

MARCH 2009



REPUBLIC OF KAZAKHSTAN

# MINISTRY OF ECONOMY AND BUDGET PLANNING

STRICTLY PRIVATE AND CONFIDENTIAL

# Agenda

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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 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\$40 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 surpluses, if smaller than previously due to low oil prices. State budget balances planned at around 3.5% of GDP in 2009-10 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 2008 below 10%, compared with close to 20% by mid-year. Despite the recent devaluation of the tenge, inflation is expected to remain around 10% 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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# Kazakhstan compares well to higher rated peers on key macroeconomic indicators

	Moody's Ratings	GG		GG Debt % of Revenue	GG Debt % of GDP	External Debt % of GDP	External Debt % FX Reserves	Liquidity Ratio
		GG Nominal Balance % of GDP	Primary Balance % of GDP					
<b>KAZAKHSTAN</b>	Baa2	4.3	4.7	22.9	6.0	85.9	228^	74.5
Baa MEDIAN		(1.8)	0.6	107.9	25.3	39.3	250.8	37.3
MEXICO	Baa1	(1.1)	0.7	123.6	23.8	22.7	252.2	33.8
SOUTH AFRICA	Baa1	0.7	3.3	64.5	23.8	32.3	283.0	30.7
RUSSIA	Baa1	4.3	4.8	18.3	6.4	34.4	115.8	43.0
BULGARIA	Baa3	3.3	4.2	33.3	13.8	102.0	226.9	119.6

	GDP Per Capita	Investment % of GDP	Inflation, CPI % Change	Current Account Bal % of GDP	Net FDI % of GDP	EVI	Real GDP % Change	Reserves % GDP
Baa MEDIAN	7,687	25.9	8.2	(4.3)	3.0	70.8	4.2	22.0
MEXICO	8,379	21.5	5.9	(1.1)	2.1	45.3	1.8	9.0
SOUTH AFRICA	5,691	23.4	12.5	(8.0)	1.3	95.8	3.1	11.0
RUSSIA	14,573	25.0	13.8	6.3	0.5	41.1	6.0	30.0
BULGARIA	6,506	38.5	8.2	(23.1)	15.8	114.2	6.5	44.0

Worse than KAZAKHSTAN  
 Better than KAZAKHSTAN  
 Same as KAZAKHSTAN

\* EVI: External Vulnerability Indicator

^ Reserves include Total FX Reserves + Nat. Oil Fund

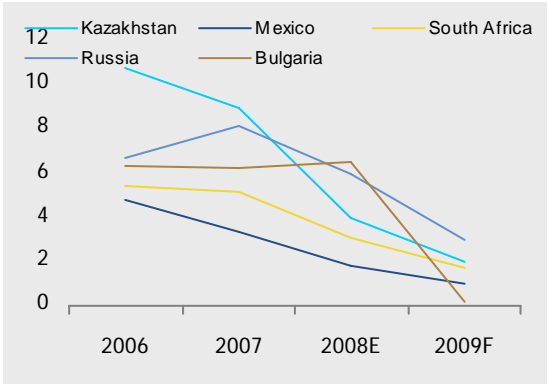
Source: All data 2008F, Moody's, Country Statistics - Nov 2008 and most recent Credit Analysis Reports

\* External debt include inter company loans estimated at 27% of GDP

- Kazakhstan's fiscal surpluses and accumulation of FX reserves in recent year provides the economy with a significant buffer to support the economy and the financial sector
- Rapid economic growth has brought Kazakhstan's per capita income in line with the Baa2 median
- A high rate of investment and consistently high FDI inflows underpin good long-term economic prospects
- The government remains a strong net external creditor. External debt of the private sector is on a declining trend which will help to improve external indicators going forward

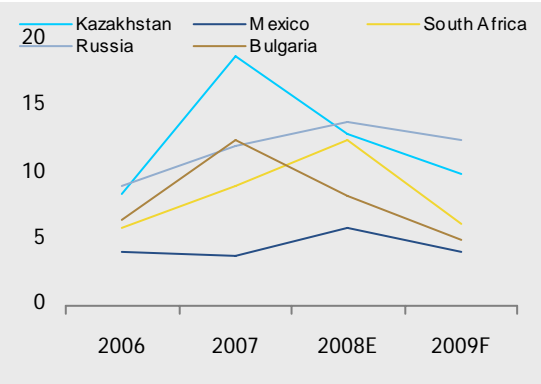
# Comparison of trends across peers places Kazakhstan firmly within the Baa category

GDP (% change)



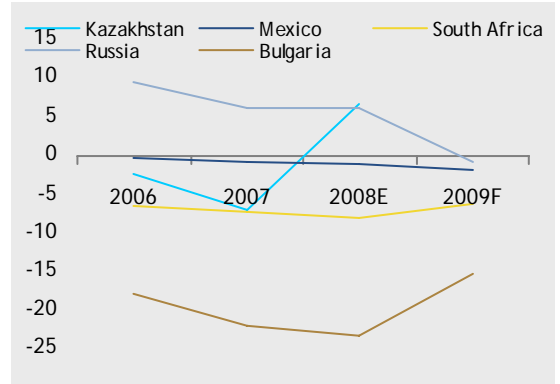
Source: Moody's , Country Statistics - Nov 2008

Inflation (% y-o-y)



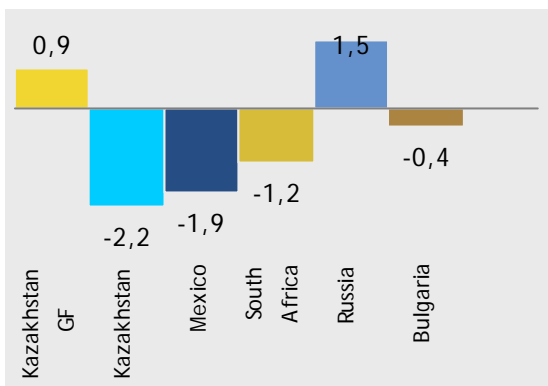
Source: Moody's , Country Statistics - Nov 2008

Current Account Balance (% GDP)



Source: Moody's , Country Statistics - Nov 2008

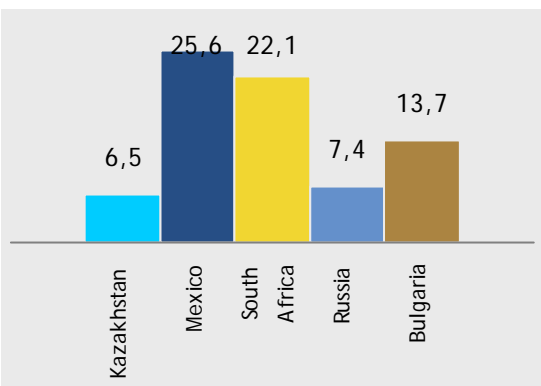
General Gov-t balance (% GDP) 2009F



Source: Moody's , Country Statistics - Nov 2008

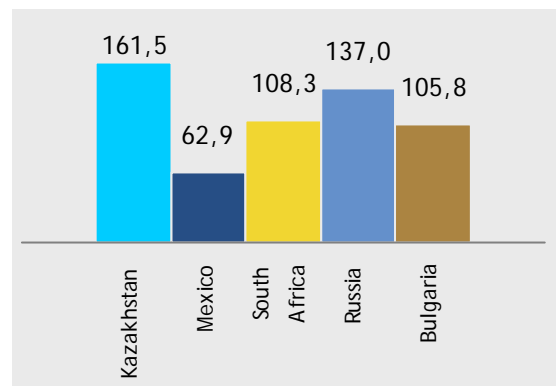
\* Government forecast

General government debt (% GDP) 2009F



Source: Moody's , Country Statistics - Nov 2008

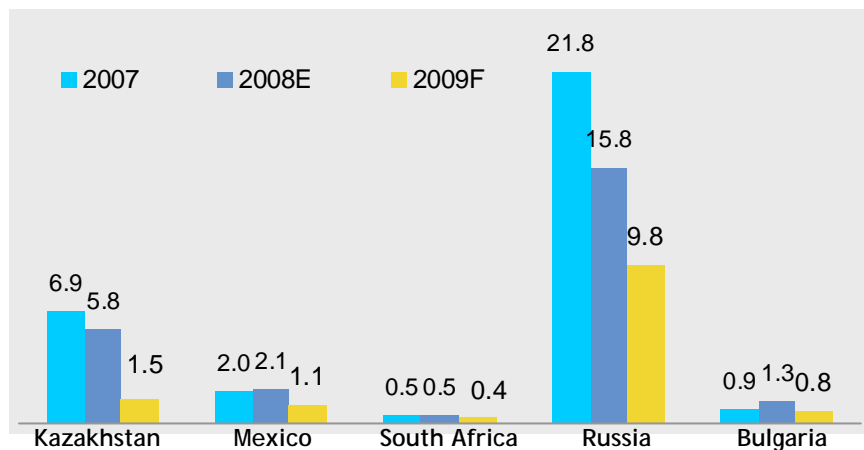
External debt (% CARs) 2009F



Source: Moody's , Country Statistics - Nov 2008

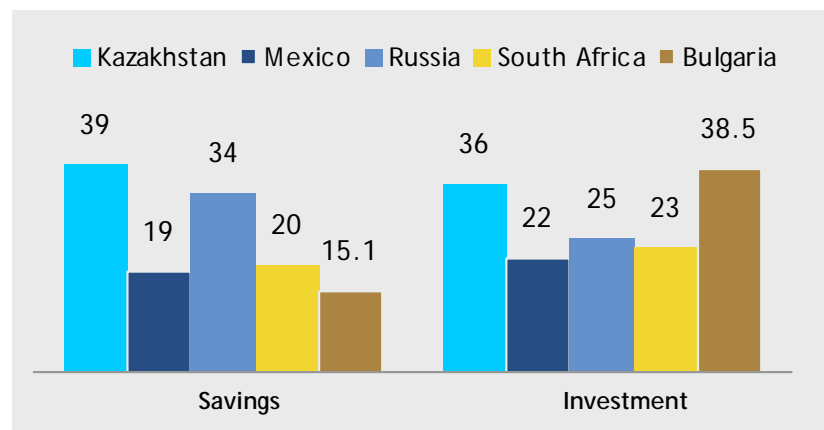
# High domestic and foreign investment ensures long-term growth sustainability

Net FDI (% GDP)



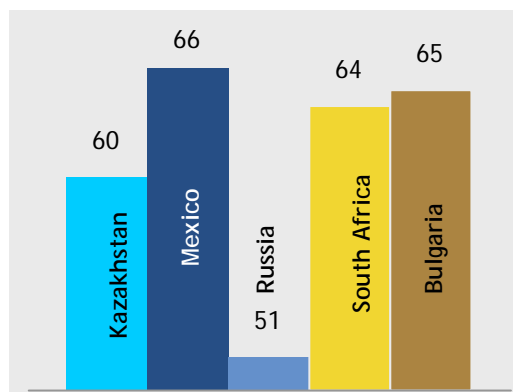
Source: Moody's, Country Statistics - Nov 2008

Savings & Investments (% GDP) 2008E



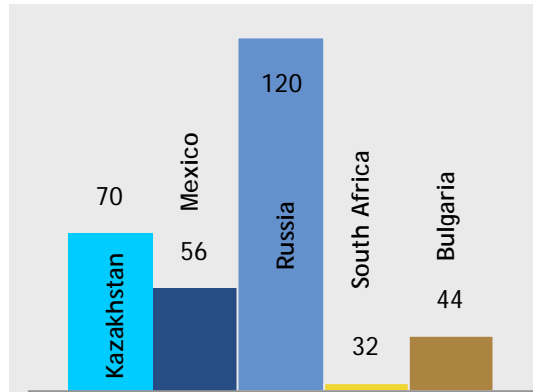
Source: Moody's, Country Statistics - Nov 2008

INDEX of Economic Freedom (100=most free)



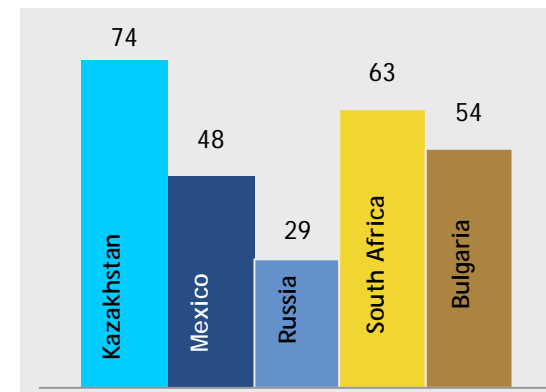
Source: 2009 Heritage Foundation Index of Economic Freedom Survey

WB 2009 Ease of Doing Business ranking (181 countries; 1 best)



Sources: 2009 WB Ease of Doing Business Report

Macroeconomic Stability Index (134 countries; 1 best)



Source: 2008-09 Global Competitiveness Report, World Economic Forum

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

## Key macroeconomic indicators

	2003	2004	2005	2006	2007	2008E
GDP growth rate (% change oya)	9.3	9.6	9.7	10.7	8.9	3.2
Per capita GDP (US\$)	2,070	2,870	3,770	5,290	6,772	8,350
Current account (% GDP)	(0.9)	0.8	(1.8)	(2.4)	(6.9)	6.7
Trade balance (% GDP)	11.9	15.7	18.1	18.1	15.1	25.3
Exports of goods (% \$ change)	33,7	55.5	38,6	37,3	25	49,1
International reserves (US\$ bln)	5	9.3	7.1	19.1	17.4	19.4
FDI (% of GDP) (9M2008)	15	19.3	11.6	13	14.6	9.7
Headline public sector balance (% GDP)	2.7	2.5	5.8	7.2	5.2	6.7
Gross general government debt (% GDP)	15	11.4	8.1	6.7	5.9	6.4
National fund (% of GDP)	12	11.8	14.2	17.4	20.2	20.7

## Key macroeconomic indicators - forecasts

Indicators	2007	2008	2009	2010	2011
			forecast	forecast	forecast
GDP, bln USD	104.9	132.2	111.5	126.1	141.5
GDP, tln KZT	12.8	15,9	16.7	18.9	21.2
GDP growth, %	8.9	3.2	1	3.7	3.9
GDP per capita, USD	6,772	8,350	7,012	7,833	8,734
Consumer prices index, %(eoy)	18.8	9.5	10	7.0-9.0	6.5-8.5
Average oil price \$pbl	72.7	97.6	40	50	50
Oil and gas production, mln tons	67.2	70.7	76.2	81.3	81.7

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

- Funding of the "National Welfare Fund" via the issuance of bonds to the "Oil Fund" in the amount of KZT 480 bln
- Utilization of pension fund assets for a mortgage program via the issuance of bonds by the "National Welfare Fund" to the pension funds in the amount of KZT 120 bln
- Additional depositing of money to banks in order to continue providing loans to building companies to complete construction works (KZT 40.8 bln in Astana and 23.1 bln in Almaty already transferred)
- Purchases of apartments by regional governments
- The "Kazakhstan Mortgage Company" (KIK) purchases mortgage loans from banks (KZT 20.5 bln already disbursed)
- State sponsored mortgage lending at preferential rates (11% and 9% for specific categories) via banks, the "Fund for SME Development" (Damu) and the "Residential Construction Savings Bank" financed by the National Welfare Fund (KZT 180 bln)

## SME's

- Lending to SMEs via banks and Damu in the amount of KZT 240 bln, of which 70% are for the refinancing of running projects and 30 % for new projects at a rate of 12.5%
- Micro-credit programs, operated through the offices of "Kazpost"
- Measures to reduce red tape
- "Damu" programs for loan guarantees for SMEs

## Employment and Social Protection

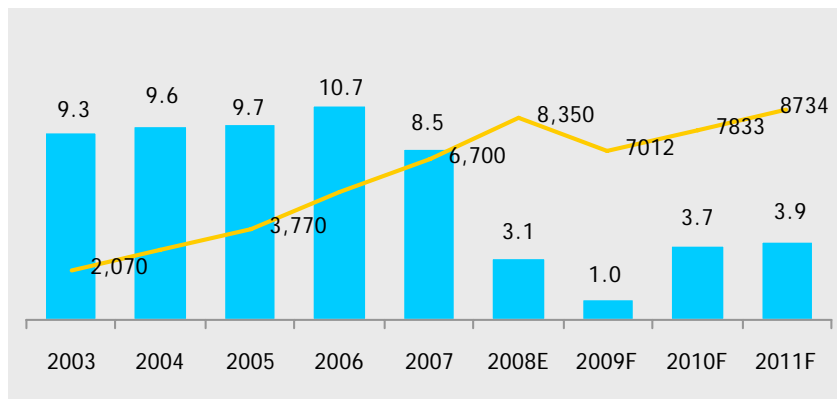
- Moratorium on the immigration of non-skilled workforce and increasing control regarding illegal immigration
- Reaching agreements with large and medium enterprises on preserving employment, the financing of social projects
- (Re-)schooling and training programs
- Review of further need of budget funds 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

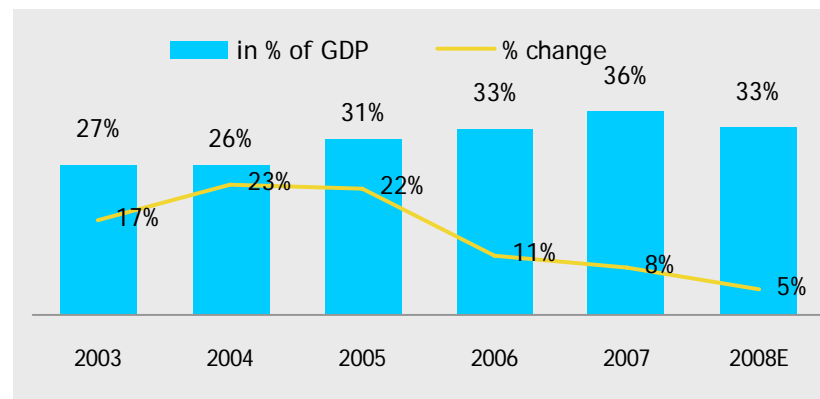
# In recent years, sources of economic growth have been well balanced, with the largest contribution coming from private investment

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



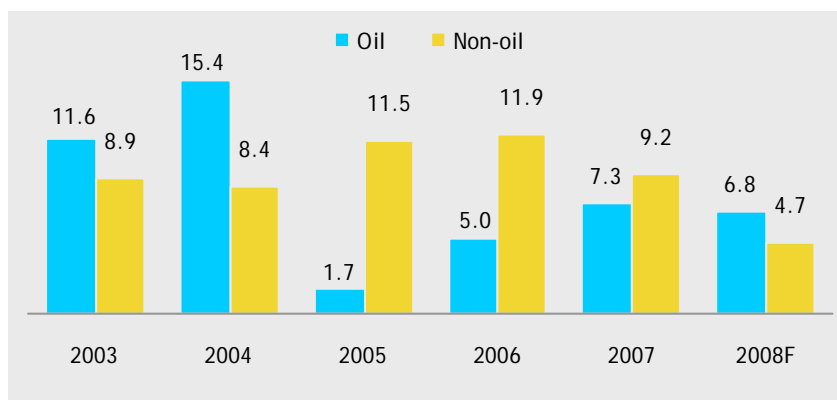
Source: National Bank of Kazakhstan and government forecasts

Investment in % of GDP and % yoy change



Source: Statistics Agency of the Republic of Kazakhstan

GDP growth oil vs. non-oil (% change)

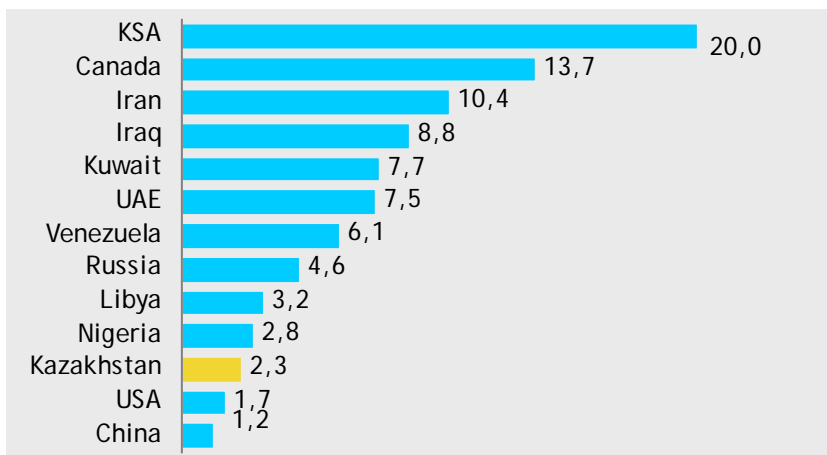


Source: IMF Article IV 2008

- 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

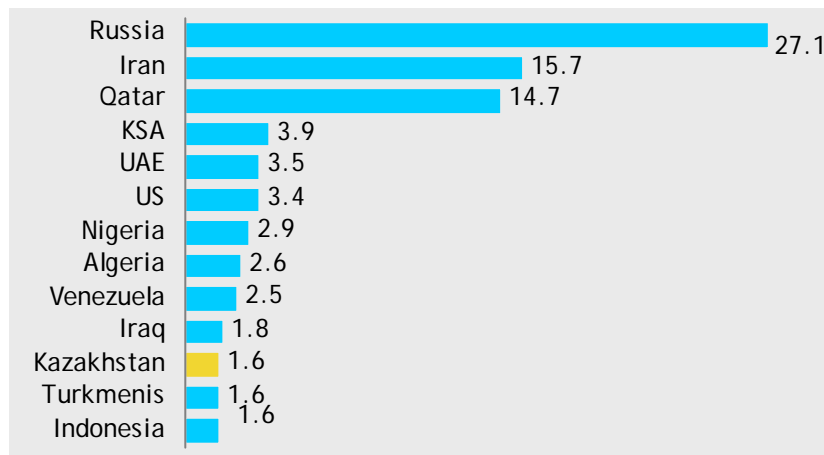
# Outstanding and diverse natural resource endowment supports long-term growth prospects

Oil reserves (% total world reserves)



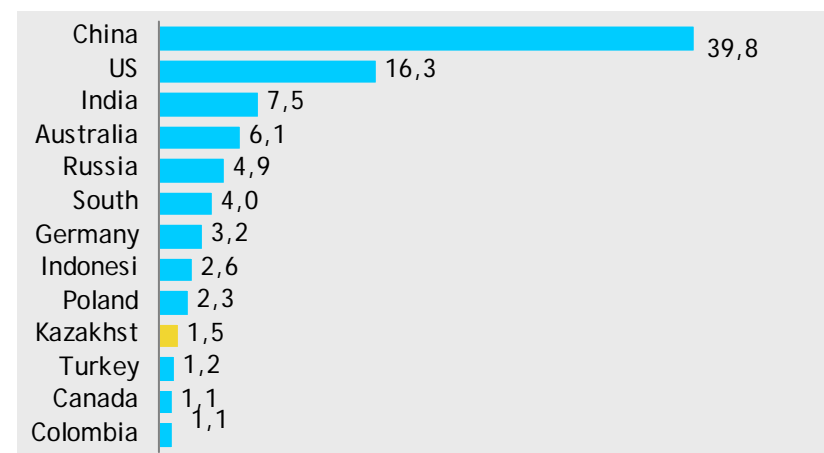
Source: Global Insight

Natural gas reserves (% total world reserves)



Source: EIA

Coal production (% total world reserves)

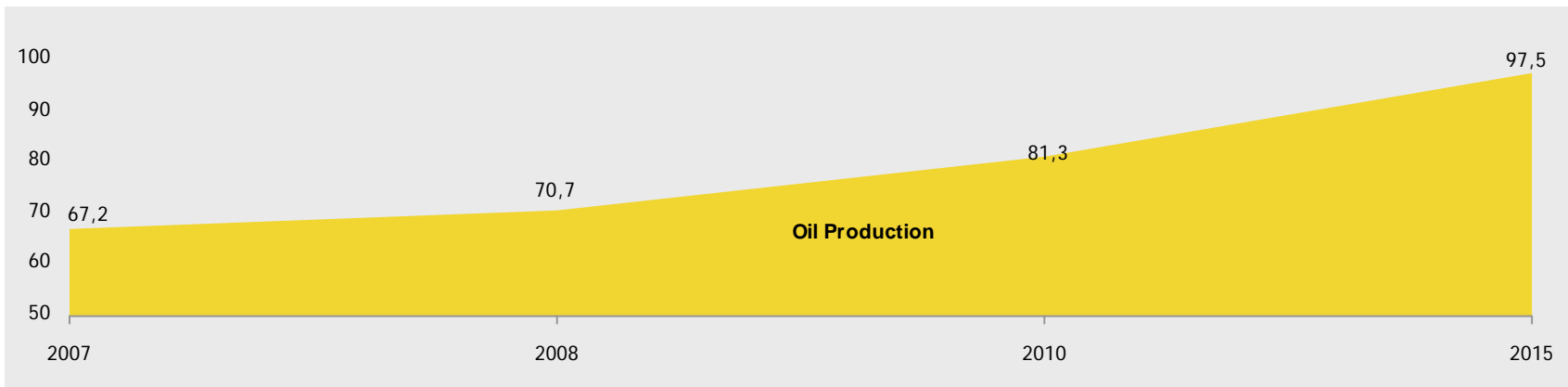


Source: EIA

- 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

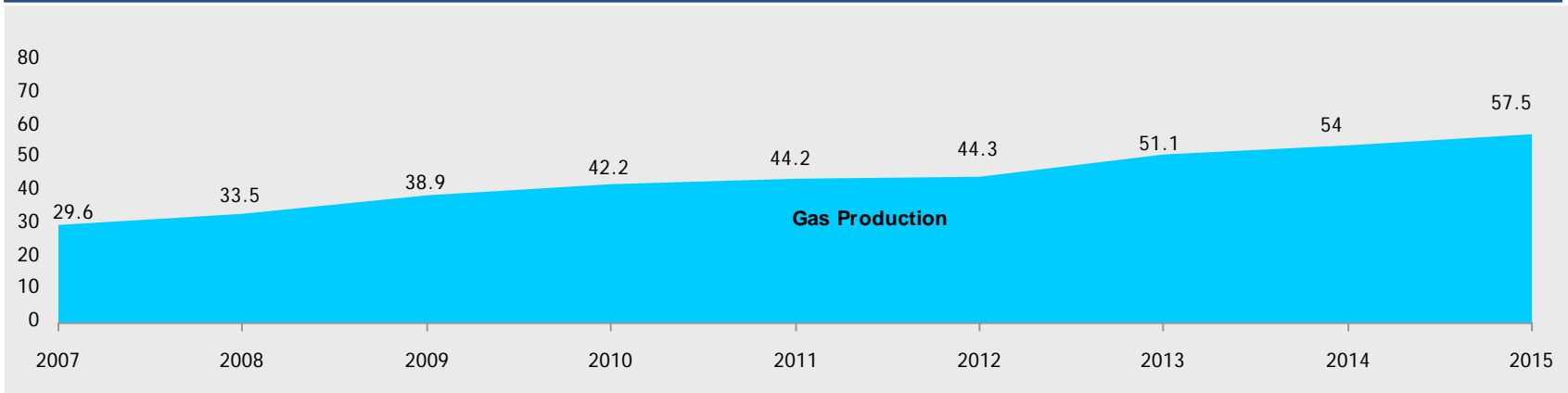
# Rising energy production will partially compensate for the decline in prices

Oil production (mln ton)



Source: Ministry of Energy and Natural Resources

Natural gas production (bln m3)

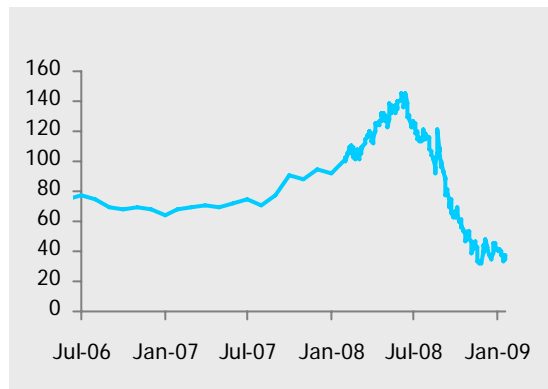


Source: Ministry of Economy and Budget Planning

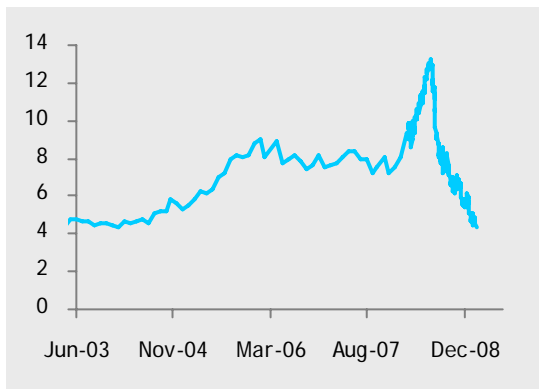
- Oil production is rising rapidly as a decade of exploration and development is starting to pay off. Ministry of Energy and Natural Resources expects production to increase by more 15% between 2008 and 2010, subsequently doubling by 2020
- Natural gas production has more than doubled over the past five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

# Projected increase in commodity prices in 2010 will help to the recovery of GDP growth

WTI spot price ( \$ per barrel)



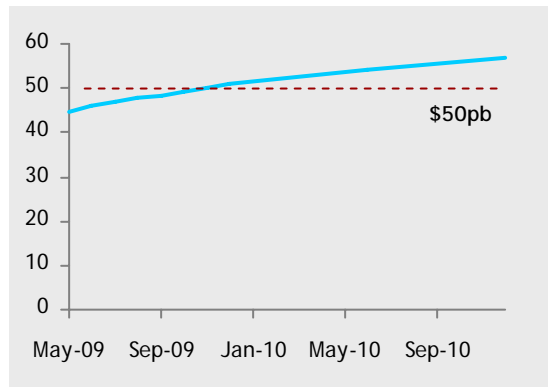
NYMEX gas spot price (\$ per mln BTUs)



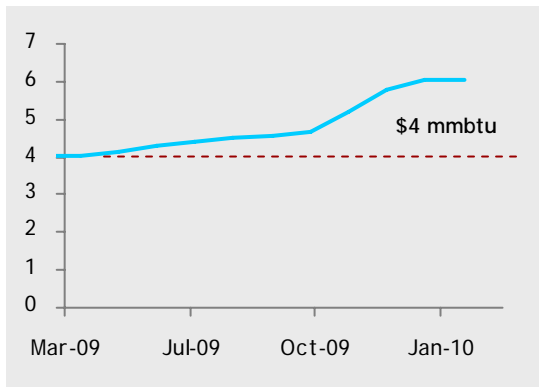
Wheat (\$ per '00 bushels)



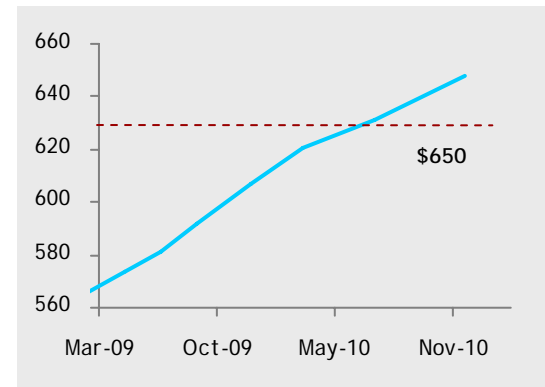
WTI futures (\$ per barrel)



NYMEX gas futures (\$ per mln BTUs)



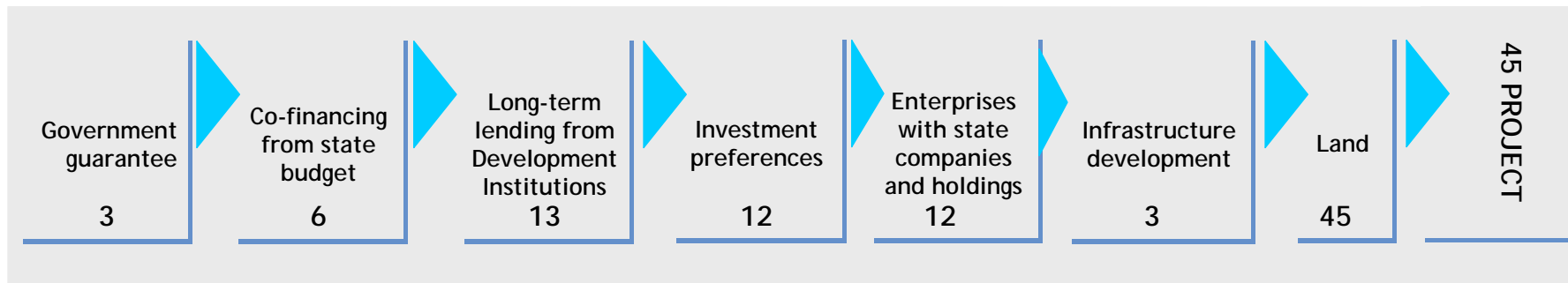
Wheat futures (\$ per '00 bushels)



- Commodity prices have declined significantly following the record high levels in 2007
- Futures prices point to the market's expectation that prices for Kazakhstan's main commodities will recover during 2010, limiting the impact of the current global economic and financial crisis on Kazakhstan's economic, fiscal and external position

# Infrastructure development in support of diversification goals

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



Source: Ministry of Economy and Budget Planning;

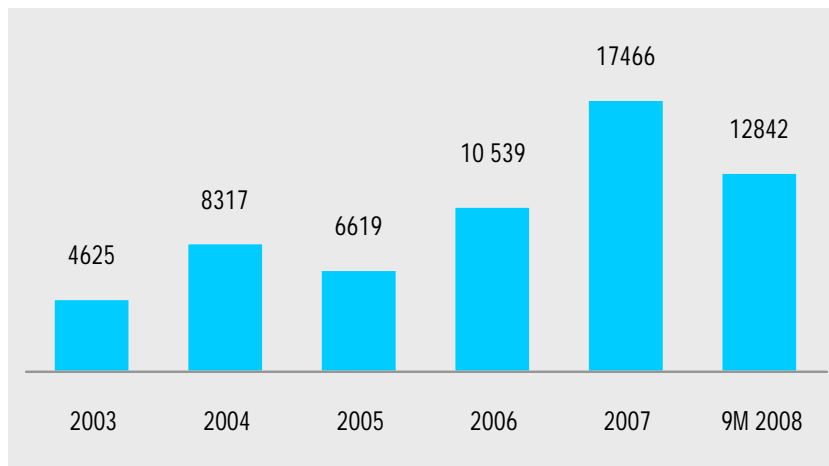
- The government has laid out a medium-term plan for co-financing 45 different projects and areas of economic development that mostly focus on infrastructure projects throughout the country. More than \$54bln will be spent under the Corporate Leaders initiative with the government contributing only a 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 \$ 3.042bln
- 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

Key Projects	2008	2009	2010	2011
Balkhash thermoelectric power station	2,095		4,903	6,987
Gas pipeline Beineu - Bozoi - Shalkar - Akbulak (from West to South Kazakhstan)	2,000	32,332	32,332	32,332
Infrastructure for gas and chemical plant in Atyrau	10,000	20,000	10,000	10,000
Railway Uzen - Turkmenistan border	97	1,100		
Highway Astana - Shuchinsk	41,030	25,798		
Reconstruction of highway Western Europe - Western China	8,794	34,279	109,167	137,150
<b>Total, KZT bln</b>	<b>64,016*</b>	<b>113,509</b>	<b>156,402</b>	<b>186,469</b>

Source: Ministry of Economy and Budget Planning; \*funds allocated for co-financing from the state budget in 2008

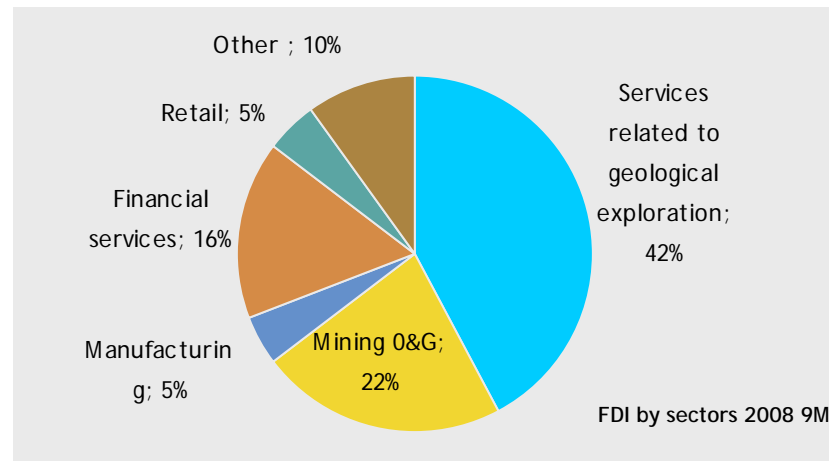
# Multi- annual foreign investment projects ensures sustainability of FDI inflows despite the global crisis

Foreign direct investment, US\$mln



Source: National Bank of Kazakhstan

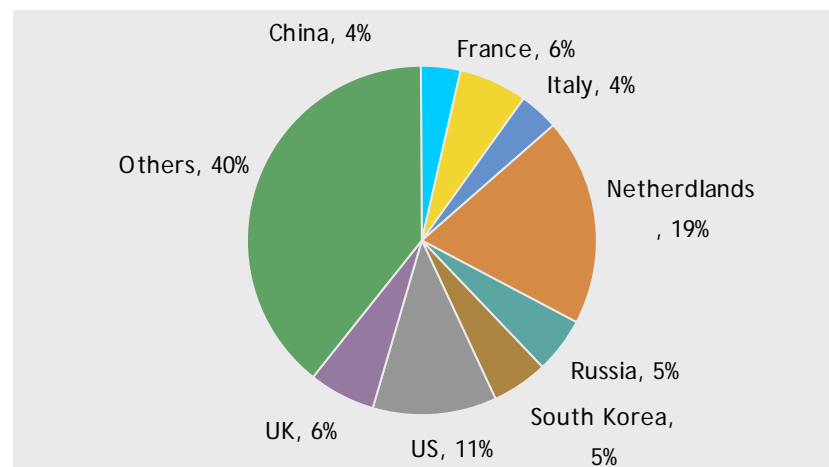
While the mining sector dominates FDI activity...



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

...with the US and EU countries among the largest investors



Source: National Bank of Kazakhstan

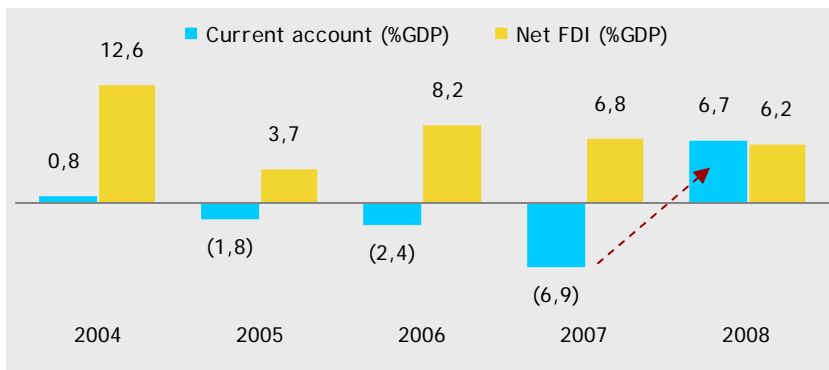


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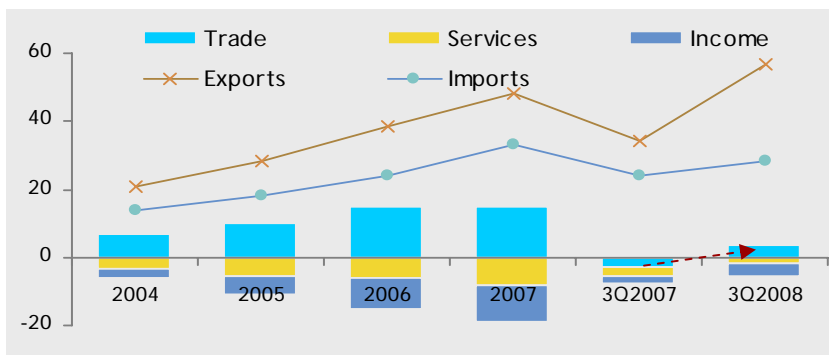
# Current account balance improved in 2008 but it is expected to show a moderate deficit in 2009

The current account deficit turned into surplus in 2008 while FDI continued at a good pace



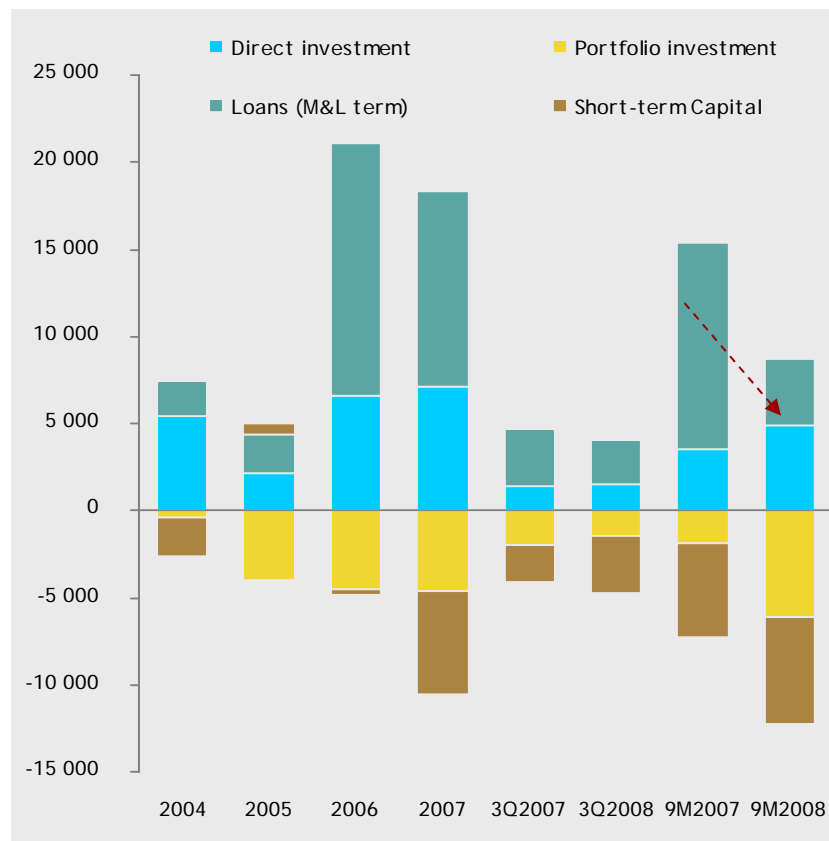
Source: National Bank of Kazakhstan

Current account (US\$bIn)



Source: National Bank of Kazakhstan

Borrowing slowed significantly during the first 9 months in 2008 while FDI increased compared with the previous year

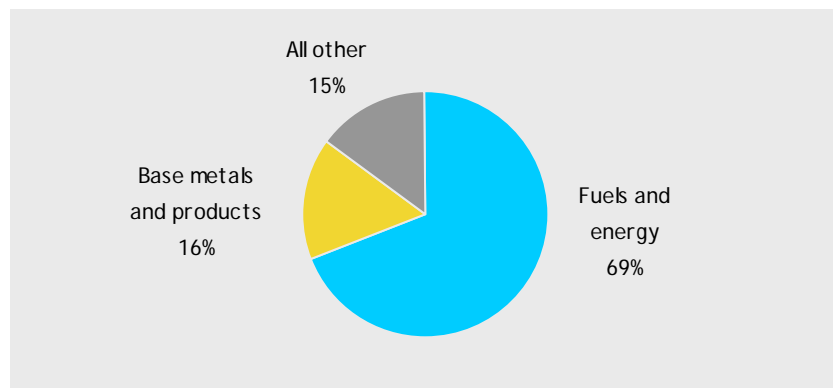


Source: National Bank of Kazakhstan

- Current account balance reversed to surplus in 2008 thanks to record high global commodity prices and a moderation in import growth
- FDI continued at a good pace amounting to more than 6% of GDP in 2008. Historically current account deficits have been comfortably covered by FDI
- Due to exceptionally strong foreign direct investment inflows in recent years, the income account deficit exhibits a large deficit reflecting the repatriation of profits. Income paid on direct investments amounted to \$11bIn during 9M2008 compared with some \$7bIn a year earlier

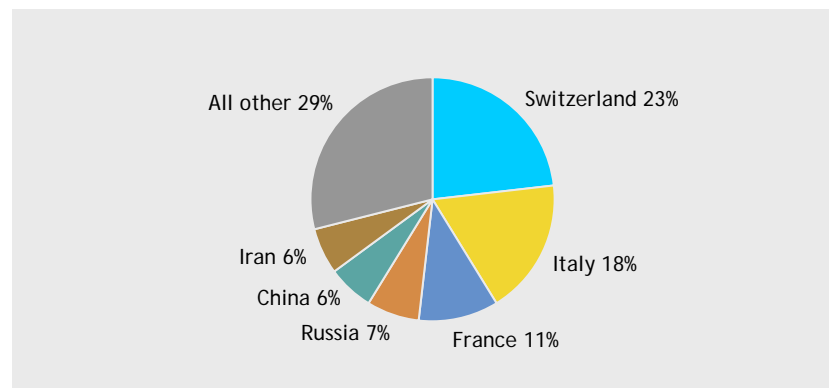
# Natural resources dominate export sector while strong imports of capital goods reflect ongoing economic diversification and strong investment

Natural resources dominate Kazakhstan's exports



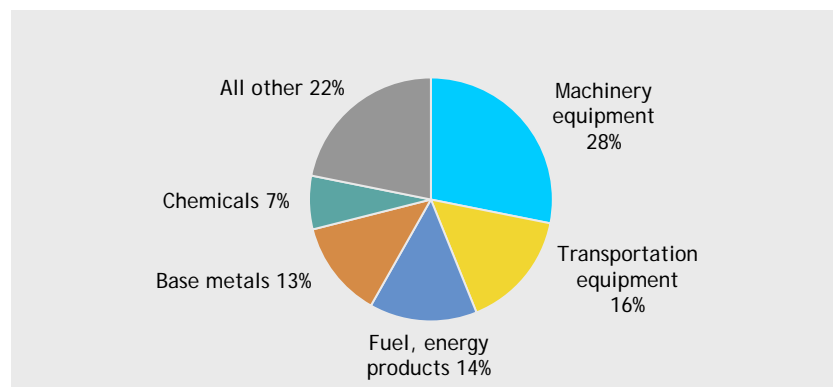
Source: Kazakhstan Customs Authority

Major destinations of Kazakhstan's oil exports



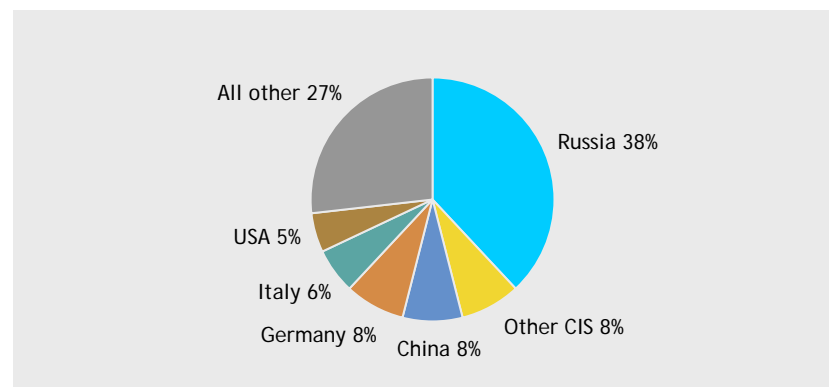
Source: Kazakhstan Customs Authority

Capital goods are a major import item



Source: Kazakhstan Customs Authority

CIS countries remain major trading partners

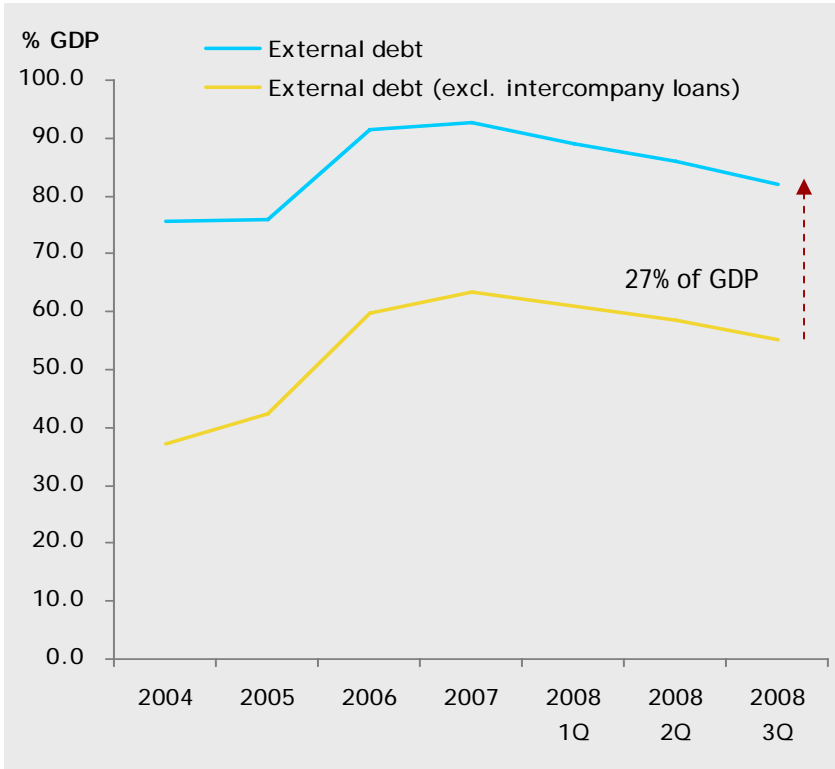


Source: Kazakhstan Customs Authority

- Capital imports related to investment were a key driver behind current account deficit in 2005-07. A large share of capital imports have gone into non-energy sectors such as manufacturing, food and agriculture
- Kazakhstan has developed solid trade relations with countries throughout the globe, diversifying its export base by destination in the efforts to limit external shocks. The government is currently in the negotiation process for WTO accession

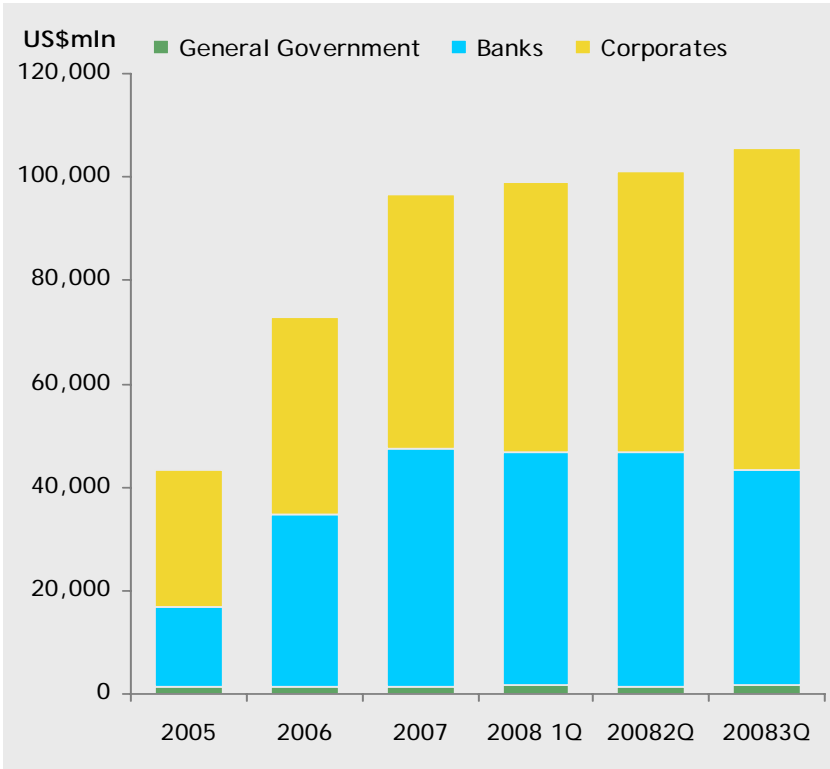
# External debt ratios have started to decline

Intercompany loans account for a large portion of external debt



Source: National Bank of Kazakhstan

Stock of external debt has stabilized at around \$100 bln



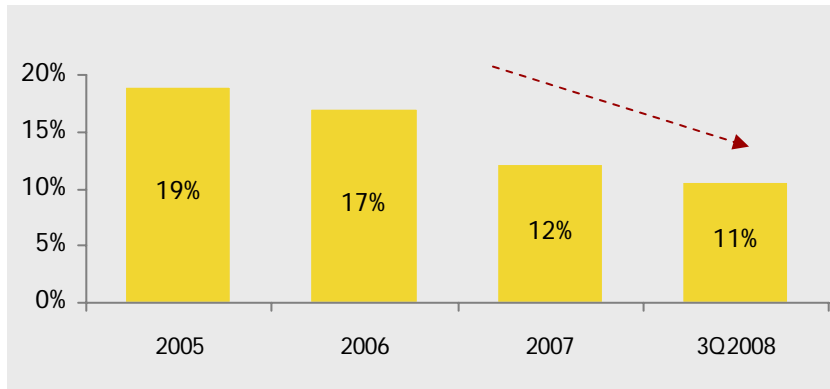
Source: National Bank of Kazakhstan

EXTERNAL PERFORMANCE

- Excluding intercompany loans, Kazakhstan’s external indebtedness remains moderate at about 55% of GDP
- Total external debt has started to decline in GDP terms as banks have made repayments and access to external funding remains difficult
- The sovereign remains little leveraged which provides flexibility to support the economy and the financial sector during the ongoing crisis

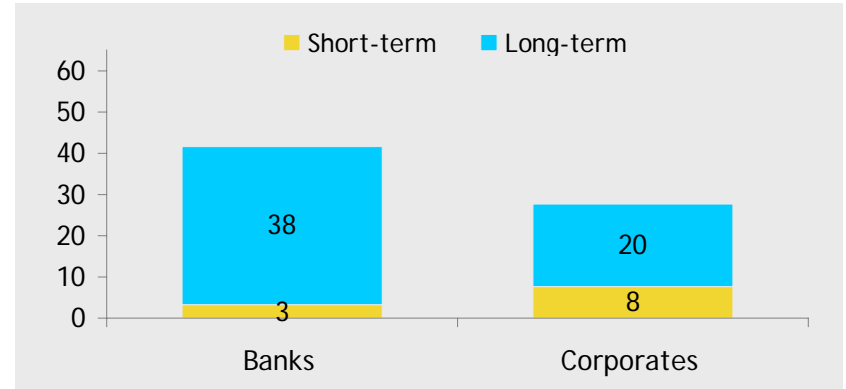
# ...and also short-term external obligations

Short-term external debt (% total)



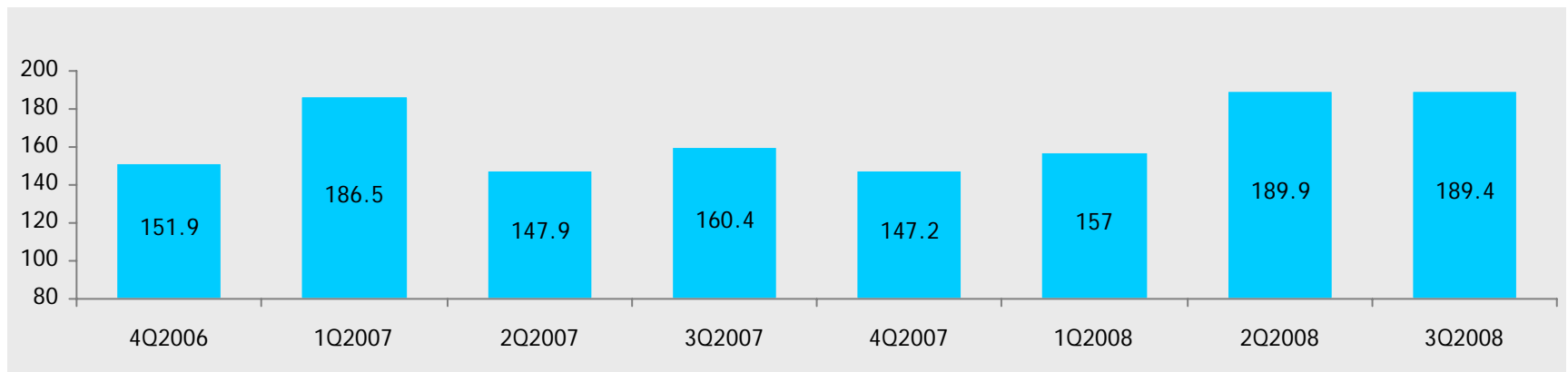
Source: National Bank of Kazakhstan

Short and Long-term external debt 3Q2008, \$bln



Source: National Bank of Kazakhstan;  
Corporates long-term external debt excludes about \$35bln of intercompany loans

International reserves coverage of short-term debt (original maturity basis, %)

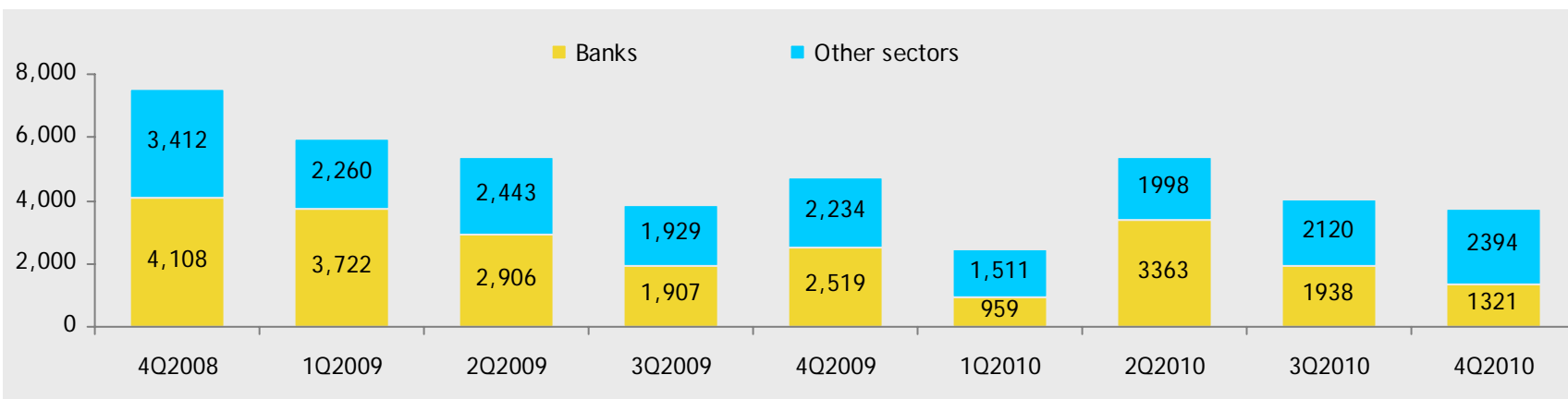


Source: National Bank of Kazakhstan

- After peaking at 19% in 2005, short-term debt as a share of the total debt is approaching 10%
- Reserves coverage of the short-term external debt has improved on the back of rapid external asset accumulation

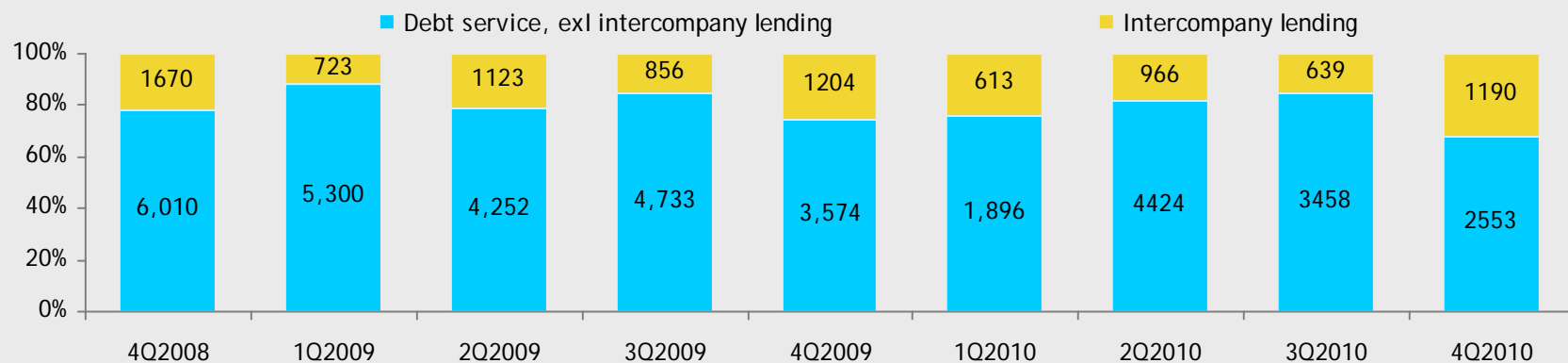
# Debt service payments are more manageable going forward

Debt-service payment schedule for outstanding external debt by sector (\$US mln)



Source: National Bank of Kazakhstan; \* Monetary authorities and General govt not included as amounts are very small

Debt service payments excluding intercompany lending (\$US mln)

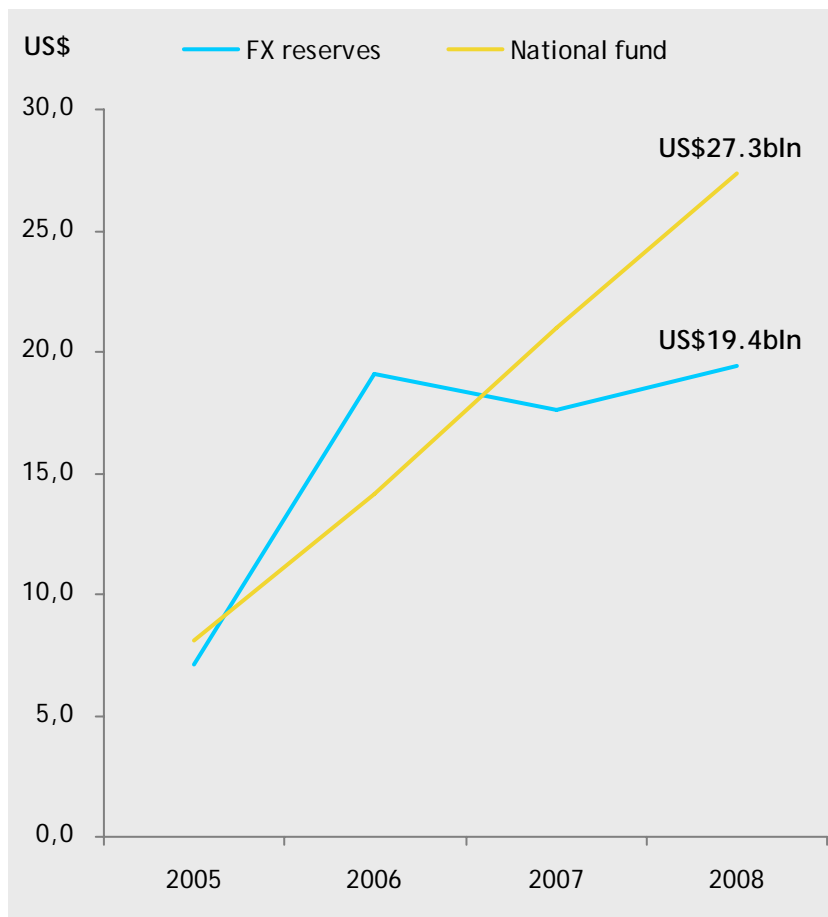


Source: National Bank of Kazakhstan

- Share of service payments due to parent companies - which can be more flexible in times of stress than other repayments- stays at between 20- 30% of the total between now and 2010
- Despite access to international capital markets has been severely restricted since late last year, banks and corporate have continued to service their external obligations with little impact on the country's FX reserves

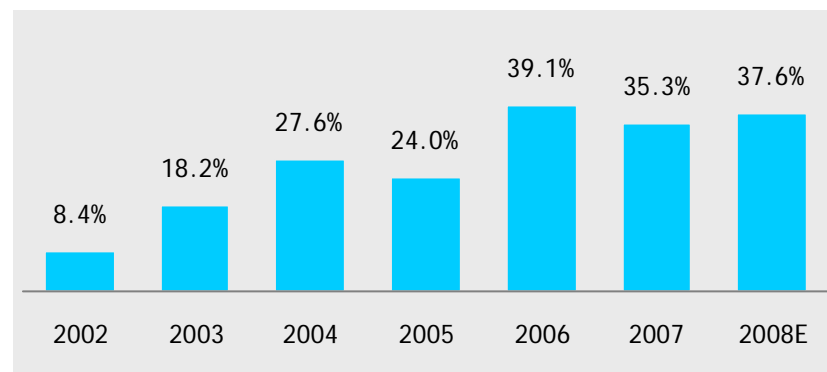
# The sovereign aims to preserve it's strong net external creditor position in spite of the current global crisis

Reserves and oil savings assets continued to increase in 2008



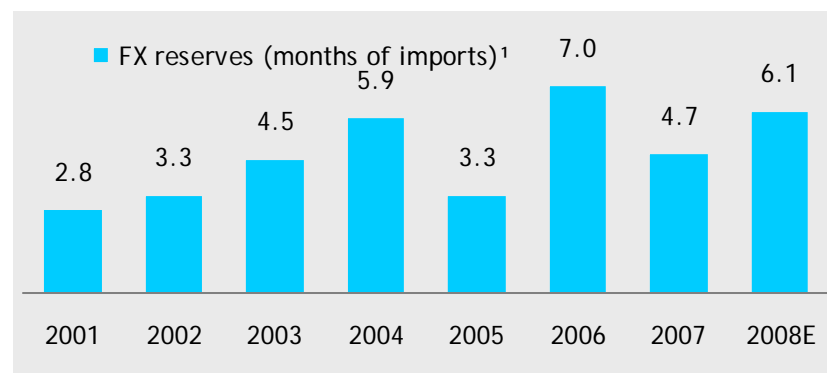
Source: National Bank of Kazakhstan

Government net external creditor position\*, % of GDP



Source: National Bank of Kazakhstan; \*(FX Reserves + National Fund assets)

Reserve coverage of imports is high and compares favorably to peers



Source: National Bank of Kazakhstan; <sup>1</sup> Excludes deposits of the National Fund

- External assets of the Republic continued to increase on the back of large FX inflows supported by strong oil revenue during 2008. Together FX reserves and National Fund assets totaled \$US46.7bn by December 2008
- Net external creditor position of the government improved during 2008 as the government maintained low debt levels and FX assets increased

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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)

Item	KZTbln	% to GDP	KZTbln	% to GDP	KZTbln	% to GDP	KZTbln	% to GDP
	2008		2009F		2010F		2011F	
<b>Receipts</b>	4040,5	25,4	3483,1	20,8	3846,0	20,3	4107,3	19,4
Tax revenues	2819,5	17,7	2511,8	15,0	2625,2	13,9	2841,5	13,4
Non-tax revenues	85,5	0,5	61,9	0,4	65,5	0,3	68,3	0,3
Transfers from National Fund	1072,4	6,7	843,1	5,0	1075,7	5,7	1126,4	5,3
<b>Expenditures</b>	4373,8	27,5	4054,5	24,2	4503,8	23,8	4622,2	21,8
Current programs	2482,4	15,6	2957,4	17,7	3363,4	17,8	3913,4	18,4
Development programs	1891,4	11,9	1097,1	6,6	1140,5	6,0	708,9	3,3
<b>Deficit (Surplus)</b>	-333,2	-2,1	-571,4	-3,4	-657,8	-3,5	-514,9	-2,4
The volume of state debt	1015,0	6,4	1589,6	9,5	2247,4	11,9	2762,3	13,0
GDP	15907,0		16724,5		18916,5		21224,5	
Annual average exchange rate KZT/\$	120,3		150		150		150	
World Oil Price (mixed Brent), \$pbl	97,3		40		50		50	
<b>National fund assets (\$ mln)</b>	27334,0	20,7	22529,9	20,2	22993,5	18,2	26641,4	18,8

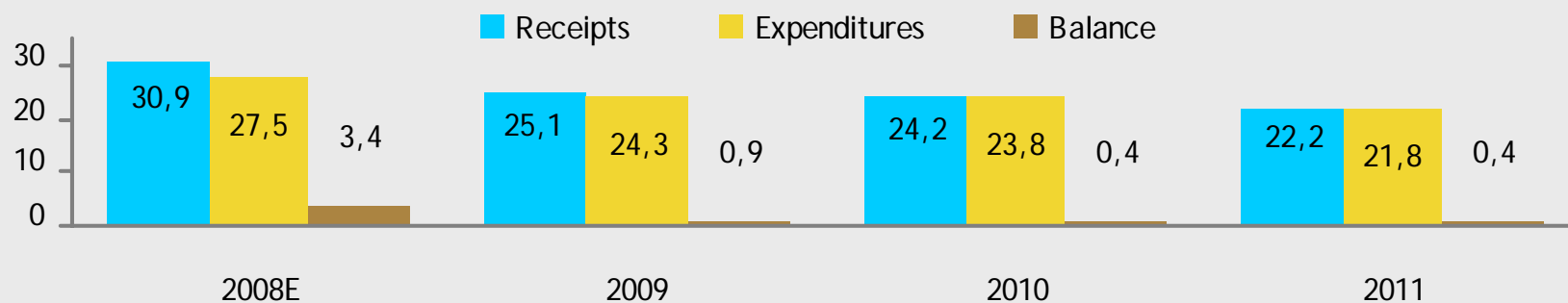
- Reflecting the sharp decline in oil prices and the impact of the global crisis, the fiscal balance is projected to show moderate deficits during the next two to three years.
- Budget plans are well draft and based on realistic assumption. The government has identified fiscal priorities and revised key assumptions downwards to reflect the deteriorating price commodity trends and economic environment. The government has elaborated contingency plans to be implemented if oil prices fall below \$25pbl.
- Prudent fiscal management will enable the government to implement tax cuts in support of the non-oil economy as planned while maintaining moderate deficits of some 3.4-3.5% of GDP in 2009-10

# The consolidated budget feels the impact of lower oil prices but will continue to show a surplus

Consolidated budget indicators and forecasts 2008–2011 (KZT bln)\*

Item	2008		2009F		2010F		2011F	
	KZTbln	% to GDP	KZTbln	% to GDP	KZTbln	% to GDP	KZTbln	% to GDP
<b>Receipts</b>	4916,5	30,9	4199,4	25,1	4575,0	24,2	4703,4	22,2
Non-oil receipts	2866,3	18,0	2676,3	16,0	2806,7	14,8	3018,1	14,2
Oil receipts	1717,0	10,8	951,7	5,7	1110,5	5,9	1170,4	5,5
Other receipts (borrowing, budget assets remainders)	333,2	2,1	571,4	3,4	657,8	3,5	514,9	2,4
<b>Expenditures</b>	4376,4	27,5	4056,3	24,3	4505,6	23,8	4624,0	21,8
Current programs	2485,0	15,6	2959,2	17,7	3365,1	17,8	3915,1	18,4
Development programs	1891,4	11,9	1097,1	6,6	1140,5	6,0	708,9	3,3
<b>General balance</b>	540,1	3,4	143,1	0,9	69,4	0,4	79,4	0,4

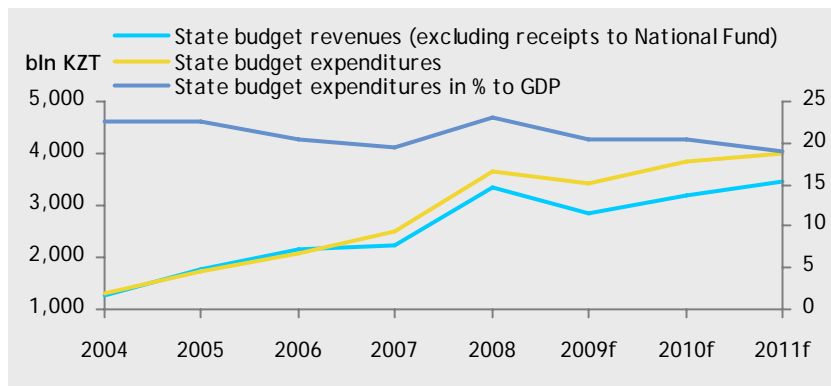
Consolidated budget, % of GDP



\* 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

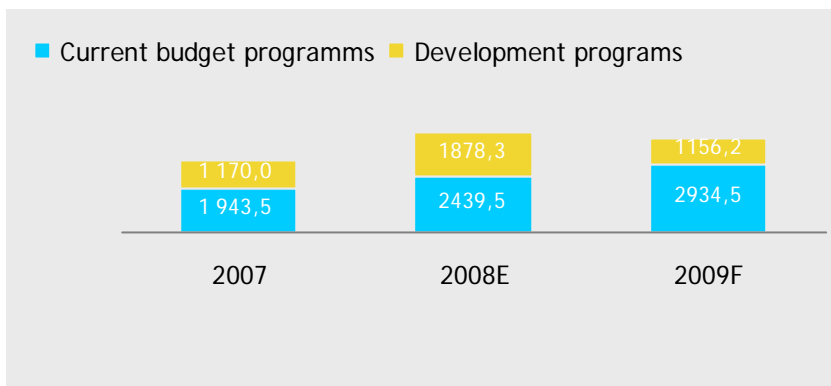
State budget expenditures (KZT bln and % GDP)



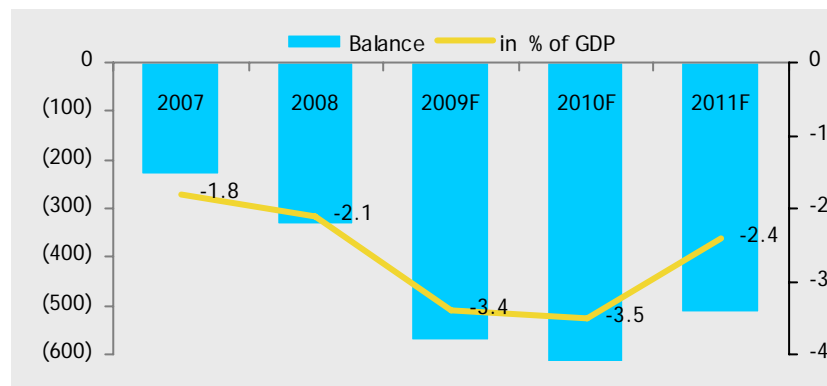
Government revenue (bln KZT)



Government expenditures (bln KZT)



State budget 2007-11



Source: Ministry of Finance, MEBP

# New tax code aims to support economic diversification by reallocating resources into the non-energy sector

## Measures planned 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
- Revocation of advance payments of corporate income tax for small and medium size 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 instead of the current 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 for small and medium size enterprises
- Extension of loss deferral period from 3 to 10 years
- Reduction of CIT from 30% to 15% over the period of three years
- Allow processing industries to file for tax deductions for construction expenditures and cost of fixed assets within a three year period

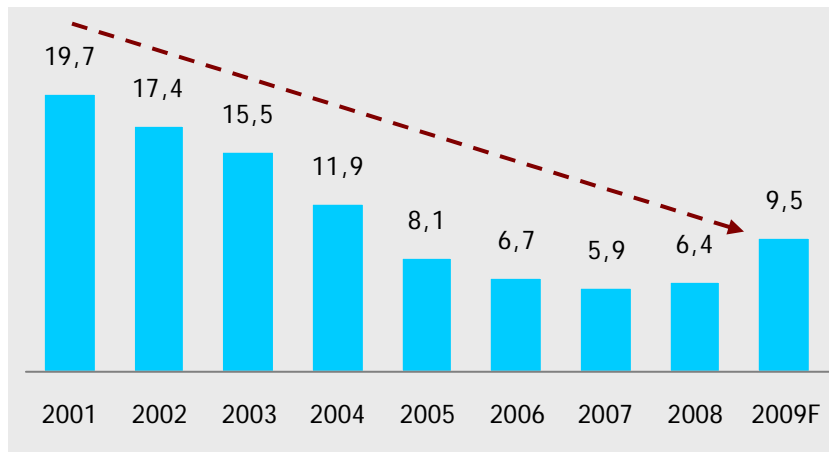
## Taxation of Mineral Extractive Sector

- Replace the old royalty-based tax system with the new Mineral Extractive Tax that directs flow of the new tax by energy companies to the National Fund and by non-energy sector to the budget
- Change the calculation of rent and excess profit taxes, including change of base price levels from selling price to the world price levels
- Starting from January 2009 the government will stop 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)
- Oil export duty is abolished from 2009

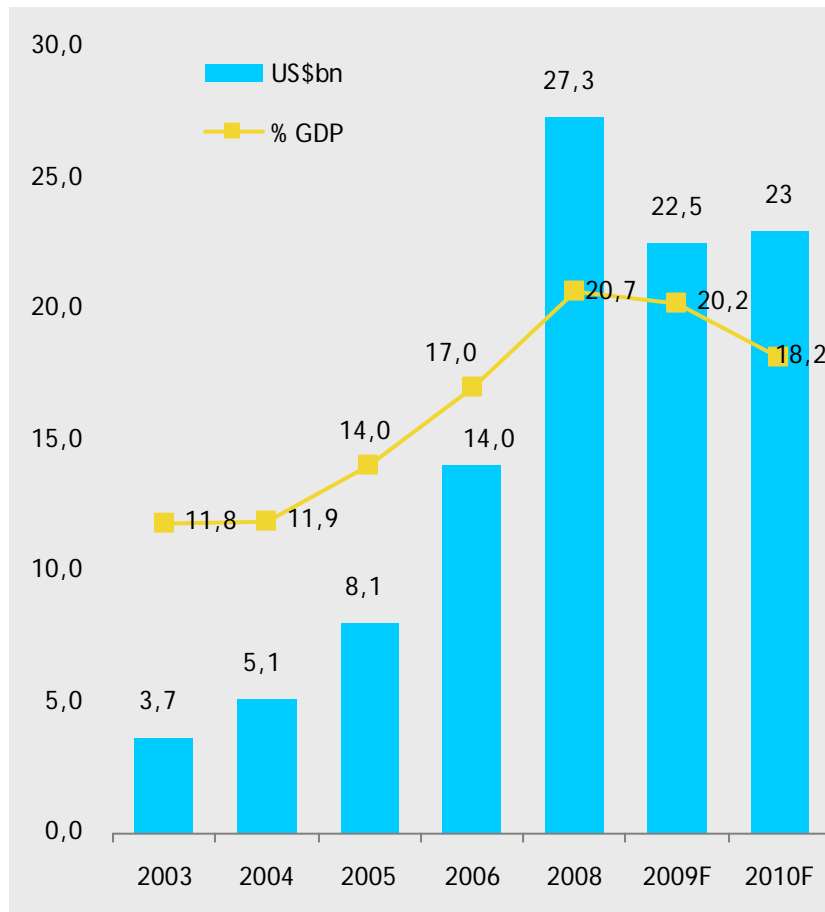
**Efficient tax system that supports diversification of the economy and expansion of tax base through legalization of shadow business**

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

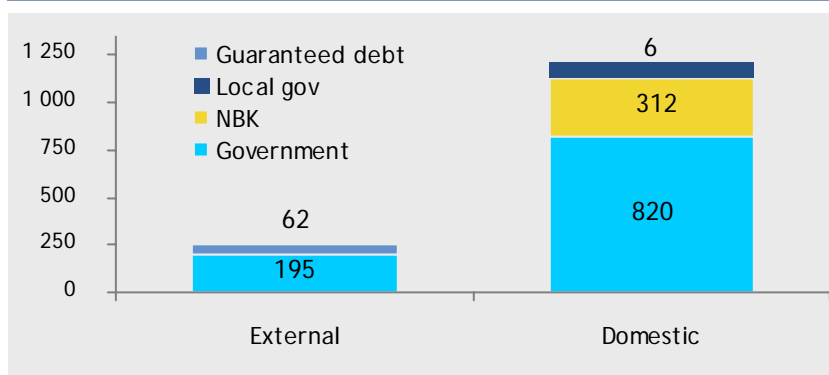
Public sector gross debt (%GDP)



Assets of National Fund (% GDP and US\$)



Public sector debt breakdown as of JAN1 2009, KZT bln



Source: Ministry of Finance; IMF Article IV 2007

Source: Ministry of Finance; National bank

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# Monetary policy targets price stability

Price stability is the primary objective of the National Bank

## Responsibilities

- Monetary policy formulation and implementation
- Functioning of payment systems
- Currency regulation and control
- Financial stability

## Main instruments

- Standing facilities
  - Deposits
  - Loans
- Open market operations
  - Foreign exchange market operations
  - Secondary securities market operations
  - Short-term notes
- Minimum reserve requirements
  - Local liabilities—2% (1.5% - from March 2009)
  - Other liabilities—3% (2.5% - from March 2009)

National Bank policy tools used to preserve financial stability in 2008 -09

## Interest rate policy

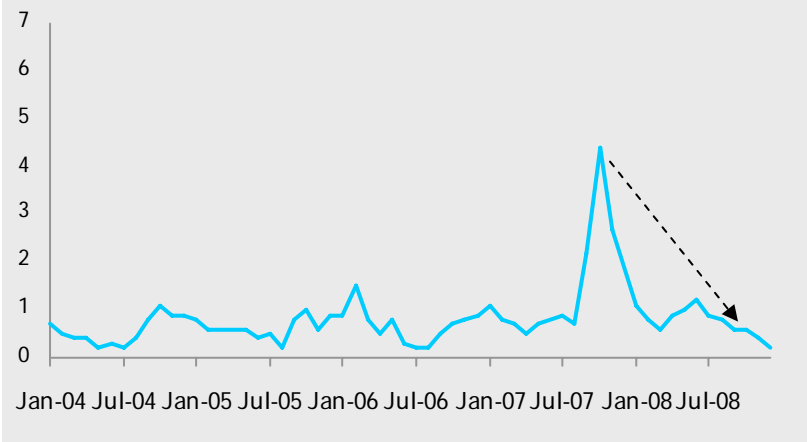
- In 2008-2009 the official refinancing rate was gradually reduced from 11% to 9.5%, deposit rate from 5.5% to 4.75%
- In 2008-2009 the notes yield increased from 5.64% to 5.92%

## Liquidity tools

- Reverse REPO (Collaterals—government securities)
- Currency swap (Collaterals—correspondent account balances in NBK)
- Secured loan (Collaterals—correspondent tenge account balances in NBK)
- Softening of minimum reserve requirements
- Extension of the list of accepted collateral on reverse REPO operations:
  - Securities of domestic national corporations
  - Securities of foreign states
  - Securities of international financial organizations
  - Bond and Eurobonds of separate banks
  - Agency securities

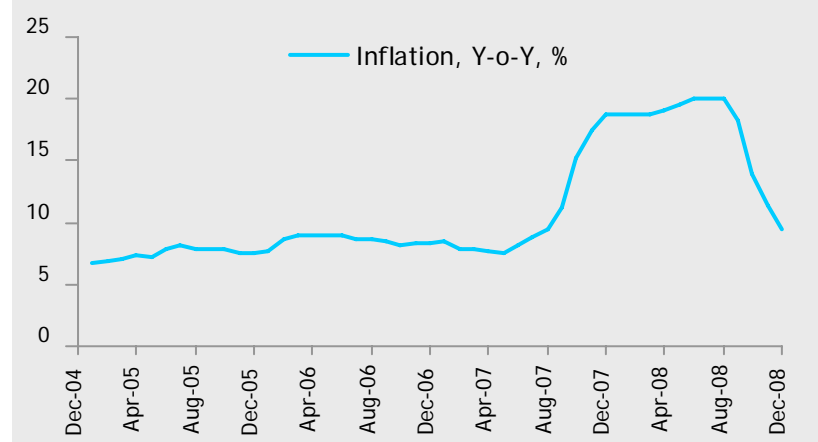
# Inflation is expected to decline as economic growth decelerates and monetary aggregates grow slower

Month-on-month inflation has stabilized quickly thanks to government measures and also the economic slowdown



Source: Statistics Agency

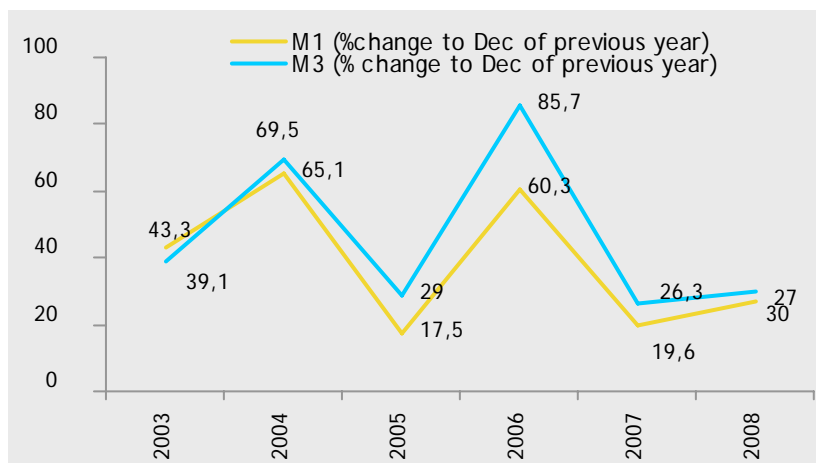
After reaching a peak of more than 20% mid-2008, yoy inflation has declined quickly to below 10%



Source: Statistics Agency

- Authorities expect inflation will not exceed 11% by end of 2009 on the back of tighter liquidity, declining energy and food prices and slowing domestic demand
- The government measures to fight inflation (lowering import duties and creating food reserves throughout the country) together with the global and domestic economic slowdown helped to curb inflationary pressures.
- Monetary Aggregates continue to increase at a fast pace during 2008. However, the pace of growth has started to decelerate lately which will help to keep inflation expectations subdued.

Despite the KZT devaluation, inflationary pressures are expected to remain supported by slower growth in monetary aggregates

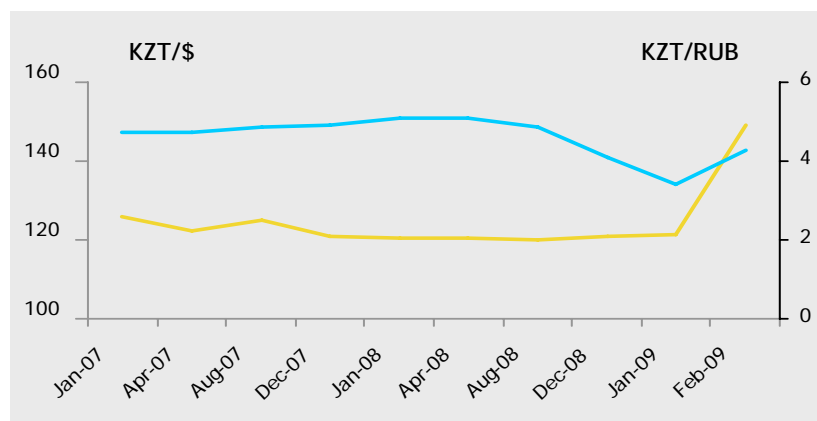


Source: National Bank of Kazakhstan



# The NBK accommodates its monetary policy stance to the changing environment and devalues the tenge

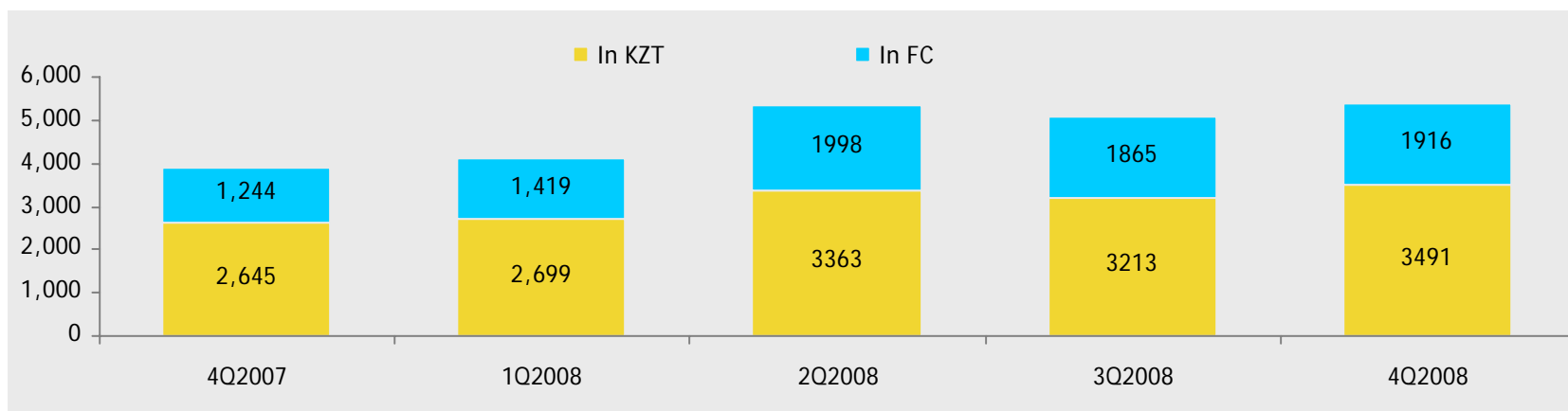
The NBK devalues as pressure on the tenge increases



Source: National Bank of Kazakhstan

- The NBK devalued the tenge by 18% early February following the weakening of oil prices and risks to external competitiveness as the currencies of key trading partners have weakened considerably.
- The new US\$/KZT 150 level will be managed within a +/-3% band. At the same time the NBK cut its base rate by 50bp to 9.5% and its reserve requirements by 0.5%. To support tenge deposits, the state deposit insurance cut the cap on US\$ deposits from 10 to 8%, keeping the cap on tenge deposits at 13.5%.
- Unlike some peers, the amount of FX reserves spent by the NBK in support of the currency has been limited, an estimated \$2.7bln (about 14% of total) in January.

Despite the financial crisis and expectations of devaluation as oil prices declined, deposits in the banking sector increased in 2008 and the share of FC deposits has so far kept stable at around 55% of the total.



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# Authorities maintain a continued proactive policy stance to address challenges in the banking sector

## Latest measures in support of the banking sector

### Preserve capital of systemic banks

The government allocated \$4 bln to buy ordinary and preferred shares in systemic banks

### Preserve depositors confidence in the banking sector

Increase minimum guaranteed deposit and capitalization of deposit insurance fund

### Increase access to liquidity

Cuts in obligatory reserve requirements and extension of the NBK's repo list

### Support of bank's lending activities in support of economic growth

Purchased \$4 bln in S-K bonds to be placed at banks to lend to housing sector, SMEs and infrastructure projects. Purchased \$1 bln in KazAgro bonds for agriculture projects.

### Continue enhance prudential and regulatory framework:

Strengthened regulatory and oversight function, new capital adequacy and asset risk classification

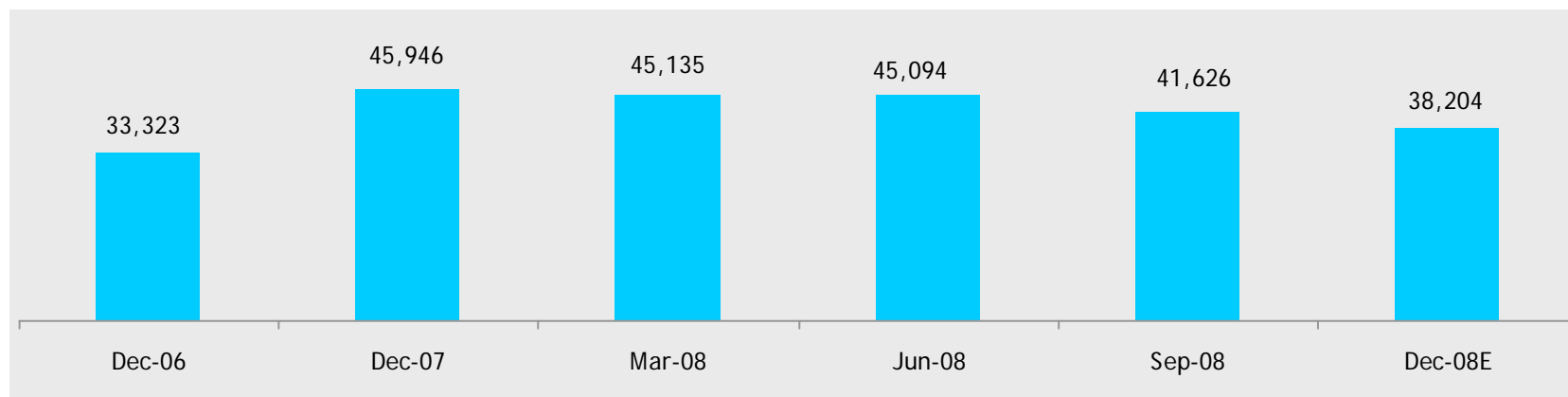
### No intention to become long-term strategic investor in the banking sector

Commitment to sell shareholding in the sector when the situation improves

Managing the current crisis while building up the foundations for a sound and privately owned banking system in the future

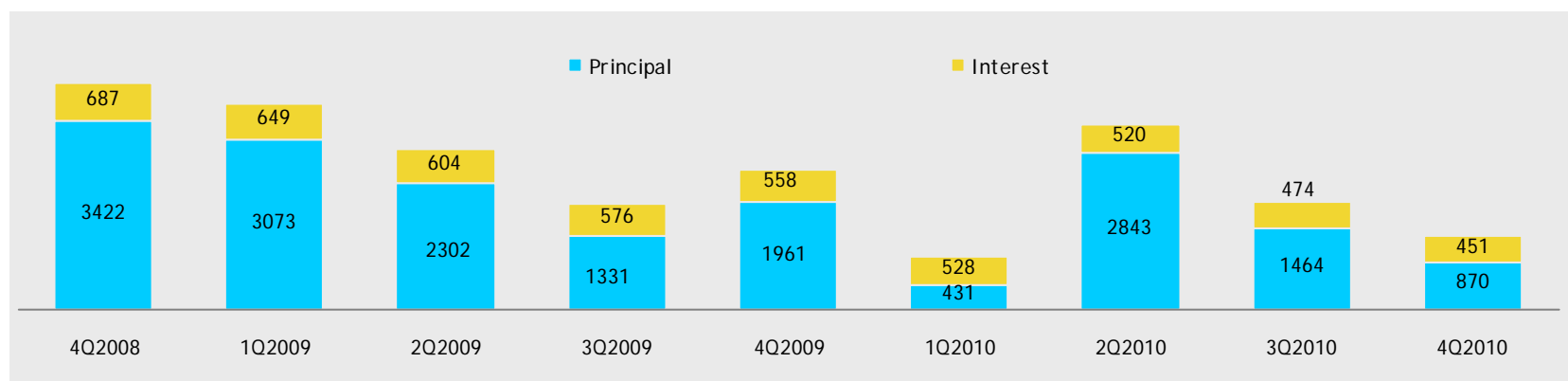
# Declining banking sector debt, as banks successfully met their external obligations

Banking sector foreign debt (\$US mln)



Source: National Bank of Kazakhstan

Banking sector amortization schedule as of 30/09/2008 (\$US mln)

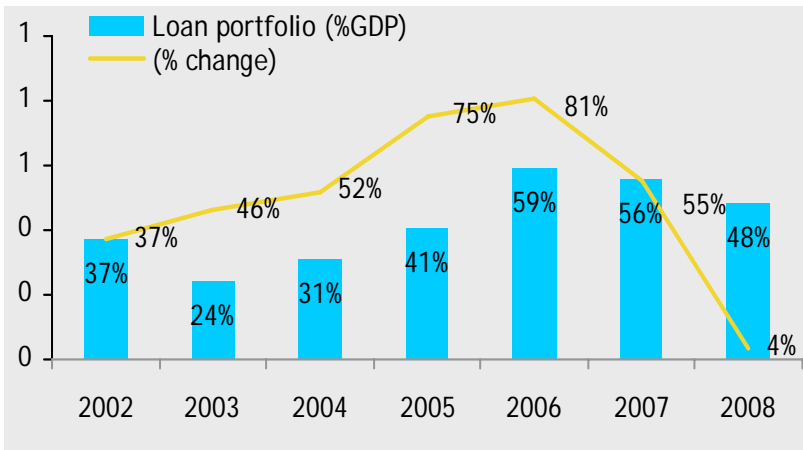


Source: National Bank of Kazakhstan

- Banking sector debt burden has started to decline in both nominal and in GDP terms as the banks have met their external obligations timely, while access to foreign borrowing is severely limited
- After peaking in 4Q08 and 1Q09, external repayments of the banking sector are more manageable going forward

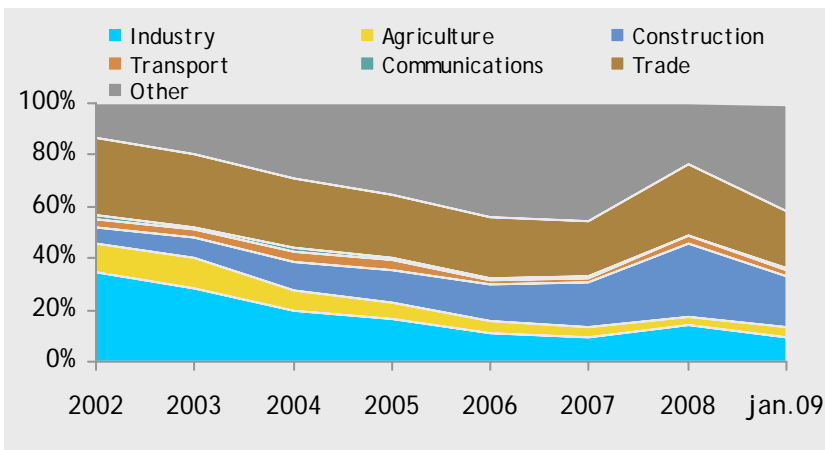
# Despite rapid growth in recent years, financial intermediation is relatively moderate

Credit slows down



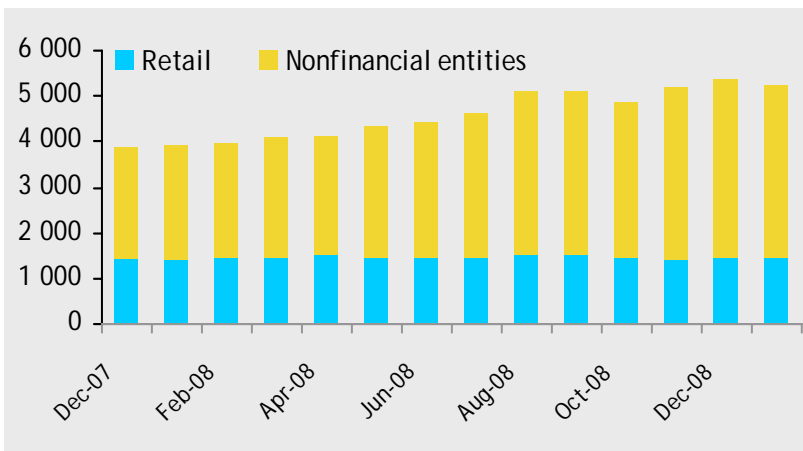
Source: National Bank of Kazakhstan

Type of lending (% of total)



Source: AFN

Total deposits grew during 2008 despite concerns about Kazakh banks. Retail deposits declined only moderately

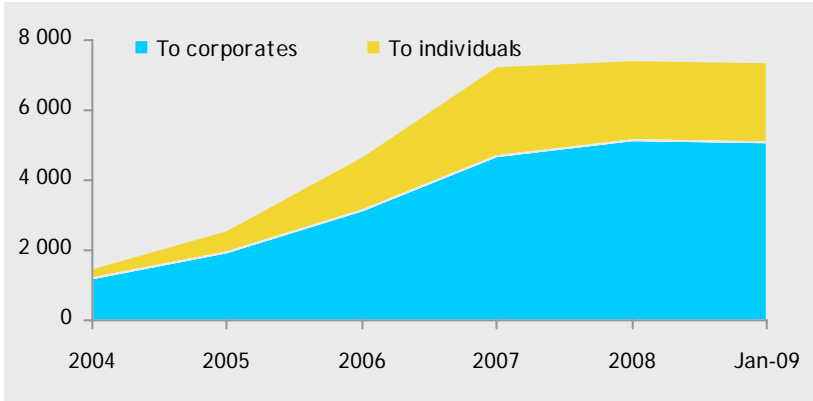


Source: National Bank of Kazakhstan

- Despite rapid development of the financial sector and increasing financial intermediation over the past decade, private sector credit to GDP remains relatively small by international standards limiting the contingent liability on the government
- Credit growth slowed significantly during 2008 as banks re-assessed their balance sheets composition, external funding became increasingly difficult and asset quality deteriorated

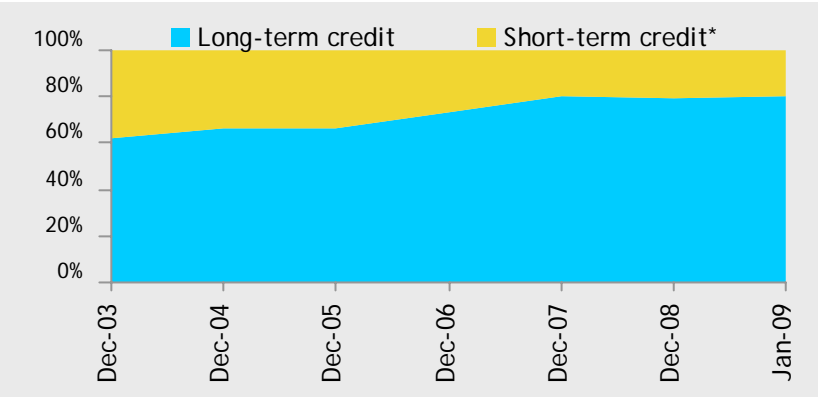
# Restricted liquidity will help to rebalance the banks' lending portfolios

Growth of credit in the economy has slowed on the back of decreased lending to individuals



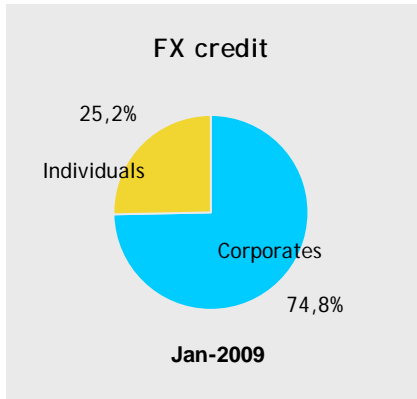
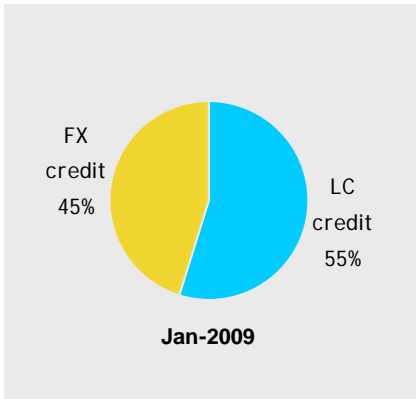
Source: AFN

Share of short-term credit has declined substantially over the past six years thanks to increasing competition in the sector



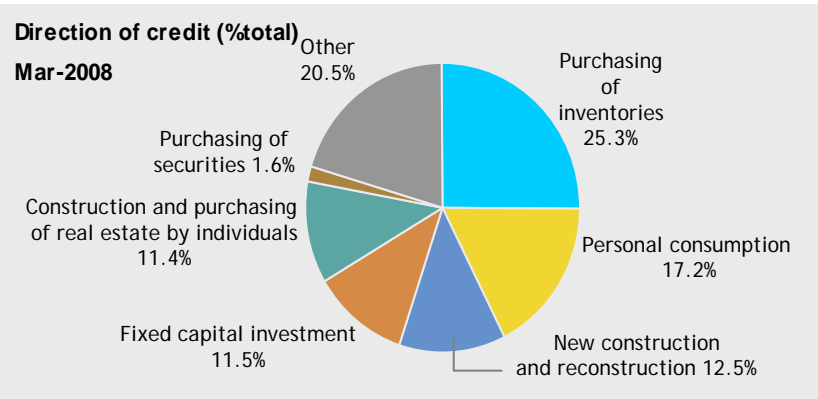
Source: National Bank of Kazakhstan; \*less than one year

LC lending over 50% of total and mostly to corporates



Source: National Bank of Kazakhstan

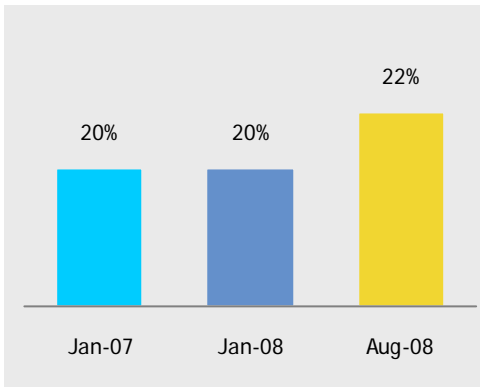
Mortgage lending constitutes only about 11.4% of the total loan portfolio of the banks



Source: AFN

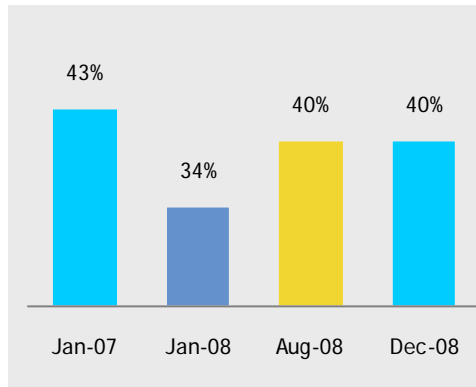
# Banking sector indicators

Estimated own capital to loan portfolio ratio



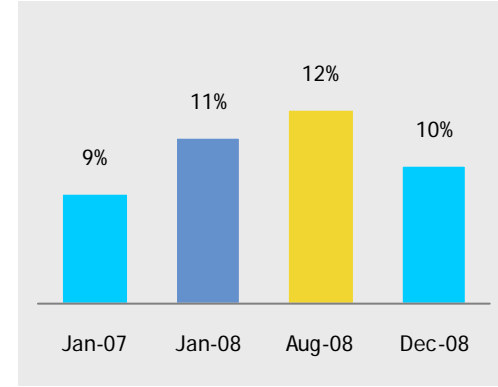
Source: AFN

Estimated own capital to doubtful credits ratio



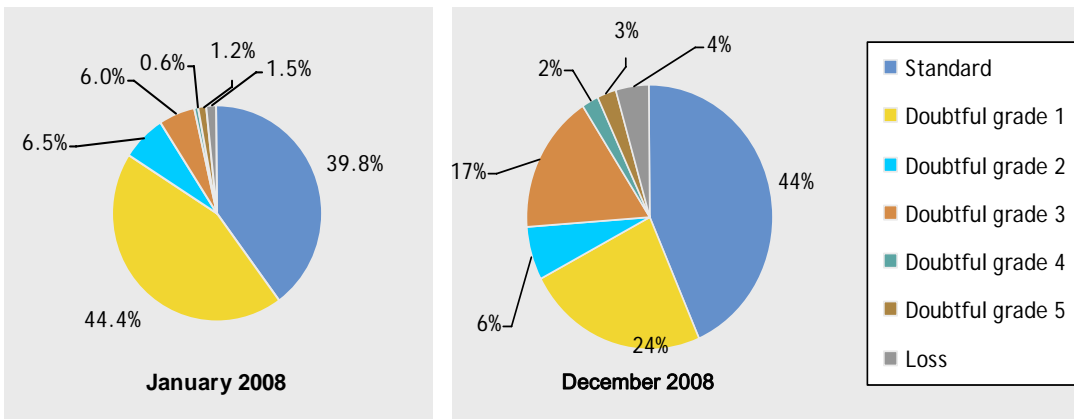
Source: AFN

Tier one capital to total assets ratio (k1)



Source: AFN

Loan portfolio risk classification



Source: AFN

Provisions

