

The plan of joint actions of Government, National bank and FSA of Kazakhstan on stabilization of the economy and financial system for 2009-2010

1. Measures taken in 2007- 2008 in support of economic growth

To soften the negative effects of turmoil in the international and domestic economy and financial system markets since the autumn of 2007 , the government allocated State Budget funds of around **550 bln tenge (\$4.6 bln) in support of :**

- Individual investors in housing sector
- SMEs activity
- Development of agricultural sector and maintenance of food safety

In addition, further measures have been approved over the past few months to alleviate the impact of the global slowdown and in support of economic growth:

- Amendments to the Law of Republic of Kazakhstan “About public purchases” in Q32008. For stimulation of internal demand and supporting of national enterprises, public **purchases** will be oriented predominantly to **Kazakh suppliers**. To take operative decisions, to help to national business by giving guarantees, long-term purchase orders **state holdings and national companies** have been excluded from the action of law, which regulates public purchases.

- From January 1, 2009 a new Tax Code will become effective. The new Code, which includes tax measures primarily targeted to reduce the tax burden on the non-oil economy, is expected to provide an additional **500bln tenge** of working capital to Kazakh companies in 2009. Tax measures to be implemented as of January 2009 includes:

- Corporate income tax will be reduced from 30% to 20% in 2009, to 17,5% in 2010 and to 15%in 2011.
- VAT rate will be reduced from 13 to 12% in 2009. The minimal turnover volume taxable with VAT increases by two times to 38 mln tenge.
- The current regressive rate on social security tax will be replaced by a flat rate of 11%.
- The new Code provides tax incentives for investments to all companies. In particular, an accelerated amortization for non-extractive sectors and double norm of amortization for the mining industry.
- SME’s requirement to advance payments on corporate income tax is cancelled.
- Carrying forward of losses is extended to 10 years (used to be maximum of 3 years) for all companies

- Measures to boost confidence in the banking system and to provide liquidity support to banks

- To boost the confidence in the banking system the guaranteed amount on individuals’ deposits was increased from 700 thousands to 5 mln tenge.
- From 18th November 2008, the minimal reserve requirements on internal obligations were reduced from 5% to 2%, and for other obligations from 7% to 3%. This will allow banks to increase their resource base by about **350 bln tenge**.
- The Law of Republic of Kazakhstan “On changes and additions to some legislative acts of Republic of Kazakhstan on the matters of financial system stability” was adopted. The law toughened the measures of administrative and

criminal responsibility for bringing a financial organization to insolvency. Banks are also allowed to repurchase issued obligations and to purchase shares in the Distressed Assets Funds.

2. Key economic developments during 2008

- GDP growth at **about 4%** during the first nine months of the year.
- Unemployment level remains stable at below 7%.
- The inflation level for 10 months of this year is **8,8%**, well within the annual forecast of **not more than 10%**.
- The tenge has remained stable during the year with no need for the NBK to draw on reserves to sustain exchange rate stability.
- Kazakh banks successfully meet all their internal and external liabilities.
- Deposits in banks **increased by 22%** during the first ten months of the year with retail deposits increasing **by 2%**.
- During the first ten months of the year FX reserves and National Fund assets increased from \$39 bln to \$45 bln

3. Fiscal adjustments

The government has recently revised its assumptions and key fiscal figures for the period 2009-2011 to take into account the decline in oil prices and the impact of worsened global economic growth prospects:

- Budget revenues for 2009 will be based on assumption of oil price of **40 US dollars per barrel**. In 2010 and 2011 revenues will be based on assumption of oil price of **50 US dollars per barrel**. Initial three year budget was based on oil price of **60 US dollars per barrel** for 2009 – 2011.
- Non-priority expenses are reduced and the financing of some programs are postponed. **Social expenditures including increase of pensions and public wages are kept unchanged.**
- The Republican budget deficit in 2009-2010 will be projected at **3,4-3,5% of GDP** and in 2011 the deficit will be reduced to **2,4% of GDP**.

While maintaining fiscal prudence, the government acknowledges that in the current environment, the 3-year republican budget is a key instrument **to support economic activity**. One of the budget's priorities is to continue to support aggregate demand and business activities by maintaining a high level of budget expenditures in key priority areas such as the finance of **priority infrastructure and industrial projects, development and modernization of the agriculture sector, and development of human capital**. Overall, during 2009-2011 investments from the state budget will increase by **1,5 trln tenge**.

4. The Government's Action Plan for 2009 – 2010

The purpose of the Plan is to smooth the socio-economic impact of the global economic and financial crisis while assuring that government policies continue to build up on the foundations that will sustain financial stability and high rates of qualitative economic growth in the future.

To achieve these goals, the Government, the National Bank and FSA will focus their coordinated interventions on the following **five directions**:

1. Stabilizations of financial sector.

2. Addressing issues in the real estate market.
3. Support to SMEs.
4. Agro industrial sector development.
5. Realization of industrial and infrastructural projects.

To finance the Plan, assets of National Fund in the amount of **\$10 bln (1,200 bln tenge)** will be used:

- 1) Financial sector stabilization – **\$4 bln (480 bln tenge)**;
- 2) Housing sector development – **\$3 bln (360 bln tenge)**;
- 3) SME support – **\$1 bln (120 bln tenge)**;
- 4) Agro industrial complex development – **\$1 bln (120 bln tenge)**;
- 5) Realization of infrastructural and breaking projects – **\$1 bln (120 bln tenge)**.

Samruk-Kazyna Fund will be the government's arm in charge of implementing the National Plan. Out of the **\$10 billion** to be used from the National Fund, the Government has used **\$5bln** to provide additional capital to the Samruk-Kazyna Fund. Samruk-Kazyna will borrow an additional **\$4bln** from the National Fund and KazAgro Holding will borrow **\$1 bln**.

1. Financial sector

The total sum of capital injections into the banking sector will be at least **\$4 bln (480 bln tenge)**, including:

- **\$1 bln (120 bln tenge)** will be provided as a purchase of voting shares of four systematically important banks (Halyk bank, Kazkommertsbank, Alliance bank and BTA bank);
- **\$3 bln (360 bln tenge)** will be provided as a **subordinated debt and through the purchase of privileged non-voting shares**.

In addition, the National Bank has implemented other measures aimed to increase liquidity such as the broadening the list of instruments accepted for Repo operations and the reduction in reserve requirements. Also, assets of public companies, joint-stock companies, state organizations, other state enterprises and legal entities where the government is a shareholder which are currently under the management of the National Bank will be deposited with the banking system.

Creation of a Distressed Assets Fund. The government has created a Distressed Asset Fund and funded it from budget with an initial sum of 52 bln tenge. In 2009, the authorized capital of the Fund will reach **122 bln tenge** by additional injection from the budget.

Strengthening of the financial sector regulatory environment. In the framework of prudential regulation by the FSA, banks will have to reduce their level of external liabilities and dependence on wholesale funding. Existing and new requirements in the Banking Law will lead to the diversification of the banks' funding base and increase the banks' reliance on the deposit base to finance its activities

The government is committed to protect **the interests of pension funds depositors and will maintain the safety of the population's savings in the pension funds**, a high level of transparency regarding the management of pension funds while raising depositors' awareness and financial literacy.

2. Real estate market

Samruk-Kazyna Fund will launch a special program of mortgage lending and development of the housing sector to support the challenges faced by the housing sector and to re-activate the real estate market in Astana and Almaty. For the financing of this program, the SK Fund will direct the sum of **\$5 bln (600 bln tenge)**, to be financed by borrowing from the National fund and accumulative pension funds.

3. Support to SMEs

Samruk-Kazyna Fund will allocate **\$1 bln (120 bln tenge) in support of SMEs during 2009, of which** 70% will be directed to refinancing of current projects and 30% to realization of new projects. The maximum amount to be allocated to one single project will increase from **\$3 to \$5 mln**. The funds will be channeled to SMEs through the banking sector.

Samruk-Kazyna Fund will also establish a micro-lending programme targeted to rural areas.

SMEs activities will also receive additional support following the recent changes to the Law on public purchases whereby the government, state organizations, state holdings and national companies will source goods and services from Kazakh companies.

The Government will continue to work on getting rid of administrative barriers and strengthening incentives in the extractive industries and service companies to increase local participation.

4. Agro industrial sector development

Special attention will be given to the development of the agro industrial sector where the potential for growth, employment creation and impact on economic activity and export diversification is significant.

The “KazAgro” Holding will direct **\$1 bln (120 bln tenge) borrowed from the National Fund in support of the agro-industrial sector**. Projects will be realized together with social-entrepreneur corporations.

Additionally, the 2009-2011 budgets will allocate additional funding of around **350 bln tenge**.

5. Realization of industrial and infrastructural projects

The Samruk-Kazyna Fund will be allocated **\$1 bln (120 bln tenge) in support of industrial and infrastructure projects**. In addition to funding from its own sources, Samruk-Kazyna intends to attract foreign investments of **\$3 bln**.

6. Additional measures

The Government will seek to preserve **real income levels of population** and is committed to keep the 2009-2011 budgeted increases in social payments, pensions and salaries to civil servants unchanged.

The Government will work with large companies to draw plans to keep employment levels despite temporary output volume cuts in some instances.

The Government together with region akims (heads), akims of Astana and Almaty will provide incentives to support employment creation in regions through the government’s planned infrastructure and industrial development projects and other socio-economic initiatives such as the “100 schools, 100 hospitals” programme.

The government will continue to work on the set up of stabilization funds for basic food items such as meat, dried milk, vegetable oil, sugar and rice, with the aim to assure enough supply in the domestic market and in doing so prevent sharp rises in basic food prices.

Expected results of the Plan to 2009 – 2010:

As a whole, direct state support to the economy under the implementation **of the stabilization measures** (excluding additional investments attracted by Samruk-Kazyna) will amount of **2 172 bln tenge**, including:

National Fund assets – **1, 200 bln tenge**;

National bank measures to release liquidity – **350 bln tenge**;

Reduction of tax burden in New Tax Code – **500 bln tenge**;

Distressed Asset Fund – **122 bln tenge**.

As a result of measures taken in 2007-2008 and the 2009-2010 National Plan, real GDP is expected to grow at **between 1-3%**. Inflation is forecast to continue to come down to **7-9% by year-end 2009/10** . Unemployment is expected to stay below 8%.