

BUFF/ED/07/111

June 25, 2007

**Statement by Mr. Kiekens and Mr. Saudabaev on  
Republic of Kazakhstan  
Executive Board Meeting  
June 27, 2007**

On behalf of the Kazakh authorities, we thank the staff for the continued productive dialogue, the balanced report which outlines the policy challenges facing Kazakhstan and for providing helpful policy recommendations.

**General remarks**

The economy continues to grow briskly, having recorded a growth of 10.3 percent in the first quarter of 2007 (year on year). With the world economy expected to be favorable, Kazakhstan's annual growth is projected to reach 9.3 percent during the next three years, with per capita GDP exceeding US \$10,000 by the end of this period. In order to sustain this pace of growth, policies will be directed to strengthen institutions, improve the business climate and enhance competitiveness. The 2007 Doing Business Report of the World Bank has now ranked Kazakhstan at 63, up from its 82<sup>nd</sup> position in the previous report.

International reserves and of the assets of the National Fund have risen rapidly during the last five years. In May 2007, gross reserves reached US\$ 22 billion and the assets of the National Fund were at US\$ 17.5 billion. Managing large capital inflows has become a major component of the overall macroeconomic management directed at low inflation and overall stability.

**Monetary Policy**

The authorities are committed to reducing inflation further by pursuing prudent fiscal and monetary policies. These policies will be complemented with a competition policy and price regulation for sectors with natural monopolies.

The National Bank of Kazakhstan will continue to pursue a tight monetary policy by issuing short-term notes to mop up excess liquidity. In addition to short-term notes, since March 2007, the National Bank has been issuing one-year notes. This has helped in extending the yield curve in the financial markets. During the first five months of 2007 notes in circulation increased by 50 percent to reach KZT 800 billion. Consequently, in this period, short-term interest rates rose by 1.6 percent to reach about 6.3 percent at the end of May.

In order to keep inflation under control, fiscal and monetary policies are being well coordinated. As a result, inflation declined from 8.4 percent in December 2006 to 7.6 percent in May 2007. The National Bank's inflation target for the period 2007 – 2009, under a scenario of moderate oil prices and high capital inflows, is in the range of 7.3 percent to 8.3 percent.

### **Fiscal policy**

Fiscal policy has traditionally been very prudent. Strengthening tax administration is a top priority.

The government is preparing amendments to the tax code with the aim of reducing the corporate income tax rate. This will be financed by increasing the personal income tax rate for high income categories while keeping the rate unchanged for vulnerable sections of the society.

The National Fund is managed with a medium to long-term perspective. By strengthening the Fund in good times, it will be possible to stabilize current expenditures and to make provisions for social liabilities during periods of unfavorable developments in the world economy or in oil prices. The parliament is now considering a legislation which would allow the enlargement of the list of oil sector enterprises. Taxes from these enterprises will be directed to the National Fund.

### **Financial Sector**

The government, the National Bank and the Financial Sector Supervisory Agency have outlined a program to develop the financial sector further in the next five years. This program aims at high quality, competitive financial services that will satisfy the need for proper allocation of financial resources.

The banking sector is undergoing rapid change. Bank credit to consumers and for real estate operations is expanding fast. A significant part of the funding stems from borrowing abroad. These developments require adequate risk management by banks. Bank supervision will be improved in line with best international practices. It will be conducted on a consolidated basis.

Insurance legislation and the supervision of this sector have been upgraded as well, in line with best international practice. The regulation of the stock market has been adapted to better protect investors' rights, improve corporate governance and upgrade market infrastructure.

There is no doubt that further developments in the financial sector will be influenced by Kazakhstan's upcoming WTO membership and its participation in other international organizations.

A strong and stable financial sector will provide a wide range of high quality services to a broad spectrum of enterprises and households. This will develop Kazakhstan into a regional financial sector. In this regard, further liberalization and the development of liquid and competitive securities markets are priorities. In addition to the energy and commodity

sectors, financial services are also expected to become a significant part of the Kazakh economy.

Kazakhstan has important second and third pension pillars. The authorities have taken measures to expand the list of acceptable investment instruments for pension funds, while improving risk control systems.

The National Bank of Kazakhstan, with the cooperation of the Financial Sector Supervisory Agency, has recently published its first Financial Stability Report. This provides stakeholders and potential investors with critical information and should also contribute to effective risk management and an improved business climate.

### **Structural Reforms**

Integrating Kazakhstan successfully into the global economy has been a priority. Reaching this goal will be facilitated by attracting substantial amounts of foreign capital, primarily from leading foreign enterprises, into the non-extractive sectors. This will help in the transfer of know-how and management techniques. It will also assist in the creation of globally-known brands and other intellectual properties.

As we have mentioned above, the upgrading of institutional financial infrastructure will enhance the business environment. The government will support this by creating a regulatory environment for the development of major promising sectors such as telecommunication, nuclear energy, construction and tourism.

The management of state assets, including at the regional and local levels, will be improved to enhance revenue generation and to preserve, where warranted, the country's strategic interests.

To provide for the much needed infrastructure, public private partnerships are an important avenue of financing and managing infrastructures, including in the education sector. Such partnerships provide for a shared financing with the government's share not exceeding 25 percent in the first phase. However, the government may also issue guarantees and provide other forms of risk coverage. More generally, political support remains an important factor in the promotion of domestic as well as international business.

### **WTO**

Kazakhstan's entry into the World Trade Organization is a major priority for the authorities. It will expand trade opportunities, promote sustainable economic development and enable Kazakhstan to integrate fully into the international trading system. Out of the 25 countries that Kazakhstan has to sign bilateral agreements with, it has already done so with 19 countries. And, negotiations are well advanced with the other 6 countries, i.e. Australia, the European Union, USA, Canada, India and Mongolia. A few issues remain unresolved, which the authorities plan to settle by the end of the year.