



Economic Newsletter on Kazakhstan

| February 2018

CONTENTS

MACRO-ECONOMICS & FINANCE.....	2
ENERGY & NATURAL RESOURCES.....	6
TRANSPORT & COMMUNICATIONS.....	10
AGRICULTURE.....	13
EXHIBITIONS IN KAZAKHSTAN (March 2018)	17
CONTACTS	18

The Economic Section of the Embassy of the Kingdom of the Netherlands in Kazakhstan intends to distribute this newsletter as widely as possible among Dutch institutions, companies and persons from the Netherlands. The newsletter summarises economic news from various Kazakhstani and foreign publications and aims to provide accurate information. However, the Embassy cannot be held responsible for any mistakes or omissions in the bulletin.

MACRO-ECONOMICS & FINANCE

President Nazarbayev approves Kazakhstan's Strategic Development Plan until 2025

Kazakh President Nursultan Nazarbayev signed the Decree "On approval of the Strategic Development Plan of the Republic of Kazakhstan until 2025 and the recognition of some Decrees of the President of the Republic of Kazakhstan as invalid," Kazinform reports referring to Akorda.

As previously reported, in November the Plan received Government approval.

The Strategic Development Plan describes how the life of Kazakhstanis should change in the next 7 years. Thus, according to it, the country's per capita GDP should grow to \$46,000, life expectancy will increase from 72 to 75 years, the share of income of the least well-off 40% of the population will increase from 22.8% to 27%, and the development gap between the regions by GRP fall from 3.2 times to 2.7 times.

By 2025, the share of exports of non-primary goods and services should grow from 44.6% to 50% of total exports, while the share of SMEs in GDP should increase from 26.8% to 35% of GDP. It is also planned to ensure the growth of the loan portfolio in the national currency from 18% to 50% of GDP.

The strategic plan also refers to the formation of a united nation of strong and devoted people, who are at the same time competitive and enterprising. The Plan provides for measures to make state agencies more client-oriented, the banking sector stable, and judges less corrupt.

It is also envisaged that the state's share in the economy will decrease, the barriers for small and medium-sized businesses will be eliminated, and the use of new technologies will increase, Kazinform reported.

EBRD announces forecast for Kazakhstan's economic development in 2018

Hans Holzacker, Associate Director, Regional Lead Economist of the European Bank for Reconstruction and Development announced the forecast for Kazakhstan's economic growth in 2018, presenting the EBRD Transition Report 2018-19 in Astana, Kazinform reports.

During the presentation of the report Hans Holzacker noted that international forecasts are quite favorable, economic growth is expected in the world, Europe, and China. Oil prices will remain in the corridor of over \$60 per barrel. It is a fairly favorable international environment, and the bank believes that this will result in increased growth rates of Kazakhstan's economy, in particular, 3.5%-4% increase in real GDP.

The EBRD also forecasts the growth of exports and investments in the Kazakh economy.

"Higher exports, higher investments, real incomes should also grow and maintain private consumption. Another factor is fiscal restraint and higher imports because it is also a typical picture when the economy starts growing after some slowdown," the EBRD Associate Director said.

In addition, the EBRD predicts a slight decline in inflation. Mr. Holtshacker added that inflation will be within the corridor set by the National Bank. However, according to him, it will not decline much due to the recovery of private consumption and demand of individuals, which is maintained by high oil prices.

Kazakhstan's external debt increased by \$74 billion over 10 years

The external debt of the Republic of Kazakhstan increased by \$74.6 billion over the past 10 years amounting to \$168.9 billion as of October 1, 2017, Kazpravda.kz reports.

As the press service of the National Bank of Kazakhstan informs, the growth of external debt was due to an increase in intercompany debt (+\$76.7 billion), connected mainly with implementation of oil and gas projects by branches of foreign companies in the country. There was also an increase in the external debt of the non-financial sector of the economy (+\$26.2 billion) and the Government (+\$10.8 billion), due to the issue of Eurobonds and attraction of loans and borrowings.

The external liabilities of the National Bank remained practically unchanged, averaging 0.6% of the country's external debt.

The external debt of the financial sector fell by \$39.1 billion, mainly due to a reduction in the debt of the banking sector (including Kazakhstan Development Bank JSC) for loans and borrowings by \$37.4 billion. This reduction was due, inter alia, to the mechanism of minimum reserve requirements, prudential standards, the rule of sufficient capitalization.

Foreign direct investments in Kazakhstan reached \$15.8 billion

Inflow of foreign direct investments in Kazakhstan reached \$15.8 billion growing by 5.3% year-on-year in the first 9 months of 2017, Minister for Investments and Development of Kazakhstan Zhenis Kassymbek said at the meeting of the Kazakh Government.

The Ministry for Investments and Development together with Kazakh Invest JSC formed a basic list of 145 investment projects under implementation for a total of \$47.8 billion, which included projects within all country cooperation programs, including Kazakh-Chinese, Kazakh-Turkish and other investment projects.

Within the framework of the Kazakh-Chinese cooperation, 51 projects are being implemented for a total of \$27.7 billion, he said.

In 2016-2017, the investment and trade agreements worth over \$6 billion were signed during the visits of the Kazakh President abroad, said First Vice Minister of Foreign Affairs Mukhtar Tleuberdin.

In January 2018, 27 documents were signed for totaling \$7 billion during the visits of the President, according to AKIpress.

Kazakh government to allocate \$61.4 million annually to develop AIFC

Kazakhstan will allocate approximately 20 billion tenge (\$61.4 million) annually over the next three years to develop the Astana International Financial Centre (AIFC) and the centre hopes to attract up to \$40 billion in investments within the next 10 years, AIFC Governor Kairat Kelimbetov said recently.

He also said the AIFC plans to pay off investments in three to five years.

"As well as the world's leading financial centres created recently in such cities as Dubai and Abu Dhabi, we plan to not depend on budget financing in three to five years, but to use the opportunities of private investments," Kelimbetov said.

Kelimbetov added that the AIFC isn't going to create crypto currency, because that is the prerogative of the National Bank. He also said many world leaders and financiers believe the crypto currency market is speculative and a big risk for investors.

"Investors can be divided into two types: professional, who invest a lot of money and are ready for their loss, and unskilled – those who believe that if they lose money, this is a state problem," Kelimbetov said.

He also noted that it is very important to understand what a crypto currency is and who should work with it.

"It is very important to highlight that investments will not always grow. One day the bubble will burst, and a collapse will occur, but no one knows when this happens and the National Bank always stresses this when it comes to crypto currency, which is dangerous when the population is doing it because this is the risk for professional investors," he said, according to Astana Times.

Turkish largest companies to implement investment projects in Kazakhstan

Chairman of the Board of Kazakh Invest National Company Saparbek Tuyakbaev paid a working visit to the Republic of Turkey on February 23-24, where he met with the leaders of six major Turkish companies - KOÇ Holding, YILDIZLAR SSS Holding, YILDIRIM Holding, KIBAR Holding, SABANCI Holding, DAL Holding Investment.

Turkish businessmen were offered 47 large investment projects in Kazakhstan's priority sectors of the economy from the side of Kazakh Invest, Kazinform reported.

These holdings are large transnational companies with a total annual turnover of about \$150 billion. Turkish businessmen expressed interest in implementing investment projects on the territory of Kazakhstan, noting the country's strategic location for expanding its production facilities and sales markets to the EAEU countries and China.

For example, an agreement on the production of tomato and canned products in the Kyzylorda region with was reached with KOÇ Holding. The company also expressed interest to participate in the project to produce liquefied petroleum gas.

YILDIRIM Holding starts realizing projects on exploration of solid minerals jointly with Kazgeologia JSC for \$10 million, as well as for the production of soda ash in Zhambyl region. The amount of investments will be \$220 million.

Yildizlar SSS Holding has agreed to implement three projects in the first half of the year: the construction of a gas-piston power plant with a capacity of 138 MW jointly with Baikonur for \$50 million, the production of ceramic slabs with a capacity of 10 million square meters for \$128 million in Kyzylorda oblast, exploration of solid minerals in the East Kazakhstan region with an investment of \$10 million.

Meanwhile, KIBAR Holding will participate in the project for the production of sandwich panels in Mangistau region.

The management of Dal Holding decided to participate in the project for the extraction and processing of barite ores and concentrates in Zhambyl region.

An investment forum with members of the Turkish Independent Association of Industrialists and Entrepreneurs (MUSIAD) was held in Ankara with the support of the Embassy of Kazakhstan in Turkey. This organization has an extensive business network inside Turkey and abroad. The total number of members is more than 11,000.

At the forum Kazakh Invest presented Kazakhstan's investment opportunities and measures of state support in the form of preferences for foreign investors.

The head of MUSIAD İlhan Erdal stressed that Turkish business is interested in building close economic ties with Kazakhstan.

Kazakhstan and Turkey are reliable strategic partners that are systematically expanding political, economic and cultural ties. The trade turnover between the countries was estimated at \$2 billion last year. This figure is planned to increase fivefold, AzerNews reported.

**EURASIAN
ECONOMIC
UNION**

Eurasian Economic Union signs agreement on labeling of goods

An agreement on the labeling of goods by means of identification in the Eurasian Economic Union was signed by the prime ministers of the EAEU member countries following the meeting of the Eurasian Intergovernmental Council in Almaty on 2 February, BelTA reports.

The agreement is designed to strengthen control over the circulation of goods in the EAEU. The agreement is a framework document and can be applied to a broad group of products, a list of which will be approved by the Board of the Eurasian Economic Commission.

Labeling of goods is, in fact, another step toward the Union's common market and is an important achievement for the participating countries, Russian Prime Minister Dmitry Medvedev told the media. Earlier the EAEU launched a pilot project to label fur products and the results, according to the Russian prime minister, "were quite inspirational". "We pulled luxury goods out of the shadow. Their amount increased by 13 times," he said.

There are plans to label virtually all groups of goods in the future. This will be done gradually so as not to create problems for the market. "We are ready to move gradually towards the labeling of pharmaceutical products. It is very important that our citizens are sure that medicines are of good quality, not counterfeit and reasonably priced. We are also prepared to start labeling tobacco goods, some other products," Dmitry Medvedev added.

The heads of government also approved the regulations on the development, financing, and implementation of intergovernmental programs and projects in the industrial field, Kazinform reported.

Eurasian Economic Union approves unified veterinary and sanitary requirements

Unified veterinary and sanitary requirements for objects subject to control and supervision were approved at a board meeting of the Eurasian Economic Commission, the press service of the Eurasian Economic Commission reported.

Compliance with the approved requirements is the basis for inclusion in the union register and allows free trade in the countries of the Eurasian “five”.

A single regulatory framework has been created that defines the rules of work for all entrepreneurs engaged in the production, processing and storage of meat, butter, milk, eggs and other animal products.

“Previously, the requirements were determined by national legislation. The lack of unified standards at the level of the EEU led to contradictions in the decision-making process, including the inclusion in the Union Register of Enterprises, and as a result, limited the opportunities for entering the common EEU market,” the EEC stressed.

The adopted document includes both veterinary and sanitary requirements of a general nature, describing the process of cattle breeding or animals management, as well as branch ones. Standards have been set for enterprises that deal with the breeding of cattle, pigs, sheep, fur-bearing animals, poultry, fish, bees. In addition, the document contains uniform requirements to enterprises engaged in slaughtering of productive animals, the production, transportation and storage of goods of animal origin and feeds. The decision of EEC board will enter into force 180 calendar days after the date of its official publication.

Manufacturers already included in the Union Register, within 18 months from the entry into force of the unified requirements, can work in accordance with the national legislation of the country in which the enterprise is located, 24.kg reported.

National Fund to return to break-even point in 2019

Minister of Finance of the Republic of Kazakhstan Bakhyt Sultanov promises to return to the policy of accumulating funds for future generations in 2019, Kazinform reports.

Speaking at a Government session, the Minister reminded that the Head of State has instructed the Government to ensure the stability of the budget and the National Fund. According to him, the first pre-requisite for the stability of the country’s budget in the implementation of the revenue plans, taking into account the adjustment of macro-forecasts and sustainable national debt.

“Financial support of the implementation of the Head of State’s Address New Development Opportunities Amidst the Fourth Industrial Revolution will be provided during the adjustment of the republican budget in the spring of this year. The National Fund’s return to the break-even point is forecasted a year earlier, that is, already in 2019, we will return to the policy of accumulating funds for future generations. This will be achieved through a phased reduction of the guaranteed transfer (up to 2 trillion tenge in 2020) and refusal to attract targeted transfers from 2018,” Bakhyt Sultanov said.

House Construction Saving Bank of Kazakhstan will receive 24 billion tenge for Nurly Zher

The funds will be used to issue preliminary and intermediate housing loans at a preferential rate of 5%.

In 2018, Zhilstroybank (House Construction Saving Bank of Kazakhstan) will be allocated 24 billion tenge for concessional lending under the housing construction programme Nurly Zher. These funds are included in the list of priority state investments and are stipulated in the budget for the current year. This was announced at a meeting of

BANKING

the Board of Directors of Zhilstroysberbank of Kazakhstan in Astana under the chairmanship of the head of the holding company Baiterek Aidar Arifkhanov.

“The programme Nurly Zher provides for an annual allocation of funds to the bank in the amount of 24 billion tenge in the form of a budget loan. With this money, the bank's depositors will be able to receive preliminary and interim housing loans at a preferential rate of 5%. To do this, it is enough to have a minimum initial contribution of 30% on the account in the HCSBK,” the press service of the bank reports.

Following the results of 2017 Zhilstroysberbank has managed 30 billion tenge allocated to it by the state. With this money, 3,488 Kazakhstani families were able to purchase their own housing under the programme Nurly Zher.

As reported by abctv.kz, until the end of 2018, the HCSB is planned to be privatised. The circle of potential investors reportedly include the Asian Development Bank and Central Global Group.

Earlier, chairman of the board of Zhilstroysberbank of Kazakhstan Lyazzat Ibragimova reported that in 2017 the state bank set a record for the amount of growth in deposit accounts, which amounted to 390,000, Atameken Business Channel reported.

ENERGY & NATURAL RESOURCES

Oil production in Kazakhstan to reach 2.7 million barrels per day by 2040: OPEC

Oil production in Kazakhstan is projected to reach 2.7 million barrels per day by 2040, according to the Organization of the Petroleum Exporting Countries, OPEC.

Current oil production in Kazakhstan is 1.8 million barrels per day.

Already in 2025, Kazakhstan will produce 2 million barrels per day, 2.3 million barrels per day in 2030, 2.6 million barrels per day in 2035, and 2.7 million barrels per day in 2040, OPEC said.

Two oil giants Kashagan and Tengiz oil fields are expected to increase production.

In 2017, Kazakhstan produced 72.932 million tons, 11.2% growth year-on-year, AKIpress reported.

Oil production plan for 2018 is 87 million tons

The plan for oil production in 2018 is 87 million tons, Energy Minister of Kazakhstan Kanat Bozumbayev said at a meeting of the Ministry, Kazpravda reports.

“Oil production in 2017 was 86.2 million tons, which is 10.5% more on-year. The largest oil production volume was provided by the Atyrau and Mangistau oblasts, and in 2018 the oil production plan is 87 million tons,” Bozumbaev said.

The minister ascribed the main increase in oil production in 2017 to the stable growth of the Kashagan field.

“This year, the main increase is expected due to this field, Kashagan's production plan for the year 2018 is about 11 million tons,” he added.

The forecast for 2018, Bozumbaev went on to say, is to be about \$55-60 per barrel. One of the key events in 2017 was the expansion of the capacity of the CPC (Caspian Pipeline Consortium) up to 52 million tons in Kazakhstan's section. Technically, the oil export capacity is about 100 million tons, Bozumbayev said.

10 million tons of Kashagan oil exported

Ten million tons of crude oil and condensate have been exported from the Kashagan field, Kazinform reported with reference to the NCOC press service.

“On February 2, 2018, North Caspian Operating Company N.V., Operator of the first offshore oil and gas project in the Kazakhstan sector of the Caspian Sea, announced that as of 30 January it safely produced and exported 10 million tons of crude oil and condensate from the Kashagan field,” the company says.

It is noted that NCOC will gradually ramp production.

“Our approach to ramping up production is a sequence of steady and planned steps to build confidence in our equipment, processes, and the reaction of the reservoir. Safety, as always, is our first priority and will not be compromised,” NCOC said, Kazinform reported.

Construction of fourth refinery to be decided on soon

Construction of the fourth refinery will be decided in the second half of 2018, Energy Minister Kanat Bozumbayev informed today at the enlarged meeting of the Ministry.

“As urged by the President, we are working out the issue of construction of the fourth refinery,” the Minister said.

According to the Minister, the conducted analysis shows that, given anticipated growth of consumption, there will be deficiency of gasoline between 2021 and 2023, diesel fuel by 2023 and jet fuel after 2026.

“KazMunaiGas will prepare a feasibility study before the second half of 2018 under the guidance of the Ministry. In the second half of 2018 there will be made decisions of possible construction, location and capacity of the refinery,” Kanat Bozumbayev added, Kazinform reports.

Development Bank of Kazakhstan funds wind energy farm to open in 2019

The Development Bank of Kazakhstan (DBK) is financing CATEC Green Energy’s construction of a wind power plant near the capital. The initial section, with a capacity of 50 megawatts, will be completed by mid-2019.

“The wind farm construction will contribute to the fulfilment of Kazakhstan’s international commitments to reduce greenhouse gas emissions. The project is also in congruence with the national strategy of transition to a green economy,” said CATEC Green Energy deputy director for technical matters Yedil Saryev.

The plant will be in Kostomar village, approximately 40 kilometres from the city. The project costs 46.1 billion tenge (\$143 million), with 30.5 billion tenge (\$94.8 million) issued by DBK as a 10.5-year loan and 3.6 billion tenge (\$11.2 million) provided by its subsidiary, DBK-Leasing, to purchase equipment. The company will use 12 billion tenge (\$37 million) of its own funds.

Once the first part is finished, the plant will be equipped with the necessary infrastructure and 15 Vestas wind generators. Approximately 300 jobs will be created during construction and 20 permanent positions will be offered to service the station.

After the second part is commissioned, the total capacity will reach 100 megawatts. The renewable energy will meet the demands of 10,000 families and simultaneously reduce reliance on fossil fuels.

“Environmental considerations are an integral part of the project. The launch of the wind power plant will allow reducing greenhouse gas emissions by 230,000 tons per annum, which exceeds the emissions of 113,000 cars per year. New developments and technologies for wind energy conversion adapted to the region’s climatic conditions will be applied,” said DBK’s client service senior banker Aizhan Bitebayeva.

CATEC Green Energy was established in 2014 to execute investment projects related to renewable energy sources. The company is also constructing a wind farm in Mangistau region and has contributed to the solar plant in Kapchagai and wind farms in Ereimentau and Shelek, Astana Times reported.

For more news on Kazakhstan’s energy sector, please see our **Special Energy Issue**, which is available on a monthly basis at the Embassy’s website:

<https://www.netherlandsandyou.nl/your-country-and-the-netherlands/kazakhstan>.

**MINERAL
RESOURCES**

Export of coal and iron ore to grow in Kazakhstan

In 2018, the export of coal and iron ore from Kazakhstan is expected to grow. This was announced by the president of Kazakhstan Temir Zholy Kanat Alpysbaev during the republican meeting on transport and logistics infrastructure, Kazpravda.kz reports.

“The main drivers for the growth of exports are coal, iron ore, chemical and mineral fertilizers, non-ferrous metals. In the context of directions, coal transit to the Baltic region and the Far East of the Russian Federation is expected to increase. The export of iron ore to the Russian Federation and the PRC will grow”, Alpysbaev said.

The head of KTZ noted that the experience of export shipments last year showed the need to work out all the aspects: from loading to unloading in the destination points.

“This will firstly improve the turnover of rolling stock, reduce transportation costs and, as a result, increase the level of competitiveness of Kazakhstan's products. We will finish this work in the first decade of February,” he reported.

According to him, this year KTZ plans to start using innovative cars (25 tons per axle) and sending heavy cargoes (over 9,000 tons) from the Shubarkol to the Russian Federation. However, according to him, many senders have an issue about the availability of freight trains.

Russia intends to reclaim \$800 million in lost profits from metallurgy companies of Kazakhstan

Officials of Russia are trying to eliminate unequal conditions of competition in the market of the EAEU and amendments to the legal documents of Kazakhstan.

Russian officials are discussing a compensating measure of more than \$800 million against steel producers from Kazakhstan, Interfax reported.

“Producers of metal products in Kazakhstan should return those subsidies that caused damage to the Russian economy. According to preliminary estimates, the amount of the compensating measure could be about \$840 million,” a source familiar with the investigation of the Ministry of Industry and Trade of Russia told Interfax.

One of the measures to solve financial losses officials call for is the elimination of unequal conditions of competition in the market of the EAEU, as well as the introduction of the necessary changes in the legal documents of the Republic of Kazakhstan.

On December 28, the Ministry of Industry and Trade of Russia reacted to a statement of metallurgists who complained about the work of their Kazakh colleagues. The complaints say that because of the sharp increase in subsidised metal imports from Kazakhstan, all of Russia’s metallurgy suffers.

In November last year, on behalf of Severstal, the Novolipetsk Iron and Steel Works and the Magnitogorsk Iron and Steel Works, Russian Steel filed an appeal to the Ministry of Industry and Trade in which it stated that the increase in the volume of imports of hot-rolled and cold-rolled steel from Kazakhstan in 2017 was 122%, while the increase in the import of rolled products amounted to 43%, and imports for all product categories 89%. The current situation contributed, in particular, to a fall in the profitability of Russian steelmakers with sales in the domestic market and a 9% decrease in the profit of the applicant companies.

Supplies of ferrous metals from Kazakhstan to Russia in 2017 increased by 75% and amounted to 1.757 billion tons, in 2016 1.006 billion tons.

In 2017, ArcelorMittal Temirtau shipped 3.8 million tons of finished products to consumers, which is 25% more than in 2016. In 2018, the metallurgical plant plans to ship 4 million tons of finished products (an increase of 5.3%) with a planned production of 4.350 million tons of steel, which is 8.8% more than in 2017, Informburo.kz reported.

Ministry of National Economy of Kazakhstan: state subsidy may be withdrawn from Arcelor Mittal

The budget funds earlier provided to Arcelor Mittal may be withdrawn. Vice-Minister of National Economy of Kazakhstan Bauyrzhan Bekeshev said so during the enlarged meeting

of the Committee for Economic Policy, Innovative Development and Entrepreneurship of the Senate.

The topic of the discussion is the bill on “ratification of the agreement of voluntary reconciliation between the Eurasian Economic Union member countries and the Eurasian Economic Commission of specific subsidies in respect of industrial goods and conduction of investigations by the Eurasian Economic Commission associated with provision of specific subsidies by EAEU member countries.”

Namely, “there is an investigation ongoing in respect of Arcelor Mittal. The Russian party doesn’t have the right to receive these funds from us, they have the right to require us to take compensation measures. If they prove it and we acknowledge the claim, we will have to withdraw from Arcelor Mittal the entire amount during that period cum 1.5% refinancing rate. This money will go to our state budget,” said Bekeshev answering the deputies’ questions.

The deputies expressed concern regarding Russia’s claims against Arcelor Mittal for not receiving revenues due to the supplies subsidized by this company to the Russian Federation. There are \$800 million concerned.

Vice-Minister explained that after the mentioned agreement comes into force no compensation measures will be taken - only cancelation of subsidizing will be considered. Bauyrzhan Bekeshev mentioned in his report that the Agreement provides for 15 criteria of admissibility of subsidies. If subsidies correspond to one or several criteria established by the Commission, there will be made a decision to concert such subsidy. The admissible subsidies are as follows: subsidies of low significance - up to USD 100 thousand for one company; subsidies designated for implementation of a joint project of making goods outside the EAEU territory; subsidies for conduction of scientific, research and design work, including joint projects aimed at stimulation of high technology productions; subsidies for innovation activity. Subsidies are considered admissible if serve as support for a bankrupt company, help in payment of consulting services, organization of participation in trade shows and conduction of fundamental research. If the purpose of a subsidy is to confirm conformance of goods with international standards it implies compensation of half a cost.

Prohibited subsidies are the ones which are associated with export of products and import substitution. This is in line with the rules of the World Trade Organization (WTO).

According to Bekeshev, the Agreement provides for an advantage: if a company which had received a subsidy, in the opinion of the other party, causes damage to the economy of the latter, the affected party has the right for compensation measures. The money withdrawn is returned to the state budget. Such a measure is supposed to equalize competition in this kind of product. After the Agreement comes into force, compensation measure will not be applied. If a party acknowledges that the subsidy was used to cause damage, cancelation of subsidy will be enough.

As for the investigation procedure, according to the Minister, the EAEU countries have the right for conduction of investigations independently. However, there is a subjective factor present, because the interested party is the sole party which conducts the investigation and makes a decision if damage was caused or not. After the Agreement comes into force, investigations will be conducted upon the statement of the Government on the Commission venue. The Commission will act as an independent judge. This will ensure fair consideration of disputes.

The agreement was prepared for implementation of the Eurasian Economic Union Agreement and signed on May 26, 2017 at the meeting of the Eurasian Intergovernmental Council, according to Kazinform.

TRANSPORT & COMMUNICATIONS

Kazakhstan boosts investment in infrastructure

Kazakhstan's transport and logistics sector attracted investments worth 1.2 trillion tenge in 2017, which is 6.3% more than in 2016, in value terms, and 0.2% more in volume terms (inflation-adjusted).

The 1.2 trillion tenge is 14.1% of Kazakhstan's total investment portfolio.

At the same time, the contribution of the transport and logistics sector to the country's GDP remains at 8% level, Energy Prom reports.

The largest volume of investments in infrastructure was noted in the Atyrau region (274.8 billion tenge, 51.7% more than in 2016, 22.3% of investments in the sector throughout the country).

Investments wise, the most attractive areas were Astana city (209.6 billion tenge, 21.1 percent more than in 2016), and Almaty region (112.5 billion tenge, 32.4 percent less than in 2016).

During the meeting, the Minister for Investment and Development of Kazakhstan Zhenis Kasymbek, said that in 10 years the total amount of investments in the development of infrastructure and transport and logistics assets of Kazakhstan amounted to about \$30 billion.

More than 2,000 km of railways were built, 6,300 km of roads were reconstructed, the country's port capacities in the Caspian Sea were increased up to 26 million tons during this period, according to AzerNews.

Investors will help Kazakhstan create toll road system

According to the information of the Ministry for Investments and Development, investors are going to be involved in the project of international toll road "Western Europe-Western China", Kazinform reports.

"In the second quarter of 2018 there will be a test launch of toll road: Astana-Temirtau (132 km), Almaty-Kapshagay (42 km) and Almaty-Khorgos (295 km) which in total make 469 km. The design and estimate documentation of toll road system is being developed for 5,500 km including the international road "Western Europe-Western China". Implementation of these projects is planned at the expense of investors based on PPP mechanism," First Vice Minister for Investments and Development Roman Sklyar informed at the Ministry meeting.

According to his data, in 2018 implementation of 23 projects will continue, and 4,200 km of roads of national significance will be reconstructed.

"To ensure technical condition of country-wide highways 179 km of roads will undergo capital repair this year. 104 km of these roads and 32 bridges will be put in service. Other than that 1,544 km of roads will undergo medium repair. 644 km of these roads will undergo cold recycling", Roman Sklyar said.

Local roads will also be repaired following the State-of-the-Nation Address of President Nursultan Nazarbayev. In 2018, the national and local budgets will provide extra 60 billion tenge for this work which will cover more than 4,000 km and improve up to 85% of local road network before 2025, Kazinform reported.

Turkish, Korean firms to build Almaty ring road

Turkish and South Korean companies signed a concession agreement to build the Big Almaty Ring Road (BAKAD) project in Kazakhstan, Anadolu reports.

The Turkish firms, Makyol Construction and Alsim Alarko, and South Korean companies -- Korean SK and Korea Expressway Corporation -- inked the agreement to bring the BAKAD project into action, said Olzhas Rayev, the investment advisor at Kazakhstan's embassy in Seoul.

Rayev said the construction will begin this year.

He said that the length of the road will be 66 kilometers (41 miles) and it will pass through Karasay, Ile and Talgar districts of south-eastern Almaty state.

In addition, seven intersections and 13 overpasses are planned to be built on the road. Raev added that BAKAD is one of the most awaited and difficult projects in the country and this project is expected to end traffic jams in Almaty city. Kazakh Investment and Development Ministry previously said that the project, which will cost 150 billion tenge (\$467.9 million), would be launched by Turkish and Korean investors, according to Kazinform.

Two more Kazakh airlines receive permission to fly to Europe

Two more Kazakhstani airlines have undergone the authorization procedure of the European Aviation Safety Agency and have received permission to fly to Europe, Kazpravda.kz reports.

“Airlines FLY JET.KZ and Jet Airlines have passed the authorization procedure for flights to Europe. Currently, seven local airlines have the opportunity to fly to the countries of the European Union. Earlier, JSC Air Astana, JSC Prime Aviation, JSC Kaz Air Jet, Comlux-KZ Airline LLP, SCAT JSC have been authorized by the European Aviation Safety Agency (EASA). Recall that all restrictions on flights to Europe were removed from the Kazakh airlines,” the press service of the Ministry of Foreign Affairs of Kazakhstan reports.

Kazakhstan says speed of trains on China-Europe transport corridor should increase

To further increase the volume of rail transit traffic along the East-West transport corridor via Kazakhstan, it is necessary to increase the speed of trains on the entire route from the point of departure to the destination point to not less than 1200 km per day or more, Maksat Kabashev, vice president for development of Kazakhstan Temir Zholy (KTZ) national railways company, said last week at the International railway business forum “Strategic partnership 1520: Central Europe” in Vienna, held with the participation of heads of national railway companies, transport officials of the European Commission, representatives of transport, logistics, machine-building and construction companies of the EU and CIS countries, KTZ reported.

Kabashev also noted the need to increase the capacity of border crossings on the border with Europe, to increase the volumes of the backload in the direction of Europe-China, and also to develop the transport of goods using paperless technologies.

He informed about priority directions of the development of the transport and logistics complex of Kazakhstan, and spoke about measures for the development of multimodal logistics, freight transportation, implementation of the “Digital Railway” project, and the provision of a barrier-free transport environment.

The basic point in the formation of transcontinental service through the territory of Kazakhstan is the logistics assets in the port of Lianyungang (China). Regular service in trains from/to Kazakhstan via Dry Port to FEZ “Khorgos-Eastern Gate” on the Kazakhstan-Chinese border has been established, which is a consolidating and distribution point for transit cargo flows through Kazakhstan, including to Europe.

An additional impetus for the growth of traffic in the East-West communication is the entry, in 2017, by the international shipping company COSCO and the port of Lianyungang into the capital of the Dry Port in the territory of the FEZ “Khorgos - Eastern Gate”. This strategic partnership is a catalyst for increasing traffic volumes, attracting new customers and investments.

“For the development of the East-West corridor, we set the task to bring the speed of transit container trains in the China-Europe transport connection to a level of not less than 1150 km/day, improve processes and minimize the time of container handling at Dostyk and Altynkol rail stations,” Kabashev said, Times of Central Asia reported.

Volume of cargo transportation up in Kazakhstan in 2017

The Transport Committee of the Kazakh Ministry of Investments and Development summarized the results of its activities for 2017 on February 15, the press service of the ministry reported.

Thus, the volume of cargo transportation by road, rail and water transport increased by 129 million tons and amounted to 3.576 billion tons last year. At the same time, motor transport accounts for 3.3 billion tons of cargo, railroad transport - 272.1 million tons, and water transport - 4.2 million tons.

There is also an increase in transit traffic by 20% or 3.7 million tons. The total volume of transit was 18.1 million tons, including 2.1 million tons of road transport, 16 million tons of rail transport, and less than a ton of water transport.

According to the results of the work of the territorial bodies of the Transport Committee, more than 193,000 trucks (9% more than in 2016), more than 15,000 railway rolling stock (3 times more than in 2016), 875 passenger trains (3.5 times more than the previous year) were checked.

The increase in the number of violations detected was 28% compared to 2016 (92,254 versus 127,252 cases). The sum of collected penalties amounted to 1,009 billion tenge (\$312.4 million), showing an increase of 4% for the year.

During the collegium, the need to strengthen control over the passage of heavy vehicles was noted. To this end, a law on transport issues is planned for 2018, within which automated control on roads, indicating the grounds for stopping vehicles, will be introduced.

Work will also continue on the use of special automated measuring means for vehicle weight parameters (CAIS).

The Contact Area Information Sensing (CAIS) system includes a sensor on the tire's internal wall that monitors its interaction with the road surface.

In general, by the end of the year it is planned to increase the number of launched CAIS to 20 units in the country.

The ministry noted that the share of Kazakhstan carriers in the international transport market reached 52% for the first time in 2017.

To achieve this, the bodies of transport control increased the number of checked foreign vehicles by 7.3%, paid out 95% of the notifications from the external border of the Eurasian Economic Union and increased the volume of issuing foreign permits to Kazakh carriers by 12.8% compared to 2016, AzerNews reported.

Kazakhstan plans to transport 100,000 tons of cargo by sea in 2018

The bill on ratification of the Protocol of 2005 to the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation was considered at the enlarged meeting of the Senate Committee on Foreign Relations, Defense and Security, Kazinform reported.

"In 2005, the International Maritime Organization adopted a number of significant amendments to the convention. In particular, the protocol of 2005 expanded the list of crimes classified as terrorist acts. Each state is charged with the obligation to provide in its legislation the responsibility of individuals and legal entities for the commission of terrorist acts. A mechanism for providing assistance to prevent terrorist acts has been defined. For us, the protocol of 2005 is of great urgency, because today Kazakhstan's ships openly start working in the open seas," Roman Sklyar, the country's First Vice-Minister for Investment and Development, said while presenting the bill.

He also said that today there are more than 300 vessels, of which 12 vessels make international voyages, in the Kazakh fleet.

"Over the past year domestic vessels transported 35,000 tonnes of cargo. In the current year, the planned volume of transportation will amount to about 100,000 tons, it will be oversized cargo mainly. Also on the Black Sea, two tankers of Kazmortransflot company carry transportation of oil from the port of Novorossiysk to the Romanian port," Sklyar added

It is planned to start shipping oversize equipment from the Baltic sea to the port of Aktau in Kazakhstan for oil and gas projects starting from this year and till 2022, according to the minister.

He recalled that thanks to the agreement reached with the Russian side, today, for our ships, the permissive procedure for passage along the inland waterways of the Russian Federation has been simplified.

“At the moment, according to the international organization, 41 states have joined this convention, and most importantly, almost all the countries of the Black Sea, Mediterranean and Baltic regions. Ratification of the protocol will not require changes to the current legislation,” the minister noted.

The provisions of the Protocol fully comply with the legislation of Kazakhstan, including - regarding the possibility of using the vessel as a weapon of crime, AzerNews reported.

AGRICULTURE

KazAgro should be turned into KazAgrobank

The main instrument for implementing agricultural policy in Kazakhstan is the KazAgro holding. Through it, the Ministry of Agriculture is trying to develop crop production, livestock and food production by providing financing at discount rates, consultations and other services.

However, according to the estimates of the investment bank Halyk Finance, the share of agriculture in the economy of Kazakhstan is steadily declining. Before the development of oil fields in the Republic of Kazakhstan, the share of agriculture in the economy exceeded 30%.

But even when Kazakhstan’s oil revenues declined with the fall of oil prices, the share of agriculture did not increase.

One only has to look at the financial indicators of KazAgro taken from the stock exchange’s website in order to understand how effectively the holding operates, whether it has a future and whether it will be able to provide agriculture with undisrupted financing, and not just take money from the state.

In 2014, the holding showed a profit of 5.6 billion tenge, in 2015 a loss of 99.3 billion tenge, and in 2016 the profit was 18.6 billion tenge. That is, the holding’s losses in 2015 were more than the profits in 2014 and 2016.

In addition, for the first three quarters of 2017, KazAgro announced a loss of 63.1 billion tenge.

It means that in the period from January 2014 to October 2017, the total loss of the holding was 162.4 billion tenge, while its profit for almost three years was 24.2 billion tenge.

This means that the holding is unprofitable. And since it continues to give money to farmers, KazAgro covers its losses from state funds.

This is how a large picture of the holding company’s assets and liabilities looks.

In general, asset growth seems good. But if in 2015 the assets of the holding grew by 17%, in 2016 by 14.7%, for the first three quarters of 2017 they increased only by 5.8%.

This raises the question that the more the holding accumulates debt, the wider the gap between liabilities and assets to the latter’s detriment is growing, and this is the indicator of the company’s sustainability in the future. One can put it as follows: from every 100 tenge of the holding’s assets almost 75 tenge were borrowed.

For many companies and banks, this is a healthy indicator, and even in the case of agriculture, an indicator of 74.7% is acceptable, but the growth of liabilities outstrips the growth of assets.

During the period under review, KazAgro’s assets grew by 41.9% and liabilities by 66.7%, which means that the debts of the holding grow faster, while the only guarantee of its solvency is the government rather than business performance.

While the government stands for KazAgro, and the National Fund and the UNPF stands for the government, everything looks good.

But tax revenues to the budget of Kazakhstan make up almost half of budget expenditures. The rest we spend from the National Fund and we finance the budget deficit from the caps of the UNPF.

In addition, KazAgro does not seek to borrow funds on the open market let alone to attract money from credit institutions, but increasingly relies on the government and takes money from it under off-market conditions.

In 2014, the amount of the holding's liabilities to the government was 30 billion tenge, in 2015 it was 40.7 billion tenge, in 2016 69.5 billion tenge, and in 2017 130 billion tenge. For three years the amount has increased three-fold.

However, in the indicators of KazAgro there is also a positive momentum which is that the collection of cash on interest income is improving. In 2016, this indicator was 84.4%. That is, from the declared 100 tenge of interest income the holding collected 84.4 tenge. This is a really good indicator, better than many commercial banks. That is why it causes fear. Can farmers repay their loans in cash that easily? And yet the indicator is not bad.

In addition, the holding company through its subsidiaries does not cease to allocate money to farmers. The amount of loans granted to the sector has already reached 340.7 billion tenge.

But for some reason KazAgro no less engages in allocating money to commercial banks and other credit institutions. As of December 31, 2016, loans provided by the agricultural holding to second-tier banks amounted to 368.716 billion.

It is clear that this is one of the business models of the quasi-public sector: to get moneys from the state, place them in commercial banks and then live on the interest from them.

Apparently, 80% of the function of KazAgro is financing. And in this regard, it will be logical to disband KazAgro and reshape it into an agrarian bank.

The main problem of the agricultural holding is precisely the non-transparency of decision-making about financing, the complexity of the organisational structure and off-market investment decisions.

Therefore, it makes sense to return to the proposals of a number of experts and parliamentarians about the reorganisation of KazAgro into KazAgrobank. Kazakhstan has a positive experience with state-run niche banks such as Zhilstroysberbank, which provides housing for tens of thousands of citizens.

Plus, after the creation of KazAgrobank it can be subordinated to market requirements, make the decision-making process transparent and simplify the procedure for obtaining funds for agricultural producers. The most important thing is to separate the process of making financial decisions from the Ministry of Agriculture and introduce a market structure for corporate governance.

In the event that KazAgro continues to exist in its present form, it will remain one of the barriers to agricultural development, Kapital reported.

In 2018, Kazakhstan to increase the planted areas under agricultural crops to over 20 million hectares

In 2018, Kazakhstan plans to increase the planted areas of agricultural crops to 21.8 million ha, declared the press-service of the Prime Minister of Kazakhstan on February 22. According to the announcement, in 2018 the planted areas under oilseeds will total nearly 2.6 million ha, and grain areas – 14.7 million ha. However, the planted areas under wheat will decrease by 500,000 ha compared with the figures in 2017, and total 11.4 million ha.

It was noted that within frames of digitalization of the agricultural industry, it is planned to develop e-maps of fields with geo-positioning, vegetation, agro-chemical, hydro-geological, irrigation and meteorological layers, APK Inform reported.

The number of pigs in Kazakhstan in January grew by 14.6 thousand heads, or 1.8%

The descending line in the dynamics of the pigs' population, which began in October, was over by the beginning of February. Peak indicators of the number of these animals in 2017 were recorded at the beginning of August with 967.4 thousand heads. In January, the

number of pigs increased, but not in all regions of Kazakhstan. Over the period, the number of pigs increased in nine regions, while in four it decreased, and in Mangistau it remained at the same level.

According to the Committee on Statistics of the Republic of Kazakhstan, as of December 1, 864.1 thousand pigs were registered in the farms of the republic, and by January 1 819.4 thousand heads. As a result, the number of these animals declined in December by 44.7 thousand heads or by 5.2%. As of February 1, 834 thousand heads were kept in the farms of the republic. As a result, in January the number of pigs in Kazakhstan grew by 14.6 thousand heads or by 1.8%.

The highest increase of pigs in January was noted in the North-Kazakhstan region, from 142 on January 1 to 147.3 thousand heads on February 1, by 5.3 thousand heads, in Karaganda from 81.7 to 84 thousand by 3.1 thousand, in Pavlodar from 62.5 to 65 thousand, up by 2.5 thousand and in the Aktobe region from 50.3 to 52.7 thousand, up by 2.4 thousand heads .

The decrease in the number of livestock in the regions of Atyrau, Kyzylorda and South Kazakhstan is insignificant and does not exceed 0.5 thousand heads, except for the Kostanai region, where the number of pigs decreased by 1.8 thousand heads.

The largest number of pigs in the number of more than 100 thousand heads is located in three regions of the republic. These are Kostanai with 161.2 thousand heads, North Kazakhstan with 147.3 thousand heads, and the Akmola region with 117.9 thousand heads. Together in these areas, 426.4 thousand heads, or 51.1% of the total national population, are kept, according to Zerno Kazakhstan.

Precise agriculture technology, digitization introduced to boost productivity

The Kazakh Ministry of Agriculture has presented plans to focus this year on introducing precise agriculture technology and intensive irrigation, livestock development and renewing agricultural machinery. The four key areas are expected to increase labour productivity in the agro-industrial sector.

To increase technical equipment, 5.5 billion tenge (\$17 million) will be allocated to subsidise the agricultural leasing interest rate and raise the investment subsidy by 20 billion tenge (\$62 million) by reducing inefficient subsidies.

“We plan to introduce electronic field mapping, accurate weather data and wireless sensors, space monitoring and other solutions to validate precision agricultural practices. We will develop an economic model for introducing precision technologies for different types of farms and an entirely new system of subsidy. We will launch pilot projects in certain farms in cooperation with local executive bodies. The educational institutions, research institutes and the world’s leading companies that are engaged in agriculture digitization and development of technologies will assist in training farmers,” said Deputy Prime Minister and Minister of Agriculture Umirzak Shukeyev during the February 13 governmental meeting.

The approach to cooperatives will also be revised to increase meat export. The action is expected to encourage cooperation of small and medium-sized businesses with large feedlot sites to ensure marketing, technology distribution, knowledge and access to financing.

“We expect to ensure the investments in technology up to 240 billion tenge (\$742 million) by 2021 with a gradual increase of support measures. The renewal of agricultural machinery will reach approximately 6 percent in three years; now, it stands at 2%,” he added.

Measures will also be taken to rehabilitate irrigation. Water supply will be restored this year to 65,000 hectares.

The agricultural producers and processing enterprises will join as meat cooperatives to solve the issues concerning processing agricultural products. Agricultural science aims to focus mainly on introducing new technologies rather than inventing livestock breeds.

“There are three universities and 23 research institutes at the ministry. This number will be reduced to 12 due to consolidation. Agricultural universities will become research institutions with research institutes and farms,” said Shukeyev.

An effective system ensuring epizootic, veterinary and sanitary well-being will be developed to increase the efficiency of state control and supervision. Veterinary border control will be established and unified approaches developed in cooperation with Russian and Kyrgyz veterinary services to combat transboundary animal diseases, monitor quality control of vaccines at the World Organisation for Animal Health (OIE) laboratories and implement against nodular dermatitis and foot and mouth disease.

January’s agriculture, forestry and fishery gross output was 113.4 billion tenge (\$350 million), a 3.7% increase compared to the corresponding month in 2017, reported the committee on statistics.

UAE businessmen ready to invest in organic production of Kazakhstan

Representatives of the UAE business community are ready to invest in organic production of Kazakhstan. This was announced at the meeting of the Chairman of the Board of Kazakh Invest company Saparbek Tuyakbayev and the Ambassador of the United Arab Emirates to Kazakhstan Mohammad Ahmad Aljaber in Astana, Kazpravda reports.

According to the press service of Kazakh Invest, the sides outlined concrete steps to intensify investment cooperation between the countries, discussed the possibilities of implementing joint projects in the field of logistics, tourism cluster and agro-industrial complex.

“We are ready to invest in the agro-industrial complex projects, in particular, into organic production, as well as in the logistics projects of Kazakhstan,” stressed Ambassador of the United Arab Emirates in Kazakhstan Mohammad Ahmad Aljaber.

In addition, during the meeting, Kazakh Invest submitted investment proposals for 50 key projects for a total of about \$20 billion for further study by the UAE businessmen.

It also became known that representatives of the business community of Kazakhstan will participate in the investment forum Annual Investment Meeting, which will be held in April this year in Dubai. During it, presentation of investment opportunities of Kazakhstan will take place, a number of bilateral meetings with Emirates companies interested in investing in Kazakhstan will be held.

Following the meeting, Saparbek Tuyakbaev and UAE Ambassador to Kazakhstan Mohammad Ahmad Aljaber expressed their readiness to consider the possibility of concluding an agreement on investments at the intergovernmental level. In addition, it was decided to develop a joint Road Investment Map in the shortest possible time and hold meetings on a regular basis. Thus, the next joint event is scheduled for the end of February.

In Kazakhstan there are about 200 joint ventures with the UAE. The main spheres in which the Emirates companies operate are the agro-industrial complex, oil refining and development of infrastructure of the oil and gas sector, chemical industry and construction. The United Arab Emirates is on the list of priority countries for attracting investments.

EXHIBITIONS IN KAZAKHSTAN (March 2018)



ShymkentBuild

South Kazakhstan International Exhibition on Construction and Interiors, Ceramics and Stone, Fenestration, Heating and Ventilation, Road Construction

13 – 15 March 2018, Shymkent

Organizer: Iteca

www.shymkentbuild.kz



AgriTek Astana

Kazakhstan International Exhibition for Agriculture

14 – 16 March 2018, Astana

Organizer: TNT Productions

www.tntexpo.kz



FarmTek Astana

Kazakhstan International Exhibition for Animal Husbandry and Livestock Breeding

14 – 16 March 2018, Astana

Organizer: TNT Productions

www.tntexpo.kz



KAZNEFTEGAZSERVICE-2018

Annual Conference on Oilfield Construction and Engineering

16 March 2018, Atyrau

Organizer: KazService

www.kazneftgazservice.com



HomeDeco Kazakhstan

International Exhibition for Home Textile and Interior Design

26 – 29 March 2018, Almaty

Organizer: Turkel Fair Organization

www.homedecofair.com

Exhibitions dates are subject to change. For a complete overview and more information on exhibitions in Kazakhstan, please visit:

www.iteca.kz

www.astana-expo.kz

www.expocentralasia.com

www.tntexpo.kz

www.atakentexpo.kz

<http://10times.com/>

CONTACTS

Embassy of the Kingdom of the Netherlands

62, Kosmonavtov Str.
Chubary mcrd, 3rd floor
010000 Astana
T: +7 7172 555450
ast@minbuza.nl

Embassy Office in Almaty

103, Nauryzbai Batyr Str.
050022 Almaty
T: +7 727 2503773
alm-ea@minbuza.nl

Comments and subscriptions

The Economic Newsletter on Kazakhstan appears every month and is distributed by e-mail. Back issues can be downloaded from our website <http://kazakhstan.nlembassy.org/>.

If you would like to be added to our mailing list or if you wish to unsubscribe, or if you have any comments or suggestions regarding the Newsletter, please contact:

Ms. Zulfira Sadykjanova
tel.: +7 (727) 2503773
e-mail: zulfira.sadykjanova@minbuza.nl / alm-ea@minbuza.nl

Ms. Roza Zainutdinova
tel. : +7 (727) 2503773
e-mail : roza.zainutdinova@minbuza.nl / alm-ea@minbuza.nl

Mr. Medgat Olzhayev
tel.: +7 (7172) 555450
e-mail: medgat.olzhayev@minbuza.nl / alm-ea@minbuza.nl

Please mention your company and contact details.