«Industrial and innovative development of Kazakhstan under conditions of global challenges»

Mr. B. Sultanov, Minister of Economy and Budget Planning of the Republic of Kazakhstan

Geneva, 28-29 September, 2009

Developed under instruction of N. Nazarbayev, President of the Republic of Kazakhstan

The main aim of the Strategy

Achievement of sustainable development of the country by diversification of economy, which allows to transit from primary economy, preparation for transition in a long-term plan to the service-technological economy.

1 stage (2003-2005)

- Formed the legal framework for innovation development (about 30 laws) and more than 30 branch programs
- There was created a new institutional framework for industrial and innovation development, which are development institutions, national holdings, socio-entrepreneurial corporations, etc.

2 Stage (2006-2010 гг.)

Adjusted and focused on the implementation of the "breakthrough" projects within the program "30 corporate leaders", projects of international importance, production of goods and services that can be competitive in certain area of the global market

Production of oil, gas, transportation and other branches of engineering, metallurgy, chemistry, agro-industrial sphere, development of biotechnology centers with active international participation, creation of the park information technology as a regional IT-center
JSC “National Welfare Fund “Samruk-Kazyna”

Fund’s main aim:
Management shares, belonging to his ownership, (shares of participation) of national development institutions, national companies and other entities to maximize their long-term value and competitiveness in world markets

Fund’s main activity
1) Promoting modernization and diversification of national economy
2) Promoting stabilization of economy
3) Improving the companies’ performance
<table>
<thead>
<tr>
<th>The main objects of the fund</th>
</tr>
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<tbody>
<tr>
<td>- □ competitiveness improvement of subsidiaries, as well as maximize their economic value</td>
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<tr>
<td>- □ Introduction of international best practices of corporate governance in subsidiaries</td>
</tr>
<tr>
<td>- □ Development and maintaining implementation of investment projects of national and international scale</td>
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<tr>
<td>- □ Support of domestic producers and domestic suppliers of works and services</td>
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<tr>
<td>Development Institutes of the FNW «Samruk-Kazyna»</td>
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<td>--------------------------------------------------</td>
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<tr>
<td>Kazakhstan Development Bank</td>
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<tr>
<td>Kazakhstan Investment Fund</td>
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<td>National Innovation Fund</td>
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<td>Center for Engineering and Technology Transfer</td>
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<td>Science Fund</td>
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<tr>
<td>Kazakhstan Investment Promotion Center «KazInvest»</td>
</tr>
<tr>
<td>Corporation for Export Promotion «Kaznex»</td>
</tr>
<tr>
<td>State Insurance Company for insurance of export credits and investment</td>
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</tbody>
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Growth rate of GDP in Kazakhstan

* - forecast by National bank and the Government of the RK
# Main macroeconomic indicators of economy of the Republic of Kazakhstan for 2003-2009

## Key macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>1H 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth rate (%)</strong></td>
<td>9,3</td>
<td>9,6</td>
<td>9,7</td>
<td>10,7</td>
<td>8,9</td>
<td>3,3</td>
<td>-2,3</td>
</tr>
<tr>
<td><strong>GDP per capita (USD)</strong></td>
<td>2070</td>
<td>8870</td>
<td>3770</td>
<td>5290</td>
<td>6772</td>
<td>8514</td>
<td></td>
</tr>
<tr>
<td><strong>Current account (%) to GDP</strong></td>
<td>0,9</td>
<td>0,8</td>
<td>(1,8)</td>
<td>(2,4)</td>
<td>(7,8)</td>
<td>5,2</td>
<td>(6,3)*</td>
</tr>
<tr>
<td><strong>Trade balance (%)</strong></td>
<td>11,9</td>
<td>15,7</td>
<td>18,1</td>
<td>18,1</td>
<td>14,4</td>
<td>25,1</td>
<td>(6,3)*</td>
</tr>
<tr>
<td><strong>Export of goods (%)</strong></td>
<td>42,9</td>
<td>47,7</td>
<td>49,5</td>
<td>47,9</td>
<td>46,1</td>
<td>54,4</td>
<td>39,4*</td>
</tr>
<tr>
<td><strong>International reserves (bln. USD)</strong></td>
<td>5</td>
<td>9,3</td>
<td>7,1</td>
<td>19,1</td>
<td>17,6</td>
<td>19,4</td>
<td>18,6</td>
</tr>
<tr>
<td><strong>DFI (%) to GDP</strong></td>
<td>7,2</td>
<td>12,6</td>
<td>3,7</td>
<td>8,2</td>
<td>16,7</td>
<td>14,8</td>
<td>10,3</td>
</tr>
<tr>
<td><strong>Government debt (%)</strong></td>
<td>15</td>
<td>11,4</td>
<td>8,1</td>
<td>6,7</td>
<td>5,9</td>
<td>6,4</td>
<td>7,1</td>
</tr>
<tr>
<td><strong>National Fund (%)</strong></td>
<td>11,5</td>
<td>11,4</td>
<td>14,2</td>
<td>18,1</td>
<td>21,3</td>
<td>20,6</td>
<td>23,7</td>
</tr>
</tbody>
</table>

## Macroeconomic indicators forecast

<table>
<thead>
<tr>
<th></th>
<th>2009 (estimate)</th>
<th>2010 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP, bln. USD</strong></td>
<td>106,6</td>
<td>116,1</td>
</tr>
<tr>
<td><strong>GDP growth rate %</strong></td>
<td>0,1</td>
<td>2,4</td>
</tr>
<tr>
<td><strong>GDP per capita, USD</strong></td>
<td>6499</td>
<td>7078</td>
</tr>
<tr>
<td><strong>Inflation (CPI), %</strong></td>
<td>8,0-8,5</td>
<td>7,5-8,0</td>
</tr>
<tr>
<td><strong>Average oil price, USD /barrels</strong></td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td><strong>Oil and gas production, mln. tons</strong></td>
<td>75</td>
<td>80</td>
</tr>
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Source: Forecast by National Bank and Government
Foreign direct investment flow in economy of the Republic of Kazakhstan in 2003-2009

• 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
State Program of Forced Industrial Innovation Development of Kazakhstan for 2010-2014

Aim and the main directions of the Program

Maintenance of Diversification and competitiveness development of Kazakhstan economy in the long-term period and increase the GDP to 46 bln. tenge by 2015, approximately 50% of GDP in 2008

- Forming the framework of the economy which is resistant to external shocks and based on the domestic and regional markets (economic space of the Customs Union)
- Development of traditional export sectors with diversification of products and continuation of technological chain
- Development of innovative industries. Rational and point spurt to the post-industrial economy
Scheme of implementing the State Program of Forced Industrial-Innovative Development for 2010-2014

Strategic Plan of development of the Republic of Kazakhstan until 2020

State Program of forced industrial-innovative development

Development Program of Agro-Industrial complex

Sectors:
1. Development of grain deeper conversion;
2. Development of meat production and meat products;
3. Development of poultry industry (poultry);
4. Development of production and processing of oilseed crops;
5. Development of fetus-vegetable;
6. Development of milk production and milk products;
7. Development of white sugar production from sugar beets;
8. Development of aquaculture and processing of fish products;
9. Development of production and processing of pork;
10. Development of horse meat and dairy with further production of finished products;
11. Development of camel and its processed products;
12. Development of marble for meat production and to meet the needs of Pharmacy;
13. Development of beekeeping to meet the domestic needs of the population and Pharmacy;
14. Development of cotton production and processing;
15. The development of fine-fleece sheep breeding.

Development Program of construction industry and production of building materials

Sectors:
1. Production of cement and concrete products;
2. Development of ceramic industry;

Development Program of oil refining sector and infrastructure of the oil and gas sector

Sectors:
1. Oil refining;
2. Petrochemistry.

Development program of chemical and pharmacy industries

Sectors:
1. Oil and gas chemistry (basic organic);
2. Basic non-organic;
3. Special chemicals;
4. Pharmacy.

Program of development of transport and telecommunications infrastructure

Development program of metallurgy and production of fabricated metal products

Sectors:
1. Aluminum;
2. Zinc;
3. Copper;
4. Rare-earth;
5. Steel;
6. Ferroalloy.

Program development of energy

Sectors:
1. Electric power;
2. Nuclear industry.

In a forced diversification 4 priority sectors are identified, and on 23 sectors master plans are being developed.
Project has been started, to be competed by 2009

To be started in 2009

To be started in 2010
Institutional reforms

- Law “On state support of innovation”
- Law on state procurement
- Advanced implementation of fiscal and administrative reforms
- Accelerated development of public-private partnership (PPP) in the innovation sphere
- Reforming the regulatory approval system (licensing, certification, accreditation)
# Reforming of tax system

## 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

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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
Cooperation with international institutes

Kazakhstan took 63rd place in *Doing Business 2010*, raising to 7 positions compared with the results of last year in the ranking of the World Bank.

Kazakhstan took 67th place, losing only one position compared to last year in the ranking of *the World Economic Forum 2009/2010*.

Kazakhstan took 36th place in 2009 raised up from 39th place in 2008 in the ranking of *global competitiveness of the International Institute for Management Development*.

Kazakhstan's position by the factor of "Innovation" in the ranking of the WEF and its rate of growth (decline)
<table>
<thead>
<tr>
<th>The main directions of post-crisis recovery of the economy of Kazakhstan</th>
</tr>
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<tbody>
<tr>
<td>- Sustaining economy</td>
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<tr>
<td>- Creating competitive human capital</td>
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<tr>
<td>- Provision of basic social, housing and communal services</td>
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<tr>
<td>- Maintaining interethnic concord</td>
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<tr>
<td>- Security and stability in international relations</td>
</tr>
</tbody>
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Thank you for attention!