

KAZAKHSTAN ECONOMIC REVIEW

January - March 2003

Additional Budgetary Allocations for 2003¹

Investment Programs	- 45,7 billion tenge
Development Bank of Kazakhstan	- 12 billion tenge
Kazakhstan Investment Fund	- 23 billion tenge
Innovation Fund	- 3 billion tenge
Export Insurance Corporation	- 7,7 billion tenge

Social Programs - 19,4 billion tenge

Total - 65,1 billion tenge

Note: ¹ – estimate based on the available information as of April 14, 2003. Actual amounts in the revised 2003 budget may be different.



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OVERVIEW

First quarter of 2003 was marked by the shift in state economic policies. The Kazakh authorities declared that they were ready to take the central role in social development and economic diversification. The state will assume the key role in implementing the following programs: agrarian reform, innovation industrial policy, social development program, and financial sector development program.

It is expected that as a result of the new programs the country's GDP will increase by over 3.5 times reaching 64 billion dollars by the year 2015. Unlike the previous attempts, this time the authorities made a serious commitment declaring that they would allocate about 120 billion tenge (approximately 800 million dollars) over the next 1.5 years for program implementation. Accordingly, the proportion of budgetary expenditures earmarked for development purposes will rise substantially. The republican budget will be revised in May to account for the new spending.

Another distinctive feature of the programs is that they have been drafted largely by the Kazakh government with the limited participation of the international community, including donors and multilateral institutions, and consultants. In this sense, the programs fully represent the priorities and development agenda of the present administration.

The state has also set forth the political reform priorities. "Economy first, and politics second," – said the President of Kazakhstan in his annual address adding that "we will move step by step, preserving our culture, our unity, intranational and interconfessional harmony, and political stability" in proceeding with the reforms. President Nazarbayev outlined five major directions for piecemeal political reform and gradual political liberalization over the next years.

Among other major developments in 1Q2003 it is noteworthy to observe a visible acceleration in integration processes among the major CIS countries: Russia, Ukraine, Kazakhstan and Belarus. The Presidents of four countries made the public commitment to draft the action plan on establishment of common trade and customs zone and start its implementation by no later than the beginning of September 2003. Taking into account how far the CIS economies have diverged from each other in the last decade, and given the tight schedule the task is rather challenging. The special High Level Group comprising high-level officials from the governments of four countries is extremely busy preparing the necessary legal, financial, and administrative base for such union. In case of possible delays the Russian and Kazakh Presidents made it clear they might proceed independently by the time indicated.

The war in Iraq so far has had limited effects on the Kazakh economy. Unless there is a steep and sustained decline in crude oil prices we do not expect any downward changes in our macroeconomic framework for 2003. Neither does the government that has recently revised its GDP growth forecast from 6 percent to 8.3 percent and oil prices from 21.2 dollar/barrel to 26 dollar/barrel for 2003.

OFFICIAL NEWS

State regulation of oil market is signed into law

Kazakhstan's President Nursultan Nazarbayev signed the law on state regulation of the market for oil products that provides, among other measures, for imposing obligatory minimum production requirements on refineries. Earlier, the government tried to impose obligatory quotes on oil companies with respect to supplying to the local market, but then had to drop that practice. Seasonal fuel deficit is common in Kazakhstan, especially in the times of grains sowing and harvesting in rural areas.

Kazakh government raises GDP, oil price forecasts

The government of Kazakhstan reviewed its GDP growth forecast for 2003 up to 8.3% from 6.3%, citing higher than expected oil price. According to the preliminary data, in 1Q2003 real GDP grew by 9.8% compared to 1Q2002. The new forecast is based on the annual average price of Brent at \$26/barrel, while the previous one assumed a Brent price of \$21.2/barrel. Following GDP revision, the government intends to increase budget revenues by 60 billion tenge, and use the extra funds to capitalize the Development Bank of Kazakhstan, State Investment Fund, Innovation Fund, and Export Insurance Corporation, while also increasing social expenditures.

Tax rates to be cut from January 1, 2004

Kazakhstan's President Nursultan Nazarbayev proposed cutting some tax rates from January 1, 2004. Particularly, value-added tax rate would be cut from 16% to 15% and the highest rate of progressive individual income tax – from 30% to 20%. The president also proposed to introduce a regressive 20% to 7% scale on social tax. The Finance ministry estimates that legalization of 'shadow' incomes after tax cuts could add another 1% to GDP.

Caspian offshore development program is approved

The government of Kazakhstan approved the Caspian shelf oil fields development program. The program provides for tendering exploration and development rights for about 120 prospective offshore blocks in 2003-2004. The government earlier said that the state oil&gas company Kazmunaigas would have 50% stakes in all offshore oil projects.

Foreign trade in 2002 rises to US\$ 16,2 billion

Kazakhstan's Statistics Agency reported an 8% annual increase in the country's foreign trade turnover, which totaled \$16.199,6 million in 2002. According to agency data, exports grew by 12% to \$9.709,1 million while imports increased by 2% to \$6.490,5 million.

Four CIS countries to form common market

Presidents of Belarus, Kazakhstan, Russia and Ukraine signed in Moscow the joint statement on preparations to form the common market. The parties intend to prepare by September 2003 several draft agreements on common market, coordinated economic policies, harmonizing national legislation and establishing a common interstate independent regulatory Commission on trade and tariffs.

LUKOIL to take active stance in the Caspian shelf development

Kazakh President Nursultan Nazarbayev held discussions with the LUKOIL's head Vagit Alekperov. The parties have agreed to carry out joint offshore oil exploration projects in the Kazakh sector of the Caspian to be followed by commercial development of the newly found oilfields. A joint venture between LUKOIL and KazMunaiGas is due to be established in the second half of 2003. Exploration costs will be financed solely by LUKOIL, while investment in oilfield development will be shared equally.

Kazakh pension legislation is amended

The new Law “On Changes and Amendments to the Law of the Republic of Kazakhstan “On Pensions in the Republic of Kazakhstan” became effective on January 1, 2003. The main amendments include state guarantees for safety of mandatory pension contributions in accumulation pension funds and elimination of a special status of the State Accumulation Fund including the status of “failed to mention” fund. This makes possible the consequent privatization of the State Accumulation Fund.

Government, NBK issue a joint statement for 2003

The Government and the National Bank of the Republic of Kazakhstan made a joint Statement on key economic and social policies in 2003. The key target becomes an achievement of the maximally high economic growth rates by conducting coordinated policies. The statement full text can be found at NBK web-site.

IMF closes its office in Kazakhstan

As a result of the Article IV consultations between the National Bank and the IMF mission in December 2002 the permanent IMF resident representative in Kazakhstan will leave the country in August 2003 when his period expires. “This decision reflects substantial progress achieved by Kazakhstan in economic stabilization, very favorable medium- and long-term perspectives, and no need in the Fund resources. It follows similar Fund decisions in Estonia and Latvia. Despite Fund resrep withdrawal, Kazakhstan intends to continue close cooperation with the IMF”, said the NBK press release.

BUSINESS NEWS

Government may sell its stake in Aktobemunaigas

The government of Kazakhstan intends to study the possibility of selling its 25 percent stake in oil-producing joint venture CNPC-Aktobemunaigas. The likely buyer of the stake is Chinese CNPC, which controls the venture. CNPC-Aktobemunaigas and Kaztransoil launched the Kenkiyak-Atyrau pipeline built to pump oil from Aktobe oblast to Caspian Pipeline Consortium and Atyrau-Samara pipeline. Earlier, two other Chinese companies - Sinopec and CNOOC – bought BG’s 16.6 percent stake in Kashagan development project.

KKB places US\$350 mln 10-year eurobonds at 8.5% yield

Kazkommertsbank on April 14 announced it successfully placed US\$350 million in 10-year eurobonds at annual yield of 8.5%. The lead managers were JP Morgan and CSFB. The bonds carry "Baa2" rating from Moody's, "BB-" from S&P, and "BB-" from Fitch.

S&P upgrades Kazkommertsbank's rating to BB-

Standard & Poor’s Ratings Services on March 28 raised its long-term counterparty credit and certificate of deposit ratings of Kazkommertsbank (KKB) to “BB-” from “B+”. The rating action reflects an improved economic environment in Kazakhstan, KKB better funding profile, and the slower loan growth in 2002. The ratings outlook is stable. In addition, the long-term senior unsecured debt rating on the KKB subsidiary Kazkommerts International BV was raised to “BB-” from “B+”.

Fitch upgrades KKB's rating to BB

Fitch Ratings on April 7 upgraded Kazkommertbank's long term rating to "BB" from "BB-". The rating action reflects KKB's continued development of a universal banking franchise, its track record of good profitability and risk management, and maintenance of an adequate level of capital. The ratings out-

look is stable.

KKB's net income grows to US\$ 52 million in 2002, while capital increases to US\$ 206 million

Kazkommertsbank's net income in 2002, according to IAS, grew to \$52 million from \$36 million in 2001, the bank reported on March 27, after the shareholders meeting. KKB assets totaled \$1.76 billion, while capital stood at \$206 million. Kazkommertsbank's shareholders approved the sale of 15-percent stake to the European Bank for Reconstruction and Development (EBRD) and decided to increase the bank's international borrowing by \$750 million in 2003-2004.

EBRD to extend US\$ 10 million loan to KKB for SME financing

EBRD and KKB signed a \$10 million five-year loan agreement under the framework of EBRD small and medium enterprise financing program. Kazkommertsbank is going to use the funds to finance its customers both in Kazakhstan and Kyrgyzstan. EBRD also confirmed that it intends to become a shareholder of Kazkommertsbank. In April 2003, Kazkommertsbank plans to issue the eurobond worth at least \$200 million.

Kaztransgaz to transit Turkmen gas to Russia

Kaztransgaz company signed a contract with Russia's RegionGaz to transit 4.0 bcm of natural gas from Turkmenistan in 2003 through 587.6-kilometer Bukhara-Ural pipeline with 7.0 bcm annual capacity, Kaztransgaz said on March 27. It also announced signing a protocol of intentions with Russia's Gaztransoil to transit up to 50 bcm of natural gas in 2003-2007.

TCO's sulphur fee is reduced by 10 times to KZT 1,08 billion

The Supreme Court of Kazakhstan decided on March 26 to reduce the fee to be paid by Tengizchevroil (TCO) venture for storing sulphur on the open air to 1.08 billion tenge. In December 2002, Atyrau regional court imposed a fine of 10.8 billion tenge on the company. TCO was established in 1993 for 40 years and is owned by ChevronTexaco (50%), ExxonMobil (25%), Kazmunaigaz (20%) and LUKARCO (5%).

S&P to watch for greater transparency and efficiency of the Kazakh natural monopolies

Standard & Poor's said it will not automatically upgrade the ratings of Kazakh state infrastructure companies following the possible upgrade of Kazakhstan's sovereign rating. S&P also called on the Kazakh authorities to improve the management efficiency and transparency of national companies: electricity grid operator KEGOC, railroads monopoly Kazakhstan Temir Zholy and the companies of Kazmunaigas oil and gas holding group.

Bank Turan Alem's net profit is up to c.US\$ 20 million in 2002

Bank TuranAlem's net profit, according to Kazakh accounting standards, rose to 3,03 billion tenge in 2002 from 2,22 billion tenge in 2001. Bank's assets stood at 228,7 billion tenge by year-end with capital at 22,5 billion tenge.

Moody's upgrades KTZ's ratings to Ba1

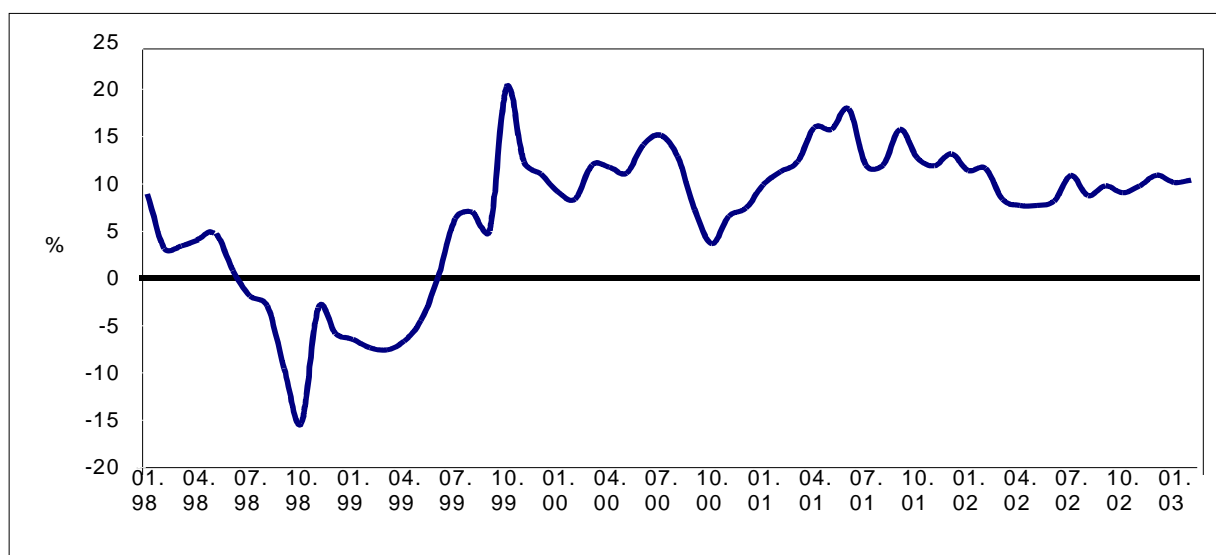
Moody's Investors Service upgraded to Ba1 from Ba2 the long-term issuer rating of Kazakhstan Temir Zholy («KTZ»), the national railway company of the Republic of Kazakhstan. The rating upgrade concludes the review initiated on 16 October 2002 following the upgrade of Kazakhstan's foreign currency ceiling for bonds and government foreign currency bonds to Baa3 from Ba2 in September 2002. The ratings outlook is stable. The rating upgrade is based on the critical dependence of the railway system, the strategic role of KTZ as the national rail company and the 100% ownership of KTZ by the government, which is expected to ensure continued strong governmental and regulatory support going forward.

REAL SECTOR

Real GDP grows by 10.2 percent for Jan-Feb 2003

GDP growth for the first two months of 2003 equaled 10.2% on annualized basis. Nominal GDP reached KZT 580,1 bln or US\$ 3,8 bln.

Kazakhstan: Real GDP Dynamics, annual percentage change



Source: NEDC, ARKS estimates

driven by services and imports

The main drivers of real GDP growth in the first two months were services and imports. The lower share of goods production in GDP is explained by the seasonality in agriculture and construction.

Kazakhstan: Sectoral Structure of Nominal GDP, in percent

	1997	1998	1999	2000	2001	2002	Jan-Feb/2003
GDP	100	100	100	100	100	100	100
Gross Value Added	95,4	94,0	94,4	93,9	93,0	92,9	90,1
Production of Goods	40,1	37,9	42,9	46,5	44,9	43,4	38,2
Agriculture	11,4	8,6	9,9	8,1	8,7	7,9	2,7
Industry	24,7	24,4	28,2	33,3	30,7	29,3	32,6
Construction	4,0	4,9	4,7	5,2	5,5	6,1	2,9
Production of Services	55,3	56,1	51,5	47,4	48,1	49,5	51,9
Net taxes on goods & import	4,6	6,0	5,6	6,1	7,0	7,1	9,9

Source: ARKS, NEDC estimates

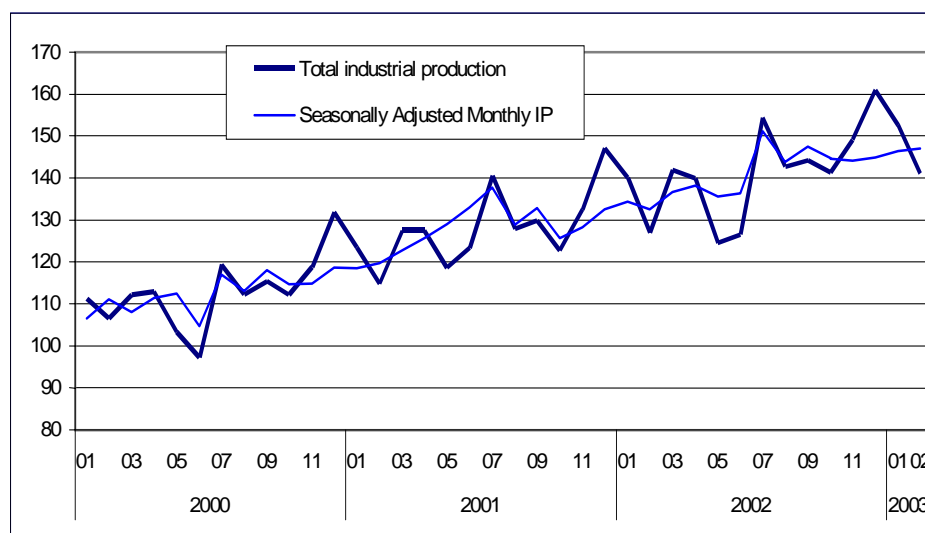
INDUSTRY

Industrial production grows by 9.2%

Industrial production in January-February 2003 rose by 109.2 percent as compared with 112.0 percent for the first two months of 2002. Mainly it is explained by slowing oil and gas production. For the first two months of this year, crude oil production growth was only 11.9 percent (or 4.7 percent lower than the last year level), gas production growth was 15.7 percent (or 9.7 percent lower). Extraction industries production rose by 112.1 percent,

in processing industries – by 106.8 percent, in electric energy, gas and water – by 108.5 percent.

Kazakhstan: Physical Index of Industrial Production (1997=100 percent)



Source: ARKS, NEDC estimates

Extraction sector production is down

It is worthwhile to note that production in extraction sector continues to decline as compared to the same period of the last year. For example, if in January-February 2002 the sector grew by 14.1 percent compared to the same period of 2001, but in the first two months of 2003 the growth was only 6.8 percent. For the first time in the last three and half years, the nonferrous metallurgy registered the 7.6 percent production decline as compared with the same period of 2002. The foods industry was also on decline. For example, for January-February 2002 the industry growth was 15.2 percent as compared to January-February 2001. For the same period of 2003, the growth was only 7.3 percent. As a result, the share of the foods industry in total processing industry decreased by 1.8 percentage points equaling 22.5 percent.

But ferrous, production of electricity and water are up

Rising prices for ferrous metals (an increase by 40.1 percent) led to higher growth rates for the ferrous production. Also, for the first time in the least several years, production of electricity, and distribution of gas and water rose by 8.5 percent driven by rising electric energy production (10.3 percent), heating (7.1 percent) and gas fuels (43.6 percent)

INFLATION

Consumer Price Index

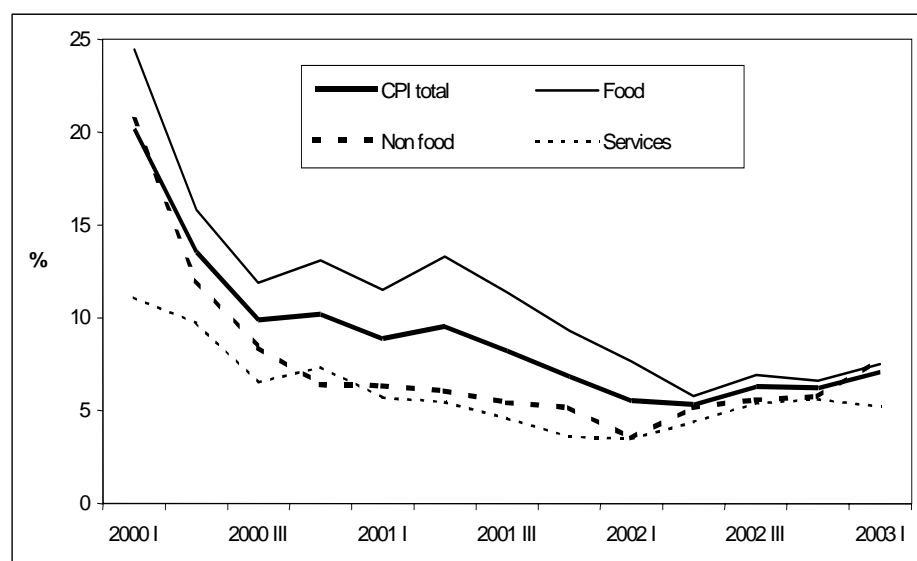
CPI rises by 1.7% compared to December 2002

In 1Q2003 CPI increase was 1.7 percent compared to December 2002, or 0.5 percentage points higher than in 1Q2002. Prices for consumer goods rose by 2.4 percent, nonfoods and services by 1.1 percent and 1.0 percent respectively. The main inflation increase came in January, and the pushers were the prices for fruits and vegetables (9.4 percent), and cereals (4.2 percent).

but by 7.1% compared to 1Q2002

Overall CPI increase in 1Q2003 was 7.1 percent compared to 1Q2002, up from 6.3 percent in the previous quarter (4Q2002 to 4Q2001).

Kazakhstan: CPI by Main Groups, quarterly percentage change



Source: ARKS, NEDC estimates

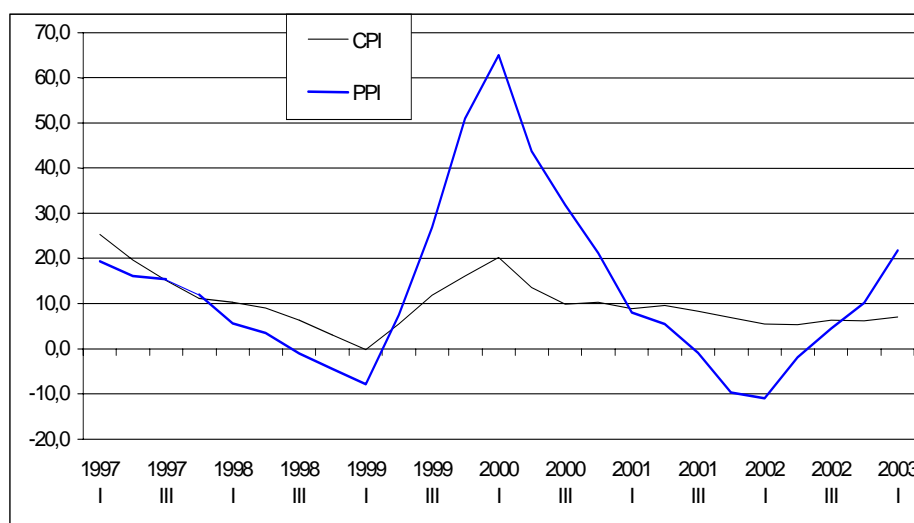
Food prices are rising

Overall in 1Q2003 prices for fruits and vegetables grew by 21.1 percent (or 5 percentage points higher, 1Q2002 to December 2001) as compared to December 2002, and that for cereals – by 11.1 percent (or 15.5 percentage points higher, 1Q2002 to December 2001) as compared to the same period. Increase in prices for cereals is explained by the lower harvest in the last year. Particularly, in 2002 as compared to 2001 the harvest of buckwheat was lower by 33.9 percent, that of millet – by 40 percent, that of oats – by 16.7 percent.

Prices for services are rising, too

Among the nonfood goods there was a slight increase in prices for clothes and coats, as well as household goods. Among the services, the highest increase was registered for the prices for legal services – by 5.1 percent (March 2003 to December 2002), financial intermediation – 4.7 percent, pre-school education – 2.3 percent, and hotel and guest houses – 2.2 percent.

Kazakhstan: CPI and PPI Dynamics, quarterly percentage change



Source: ARKS, NEDC estimates

Producer Price Index

PPI jumps by 7.2% compared to December 2002, and by 22.4% compared to 1Q2002

1Q2003 was characterized by a substantial rise of PPI – 7.2 percent to December 2002 level. The PPI quarterly increase was equal to 22.4 percent (1Q2003 to 1Q2002), up from 10.1 percent in the last quarter (4Q2002 to 4Q2001). The largest increase was in the mineral resource industry – 11.8 percent, and manufacturing industries – 3.8 percent, the smallest – in production and distribution of energy, gas and water – 1.2 percent.

World crude oil prices rise

Continued rise of world oil prices contributed to the rise in domestic crude prices – an increase 14.8 percent (03/2003 to 12/2002), and almost 1.5 times higher on average if compared 1Q2003 to 1Q2002.

as well as prices for ferrous and non-ferrous production

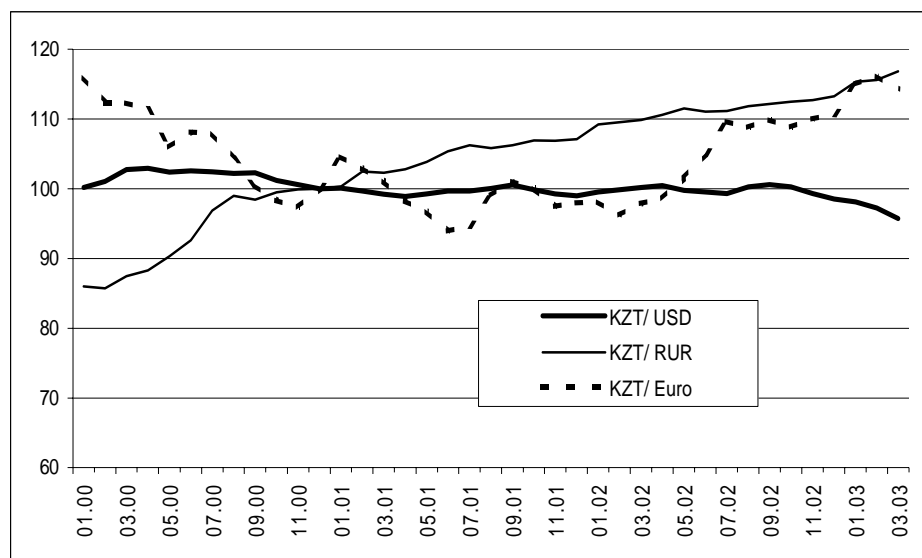
In manufacturing the highest price increase was for ferrous (15 percent, 03/2003 to 12/2002) and non-ferrous (7.3 percent, same period) production, including that for lead, tin and zinc (16.3 percent, same period). Among the oil production the largest was the increase in prices for coke – 24.5 percent (03/2003 to 12/2002). The price hike is largely due to rising world prices for the Kazakh raw commodity exports.

PPI for domestic industries is almost unchanged

Producer prices in other industries, particularly, domestically oriented, by and large, remained at their end-2002 levels.

EXCHANGE RATES

Kazakhstan: Real Exchange Rate Dynamics



Source: NBK, NEDC estimates

Tenge appreciates against the US dollar

Situation at foreign exchange market remained stable with increasing tenge appreciation against the US dollar. Since the beginning of 2003 tenge depreciated in nominal terms by 2.41 percent. For the first three months of 2003, KZT/USD weighted average exchange rate was 153.33, while KZT/USD official rate was 151.50 at the end of March.

1Q forex turnover at KASE goes up to US\$ 1,3 billion

In March the volume of foreign exchange operations equaled USD354,7 million or 41.5 percent lower than in February, but still two times higher than in the corresponding period of 2002. Overall forex turnover since the beginning 2003 equaled USD1266,9 million.

while OTC turnover equals US\$ 1,2 billion

At OTC market the volume of forex operations was less by 27.7 percent compared to February equaling USD318,8 million. Since the beginning of 2003 overall forex turnover at OTC market amounted to USD1195,2 million.

Foreign capital inflows are to continue

The exchange rate dynamics is largely determined by the continued foreign capital inflows into the commodity sector of the economy, and dollar depreciation against euro and Russian rouble.

MONETARY POLICY

NBK NIR grows to US\$ 3,9 billion

By the end of March National Bank's net international reserves increased by US\$41,9 mln (1.1 percent) to US\$3921 mln. Net foreign exchange reserves rose by US\$56,7 mln up to US\$3353 mln mainly on the account of NBK forex purchases in domestic markets and forex inflows at the accounts of Ministry of Finance. Gold assets decreased by US\$14,9 mln down to US\$568 mln, because of falling price of gold at international markets by 3.5 percent.

while gross reserves increase to almost US\$ 6 billion

Country's gross international reserves, including the National Fund of the Republic of Kazakhstan rose by 0.6 percent equaling US\$5922,3 mln with approximately US\$ 2 bln accumulated in NFRK.

M2 in March 2003 expanded by 2.8 percent to KZT206 bln. The main reason was an increase in NBK net international reserves.

Monetary aggregates expansion is driven by the continued capital inflows and NBK sterilization efforts

In February 2003 M1 increased by 6.5 percent up to KZT772,5 bln because of banking system rising net foreign assets by 5.7 percent and domestic assets by 7.9 percent (excluding NFRK assets).

M0 for February rose by 7.4 percent up to KZT153,6 bln, while deposits in banking system grew only 6.3 percent. Higher growth rates of M0 over banking deposits led to the decline of the share of deposits in total money base from 80.3 percent to 80.1 percent, and to the corresponding decline of money multiplier from 3.88 to 3.86.

Overall monetary policy in 1Q2003 remained practically unchanged from the last year on the wake of overall positive economic development.

STATE FINANCE

No complete budget data for 1Q2003 are available yet

Execution of the revenue side of budget for 1Q2003 equaled about 268,4 billion tenge (accounting for the so called transfer amount from the last year) or 30.7 percent of the annual plan. The level of the republican budget execution (34 percent) is higher than the level of consolidated local budget execution (25 percent).

Tax collections equal 97% of budget revenues

Tax collections constituted KZT260,3 billion or 97 percent of total budget revenues in 1Q2003. They rose by 58.4 percent (1Q2003 to 1Q2002)

CIT, VAT, natural resources collections are up from their end-2002 levels

The largest tax collections came from the collections for the use of natural resources (140 percent, 1Q2003 to 1Q2002), CIT (114 percent), VAT (135.4 percent). The largest share in total tax collections was due to CIT collections, 49 percent of total tax revenues or 19 percent higher than in the same period of the last year. Overall tax collections in 1Q2003 are estimated at 28.9 percent of GDP.

Non-tax collections are at 2002 levels

Non-tax collections were executed at 13 percent (KZT2 billion) of the annual target. Compared to 1Q2002 nontx collections were slightly lower (1.2 percentage point decrease). Overall nontax collections in 1Q2003 were equal to 2.6 percent of total republic budget revenues, which is 1.4 percent lower than in 1Q2002. Overall non-tax collections in 1Q2003 are estimated at 0.8 percent of GDP.

but capital revenues are lower

Revenues from capital operations equaled KZT1.2 billion or 39.7 percent to the level of 1Q2002.

Execution of the expenditure part of republic budget for the January-February 2003 equaled 12.6 percent of the annual target, which is estimated at 21.2 percent of GDP.

At the time of writing this report, detailed data for 1Q2003 from the Ministry of Finance were not available.

FOREIGN TRADE

- Foreign trade rises to US\$ 16,2 billion* According to the Agency of the Republic of Kazakhstan on Statistics (ARKS), in 2002 external trade turnover, excluding unorganized trade, increased by 8 percent compared to 2001 amounting to US\$16,2 bln. Exports grew by 12 percent equaling US\$9,7 bln. Imports increased by 25 percent equaling US\$6,5 bln.
- Non-CIS trade dominates over CIS one* 2002 witnessed a further trade diversion away from the CIS countries. The share of trade operations with the non-CIS countries was twice higher as compared to the CIS countries rising to US\$10,9 bln. It was 21 percent higher than in 2001. The non-CIS exports grew by 24 percent up to US\$7,5 bln, while imports from that countries increased by 13 percent up to US\$3,5 bln.
- CIS trade is down by 12%: exports down by 16%, while imports lower by 8%* Trade turnover with the CIS countries decreased by 12 percent down to US\$5.3 bln. CIS exports amounted to US\$2,2 bln, which is 16 percent lower than in 2001. CIS imports decreased by 8 percent down to US\$ 3,0 bln.
- Kazakh exports to non-CIS countries rise by 77%* Overall share of exports to non-CIS countries in 2002 equaled to 77 percent of total exports against 70 percent in 2001 with the corresponding decline of CIS exports.
- Main export destinations* The largest destinations of the Kazakh exports were the Bermudas (20.7 percent of total exports), Russian Federation (15.7 percent), China (10.5 percent), Italy (9.5 percent) and Switzerland (8.1 percent). Other importers of the Kazakh production included UAE (4.9 percent), Poland (3.3 percent), Iran (3.2 percent), Ukraine (3 percent), Germany (2.3 percent), UK (1.4 percent), Netherlands (1.3 percent), USA (1.2 percent).
- Exports are dominated by commodities* The export structure is dominated by commodities and mineral production, the relative share of which has increased to 61 percent over the course of 2002.
- Non-CIS imports rise to 53%* Overall share of non-CIS imports increased, too. It rose to 53 percent in 2002 up from 48 percent in 2001. Meanwhile, CIS imports fell from 52 percent in 2001 to 47percent in 2002.
- Main import destinations* The largest import destinations were: Russia (39.1 percent of total imports), Germany (8.7 percent), USA (7 percent), China (4.7 percent), Great Britain (3.9 percent), Italy and Ukraine (3.3 percent), Turkey (2.6 percent), Japan (2.5 percent), Korea and France (1.7percent), Uzbekistan and Netherlands (1.3 percent).
- Imports are machinery, equipment & chemicals* The non-CIS import structure is dominated by machines, equipment, transportation vehicles accounting for 43 percent of total imports, and imports of chemical production add another 15 percent. The share of imports of food products is 8 percent of total.

CIS imports comprise machinery, pharmaceuticals, and clothing, as well as certain consumer goods and foodstuffs.

*A long way to go for
CIS common market...*

Kazakhstan: Foreign Trade, 1995-2002

USD mln

	1995	% of total	1996	% of total	1997	% of total	1998	% of total	1999	% of total	2000	% of total	2001	% of total	2002	% of total
Trade turnover - total	9056,9	100	10152,1	100	10797,8	100	9648,0	100	9526,7	100	13852,2	100	15077,1	100	16199,6	100
of which:																
- CIS countries	5536,2	61.1	6124,4	60.3	5314,1	49.2	4161,8	43.1	3114,3	32.7	5068,4	36.6	5946,7	39.4	5253,8	32.4
- Non-CIS countries	3520,7	38.9	4027,7	29.7	5483,7	50.8	5486,2	56.9	6412,4	67.3	8783,8	63.4	9130,4	60.6	10945,8	67.6
Exports - total	5250,2	100	5911,0	100	6497,0	100	5334,1	100	5871,6	100	8812,2	100	8631,5	100	9709,1	100
of which:																
- CIS countries	2883,5	54.9	3178,9	53.8	2981,9	45.9	2107,8	39.5	1510,5	25.7	2336,7	26.5	2637,2	30.6	2223,2	22.9
- Non-CIS countries	2366,7	45.1	2732,1	46.2	3515,1	54.1	3226,3	60.5	4361,1	74.3	6475,5	73.5	5994,3	69.4	7485,9	77.1
Imports - total	3806,7	100	4241,1	100	4300,8	100	4313,9	100	3655,1	100	5040,0	100	6445,6	100	6490,5	100
of which:																
- CIS countries	2652,7	69.7	2945,5	69.4	2332,2	54.2	2054,0	47.6	1603,8	43.9	2731,7	54.2	3309,5	51.3	3030,6	46.7
- Non-CIS countries	1154,0	30.3	1295,6	30.6	1968,6	45.8	2259,9	52.4	2051,3	56.1	2308,3	45.8	3136,1	48.7	3459,9	53.3

Source: ARKS

N. NAZARBAYEV: MAIN DIRECTIONS OF FOREIGN AND DOMESTIC POLICY FOR 2004

Summary of the President's Annual Address to the People of Kazakhstan
April 4, 2003

I. Economic Growth

The policy should be geared at economy's balanced development, acceleration of developing manufacturing, high tech and science intensive industries, along with developing the production infrastructure and agriindustrial sector.

1.1. Agrarian Policy

In his annual address last year President Nazarbayev announced that the years 2003-2005 would become the period for rural development. Accordingly, the Government priorities and its social-economic policy will deal with revitalizing and developing the agricultural and rural areas of the country. For that purposes, in 2003-2005 the state intends to invest over 150 billion tenge (approximately 1 billion dollars). This includes the previously announced and allocated 10 billion tenge for 2004 and another 20 billion tenge for 2005.

In the next two years the government will additionally allocate 30 billion tenge (15 billion tenge in each year) for the healthcare system. Another 15 billion tenge per annum will be added in the budget for investment into rural education, healthcare and rural sewage water facilities.

In addition to the state agricultural program this summer the authorities will adopt the state rural development program. The program aims at accelerating social development of the rural villages and assisting in redeployment and consequent re-employment of rural population from the depressed, ecologically and economically unpromising rural territories. Starting from 2004, the state will be allocating substantial funds for that, too.

Increasing the state support for agriculture and introducing private property for land will increase the share of the agrarian sector in total economy and help resolve the pressing social problems in villages.

Speaking on the most appropriate model for balanced and sustainable development the President stressed the need for diversification from commodity-based to manufacturing-based economy. In accordance with the Presidential directive, the Government has drafted the Innovation Industrial Development Program until the year 2015.

The program aims at increasing country's GDP from 200 to 2015 3.5 times (that is, from 18,3 billion dollars in 2000 to over 64 billion dollars in 2015). This will be achieved by establishing business friendly and competitive environment, improving public institutions, and stimulating private sector in establishing the industries with high value-added. Among such industries are ferrous and non-ferrous industries, manufacturing industries, including agriculture manufacturing.

Modern means of developing these industries require state encouragement and establishment of high-tech centers. The centers will be established: in Alatau village near Almaty – for information technologies, in Stepnogorsk town – for biotechnology, and in Kurchatov town – for nuclear technologies.

The program should also pay a particular attention to machine-building, especially oil and gas production equipment, and transport industries.

The state will participate in this program through subsidized credits, export insurance schemes, and stake holdings in the authorized capital of the entities, and by distributing commercial information.

It is planned that direct government expenditures earmarked for investment purposes will equal 38 billion tenge (250 million dollars) on average for each year of the program. Substantial share of these funds will be used for establishment and modernization of the necessary production and science infrastructure.

The program requires a revision of the principles of foreign trade. It is already clear that the country must liberalize its foreign trade regime coordinating it with regional integration, transition to international standards, and with future exports of goods and services.

In order to accomplish the Innovation Industrial Development Program, the authorities will establish and capitalize the system of development institutions.

Among them is the National Fund that serves savings and stabilizing roles.

In the nearest future the Kazakh Investment Fund will be established. It will stimulate the formation and development of the domestic companies producing the goods with high value added. The fund will also participate in the stock capital of these companies.

Another institution to be established soon is the Innovative Fund responsible for introducing and encouraging various innovations and venture entrepreneurship.

The Development Bank of Kazakhstan has already begun the active crediting the domestic non-commodity sector enterprises by providing 23 billion tenge

(150 million dollars) of credits. The bank principal aim is to develop the manufacturing industries and production infrastructure.

The Government should also establish the Export Insurance Corporation responsible for political risk insurance related to international trade.

It is necessary to stress that the state development institutions will not substitute or crowd out the market, but they will become the driving force of the competitive economy by encouraging private sector into innovative processes on partnership basis.

1.3. Integration Policy

Economic growth will be accelerated by integration initiatives of the Kazakh state. Much of the future progress will depend upon harmonization of the national legislation of the participating states and active involvement of the national parliaments in integration processes.

1.4. Investment Policy

The main economic task for 2004 is to maximize the economic growth rates. This directly depends on increasing investment increasing savings rates in total GDP. In order to achieve sustainable high growth rates it is imperative to increase gross domestic savings to 28 percent of GDP over the next 4-5 years, including the growth of government investment from 2 percent of GDP to 4 percent of GDP.

It is already evident that the government budget in 2003 will be overperformed and it will almost reach the physiologically important benchmark of 1 trillion tenge (about 6,7 billion dollars). Therefore the President stressed the need to amend the budget in as early as this May, and to transfer extra revenues from privatization of the large strategic state owned enterprises to the National Fund.

In submitting the amended 2003 budget to the Parliament the Government should allocate the extrafunds between savings and social development investments.

1.4.1. State Investment

In order to establish and capitalize the state development institutions responsible for implementation of innovation industrial policy the President directed the Government:

- To increase the charter capital of the Development Bank of Kazakhstan by 12 billion tenge;
- To transfer to the charter capital of Kazakhstan Investment Fund 23 billion tenge;
- To transfer to Innovation Fund 3 billion tenge;

- To transfer to Export Insurance Corporation 7,7 billion tenge.

1.4.2. Development of Astana

Over the last years the authorities invested approximately 2,5 billion dollars from various sources into development and construction of Astana. This stimulated economic growth, created additional employment and increased tax revenues.

In this year alone, in accordance with the President's request, domestic and foreign businesses and investors provided free financial resources in the amount of 200 million dollars for construction purposes.

But now it is necessary to channel financing of Astana through budgetary sources based on the long- and medium-term development plans and programs.

1.4.3. Private Investment

Private sector plays an increasingly important role in our economy. We should be more active in increasing private saving and investment into economy.

1.5. Tax Policy

It is oracle that the less are the taxes the greater is private investment.

Therefore the President ordered the Government to introduce into the Parliament the proposal on reduction of certain tax rates:

- VAT rate from 16 percent to 15 percent;
- Social tax rate from 20 percent to 7 percent depending on the level of employer's social expenditures based on regressive scale;
- Maximum personal income tax rate from 30 percent to 20 percent.

The government should also study the option of expanding the special tax regimes based on the positive experience of small businesses growth under the simplified taxation regime.

II. Social Development

Economic growth expands opportunities for resolving social problems. The main pillar of the social development policy –further increase of pensions and wages.

2.1. Pensions

It is necessary to raise the minimal pension to 5,5 thousand tenge (36 dollars). The time has come and the country has the resources to reestablish the just pension scale taking into account individual contribution of each pensioner, his/her work record, and salary before the retirement.

This will help increasing pensions of almost one million of current pensioners.

This task must be solved immediately. The government should accomplish a differentiated increase of pensions: from June 1 make the recalculation, and from July 1 – start the new pension payments. And the new minimal pensions should be payable from July 1. The calculations show that this will require an additional 60 billion tenge in the next 1.5 years, including 20 billion tenge in this year.

As a result, average pension in the next year should exceed the level of 8 thousand tenge (approximately 50 dollars).

2.2. Wages

Starting from January 1, 2004, the minimal wage will rise from 5,000 to 6,600 tenge or by 32 percent.

In the previous years, the salaries of the budgetary workers and employees were increased. For example, in the last year alone the salaries of teachers rose by over 35 percent. As the continuation of this policy, starting from the next year the wages of budgetary workers would be increased by another 20 percent. It is planned that the compensation system for that category will be further refined.

Meanwhile, within the context of the new compensation system the President ordered the Government to define the compensation framework so the wage increase would go primarily for the low-paid budgetary employees. In general the salaries of the public sector employees will increase by 50 percent on average over the course of the next year.

In total over 50 billion tenge will be allocated in the 2004 budget for the wage increase.

In order to support the lower income population the President ordered the Government to decrease by no less than 30 percent the nontaxable floor on calculating personal income taxes. This is to be done within the context of tax reduction scheme.

The President asked the Government and the society to think seriously about compensating migration losses of the last decade and develop a special program to mitigate for it.

2.3. Preservation of Cultural-Historical Heritage

As the main component of spiritual and educational area it is necessary to draft and start implementation of the special medium-term Cultural Heritage Program that will include a number of large-scale projects.

III. Democratization and Effective Administration

The President said that the citizens of Kazakhstan were well aware that they were moving towards the open society in accordance with the principle: economy first, and politics second.

The successes in the economy and state governance achieved over these years allow us to deeper concentrate now on the issues of further liberalization of the political system.

To accomplish this task, the President offered the political reform program consisting of five priority directions.

First direction.

The system of state administration must be modernized. The main tasks are clear delineation of responsibilities between the various levels of state administration, and improvement of intrabudgetary relations.

To do that, the authorities will introduce amendments to the Law “On Local State Administration.” The amendments are intended to expand the authority of the local administrations on the issues of territorial development, effective governance at the lower level administrative bodies, and, first of all, villages and townhouses.

But this task requires amending almost 150 legislative acts. Therefore the President ordered the Government to complete the necessary changes and amendments into the legislation by the beginning of 2004 allowing for effective functioning of all levels of administration.

Drafting the Budget Code is near the end. The Government must introduce the Code into the Parliament by May. The President asked the members of the parliament to study the submitted Code carefully and adopt it in this year so that starting from the next year the Government may plan the budget for 2005 based on the new Budget Code. Until then the law “On Republican Budget for 2004” will be drafted in accordance with the current law “On Budgetary System.”

As soon as the work on determining the responsibilities and authority of different levels administration and identifying their financing sources is completed, the country will start the practice of electing the heads of local administration.

In President's view, by then it may be possible to introduce the election of akims of rural districts for the limited period of time. Afterwards, it may become possible to carry out the experiment with electing the rayon level akims. Based on the experiment results it is necessary to determine the expediency of this practice and the most optimal model for it.

But it is important to remember that the election of akims is not the end in itself. This issue should be tackled gradually, as the right conditions ripe.

“We will move step by step, preserving the treasures of our culture, our unity, intranational and interconfessional harmony, political stability. I am not tired of repeating it again,” said the President.

Second direction.

The election system must be improved. Election process must become more transparent and open. The Government should take into account the comments of the public and international observers and introduce the amendments into law ‘On Changes and Amendments into the Constitutional Law “On Elections in the Republic of Kazakhstan.”

The main aim of this law is to make election processes transparent, open and competitive.

Third direction.

Another important aspect of democratization of the political system is a further strengthening of civil society institutions.

It is necessary for the political parties to get the exclusive right to nominate the candidates for the Majilis deputies, while preserving the institute of self-nomination.

The interaction with non government organizations should be organized in another way. The NGOs should be better supported via the system of state social orders awarded on competitive basis.

The government should elaborate on the necessary legislative acts and submit them into the Parliament.

Fourth direction.

The President stressed that it would be necessary to determine the exact role and place of mass media in the process of democratization of society.

One should think of the new directions for development of media markets. The issue at discussion is the mutual responsibility of the society and mass media,

power and journalists. This problem exists not only in Kazakhstan, but in all modern societies. The recent events clearly show that the interests of national security, political stability, intranational consensus, and interconfessional peace are becoming the priorities not only at the national, but also at international levels.

It is therefore necessary to enact the new law on mass media. The law will account for the new realities in preserving the freedom of speech, and defending the journalists against the pressures of the media owners, while preventing the bureaucratic intervention in the activities of free press.

On the other hand it is necessary to determine clearly the mass media responsibilities for breaking the law. The society is requesting the freedom of speech, but not the freedom of calumny and disinformation. The Government together with the journalists should draft and introduce the necessary law in the Parliament.

The leaders in the dialogue between the power and mass media could and should become, first of all, the public organizations of journalists and the Public Council on Mass Media under the President of Kazakhstan.

Fifth direction.

One of the main problems remains the perfection of activities of law enforcement and judiciary system. In President's view, this problem should be solved from the standpoint of ensuring the citizens' basic rights and freedoms.

It is important to continue further humanization of the criminal legislation. One has to think about staged introduction of the institute of jurors. It is necessary to improve the quality of professional training of quality of judges.

In accordance with the Constitution it is important to strengthen the judiciary control over procedural activities of the criminal prosecution agencies, including the introduction of arrest by warrant.

* * *

In conclusion the President said,

"Dear citizens of Kazakhstan!

Dear members of Parliament!

....

I am honored to announce the largest in our recent history increase in social expenditures that will be implemented soon and that will impact every citizen and every family in Kazakhstan.

For that purpose we will additionally allocate from the budget in the next year and a half over 120 billion tenge, an amount that cannot be compared with the previously allocated social funds.

Today, unlike in the previous years we have the programs for development and improvement in the four key pillars on which our economy is based:

- Agrarian Program;
- Innovation Industrial Development Program;
- Development of infrastructure and energy industry;
- Social Development Program.

Today, unlike in the previous years, we also have the necessary financial resources.

Now the time has come for all branches of power to work coherently in accordance with the effective laws and their execution."

KAZAKH FINANCIERS STATE OFFICIALS DISCUSS FINANCIAL SECTOR DEVELOPMENT

On February 14, 2003, the 3rd Congress of Financiers took place in Almaty. The Congress was organized and conducted by the Association of the Financial Institutions of Kazakhstan – a public non-for-profit organization representing the interests of the Kazakhstan financial community.

The Congress was convened to discuss problems and future development of the Kazakh financial system. It was attended by the President of Kazakhstan, Prime Minister, Governor of the National Bank of Kazakhstan, key economic ministers and Kazakhstan financiers – top management and staff of all financial institutions operating in the country.

Mr. Daulet Sembayev, Association's present Chairman, opened the Congress. The President of Kazakhstan, Mr. Nursultan Nazarbayev, delivered the keynote address outlining his vision for development of the financial system in the near future. He put forward 12 concrete tasks for the financial community, whose accomplishment would ensure dynamic growth of sector and economy as a whole.

Mr. Grigoriy Marchenko, the Governor of the National Bank of Kazakhstan, speaking next presented Main Directions of Development of Financial Sector in the Republic of Kazakhstan. The paper's brief summary is given below.

Speaking after the governor were the representatives of the financial system. Ms. Nina Zhusupova, Chairwoman of the Management Board of Kazkommertsbank, spoke for banking sector. Mr. Nurlan Moldakhmetov, Chairman of the Board of Kazakhinstrakh, spoke for insurance sector. Ms. Kamilya Arstanbekova, Chairwoman of the Pension Fund of Halyk Bank, spoke for pension sector. The speakers raised the key problems impeding financial system development.

Mr. Imangali Tasmagambetov, the Prime Minister of Kazakhstan, opened the afternoon session. He discussed medium term government policies paying special attention to the efforts and programs aimed at diversifying the economy and promoting the growth of non-commodity sectors. He invited private financial community to participate in the programs adding that now the state was ready to make substantial investment itself via government funds and risks sharing mechanisms. Individual Ministers speaking afterwards elaborated each on the particular topic.

In the end the Congress adopted the resolution that summarized the discussion, set forth key goals of developing the Kazakh financial sector, and identified ways for achieving them.

Detailed information on the 3rd Congress of Financiers can be found at the web site of the Association of Financial Institutions of Kazakhstan (<http://www.afk.kz>).

MAIN DIRECTIONS OF DEVELOPMENT OF FINANCIAL SECTOR OF THE REPUBLIC OF KAZAKHSTAN

(Brief Summary of the Draft Approach Paper by the National Bank of Kazakhstan as presented at the 3rd Congress of Financiers, Almaty, March 14, 2003)

The key objective of this Concept Paper is a formation of stable and effectively functioning financial system that satisfies the needs of real sector in financial resources and offers quality services to the financial institutions in free competitive environment.

The Concept Paper sets forth the main goals and development trends for the period 2003-2006. The key direction for that period is to bring monetary policy towards the standards of the developed countries (for example, to the standards of the European Union).

I. Development of the National Bank of Republic of Kazakhstan

1. New directions for monetary policy

a) Switch to inflation targeting regime

For the period to 2006, the main objective of the National Bank of Kazakhstan (NBK) becomes a reduction to average inflation rate measured by CPI to 3-4 percent a year.

This task makes it necessary for NBK to switch to inflation targeting regime. This means that medium term inflation targets will be set in advance and the central bank will use the available instruments to minimize the diversion from the target taking into account the restrictions imposed by the existing transmission mechanism. This would help ensuring the strict adherence to the monetary goals and increasing confidence to the monetary policy.

b) Improving monetary statistics in Kazakhstan

It is necessary to prepare and publish the financial sector overview that includes the consolidated information on all financial entities in the Republic of Kazakhstan.

2. Liberalization of foreign exchange legislation

It is envisaged that remaining foreign exchange restrictions will be gradually removed. The main directions and phases of foreign exchange liberalization are reflected in the Concept of Liberalization of the Foreign Exchange Regime in the Republic of Kazakhstan. Full capital account liberalization will be accomplished by 2007.

3. Payment System

The payment system of Kazakhstan will be brought to the standards of European Union. During the transition period new payment instruments will be introduced and developed.

It is also necessary to establish and develop the National Payments System for Banking Cards that will process the payment cards in the Republic of Kazakhstan.

4. Activization of Monitoring of Real Sector Enterprises

In order to improve and refine the monetary policy instruments and better measure their impact on real economy the system of monitoring of the enterprises in the real sector of economy will be implemented on regular basis.

II. Establishment and Development of the Unified Supervisory Agency

Since 2001 Kazakhstan is engaged into forming the new system of state regulation of financial institutions. The system envisages the unification of all supervisory and regulatory functions in one specialized body. NBK is actively working on developing the necessary legislative base. As the result of the institutional transformations the regulatory and supervision functions are concentrated now within the Department of Financial Supervision of the National Bank of Republic of Kazakhstan.

By about 2004 the Department will be split from NBK as separate supervisory agency.

III. Institutional Development of Financial Market Institutions

1. Development of Credit Institutions

a) Establishment of three tier credit system

It is proposed to build 3 tier system of credit institutions consisting of banks, organizations entitled to perform certain banking services and microcredit institutions.

b) Kazakhstan Mortgage Company and Kazakhstan Mortgage Insurance Company

There will be adopted a special mortgage development program for the years 2003-2006 along with the development strategy of the Kazakhstan mortgage company established earlier.

The new Kazakhstan Mortgage Insurance Company will be established. Its main task is to insure the mortgage credits in case of possible defaults. The capital will be formed by the National Bank and the Government of Republic of Kazakhstan. Consequently, the company is supposed to attract the funds of Tier II banks into its own capital.

c) Development Bank of Kazakhstan

It is necessary to develop and enact the measures that will ensure active participation of the Development Bank of Kazakhstan in realizing state investment programs. In perspective, the bank has to take an increasingly active role in economic diversification.

d) Establishment of new institutions

i. Land Bank

Enactment of the land legislation and introduction of the institute of private property on land are expected to promote the development of the land market and transformation of land into the liquid asset. To assist in that, the authorities will establish the special Land Bank.

ii. House Building Savings Bank

The system of housing savings will be introduced in the republic after establishment of the House Building savings Bank. This will help construct the houses and apartments for the population with fixed incomes, boost domestic construction industry and increase domestic savings.

iii. Credit Bureau

In 2003-2006 it is necessary to establish credit bureaus, which will form, manage and keep the track records of credit histories of the borrowers in the country. This should facilitate financial expansion, improve the credit portfolios and reduce bank lending rates.

e) Development of Mandatory System for Collective Insurance of the Deposits of Population

To develop the system of collective insurance of the population deposits that corresponds to the international standards on deposit insurance schemes.

2. Development of Insurance Market

To develop the infrastructure of modern insurance industry in Kazakhstan in accordance with the priorities identified and based on the standards of the European Union.

3. Development of Securities Market

a) Development of domestic institutional investors

- b) **Development of new types of financial instruments**
- c) **Improvement in the investor protection rights mechanisms and preservation of pension funds' assets**
- d) **Development of technical infrastructure**
- e) **State Investment Fund**

4. Development of Postal-Savings System

The development of the postal-savings system in Kazakhstan will be carried out within the framework of the Program on Developing Postal Sector of the Republic of Kazakhstan, formation of the postal-savings system in 2002-2003, as well as the Development Plan of OJS "KazPost" for 2001-2005" and Law of the Republic of Kazakhstan "On Post".

IV. Development of Financial Instruments

There will be more attractive instruments coming to the market: mortgage bonds, agency receipts, Kazakhstan depository certificates, various promissory notes, etc.

The authorities will intensify the conditions for greater portfolio diversification of domestic institutional investors.

Within the framework of the foreign exchange regime liberalization, a greater access to the local financial market will be given for the foreign securities, including that of the European Union.

V. Harmonization of the taxation of the participants of the financial market and financial instruments.

Starting from the year 2008, financial sector taxation will be brought in line with the standards of the European Union.

1. Leveling Taxation for Different Financial Instruments

- a) Taxation of income on individual deposits;
- b) Taxation of pension income;
- c) Taxation of income on government securities;
- d) Taxation of income on agencies securities.

VI. Financial System Integration (within the framework of the Eurasian Economic Union or other structure)

1. Preparatory stage for establishment of the single currency union and introduction of common currency;
2. Introduction of the currency snake and establishment of the common payment system;
3. Establishment of the Unified Central Bank;
4. Phased introduction of common currency: by 2008 – in non-cash form, by 2011 – in cash form.

KAZAKHSTAN FINANCIAL SECTOR REVIEW FOR 2002

BANKING SYSTEM

Assets

Kazakh banking system assets equal 31.3% GDP

According to the preliminary information (without annual final turnovers, and excluding EximBank and Development Bank of Kazakhstan), total assets of the Kazakh banking system in 2002 grew to US\$ 7359 million or 31.6 percent of GDP. For reference, in developed countries assets/GDP ratio reaches 200-300 percent.

The leading banks are KKB, BTA, Halyk

Undisputed leaders of the banking system are the largest three banks: Kazkommertsbank, Bank TuranAlem, and Halyk Bank. Their assets constitute 61.5 percent of total banking system assets. The leaders' trio also exhibits high growth rates. Table 1 provides for assets of the largest Kazakh banks.

Table 1.
Kazakhstan: Banking System Assets Dynamics, 2001 – 2003

Assets	Jan 1, 2001		Jan. 1, 2002		Jan. 1, 2003		2002 growth rate, %	CAGR* %
	'000 US\$	Share,%	'000 US\$	Share, %	'000 US\$	Share, %		
Kazkommertsbank	760 968	20.7	1 274 832	23.4	1 790 597	24.3	40.5	53.4
BTA	550 765	15.0	1 081 223	19.9	1 470 064	20.0	36.0	63.4
Halyk Bank	716 370	19.5	866 921	15.9	1 262 844	17.2	45.7	32.8
ATF Bank	129 736	3.5	261 484	4.8	378 633	5.1	44.8	70.8
Citibank	156 989	4.3	220 412	4.1	350 491	4.8	59.0	49.4
Bank CenterCredit	131 884	3.6	217 357	4.0	327 563	4.5	50.7	57.6
Nurbank	191 396	5.2	168 155	3.1	230 104	3.1	36.8	9.6
ABN AMRO Bank	179 081	4.9	198 189	3.6	212 962	2.9	7.5	9.1
Caspian Bank	62 015	1.7	100 157	1.8	186 516	2.5	86.2	73.4
Eurasian Bank	51 963	1.4	83 285	1.5	170 385	2.3	104.6	81.1
Total top 10 banks	2 931 166	79.9	4 472 013	82.3	6 380 158	86.7	42.7	47.5
Other banks	736 834	20.1	964 738	17.7	978 842	13.3	1.5	15.2
Total bank system	3 668 000	100,0	5 466 751	100,0	7 359 000	100.0	35.4	41.6
<u>Memo:</u> KZT/USD, end period	144.5		150.2		155.6			

Note: * Cumulative average growth rate for 2002-2003. 2002 data are preliminary, and without final turnovers. The statistics does not count EximBank and Development Bank of Kazakhstan. 2001 data have been also revised.

Source: NBK, Kazkommertsbank, Kazkommerts Securities estimates

Loan Portfolio

Loan portfolio grows to 19% GDP

In 2002 overall loan portfolio of commercial banks grew by 37 percent amounting to US\$4322 million. The loan portfolio of the top ten banks grew by 37 percent, while the portfolio of the rest of the banking system declined by 29 percent. Since credit growth rates exceed GDP growth rates, such credit expansion if going unchecked may present considerable problems in the future.

Table 2.

Kazakhstan: GDP, Loan Portfolio and Capitalization Growth Rates

Loans grows faster than GDP & capitalization

Growth Rates	2000	2001	<i>in percent</i> 2002
GDP	9.80	13.50	9.5
Loan portfolio	59.20	74.50	37.8
Capitalization	21.98	37.0	33.0

Source: ARKS, NBK, Kazkommerts Securities

which may cause problems in case of adverse developments.

In the case of adverse economic changes the portfolio quality could deteriorate, and it might be quite difficult for the undercapitalized banks to ensure adequate provisioning. Particularly, it is relevant for the medium and small banks with more aggressive lending stance. Under the circumstances one of the most important issues becomes an organization of effective risk management systems and strict adherence to maintaining an adequate loan portfolio quality. Slowing credit growth rates in 2002 shed optimism that the situation is changing for better.

But credit growth rates in 2002 slowed down by almost twice

KKB has the largest portfolio, followed by BTA and Halyk

Kazkommerts Bank possesses the largest loan portfolio (US\$1166 million or 27.0 percent of total credits). Second comes BTA with US\$926 million (21.4 percent of total) in credits, and third – Halyk Bank with US\$850 million (19.7 percent of total).

Table 3.

Kazakhstan: Commercial Banks Loan Portfolio Dynamics

Loan Portfolio	Jan. 1, 2001		Jan. 1, 2002		Jan. 1, 2003		2002 growth, %	CAGR, %
	'000 US\$	Share, %	'000 US\$	Share, %	'000 US\$	Share, %		
Kazkommertsbank	466 539	24.2	951 135	28.3	1 166 433	27.0	22.6	58.1
BTA	388 306	20.1	756 525	22.5	926 354	21.4	22.4	54.5
Halyk Bank	356 355	18.5	562 280	16.7	850 755	19.7	51.3	54.5
Bank CenterCredit	86 297	4.5	145 178	4.3	228 366	5.3	57.3	62.7
ATF Bank	60 261	3.1	166 975	5.0	222 374	5.1	33.2	92.1
Citibank	68 620	3.6	101 290	3.0	204 375	4.7	101.8	72.6
Caspian Bank	23 022	1.2	54 700	1.6	126 057	2.9	130.5	134.0
Nurbank	40 179	2.1	70 855	2.1	119 425	2.8	68.5	72.4
Temitbank	61 790	3.2	96 805	2.9	100 397	2.3	3.7	27.5
ABN AMRO Bank	31 803	1.6	43 459	1.3	82 794	1.9	90.5	61.3
Total top 10 banks	1 583 172	82.1	2 949 202	87.7	4 027 330	93.2	36.6	59.5
Other banks	344 704	17.9	414 730	12.3	294 951	6.8	-28.9	-7.5
Total bank system	1 927 876	100.0	3 363 932	100.0	4 322 281	100.0	28.5	49.7

Note: * Cumulative average growth rate for 2002-2003.

2002 data are preliminary, and without final turnovers. The statistics does not count EximBank and Development Bank of Kazakhstan. 2001 data have been also revised.

Source: NBK, Kazkommertsbank, Kazkommerts Securities estimates

Capital

Capitalization increases by 22% to c. US\$ 1 billion

The capitalization of the banking system has substantially increased, from US\$812 million to US\$1 035 mln, or by 22 percent on annual basis. Essentially, the increase happened among the top 10 banks. Top 10 capitalization rose by 33 percent, while the capitalization of the rest of the banking system increased by just 13 percent. In relative terms, the largest capital increase was accomplished by the Halyk Bank (80 percent growth). However, despite the high growth rates in recent years total capitalization of the Kazakh banking system lags behind other countries constituting only 4.37 percent of GDP. According to general practice, banking system capitalization should be at least 10 percent of GDP allowing for capital reproduction processes.

The largest capital increase is among the top 10 banks

KKB has the largest equity increase in 2002

From the equity point of view, a leader among private banks is Kazkommertsbank. The bank's equity grew up by 32.5 percent amounting to US\$206.2 mln, or 20 percent of total banking system capitalization.

Table 4.

Kazakhstan: Banking System Capitalization Dynamics¹

Capitalization	Jan. 1, 2001		Jan. 1, 2002		Jan. 1, 2003		2002 growth, %	CAGR, %
	'000 US\$	Share,%	'000 US\$	Share,%	'000 US\$	Share,%		
Kazkommertsbank	102 374	16.0	155 646	19.1	206 285	19.9	32.5	42.0
BTA	75 550	11.8	146 212	18.0	197 956	19.1	35.4	61.9
Halyk Bank	69 349	10.8	72 257	8.9	135 746	13.1	87.9	39.9
ATF Bank	17 356	2.7	32 550	4.0	40 289	3.9	23.8	52.4
Bank CenterCredit	18 021	2.8	24 368	3.0	39 743	3.8	63.1	48.5
Citibank Kazakhstan	29 073	4.5	36 838	4.5	35 559	3.4	-3.5	10.6
ABN AMRO Bank Kazakhstan	44 858	7.0	36 931	4.5	34 492	3.3	-6.6	-12.3
Nurbank	31 128	4.9	30 379	3.7	34 004	3.3	11.9	4.5
Eurasian Bank	26 893	4.2	27 770	3.4	28 156	2.7	1.4	2.3
Temirbank	15 329	2.4	22 244	2.7	26 330	2.5	18.4	3.1
Total top 10 banks	429 931	67.1	585 193	72.0	778 560	75.2	33.0	34.6
Other banks	211 011	32.9	227 723	28.0	257 430	24.8	13.0	10.5
Total bank system	640 942	100.0	812 916	100.0	1 035 990	100.0	27.4	27.1

Note: ¹- Tier I and Tier II capital, including subordinated debt

* Cumulative average growth rate for 2002-2003.

2002 data are preliminary, and without final turnovers. The statistics does not count EximBank and Development Bank of Kazakhstan. 2001 data have been also revised.

Source: NBK, Kazkommertsbank, Kazkommerts Securities estimates

Liabilities

Liabilities equal 17% GDP driven by rising liabilities of medium and small size banks

In 2002 commercial banks' liabilities increased by 42 percent up to US\$ 4585 million. Kazkommerts Bank holds the leading position with 23.3 percent of total banking system liabilities. The share of BTA and Halyk Bank slightly decreased due to expansion of other banks. The largest liability growth in 2002 was registered for the Eurasia Bank (almost 180 percent), and Caspian Bank (88 percent). Meanwhile, liabilities of Temirbank declined by 8.5 percent.

Table 5.

Kazakhstan: Commercial Banks Liabilities

Liabilities	Jan. 1, 2001		Jan. 1, 2002		Jan. 1, 2003		2002 growth, %	CAGR, %
	'000 US\$	Share, %	'000 US\$	Share, %	'000 US\$	Share, %		
Kazkommertsbank	363 697	17.1	722 650	22.3	1 067 337	23.3	47.7	71.3
Halyk Bank	539 443	25.3	647 272	19.9	864 892	18.9	33.6	26.6
BTA	318 027	14.9	693 859	21.4	920 123	20.1	32.6	71
ABN AMRO Bank	121 694	5.7	155 501	4.8	173 368	3.8	11.5	19.4
Bank CenterCredit	93 351	4.4	142 298	4.4	223 345	4.9	5.7	54.7
Eurasian Bank	21 296	1.0	52 231	1.6	135 470	3.0	159.9	152.4
ATF Bank	75 728	3.6	130 300	4.0	199 776	4.1	53.3	62.4
Nurbank	130 153	6.1	122 487	3.8	147 939	3.2	20.8	6.6
Caspian Bank	39 611	1.9	68 789	2.1	129 250	2.8	87.9	80.6
Temirbank	56 996	2.7	71 495	2.2	65 454	1.4	-8.5	7.2
Total top 10 banks	1 759 995	82.5	2 806 881	86.4	3 927 224	85.7	39.9	49.4
Other banks	372 217	17.5	440 807	13.6	657 609	14.3	49.2	32.9
Total bank system	2 132 212	100.0	3 247 689	100.0	4 584 833	100.0	41.2	46.6

Note: * Cumulative average growth rate for 2002-2003.

2002 data are preliminary, and without final turnovers. The statistics does not count EximBank and Development Bank of Kazakhstan. 2001 data have been also revised.

Source: Kazkommertsbank, Kazkommerts Securities estimates

Deposit and Lending Rates

Deposit rates are falling

Deposit rate dynamics shows reduction in funding costs for the banking system. The largest interest rate decrease was observed on the deposit rate for individuals. In the last two year the rate on tenge deposits fell by 4.6 percent. The rate decrease for foreign currency deposits fell by 1.7 percent only. In our view, further steep reductions in deposits rates are unlikely. The rates are determined by competition among the banks and other financial institutions, and they are restricted by the administrative ceiling on the mandatory deposit insurance schemes. The banks find the ways to bypass the regulation, but country's sizes, population density and individual income add up to the costs of raising individual deposits.

Table 6.

Kazakhstan: Dynamics of Deposit Interest Rates

In percent

	December 2000		December 2001		December 2002 *	
	Foreign Currency	Tenge	Foreign Currency	Tenge	Foreign Currency	Tenge
Current Accounts	1,60	1,20	1,10	0,30	0,10	0,40
- corporates	1,60	1,30	1,20	0,30	0,10	0,50
- individuals	0,00	0,00	0,10	0,10	0,10	0,10
Deposits	4,90	4,30	5,50	4,00	5,30	4,90
Demand	1,10	2,20	0,90	1,60	0,70	1,40
- corporates	2,20	3,00	1,20	2,70	0,60	2,70
- individuals	1,00	2,10	0,90	1,50	0,70	1,00
Time	5,60	7,10	6,80	6,90	6,10	5,80
- corporates	5,00	6,10	6,60	6,30	5,50	5,40
- individuals	8,60	15,60	7,30	12,80	6,90	11,00

*Without final turnovers

Source: National Bank of Kazakhstan

Table 7.

Kazakhstan: Dynamics of Lending Rates*In percent*

	2000		2001		2002*	
	Foreign Currency	Tenge	Foreign Currency	Tenge	Foreign Currency	Tenge
Corporates	19,1	16,9	17,4	14,6	15,6	13,0
Individuals	27,2	46,3	25,5	20,1	24,3	18,1

without final turnoversSource: NBK**Lending rates are declining, too*

As one can see from Table 7, over the last two years lending rates in foreign currency fell by 3-4 percent on average. Reduction in tenge lending rates was steeper and more pronounced. For example, lending rates in tenge for individuals dropped from 46.3 percent in 2000 to 24.3 percent in 2002. The reduction can be explained by:

But the rates seem to reach their floor. Their further reduction is contingent on accelerating structural reforms

- Reduction in the funding costs because of growing confidence in the banking system;
- Macroeconomic and financial stability leading to reduction in major credit risks;
- Reduction in the bank's operating expenditures and overheads due to increasing competition and better service among major banks.

Kazakh insurance sector is consolidated

In conclusion it is worth noting that we have analyzed nominal rates, that is, not accounting for inflation and devaluation effects. In the last two years both devaluation and inflation have had muted effects on the interest rate dynamics due to the existing monetary policy transmission mechanism. Unless structural reforms accelerate and the state takes more active steps in reforming and developing the real economy, further reduction of lending rates, in our view, is unlikely. Uneveled playing field, overall lack of transparency, and structural bottlenecks in the economy prevent local banks from credit expansion at lower interest rates.

Insurance Sector Review

As of January 1, 2003, there are 33 insurance companies in the Republic of Kazakhstan. As a result of the NBK policies, the Kazakh insurance sector has been substantially consolidated (see Table 8).

Table 8.
Kazakhstan: Insurance Sector Dynamics

KZT billion

	1998	1999	2000	2001	2002
Number of companies:	71	70	42	38	33
O/w with foreign participation	9	7	4	5	3

Source: NBK

Its capitalization increases

Thanks to the NBK increased oversight, the Kazakh insurance companies have become more capitalized and developed, and financially stable.

As of January 1, 2003, there are 5 insurance brokers with the licenses to conduct insurance brokerage activity and 26 actuaries with the licenses to conduct the actuary activities in the Republic of Kazakhstan.

Volume of insurance premiums rises,

Total volume of insurance premiums in 2002 equaled 22,6 billion tenge increasing by 68.7 percent from 13,4 billion tenge in 2001. This growth was mainly due to a significant increase (by 81.3 percent) in voluntary property insurance. Average insurance premium per capita totaled approximately 1,506.6 tenge (in 2001 – 893.3 tenge, in 2000 – 543.7 tenge). According to the preliminary data, the share of insurance premiums to GDP was approximately 0.67 percent (in 2001 – 0.4 percent, in 2000 – 0.32 percent).

but it's only 0.6% GDP

Six insurance companies control 80% of market

The insurance market remains concentrated. About 80 percent of total market is controlled by six insurance companies. Among them are «Kazakhinstrakh» with 19.5 percent of market share, «SK BTA» – 19.1 percent, «Neftyanyaya Strahovaya Kompaniya» – 17.8 percent, «Kazkommertspolice» – 10.3 percent, CJSC «AIG» – 6.1 percent, and «ÊBS GARANT» – 6.1 percent.

Table 9 provides for the breakdown of insurance premiums.

Table 9.
Kazakhstan: Insurance Premiums Breakdown

KZT billion

Insurance premiums	1998	1999	2000	2001	2002	Growth % 2002/2001
Total, o/w:	4,1	5,9	8,2	13,4	22,6	68,70
Obligatory Insurance	1,5	1,4	1,2	1,1	1,4	27,30
Voluntary Individual Insurance	0,7	0,9	1,1	1,6	1,8	11,30
Voluntary Property Insurance	1,9	3,6	5,9	10,7	19,4	81,30

Source: NBK

Reinsurance amounts rise, but the gain is on foreign reinsurers

As of January 1, 2003, Kazakhstan's insurance companies transferred 16,8 billion tenge in reinsurance, or 77 percent higher than in 2001. Out of that amount, 15,3 billion tenge, or 90 percent of total insurance premiums, were transferred to the non-residents of Kazakhstan (Table 3).

Table 10.

Kazakhstan: Insurance Premiums Transferred for Reinsurance

KZT billion

Insurance premiums, transferred for reinsurance	1998	1999	2000	2001	2002	Growth % 2002/2001
Total	1,11	2,74	5,62	9,52	16,81	77
- o/w non-residents	1,08	2,68	5,47	9,19	15,29	66

Source: NBK

In total amount of the reinsured premiums transferred abroad, the major portion constitutes the premiums on voluntary property insurance (mainly in oil and gas, metallurgical and transportation sectors) transferred by the top six (in terms of collection of insurance premiums) local insurance companies.

Impediments for developing the Kazakh insurance sector

Still, insufficient capitalization of domestic insurance companies, significant amount of risks that insurance companies assume hinder active development of insurance market in Kazakhstan. Among the possible remedies are increase in retention of the insurance premiums of the domestic insurance companies, development of reinsurance inside the country, and establishment by the large corporates of the captive insurance company that would insure domestically certain portion of their risks.

In 2002, total insurance payments increased by 4.5 percent amounting to 2,3 billion tenge as compared to 2,2 billion tenge in 2001. An average insurance payment per capita totaled approximately 153.3 tenge in 2002 (against 146.6 tenge in 2001, and 74.4 tenge in 2000).

Table 11.

Kazakhstan: Insurance Payment Dynamics

KZT billion

Insurance Payments	1998	1999	2000	2001	2002	Growth % 2002/2001
Total:	1,2	1	1,1	2,2	2,3	4,50
Obligatory Insurance	0,5	0,5	0,5	0,6	0,7	16,70
Voluntary Individual Insurance	0,4	0,3	0,3	0,6	0,6	0
Voluntary Property Insurance	0,3	0,2	0,3	1	1	0

Source: NBK

Main financial indicators of the insurance companies in Kazakhstan are given in Table 12.

Table 12.

Kazakhstan: Main Financial Indicators of Insurance Industry

KZT billion

Indicators	1998	1999	2000	2001	2002	Growth% 2002/2001
Equity	1,7	2,5	4,6	5,3	6,1	15,10%
Insurance Funds	3,1	3,9	2,3	7,9	12,6	59,50%
Assets	5,3	7,3	8,3	14,8	22,4	51,40%

Source: NBK

PENSION SYSTEM

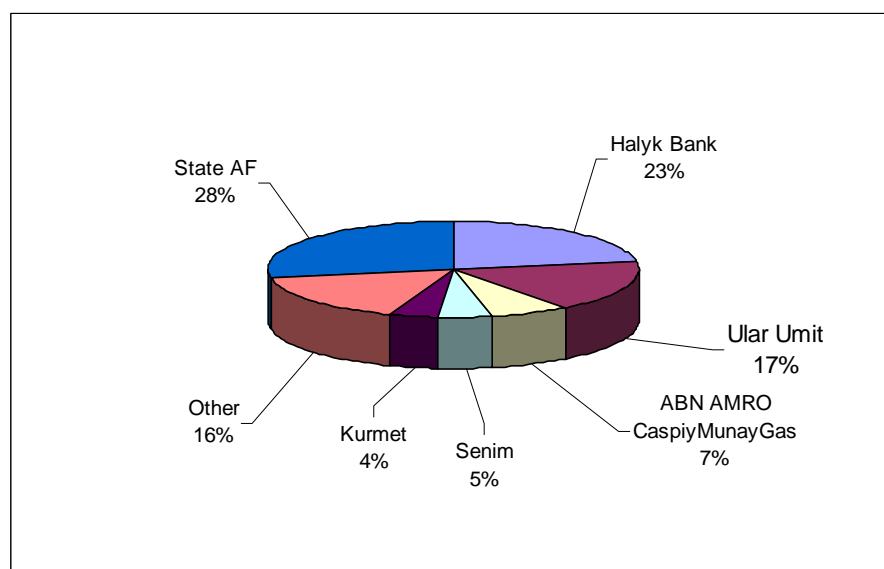
Presently there are 16 pension funds in Kazakhstan, including one state, two corporate private and 13 open private pension funds. The number of pension assets management companies increased by two and totals nine.

Pension assets grow by 48% to 7.1% GDP

As of January 1, 2003, aggregate pension assets of pension funds amounted to 269,752 million tenge growing by 48 percent in 2002. It should be noted that the share of the State Accumulation Fund in total pension system assets decreased from 32 percent in end-2001 to 28 percent in end-2002.

Chart 1.

Kazakhstan: Pension Assets Breakdown



Source: NBK

The weighted average coefficient of real income on pension assets of private pension funds for the period from February 2002 to February 2003 equaled 4.29%.

STOCK MARKET

In 2002, Kazakhstan’s stock market experienced significant growth. Not only did the transaction volume grow, but it also exceeded the cumulative transaction volume for the last three years. The dealers use more instruments and carry out larger transactions.

Table 13.

Kazakhstan: Stock Market Dynamics

KZT thousand

Volume of KASE Transactions	1999	2000	2001	2002
Foreign Currency	2 124 845	1 743 428	1 961 921	2 980 707
Government Securities, incl. REPO	1 327 588	3 128 993	7 250 191	20 061 219
Corporate Securities, incl. REPO	31 221	141 786	505 802	767 617
Forward Contracts	8 806	10 009	79 708	129 503
IFI Securities			863	
Promissory Notes				4
Total	3 492 460	5 024 216	9 798 485	23 939 050

Source: KASE

However, it is too early to speak about rapid development of the stock and securities market in Kazakhstan, as many local companies remain opaque and nontransparent for potential portfolio investors.

KAZAKHSTAN OIL & GAS DIGEST

INDUSTRY NEWS

Oil And Gas Exports Up 21 Percent

Kazakhstan exported some 39.27 million tons of oil and gas condensate in 2002, a 21 percent increase over 2001 exports. The money equivalent of the exports totalled USD 5.037 billion, an 18 percent increase over the previous year's revenues. 2002 gas exports totalled 8.17 billion cubic meters worth USD 240 million, a respective 91 percent and 63 percent above 2001 levels. Tankers shipped some 3.2 million tons of Kazakhstani oil in 2002, a hefty increase from 320,000 tons in 2001. In a joint venture with Turkey, Kazakhstan is now building three tankers for its fleet and plans to build three more in the future, KazMunayGaz president Lyazzat Kiinov noted. The projected tonnage of the tankers under construction is between 5,000 and 10,000 tons, as the Aktau seaport is unable to service vessels with larger loads.

Kazakhstan Boosts Gasoline And Diesel Fuel Production

Kazakhstan's production of gasoline and diesel fuel was up in the first two months of 2003. Gasoline production rose by 6 percent to 266,500 tons in January and February, while diesel fuel output climbed 32 percent to 450,100 tons, according to the National Statistics Agency. Mazut output also rose a hefty 32 percent to 475,500 tons, and kerosene production increased 5 percent to 37,100 tons.

Energy Ministry Ap- proves New Subsurface Tender Requirements

Minister of Energy and Mineral Resources Vladimir Shkolnik has approved new requirements for companies bidding on subsurface use tenders. The new rules specify stricter financial requirements for domestic and foreign companies that want to explore and develop mineral resources in Kazakhstan. The ministry will now thoroughly check all bidders' financial documents, including balance sheets, profit and loss statements and audit reports. Bidders must also be free of any debt to the state budget. In addition, during the bidding stage, a tender commission will discuss possibilities for domestic companies to join subsurface projects. Under the new requirements, bidders must prove their technical capability, provide a five-year report of activities and describe environmental programs in detail, including land reclamation.

Parliament Passes Law On State Regula- tion of Oil Processing Sector

Kazakhstan's Senate has approved the draft law «On the state regulation of production and distribution of oil products» that would require domestic oil processing plants, oil product storage facilities and gasoline service stations to obtain mandatory licenses from the government. The law also sets minimum production limits for refineries. Under the law, oil-processing enterprises are banned from selling crude oil or gas condensate, refineries need permission before suspending operations for routine maintenance procedures. If signed by the president, the law will come into effect on July 1, 2003.

COMPANY NEWS

KazMunayGaz Deems 2002 A Success

National oil and gas company KazMunayGaz, established by presidential decree on February 20, 2002, announced the preliminary results of its 2002 production activities. Oil and gas condensate extraction levels reached 7.44 million tons, 6% above projections and 13% more than output in 2001.

KazMunayGaz affiliates also reported upward trends for 2002. UzenMunayGaz produced 4.92 million tons of oil and gas condensate, 9% above projections and 18.2% more than 2001 output. The complete renovation of the Uzen field will allow the company to extract 7 million tons of oil by 2005. EmbaMunayGaz produced 2.51 million tons, 0.6% above projections and 4.8% more than 2001 output. The Atyrau refinery, also owned by KazMunayGaz, processed 2.3 million tons of oil in 2002, 9.1% more than processing volumes in the previous year. The company's four-year joint investment program with Marubeni Corporation is expected to increase the quality of processed oil and boost production volumes at the refinery.

Higher profits mean bigger state budget contributions. In December, KazMunayGaz paid KZT2,5 billion in dividends to the state budget. At that time the company confirmed plans to keep the flow of dividends steady at KZT 2,0 billion (approx. USD 13 million) each year for the next three years. According to the company, such dividend policy guarantees stable revenues to the state budget regardless of price fluctuations in the world oil market. The company plans to ensure dynamic development from 2003-2005 by boosting oil production, developing new oil fields, expanding transport infrastructure and gaining access to additional international distribution markets.

Tengizchevroil Resumes Work On Expansion Projects

Tengizchevroil (TCO) on January 25 announced that it would resume work on two major projects that were suspended in November 2002. According to the TCO press release, the consortium's partners "have approved funding for the detailed engineering and construction of the Second Generation (SGP) and Sour Gas Injection Projects (SGI)." TCO will now remobilise employees, contractors and vendors for work on the projects, which will increase production capacity at the Tengiz field in western Kazakhstan from 13 million tons per year to between 20 and 23 million tons per year. The projects and are expected to be completed by the middle of 2006. Kazakhstan's budget will receive a healthy boost of some USD 810 MM over the next three years now that the Tengizchevroil (TCO) joint venture has decided to resume work on expansion projects.

Tengizchevroil, Authorities Discuss Sulphur Disposal

At the same time the Supreme Court of Kazakhstan decided on March 26 to reduce the fee to be paid by TengizChevrOil (TCO) oil venture for storing sulphur on the open air to KZT 1,08 billion. In December 2002, Atyrau regional court imposed a fine of KZT 10,8 billion on the company. TCO has invested about USD 50 million into sulphur forming plants to enhance the marketability of the TCO sulphur, which will enable TCO to begin exporting about three-quarters of its current sulphur production, about

4000 metric tonnes per day. On November 4, 2002, Caspian Sulphur Company (CSC) started up operations of its Sulphur Flaking Facility in Tengiz. Tengizchevroil's high quality sulphur is now being formed into sulphur flakes, packed and exported. The first shipment of flaked sulphur from Kazakhstan to China occurred on November 28. TCO also sells liquid sulphur.

Foreign Investors Reduce Their Pres- ence In Kazakhstan

Since the beginning of 2003, two large investors decided to reduce their presence in Kazakhstan by selling their stakes in the oil and gas projects. The first company to decrease its interest in Kazakhstan was the US Kerr-McGee, which announced on February 5 the sale of its Kazakhstani portfolio to Shell Kazakhstan Development for USD 165 million. The company explained the decision by its intention to focus on core areas with high-potential trends and to use proceeds from the sale for debt reduction.

The next company that shrank its activities in Kazakhstan was British Gas International (BG). On March 7, 2003, BG announced the sale of 8.33% stake in the Agip Kazakhstan North Caspian Operating Company (Agip KCO) to China's state-owned oil and gas producer CNOOC Ltd for USD 615 million. On March 11, 2003, and ten days before the beginning of the military campaign on Iraq, BG informed that it has agreed to sell its remaining interest in Agip KCO to Sinopec International Petroleum and Production Corp, a wholly owned subsidiary of China Petrochemical Corporation. As a result, BG's interest in Kazakhstan was reduced to the giant gas condensate field at Karachaganak and the Caspian Pipeline Consortium. BG's chief executive reasoned the move by the company's portfolio revision aimed at furthering business growth and strengthening returns.

Thus, in less than a year, two large Western energy companies reduced their interest in the Kazakhstani oil and gas sector.

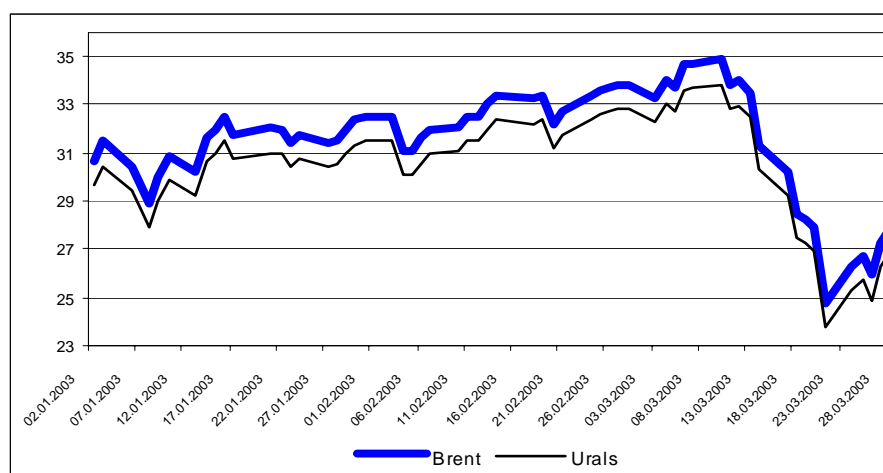
EN BRIEF

- ✓ KazMunayGaz vice president Timur Kulibaev and Lukoil Oversees Holding head Andrey Kuzyaev on March 26 signed a data confidentiality agreement. Under the agreement, the two companies will begin jointly studying geological and geophysical data on the Khvalynskoye offshore block. KazMunayGaz and Lukoil are the authorized operators of Russia's Khvalynskoe offshore block, located in the northern sector of the Caspian Sea. Exploration costs will be financed solely by LUKOIL, while investments in oilfield development will be shared equally.
- ✓ International quality consultant Business Initiative Directions (BID) has presented KazTransGaz with a New Generation Quality Award. The honour was bestowed upon Kazakhstan's national gas transportation company on March 10 during the Arch of Europe international quality convention in Geneva. BID awards are given only to companies that comply with the criteria of QC-100, a model of Total Quality Management.
- ✓ Canada-based Hurricane Hydrocarbons Ltd. has issued a seven-year, USD 125 million Eurobond yielding 9.625%, and placed it on the Luxembourg Stock Exchange. The issue was rated B1 and B+ by Moody's and Standard and Poor's respectively. Hurricane plans to use the issue proceeds for general corporate purposes.

- ✓ KazMunayGaz has a new president. By the governmental resolution on March 12, Deputy Minister of Energy and Mineral Resources Uzakbay Karabalin was appointed the new president of the national oil and gas company. At the same time, under a separate resolution, KazMunayGaz president Lyazzat Kiinov was appointed to replace Karabalin in his position at the Energy Ministry.
- ✓ Kazakhstan plans to produce 100 million tons of crude a year by 2010, Energy and Mineral Resources Ministry representative said. By 2005 crude production is expected to grow to more than 60 million tons with natural gas production at 20 bcm. The growth will be fuelled by the expansion of TengizChevrOil and Karachaganak ventures as well as increasing offshore production.
- ✓ Kenkiyak-Atyrau pipeline was launched on March 28 to pump oil from Aktobe oblast to Caspian Pipeline Consortium and the further to Baltic and Black Sea ports. The pipeline's current annual capacity of 6 million tons will be increased to 12 million tons by 2006.

OIL MARKET

Market dynamics during January – March 2003



Kazakhstani domestic production in 2002 (million tons)

Enterprise	Plan for 2002	January-December 2002		As % to 2001
		Planned	Actual	
Total for Kazakhstan:	45.40	45.42	47.23	118.2
Including Condensate	5.07	5.07	5.19	128.9
KazMunayGaz State Company Subsidiaries:	6.97	6.97	7.40	112.6
Joint ventures: with participation of KazMunayGaz:	19.07	19.07	19.54	110.1
Other enterprises:	19.36	19.39	20.30	129.7

Capacity and production of Kazakhstani refineries

<i>Refinery</i>	<i>Capacity (in million tons)</i>	<i>Output, % of the processed oil</i>		
		<i>Gasoline</i>	<i>Diesel</i>	<i>Mazut</i>
A tyrau	5.2	13.5	33.1	27.9
HOP (ShNOS)	6.0	22.8	29.1	34.0
PNPZ	7.5	32.4	30.1	29.5

Sources: Golden Eagles Partners, Interfax, Oil Information Agency, Kazakhstan Today, Reuters, Kazakh Information Agency, Kazakhstanskaya Pravda, Associated Press, Khabar, Panorama, Petroleum magazine

ASK THE LAWYER

NEW PROCEDURE FOR ISSUING PERMITS TO EMPLOYERS FOR ATTRACTING FOREIGN LABOR IN THE REPUBLIC OF KAZAKHSTAN

By Askar Urtembayev

Attracting foreign labor in the Republic of Kazakhstan requires the employer to obtain the necessary permit. Earlier one had to obtain the license instead of permit. This was required by the Resolution # 606 of the Cabinet of Ministers of Kazakhstan dated October 15, 1991. Later it was reflected in the Laws of the Republic of Kazakhstan regulating labor market. Starting from 1999 every specific employer has to obtain the permit for attracting foreign labor force. Those who do it as the professional activity need to get the license.

To implement the Law of the Republic of Kazakhstan «On Employment of the Population» the Government has adopted Resolution ¹ 55 dated January 20, 2003 that amended Resolution ¹ 836 of June 19, 2001. The amendment stipulates the new version of the “Rules of determination of quota, condition and procedure of issuing of permits to employers for attraction of foreign labor in the Republic of Kazakhstan” (hereinafter the «Rules»).

How to obtain the permit

In general, the procedure for attraction of foreign labor in practice appears cumbersome and consists of the following stages:

1. Search for the needed labor force on domestic labor market.
2. Search for the foreign labor.
3. Obtaining the relevant permit from the Ministry of Labor and Social Protection of the Population of the Republic of Kazakhstan (hereinafter the «Ministry of Labor»).
4. Approval of the list of future foreign labor to be attracted.

Start by searching at local market

Primarily, the employer shall have to search for the relevant labor force in the domestic market before attracting the foreigners as future employees of the company. The evidence of such search shall be a necessary condition for attracting the foreigners. Therefore, the employer shall announce about availability of working places (vacant positions) in the Kazakh and Russian languages in newspapers (periodicals) *Kazakhstanskaya pravda* and *Egemen Kazakhstan* within not less than one month and for no more than three months prior to submitting the application to the authorized body. The employer may start the next stage, a search for candidates among foreigners, only in the case of unavailability of local labor to the requirements set by the employer. Search in the domestic labor market shall not be carried out in the following cases:

if not found the needed candidate, go to the foreign market

except for these cases when you can go straight to the foreign market

- 1) for the individuals who are the heads of structural subdivisions of the foreign banking institutions;
- 2) for the individuals who are both the founders and chief executive officers of organizations;
- 3) for the individuals who are employed in the seasonal agriculture jobs in accordance with the provisions of Agreements on cooperation in the field of labor migration and social protection of workers-migrants.

After finding the appropriate candidate...

Having found the appropriate candidate among foreign labor, the employer shall receive the relevant permit in the Ministry of Labor. To obtain the permit, the employer shall submit to the structural subdivision of local executive bodies responsible for employment and social protection of population at the regional level (hereinafter the «Authorized body») the following documents:

submit these documents to the authorized bodies

- 1) application indicating the number and the category of foreign labor, name of professions and positions in the form established by the Ministry of Labor;
- 2) confirmation of activities implemented to search for employees on the domestic labor market and evidence of absence of the required specialists among Kazakhstani citizens applied:
 - reference on availability of proposals with respect to the vacancies from the population regional database of the Authorized body within not more than a month from the application submission date;
 - original periodical with the advertisement concerning available vacancies indicating main qualification requirements for the position(s);
- 3) confirmation of the compliance with the qualification requirements related to the position (capacity) in respect to the level of professional training and requirements for the work experience in this capacity as well as availability of special skills and abilities: command of foreign languages and application of advanced technologies;
- 4) reasoning for the quantity of imported foreign labor;
- 5) reasoned refusal of employer to Kazakhstan citizens for a vacant position.

Official procedure for considering to issue the permit

The Authorized body based on the submitted documents, within 10 working days from the submission day, shall draw a positive or negative conclusion on the expediency of attracting the required number of foreign laborers and then send submitted documents together with its conclusion to the Ministry of Labor. Finally, the Ministry of Labor shall make a decision on the issue or denial of the permit within 10 business days from the day of the receipt of documents. Then it shall notify the Authorized body and the employer with respect to the decision taken on the issue or denial of a permit within 5 business days. If the permit is issued the Ministry of Labor shall entrust the employer with execution of special conditions for local personnel training.

In these cases you can use the shorter route

It shall be noted that the employer shall apply directly to the Ministry of Labor in the event of employment of foreign labor for:

- 1) work in finance sector upon agreement with the National Bank of the Republic of Kazakhstan;
- 2) work in the organizations that concluded a Production Sharing Agreement and other agreements with the Government of the Republic of Kazakhstan upon the agreement of the state organs authorized to regulate investment and land lot use issues.

Reasons for rejection to issue permit are the following: failure to take measures on recruitment of specialists on the domestic labor market and incomplete or improper formalization of documents set forth by the Rules; exceeding the quota limits. The quota for attracting the foreign labor for 2003 constitutes 0,14% of economically active population of the Republic, and it is established by Resolution

¹ 11 of the Government of Kazakhstan dated January 14, 2003.

The Rules shall not apply to the following foreign citizens and stateless persons:

Exceptions

- 1) working as chief executive (head) of foreign legal entities' branches and representative offices;
- 2) individuals on business trips with duration not exceeding in aggregate 45 calendar days within one calendar year;
- 3) working as chief executive officers and general managers of organizations, which concluded investment contracts with the Government of the Republic of Kazakhstan for the amount of more than USD 50 million, as well as chief executive officer of legal entities of the Republic of Kazakhstan that carry out investment activity in the priority sectors and have signed the contracts with the authorized investment body;
- 4) working as chief executive officers (head) and/or general manager of banking institutions, insurance organizations, pension funds;
- 5) belonging to diplomatic representative offices and international organizations accredited in the Republic of Kazakhstan;
- 6) representing foreign mass media, radio and television accredited in the Republic of Kazakhstan;
- 7) working at charitable and humanitarian organizations registered in Kazakhstan;
- 8) members of the crew of sea and river vessels, air, railway and automobile transport owned foreign organizations;
- 9) working as performing artists and sportsmen working under contracts with the relevant central executive bodies;
- 10) individual entrepreneurs;
- 11) individuals with residential permit in the Republic of Kazakhstan;
- 12) individuals with the status of refugees or those who has obtained the official political asylum in the territory of the Republic of Kazakhstan.

What to submit to the local authorities after getting the labor permit

After receiving the permit within one month the employer shall submit the list of foreign laborers in five copies indicating their personal data, citizenship, country of expatriation, name of profession, description of capacity and position with attachment of individual labor contract, notarized copy of the permit and translations of the documents in respect of education, HIV medical certificate, documents confirming the labor activity of an employee within one month. The authorized body within five working days shall approve this list, then submit it to the Ministry of the Labor, territorial bodies of the Ministry of Internal Affairs and National Security Committee. After the receipt of the permit the employer shall submit, on a quarterly basis, information on attraction of foreign labor to the authorized body.

Finally it necessary to note that the Ministry of Labor may suspend the validity of the permit or revoke it with mandatory indication of the reasons for it.

Mr. Askar Urtembayev is Attorney with Bracewell & Patterson. He can be reached at: urtema@bracepatt.almaty.kz.

OUR TEAM

Mr. Eldar Abdrazakov – Team Leader

**Macroeconomic Part
National Economic Development Center**

Mr. Nadir Burnashev
Ms. Dinara Shaimardanova
Ms. Gulfairuz Shaikakova

For enquiries contact:

Mr. Nadir Burnashev
Tel: (+7-3272) 588-222, 620-231
Fax: (+7-3272) 596-727, 626-538
Email: Nadir.Burnashev@kazks.kz
nedc@nursat.kz

Production Manager
Ms. Elena Kislitcina

Sectoral Part

Kazkommerts Securities

Mr. Askar Dostiyarov (oil & gas)
Mr. Marat Khaidarov (metals & mining)
Mr. Ilya Iskakov (banking & finance)
Ms. Alena Kovalenko (oil & gas digest)

Kazkommertsbank

Mr. Serik Akhanov
Mr. Nurlan Sembiyev

For enquiries contact:

Ms. Irina Makhmudova
Tel: (+7-3272) 588-222
Fax: (+7-3272) 596-727
Email: ker_info@kazks.kz

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