 bln. tenge from local budgets
- In the framework of the Road Map implementation it is projected 5127 projects:

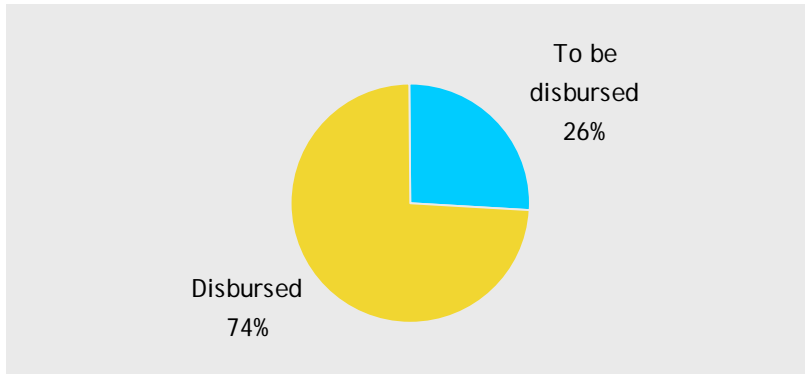
In 2958 projects the repair works had been finished:

Including:

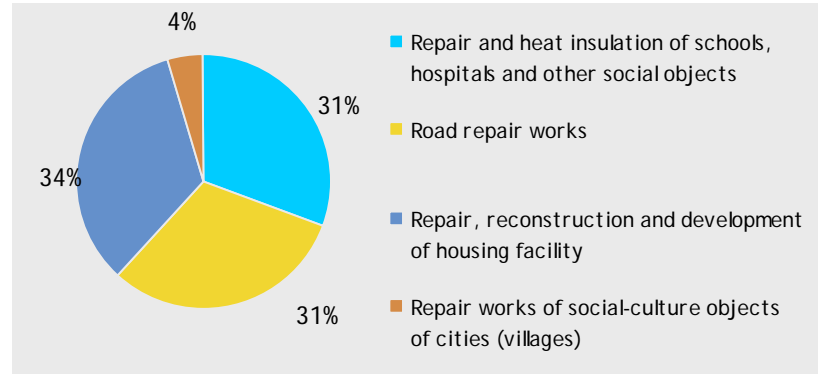
on housing system objects	87 projects, or 10.5 %
on road repair works	513 projects, or 49.4 %
on repair and heat insulation of social objects	1821 projects, or 74.4 %
on improvement of villages (rural areas)	537 projects, or 66.3 %

Implementation of Government's measures on the "Road Map"

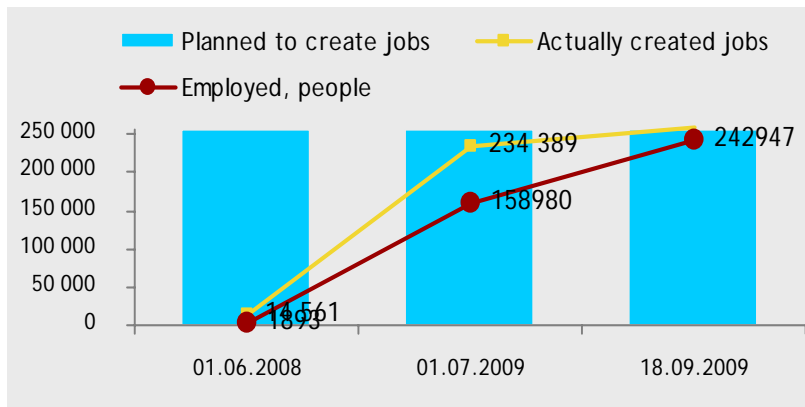
From provided 168.5 bln. tenge there were disbursed 124.2 bln tenge or 74 % from year amount



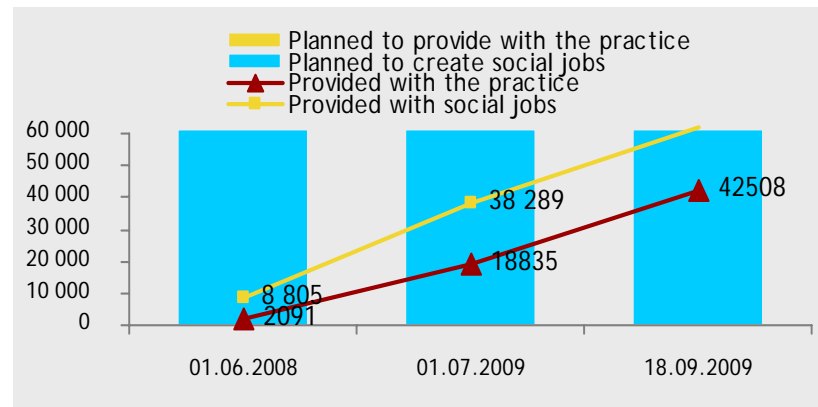
Disbursement breakdown of Road Map program



As of 18.09.2009 it is created 258.2 thousands of jobs, or 100.8% of plan



Social jobs and youth practice



- There was planned to create 256 thousands of jobs, at present it is created 258.2 thousands of jobs, or 100.8 %, employed 242.9 thousands of jobs or 94 % to a quantity of jobs
- From planned 61,2 thousands of social jobs there were created 62.1 thousands or 101.4 %, from planned 34,5 thousands of people there have been provided with youth 42.5 thousands of people or 123.4 %

Realization of the new Budgeted code

- Beginning from 2009 in Kazakhstan it is introduced the planning of expenses to 3-year period
- The core of a new system is a world-wide used model “budgeting aiming to results in the framework of medium-term financial planning
- New Budget code advantages:
 - the budgeting aimed to a result
 - the forming of 3-year budget
 - operational planning
 - providing of a definite independence to authorities in the management of budget assets and increase of their responsibility in results achieving
 - introduction of the complex system of monitoring and results estimate
 - introduction of new forms of management reporting with step-by-step transferring to a IFRS