

Investment Policy in Kazakhstan: Trends and Priorities

By Sara Alpysbayeva and Bauyrzhan Turlubekov, Economic Research Institute, Kazakhstan

Kazakhstan is a country with a dynamically growing economy; therefore, the GDP growth should be accompanied by a high rate of fixed capital savings.

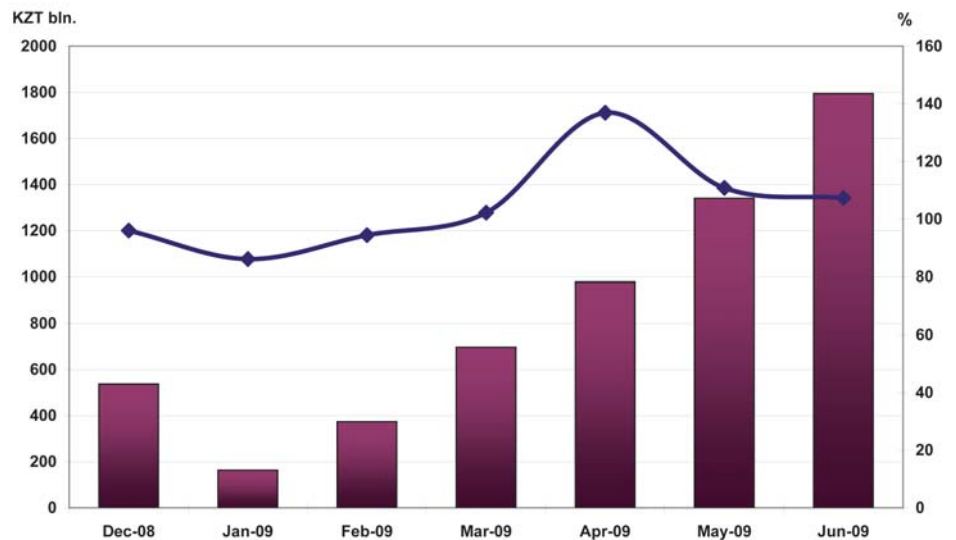
The financial crisis and economic slowdown have adversely affected the global economy, and Kazakhstan was not an exception. Despite this, business activity here is rapidly recovering. According to preliminary estimates, in Q2-2009 Kazakhstan's GDP added more than 3 percent as compared to the previous quarter.

In order to secure both the macroeconomic and financial stability, the Government has enforced and implements the Plan for economic stabilisation. Systemic measures are in place to stimulate the aggregate demand. New Tax and Budget Codes have been revised and enacted.

Furthermore, the legal basis to introduce instruments of Islamic finance and investment is being created. Efforts to attract the resources of international financial institutions to fund important investment projects are at the final stage.

In the conditions of the crisis, from late 2008, the Kazakh economy suffered from a short-term contraction in the investment activity. However, by March 2009, the negative trend was successfully reversed: the investment growth rate made 102.2% y-o-y. In April 2009, the rate reached the highest level of 136.9%, and in June it went down to 107.3%.

Fixed Capital Investments in Kazakhstan



The important contribution to this positive trend was made by our partners – foreign investors, who perceive the investment attractiveness of Kazakhstan as high. This year, foreign sources financed as much as 45 percent of the total fixed capital investments, and the amount of these investments increased 2.4 times.

Kazakhstan managed to attract unsecured loans from its strategic partners and investors – China and Russia. Negotiations on receiving funding from Arab countries to finance formidable investment projects are on the way.

The investment growth is complemented by the adequate improvement in the quality of investments. For example, the fixed capital investment structure is characterised by the growing share of investment in machinery, equipment, appliances and other

capital works. From January to April 2009, such investments grew more than 1.7 times.

Investment attractiveness of industries

The analysis of the structure of foreign investments in Kazakhstan shows that the most attractive sectors are as follows:

- financial activities (monetary intermediation) – 32.2% of total foreign investment (both direct and portfolio);
- geological survey and search – 23.6%;
- crude oil and gas extraction – 12.9%;
- manufacturing, civil engineering, retail trade – 5% each¹.

The high rate of return remains the key determinant of the industry selection by foreign investors. This is proved by the data on enterprises'

¹ As of March 31, 2009. Source: National Bank of Kazakhstan. ² As of Q4 2008. Source: RK Statistics Agency.

financial and business activities²: the highest rates are recorded in the mining industry (29.2%), in transport and communications (15.3%), civil engineering (12.5%); the average rate of return in Kazakhstan is 13.8%.

An important factor of investment attractiveness is the state investment policy that serves as a sign of favourable investment climate for the investors, both existing and potential.

According to the new Tax Code, the corporate income tax will be

Within the first six months of 2009, the total of USD 8.9 billion was invested in fixed capital, including USD 4 billion (more than 45%) of foreign investments.

lowered from 30% to 20% in 2009, to 17.5% in 2010 and to 15% in 2011. Starting from 2009 onwards, the value added tax (VAT) is reduced from 13% to 12%. The tax breaks are applied for companies investing in all economic sectors. The rate of the natural resources extraction tax, imposed on crude oil that is delivered domestically is two times lower than on exported oil. This is done to stabilise internal prices on fuel.

At present, there is a favourable tax regime for manufacturers (legal persons), which implies a 70% tax cut. Also, there are considerable tax breaks for investors in the agricultural sector, including the 70% cut in the VAT for companies processing agricultural products. This provides for additional stimuli for investors.

Potentially, the agricultural sector may extend its competitive advantages, with investments becoming the growth driver for the development of foodstuff and consumer goods industries.

Within the first six months of 2009, the total of USD 8.9 billion was

invested in fixed capital, including USD 4 billion (more than 45%) of foreign investments. Thus, the inflow of foreign capital to Kazakhstan remains high.

It is expected that China is to provide USD10 billion for the completion of several investment projects. The United Arab Emirates will invest in the establishment of the Islamic Bank and the construction of the "Abu-Dhabi Plaza" complex in Astana. South Korea is also to invest USD3 billion in the construction of the Kazakh power plant.

Investment Policy priorities

Taking into consideration the crisis conditions, the top priority for the public investment and public-private partnerships is infrastructure projects. The Roadmap of the efficient allocation of production capacities in Kazakhstan till 2020 will allow the Government in cooperation with private business to work out feasible investment solutions. Private sector projects will be focused on the development of infrastructure, full utilisation of resources and expansion of the country's economic potential.

In January 2010, the Government will start the implementation of the 5-year Industrial-Innovation Development Plan, which should drive economic diversification on the basis of innovative industrial development and stimulate the post-crisis breakthrough of the Kazakh economy.

The priority sectors within the Plan are as follows: the agricultural complex, civil engineering and construction materials manufacturing, oil refinery, oil and

gas infrastructure, metallurgy and production of finished metal products, chemicals, pharmaceuticals, and defence industry, power generation, transport and telecommunications infrastructure.

Implementation of the Plan will be supervised by the State authorities. In 2009-2011, investments from the state budget will increase by more than USD 10 billion; additional USD10 billion will be provided from the National Fund.

Funding of the industrialisation process may be in the form of either private capital participation in priority projects with free niches for profitable investment, or as a public-private partnership. The examples of such projects include: implementation of pilot network projects in agriculture; construction of a bitumen plant in Mangystau region; production of metallurgical silicon in Karaganda region; construction of the Beyneu-Bozoy-Akbulak gas-main pipeline; reconstruction and modernization of the Atyrau refinery, chemical-gas complex in Atyrau region; ferroalloys modernisation in Zhambyl region; potassium fertilizers in Aktobe region; Moynak hydro-power plant construction.

Selection of priority investment directions for the State support is based on a number of certain criteria. These include scientific and technical novelty; economic feasibility; impact on other sectors of economy; social efficiency.

The state will complete market forces with a number of regulatory and support measures aimed at reducing uncertainty and providing stability of the market situation. Furthermore, the business will be provided with guidelines for efficient industrial development, stimuli for re-distribution of capital into acquisition of new technologies and markets, as well as with information support.