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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

Kazakh president ratifies budget amendments

President Nazarbayev has ratified amendments to the state budget for 2016-2018. Minister of National Economy, Kuandyk Bishimbayev says macroeconomic indicators for 2016 were updated based on the current world economy, commodity markets, and Kazakhstan's development results since the beginning of the year. The average oil price increased from \$30 to \$35 per barrel, the index of changes in metal prices to the level of 2015 reduced from 15% to 12.7%, while the weighted average exchange rate for the US dollar remained at 360 tenge per dollar, he said. Oil production rose from 74 million tons to 75 million tons amid the expected launch of the Kashagan oil field in October 2016, Bishimbayev said. GDP growth will remain at the previous level of 0.5% in 2016, he noted. Nominal GDP is expected to hit 44.354 trillion tenge, which is 187.5 billion tenge more than the approved in February indicator. GDP per capita will be \$6900, Akipress reports.

IMF decreases forecast for Kazakh GDP growth

The International Monetary Fund (IMF) has decreased its forecast for Kazakhstan's GDP growth in 2016 and 2017. According to the IMF's World Economic Outlook report published in October, Kazakhstan's economy would contract by 0.8% in 2016 amid a drop in export revenues. Growth in Kazakhstan is projected to rise gradually, supported by increased hydrocarbon production, as well as some recovery in oil prices and more competitive currency. In 2017 Kazakhstan's real GDP growth is expected to reach 0.6% and in 2021 – 4.6%, according to the IMF. In 2015, real GDP growth in Kazakhstan hit 1.2%, the report said. Inflation in Kazakhstan is projected to reach 13.1% in 2016, 9.3% in 2017 and 7.1% in 2021 compared to 6.5% in 2015. The unemployment rate in Kazakhstan will remain at 5% level in 2016 and 2017 as it was in 2015. In the World Economic Outlook published in April 2016, IMF forecasted Kazakhstan's GDP growth at 0.1% in 2016 and 1% in 2017. Inflation was forecasted at 12.1% in 2016 and 9.3% - in 2017 in the previous report. According to Kazakhstan's Statistics Committee, inflation rate in Kazakhstan hit 5.6% in January-September 2016. Kazakhstan expects that inflation will not exceed 8% in 2016. Kazakh government forecast for GDP growth for 2016 hits 0.5%, Trend reports.

Fragile Kazakhstan struggles for economic growth

Kazakhstan's glitzy capital yields few clues that the country is flirting with recession. The Ritz-Carlton group is set to open a luxurious hotel here this year, as will St. Regis in March 2017, and the Abu Dhabi Plaza is under construction as its planned 88 floors continue to lurch skyward. Starbucks opened its first cafe in the city in September, as did McDonald's in March. Both are expecting to open second outlets. New restaurants and bars are popping up, including Zoloto, owned by Russia's Bulldozer Group and Ocean Basket, one of South Africa's largest seafood restaurant chains. Taxi-app service Uber launched in Astana in June. Construction activity is frenetic, with a \$2 billion pipeline of government infrastructure projects underway for next year's Astana Expo-2017. Most units in residential real estate projects pre-marketed by developers BI Group and Bazis-A Group have been snapped up and are nearing completion. Yet by most accounts, Kazakhstan is facing its worst economic crisis in 20 years. Hit by a triple whammy of slumping oil prices, a geopolitical crisis between Russia and the West, and a slowdown in the Chinese economy, Kazakhstan's gross domestic product grew just 0.1% year-on-year in the first half of 2016, following a paltry 1.2% in 2015.

Business confidence has been shaken by extreme currency volatility, with the tenge having declined from 140 to the dollar to around 340 over the last 30 months, following the central bank's move to partly float the currency.

Among the industries to be hit by this downturn is the cement sector, despite the ongoing construction projects. Kazakhstan's cement consumption grew between 15% and 30% annually over the last decade -- with a single annual fall in sales in 2009 -- but 2016 is looking a lot less rosy.

"We anticipate cement demand nationwide to decline by up to 5% year-on-year this year, from 2% growth last year," Javier del Ser, CEO of London-listed Steppe Cement, one of the country's largest cement producers, told the Nikkei Asian Review.

Other economic indicators are also sparking fears of a prolonged downturn. Industrial production declined 7.5% year-on-year in August, one of the sharpest monthly falls in a decade.

Consumer sentiment remains fragile, with retail sales down 2.5% year-to-date compared to the same period in 2015. Average primary real estate prices in major cities are down nearly 50% in dollar terms from their 2008 highs, according to industry portal Krisha.kz.

Away from Astana, the economic slowdown has been more visible, including in Aktau, a port city on the Caspian Sea that has long been one of Kazakhstan's fastest growing, according to the Nikkei Asian Review.

Kazakhstan gradually to raise excise tax on alcohol and tobacco products by 2019

The Ministry of National Economy offers to increase excise duties on alcohol and tobacco until 2019, said the head of department Kuandyk Bishimbayev during Kazakhstan Government meeting.

"It is proposed a phased increase of excise duties in order to strengthen the fiscal functions of excise duties on alcoholic beverages and tobacco products. Tax Code set the size of excise duty for 2014-2016. The excise duty has not been established for 2017-2019," Kuandyk Bishimbayev said.

The Minister said that it is proposed to set excise rates on alcohol -2 thousand tenge per 1 liter in 2017 and to rise it to 2 550 tenge in 2019; 39 tenge per 1 liter on beer drinks and increase it to 57 tenge, 6200 tenge on tobacco products in the amount of 1 000 pieces with increase up to 8 700 tenge.

"In addition, it is proposed to establish a zero rate of excise duty on ethyl alcohol in order to avoid double taxation and enhancing the competitiveness of domestic producers in the export of alcoholic beverages," Kuandyk Bishimbayev said, according to Primeminister.kz.

EBRD to allocate 8.61 billion tenge to support Kazakhstan's business sector

The DAMU Entrepreneurship Development Fund JSC and the European Bank for Reconstruction and Development have signed an agreement for 8.61 billion tenge in financial support to businesses in Kazakhstan, reports a press message from the Kazakh prime minister reports.

The loan deal was inked by EBRD Vice President Philip Bennett, Chairman of Bank CenterCredit Vladislav Lee and Chairman of the Board at DAMU Kanysh Tuleushin.

"6.75 billion tenge will go for SME support and 1.86 billion tenge for the Women in Business program," the Baiterek Holding said.

Chairman of Baiterek, Yerbolat Dossayev also met with Philip Bennett in Astana. They discussed cooperation for the development of small and medium-sized businesses, attraction of funding in national currency, housing construction financing, cooperation for the development and structuring of investment projects, the privatization of state assets, as well as the development of insurance products, according to Akipress.

ADB to provide \$200 million for SMEs in Kazakhstan

The Asian Development Bank (ADB) has approved a \$200 million equivalent loan to provide much-needed financing in local currency to micro-, small- and medium-sized enterprises (MSMEs) in Kazakhstan.

“The funds will help finance working capital and productive investments of MSMEs and boost lending to women entrepreneurs, especially in regions outside Astana and Almaty,” said Giovanni Capannelli, ADB Country Director for Kazakhstan.

The loan will be channeled through the Damu Entrepreneurship Development Fund, a government-owned agency mandated to provide loans and guarantees to MSMEs through qualified microfinance organizations and local banks. The ADB loan will be provided in tenge to reduce currency-related risks of financial institutions and their borrowers.

In addition to the loan, the ADB will provide a technical assistance grant of \$500,000, financed by the Government of Luxembourg through the Financial Sector Development Partnership Special Fund to help improve the credit risk management of selected financial institutions and expand financing opportunities for MSMEs.

In 2015, there were 1.1 million MSMEs registered in Kazakhstan including individual entrepreneurs, small enterprises, and medium-sized enterprises. While MSMEs contribute to more than 25% of the country’s gross domestic product, only 19% of them have ever received a bank loan.

Insufficient documentation, poor credit history, and issues with property titles for collateral tend to be hampering MSME access to financing.

ADB support will allow MSMEs to access financing which is needed to maintain operations, invest in productive technologies, and grow business, thereby contributing to job protection, economic stability, and diversification under the current challenging conditions.

Since joining ADB in 1994, Kazakhstan has received around \$4.9 billion in sovereign and non-sovereign loans, and guarantees for agriculture and irrigation, education, finance, transport, water supply and sanitation sectors, according to Trend.az.

Visa-free entry to Kazakhstan to be offered to 48 countries

In 2017, visa-free entry to Kazakhstan will be allowed for nationals of 48 countries, according to Investment Minister Zhenis Kassymbek.

Currently, the visa-free regime covers 20 economically developed nations: Australia, Hungary, Italy, Monaco, Belgium, Spain, the Netherlands, Norway, Sweden, Malaysia, the United Arab Emirates, Singapore, UK, USA, Germany, Finland, France, Switzerland, Japan and South Korea. From the new year, it will expand to include the countries of the Organisation for Economic Cooperation and Development (OECD) and 14 other economically developed and politically stable countries, Kassymbek said. He noted that frequent guests in Kazakhstan are Russians, Turks, Italians, Germans, Americans, Brits and Dutch. At the same time, domestic tourism is increasing. Over six months of this year, it rose about 6% compared to the same period last year. Popular destinations remain Borovoye, Almaty, Alakol and Bukhtarma.

International pavilions EXPO-2017 to be commissioned in early November

In early November, NC Astana EXPO-2017 JSC will be officially ready to commission all the pavilions, which are under construction, to participating countries, said Deputy Chairman of the Board of NC Astana EXPO-2017 JSC Yerbol Shormanov during a panel session.

During the session titled “New opportunities for the development of tourism between Kazakhstan and the Russian Federation,” the two sides exchanged ideas and achievements in the field of tourism market development, discussed the potential and possibilities of further relations between the two countries in terms of development of integration processes in the Eurasian space.

EXPO-2017

“EXPO will be held from June 10 to September 10, 2017. To date, 103 countries, 17 international organizations have confirmed already their participation. Thus, we have crossed the scheduled Rubicon. Our task was to involve 100 countries and 10 international organizations,” Yerbol Shormanov said.

According to him, the Russian pavilion is located in a very favorable place in the exhibition area, next to the largest shopping center. Russian pavilion area will be 1008 square meters.

“Until the end of October, we are completing almost all major construction work, and we will be ready to formally transfer all constructed pavilions with our member countries in early November,” Yerbol Shormanov said.

It should be noted that more than 5 million visits are expected during the exhibition.

According to research conducted by social marketing, 85% of visits will make the citizens of our country, 15% - foreigners, according to Primeminister.kz.

100 international energy startups selected for Expo-2017

The Ministry of Energy, represented by the Information and Analytical Oil and Gas Center is holding an international competition for renewable and alternative energy sector start-ups, called - #NEWENERGY global startup fest.

The Ministry of Energy commented NEWENERGY will be one of the most important events in Kazakhstan and the world, because it will contribute to the promotion of the Expo-2017 exhibition.

In addition, the competition will enhance Kazakhstan’s investment attractiveness, bring in investment and venture capital funds in the energy and related industries, create conditions for innovation and a start-up culture in the country and help develop renewable and alternative energy sources, according to Strategy 2050.

KeTTHA mulls bringing 50 Malaysian companies to Kazakhstan for energy expo

The Energy, Green Technology and Water Ministry (KeTTHA) is planning to bring 50 Malaysian companies to take part in the Astana Expo-2017 in Kazakhstan next year.

Its Minister Datuk Seri Dr Maximus Ongkili said the companies will be those focusing on green technology and future energy, in line with the expo’s theme Future Energy.

“Other ministries such as tourism, agriculture, domestic trade cooperatives and consumerism, international trade and industry and higher education will also be involved,” he told reporters at a press conference after the officiating the International Greentech and Eco Products Exhibition and Conference Malaysia (IGEM) 2016 here.

The Astana Expo, which will be held in Kazakhstan’s capital city, is a three-month exhibition that will focus on future energy as well as innovative and practical energy solutions. The international exhibition will be hosted by the Kazakhstan government from June 10 – September 10, 2017.

To date, the expo has exceeded its target of 100 participating countries.

Maximus said Malaysia will participate in the international dialogue on the need to employ energy resources more efficiently to lessen environmental damage and address energy security.

He also said the expo will provide a platform for Malaysia and Kazakhstan to enhance bilateral relations especially in trade, which stood at around \$100 million in 2015.

KeTTHA is the lead ministry and Malaysian Green Technology Corporation (GreenTech Malaysia) is the implementing agency for the Malaysian Pavilion, which will span 727 square meters within the 25-hectare futuristic expo site in Astana city center.

A dedicated counter was created within KeTTHA’s booth at KL Convention Center at the International Green Tech & Eco Products Exhibition and Conference Malaysia (IGEM) 2016 to promote Astana Expo-2017.

Kazakhstan, one of the world’s largest oil and gas producers, has a target to meet 50% of its energy needs from renewable sources by 2050, according to NST.

**EURASIAN
ECONOMIC
UNION**

EEU-Vietnam free trade agreement enters into force

The free trade agreement between the Eurasian Economic Union member states and Vietnam went into effect as of October 5, the Eurasian Economic Commission said in a statement on 6 October.

The Eurasian Economic Union and Vietnam signed a free trade agreement (FTA) on 29 May 2015 in Kazakhstan.

This was the first such deal with foreign countries for the EEU, which unites Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

The agreement will give the EEU access to a 90-million person market, as well as the opportunity to enter the markets of other ASEAN countries and the Asian region as a whole.

According to the agreement, Vietnam opens the market for many export products from the EEU:

- Food products: beef, pork and poultry meat, processed products, canned fish, seeds, flour, dairy products, cheese, vegetable oil, animal feed, alcoholic beverages;
- Industrial products: precious stones, tires, pipes, vehicles, mechanical equipment, electronic equipment, automobile parts, steel products, agricultural machinery, buses, cars, trucks, oil, and other.

The agreement not only covers preferential regimes, but also intellectual property rights and a number of other issues.

Thanks to the FTA deal, trade between the EEU and Vietnam is expected to grow to \$10 billion until 2020 from \$4 billion in 2015.

The EEU is designed to ensure free movement of goods, services, capital and workforce within the Union, Akipress reports.

EEC intends to resolve phytosanitary control on the Kazakh-Kyrgyz border

At a meeting, the Board of the Eurasian Economic Commission (EEC) has adopted decision aimed at ensuring the free movement of goods in the Eurasian Economic Union on the Kazakh-Kyrgyz state border.

“The Republic of Kazakhstan carries quarantine phytosanitary control on the Kazakh-Kyrgyz state border, while the decision of the Supreme Eurasian Economic Council on May 8, 2015 No. 6 removed the control,” reported in the commission.

It is noted that the Kyrgyz Republic unilaterally withdrew quarantine phytosanitary control on the Kyrgyz-Kazakh state border. The current situation leads to significant delays on the border during the export of regulated goods from the Kyrgyz Republic to the Republic of Kazakhstan.

At the same time, Kazakhstan Government requested to inform the Eurasian Economic Commission on the taken measures for the execution of the provisions of the EAEC Treaty within 10 calendar days from the date of entry into force of the decision.

“The decision is aimed at removing existing barriers in mutual trade, which prevents the free movement of goods within the Union. At the present stage of integration, it is essential to intensify efforts to remove obstacles, as this is one of the main goals of the EAEC,” said a member of the Board (Minister) for the Internal Market, Information, Information and Communication Technologies of EEC Karine Minasyan, Primeminister.kz reports.

BANKING

Central bank reduces base rate

The National Bank of Kazakhstan reduced the base rate to 12.5% with a corridor of +/- 1 percentage points as of October 3, said the bank's message.

The base rate was 13% in Kazakhstan since the middle of July. Earlier, the rate hit 15%.

“The reduction in the base rate reflects positive trends in the key segments of the external market, as well as a stable situation in the domestic financial market,” the bank said.

A further decision on the base rate will depend on the trend in actual and forecasted inflation and currency preferences of the public and market.

Provided the slowdown in inflation processes and the trend towards a steady decline in the annual inflation are confirmed, as well as a stable growth of tenge deposits is observed, a reduction in the base rate cannot be ruled out by the end of the year.

The next decision on the base rate will be announced on November 14, 2016, Trend reports.

Central bank's international reserves grew moderately in September

The gross international reserves of the National Bank rose by \$0.7 billion to \$31.4 billion in September, an increase of \$3.5 billion since the start of the year.

The National Bank's gross international reserves jumped \$0.7 billion to \$31.4 billion in September. This represents an increase of \$3.5 billion since the start of the year.

Foreign currency assets rose by \$426 million, +\$520 million over the first nine months. Due to a slight increase in value and volume, gold assets rose \$282 million, an increase of \$3 billion since the beginning of the year.

On a net basis, the National Bank's interventions on the foreign exchange market showed null in September.

On the back of favorable oil prices -- which grew by 6%, the tenge appreciated 1.4% month-on-month against the US dollar in September, reaching the peak level of this year.

In turn, foreign exchange trading volumes fell on the KASE and the over-the-counter market.

The National Bank's international reserves continue to grow, mainly due to building gold stocks, while foreign currency assets have increased only marginally since the beginning of the year.

Gold assets out of the National Bank's total reserves already exceed one-third -- which is around two times higher than the same figure for Russia.

In relative terms, gold is now equal to almost 9% of GDP and its further accumulation in the National Bank's reserves will be problematic, Halyk Finance reports.

Deposits increase into Kazakh banks

The volume of deposits in Kazakh banks rose by 3.2 trillion tenge (331.74 tenge = \$1), or by 40% in August 2015-August 2016, Finprom.kz analytical center said in its report.

The volume of retail deposits jumped by 1.9 trillion tenge, corporate deposits rose by 1.3 trillion tenge during the period.

Revaluation of foreign currency deposits after the tenge devaluation is among the reasons of the sharp increase in the banks' deposit portfolio.

Currently, foreign currency deposits are less attractive for the Kazakh banks due to increased risks coming from freely floating tenge.

The banks aim at national currency deposits. The average rate on retail deposits in tenge has risen from 8% to 12% since the beginning of 2016.

Meanwhile, interest rates on retail deposits in foreign currency fell from 3.4% to 2.9% in this period.

In January-August 2016, the highest increase in retail deposits portfolio was recorded in Kazakhstan's Halyk Bank, Tsesnabank and House Construction Savings Bank.

Halyk Bank increased retail deposits portfolio by 77.6 billion tenge, or 5.5%. Its share in the retail market rose from 20.6% to 20.7% in this period.

Tsesnabank boosted its retail deposits portfolio by 75.8 billion tenge, or by 15% in January-August.

The bank's share in the market increased from 7.3% to 8%.

House Construction Savings Bank, the entire portfolio of deposits of which is in tenge, increased its deposit portfolio by 67.3 billion tenge or 22.5%.

The bank's market share increased from 4.3% to 5.1%, Trend reports.

Kazakh banks up funding of non-resource based economy

Kazakh banks increased funding to the non-resource based economy (manufacturing, transport and communications) by 22% to 1.2 trillion tenge (332.14 tenge = \$1) in January – August of 2016, Finprom.kz analytical center reported.

The loan portfolio of this spheres of economy reached 1.9 trillion tenge at the end of August.

Against this background, the profitability of the companies in the non-resource based sectors rose to 18% in January - June 2016 compared to 9% in the same period of 2015.

The sharp increase in funding of the non-resource based sector started in 2015, when the volume of loans to manufacturing, logistics and telecom enterprises jumped by 27% compared to 2014 to 1.7 trillion tenge. The in the previous two years, an annual growth in loans in this sector averaged 5%.

The bulk of the loans issued to the non-resource sector since the beginning of the year is for a period up to one year. However, long-term loans amount to 78% of the sector's loan portfolio.

The Development Bank of Kazakhstan issued 73% of all long-term loans to the non-resource companies, according to Trend.

ENERGY & NATURAL RESOURCES

OPEC ups forecast for Kazakh oil output

OPEC increased its forecast for oil production in Kazakhstan in its monthly oil market report published Oct. 12 compared to monthly oil market report published in September. According to the new report, Kazakhstan's oil supply, despite the start of production at the Kashagan field, is expected to decrease by 40,000 barrels per day over the previous year to average 1.56 million bpd in 2016.

In its September report, OPEC expected Kazakhstan's oil production to decrease by 50,000 barrels per day to average 1.55 million barrels per day in 2016.

According to the September report, Kazakhstan's oil production in August dropped by 0.3 million barrels per day to average 1.27 million barrels per day due to the steep 40% drop in production at the TengizChevroil field as a result of scheduled field maintenance.

However, the output is expected to recover in September to the same level as in July.

OPEC said the start of production at the giant Kashagan field in Kazakhstan will add new volume in the fourth quarter of 2016 and is planned to reach an initial plateau of 0.37 million barrels per day in Phase 1 by mid-2017.

Therefore, Kazakh oil production growth is currently forecast at 0.22 million barrels per day in 2017.

Kazakhstan has already started testing oil production at Kashagan. The official production start at the field is expected in late October.

Oil production in Kazakhstan dropped by 30,000 barrels per day in 2015 and averaged 1.6 million barrels per day, according to OPEC.

The country's proven oil reserves stood at 30 billion barrels as of early 2016, according to BP.

Kazakhstan's largest oil fields are Tengiz, Karachaganak and Kashagan, Trend.az.

Eni announces dispatch of first crude cargo from Kashagan

Eni SpA recently announced that the first batch of export crude oil has been dispatched from the onshore processing plant of the massive Kashagan oil field.

The field was re-opened a little while back, upon successful replacement of pipelines. Production is now estimated to increase up to a first level of 180,000 barrels per day. The consortium for the development of Kashagan aims for a production level of 370,000 barrels per day by the end of 2017.

Located in the North Caspian Sea, the giant oilfield is about 80 kilometers southeast of Atyrau, in Kazakhstan.

Kashagan is one of the largest oil fields discovered in the last four decades and is estimated to hold reserves of 35 billion barrels of oil in place. In fact, the oil field is considered to be one of the most complex and challenging industrial projects worldwide in terms of its size, the specifications, as well as the environmental and logistical characteristics involved.

Kashagan is operated by NCOC (North Caspian Operating Company) which operates within the North Caspian Sea Production Sharing Agreement (NCSPSA). Eni has a stake of 16.81% in the project.

Other partners include KazMunayGas, ExxonMobil Corporation (XOM - Analyst Report) , Royal Dutch Shell plc (RDS.A - Analyst Report) , Total SA (TOT - Analyst Report) , CNPC and Inpex holding 16.88%, 16.81%, 16.81%, 16.81%, 8.33% and 7.56%, respectively, according to Zacks.

Kazakhstan hopes to get 1 million tons of Kashagan oil by year-end

Kazakhstan expects to get 500,000 – 1 million tons of Kashagan oil by the end of the year, Sputnik Kazakhstan quotes Kazakh Energy Minister, Kanat Bozumbayev as saying on October 27.

The minister noted that Kashagan field is being tested now.

Kazakhstan expects oil production at Kashagan to reach 4-7 million tons in 2017, according to Bozumbayev.

Kashagan is a large oil and gas field in Kazakhstan, located in the north of the Caspian Sea. Its total oil reserves amount to 38 billion barrels. Some 10 billion out of them are recoverable reserves.

Kashagan's natural gas reserve exceeds one trillion cubic meters.

Oil production at Kashagan was launched in October 2016, Trend reports.

Azerbaijan and Kazakhstan plan new pipeline

Azerbaijan's Energy Minister Natig Aliyev announced on October 7 that his government and their Kazakh counterparts are in the final stages of negotiations over the construction of a 739-kilometer oil pipeline that will extend under the Caspian Sea.

"The construction of this pipeline will enable Kazakhstan to export its oil to ports in both Georgia and Turkey. The new pipeline's capacity will amount to 23-25 million tons per year, with the possibility of a future expansion to 56 million tons," Aliyev said.

Kazakhstan has one of the world's proven reserves of hydrocarbons, which accounts for 5.5 billion tons of oil and 3 trillion cubic meters of gas.

Kazakhstan is to produce 33.6 billion cubic meters of gas and 80 million tons of oil per year, but has no guaranteed reliable and secure export route except the Baku-Tbilisi-Ceyhan.

Three other existing pipelines that pass through Russia and the Caspian Pipeline Consortium, that carries oil from Kazakhstan's huge Tengiz oil field to Russia's Black Sea port Novorossiysk, are incapable of meeting the country's growing export potential.

Aliyev said the new pipeline will be part of the Kazakhstan Caspian Transportation System (KCTS).

The KCTS consists of oil terminals on the Kazakh coast of the Caspian Sea, as well as tankers, vessels and oil terminals on the Azeri side of the Sea.

All of the facilities are connected to the Baku-Tbilisi-Ceyhan Pipeline, according to Georgia Today.

Economy Ministry offers to introduce new tax preferences for sub-surface users

The Ministry of National Economy offers new tax preferences for sub-surface users. Minister Kuandyk Bishimbayev has said today in the Majilis while presenting a bill "On

amendments to some legislative acts of the Republic of Kazakhstan on taxation and customs administration”, Kazinform correspondent reports.

“As per the bill, sub-surface users will be exempted from corporate income tax when their financial investment debt is amortized given that there is no commercial discovery [of a mineral deposit]. An entire package of amendments in this bill is related to sub-surface use and is aimed at eliminating the measures of the Tax Code hindering the development of extracting and processing companies,” Bishimbayev said.

KazMunayGas implements a number of sub-surface using projects by attracting strategic partners. In order to be KazMunayGas’ strategic partner, an enterprise must cover a share of the Kazakh company’s expenses at the stage geological exploration.

KazMunayGas returns all the expenses to the strategic partner given that there is a commercial discovery and net cash flow on the project. In case if sub-surface user does not discover a deposit, KazMunayGas will not pay back the expenses. KazMunayGas’ debt is written off, which means that it gets income from debt amortization. In this case, this income must be imposed 20% corporate income tax as per the Tax Code of Kazakhstan.

For this reason, the Ministry offers not to levy corporate income tax on such types of income.

The bill, in general, aims at retaining entrepreneurship activity in agriculture and activation of the country’s economy, according to Kazinform.

EBRD to support Kazakhstan in energy efficiency

The European Bank for Reconstruction and Development (EBRD) and Kazakhstan’s national gas operator, KazTransGas, have agreed to join forces in supporting the country’s drive towards a green economy, the bank reported.

According to a memo of understanding signed in Astana October 26, the two partners will explore ways to promote energy efficiency in the gas sector. A more efficient use of energy and reduced losses will strengthen energy security and help Kazakhstan cut greenhouse gas emissions.

The EBRD and KazTransGas will examine specific possibilities for modernization and energy efficiency improvements in gas compressor stations and gas networks, systems responsible for the monitoring and control of fugitive greenhouse gas emissions and of supervisory control and data acquisition (SCADA) systems.

The EBRD and KazTransGas started cooperating in May this year, when the EBRD committed nearly €300 million to two landmark projects in Kazakhstan aimed at the modernization of gas networks and the fuel switch from coal to gas for heat and power generation with the upgrade of the Bozoi underground gas storage to help it reach full capacity.

The EBRD has consistently supported Kazakhstan’s policy to build up a “green economy” by financing the first solar and wind power renewable energy projects, a range of energy efficiency projects, as well as by supporting the introduction of renewable energy law and supporting.

The EBRD invested close to \$7.5 billion in Kazakhstan’s economy to date, Trend reports.

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:

<http://kazakhstan.nlembassy.org/>.

MINERAL RESOURCES

Tenaris seamless steel pipe plant opens in Aktau

A seamless steel pipe production plant has been launched in Aktau to support Kazakh oilfield service firms, the Ministry of Energy says.

“An agreement to launch a Tenaris pipe production plant in Kazakhstan in exchange for an extension on the current \$212 million contract with KPO for 5 years was signed as a result of joint efforts of the Ministry of Energy of Kazakhstan, KPO and Tenaris. We hope the

plant will be a bona fide supplier of tubular products and for other subsoil users,” Deputy Minister of Energy Magzum Mirzagaliyev said.

According to the Ministry of Energy, the new plant will provide tubular products under long-term contracts with Karachaganak Petroleum Operating (KPO) and Tengizchevroil (TCO).

40 workers are already employed at the plant and about 50 will be hired later when the enterprise is fully operating. 95% of the employees will be local.

The plant cost \$40 million, its production capacity will be 45,000 tons of steel oil and gas pipes with premium class gas-tight threaded joints in accordance with the highest safety standards. This company will operate in accordance with ISO 9001, AkiPress reports.

Areva in talks with Kazakhstan over potential investment

French nuclear group Areva is in talks with Kazakhstan over a potential investment in the company, although it is too early to say whether a deal can be reached, a spokeswoman for the French industry ministry said on 7 October.

The French government decided last year to re-organise Areva, hit by low demand for nuclear power after the Fukushima disaster in Japan in 2011.

The company plans to split in two and raise €5 billion (\$5.57 billion) in new capital.

Kazakhstan is interested in buying a stake in the French state-controlled group and a delegation from its mining company Kazatomprom met French officials on 6 October in Paris, French TV channel BFM Business reported earlier, citing unnamed sources.

“I can confirm that Areva is in talks with the Kazakhs, as it is in talks with all other investors showing interest,” the ministry spokeswoman told Reuters. “These are only talks at this stage, it is too early to draw any conclusion,” she said.

She added that all offers would be considered.

The Kazakh delegation is still in France and the talks probably focus on buying out Areva’s 51% in a joint venture with Kazatomprom called KATCO, a source in Kazatomprom said, requesting anonymity, Reuters reports.

Kazakh and Russian firms sign uranium enrichment deal

Firms from Kazakhstan and Russia have signed a deal on uranium-enrichment services.

The agreement was signed on October 4 in Astana by representatives of Kazakhstan’s uranium operator Kazatomprom and Russia’s Center for Uranium Enrichment during Russian President Vladimir Putin’s visit to Kazakhstan’s capital.

According to the document, Kazakhstan and Russia will jointly take part in projects conducted under the auspices of the International Atomic Energy Agency (IAEA) in the future.

Kazakhstan is the world's leading uranium producer, but does not have uranium enriching facilities.

Altogether, 56 business agreements valued at a total of \$3 billion were signed at Astana’s Forum on Interregional Cooperation that was attended by Russian and Kazakh businesses. Putin and his Kazakhstan’s President Nursultan Nazarbayev also attended the gathering, according to RFE/RL.

TRANSPORT & COMMUNICATIONS

Ministry of Defence and Aerospace Industry created

Ministry of Defence and Aerospace Industry created President of Kazakhstan Nursultan Nazarbayev signed a decree in Astana on October 6 creating a Ministry of Defence and Aerospace Industry. The ministry will implement state policy in defence, the aerospace and electronics industries, cyber security, mobilisation, the formation and development of the state material reserve, military-technical policy and military-technical cooperation, and the management of defence contracts. A Committee for Information Security, an

Aerospace Committee and a Committee for State Material Reserves will be formed under the new ministry.

Former Akim (Governor) of the South Kazakhstan region Beibut Atamkulov was appointed Minister of Defence and Aerospace Industry on 7 October. Mr. Atamkulov, 52, graduated from the Kazakh Polytechnic Institute and the Saint Petersburg State University of Economy and Finance. He has worked as a diplomat, becoming in 2010 ambassador of Kazakhstan to Malaysia, Indonesia and the Philippines. In 2012 he joined the Ministry for Industry and New Technologies, later reorganised into the Ministry of Investment and Development, as its executive secretary. He had served as Akim of South Kazakhstan from August 2015 until being appointed head of the newly established ministry.

Kazakhstan OPV deal signing expected soon

German shipbuilders Abeking and Rasmussen are looking to sign a formal contract for a 60m OPV with Kazakhstan by the end of this year or in early 2017.

The 60m OPV design is one two new designs created by the company to meet the demand for patrol vessels around the world.

The Kazakhstan vessel will have an endurance of 14 days and a range of approximately 2,500nm at 12kt.

Also featuring a winch-down area, the OPV will embark two RHIBs, a diving platform and deck space for 20ft and 10ft ISO containers. The two parties recently signed MoU for the vessel.

An official declined to comment as to whether any long-lead items had been ordered for the vessel but did say that the market for 60-90m patrol vessels was promising given the number of developing navies looking to increase their capability without getting too complex.

"We definitely see a tendency towards simple OPVs, vessels to cover the sea. You need a certain size to get the endurance (required)," said the official.

The company had previously completed a three ship programme for the Latvian Navy in 2011. These swath-hulled multi-role vessels (pictured) feature a modular mission area at the bow, with payloads fitted in ISO TEUs, adding capabilities such as fire-fighting, main guns or medical facilities.

Other roles include mine countermeasure, with the addition of an integrated payload.

This modular aspect to ship design worked well for smaller vessels, added the official, but that when applied to larger, more complex vessels problems would arise.

"I don't believe so much in modularity if it is going to be complex. Many times we have seen when a (larger) vessel is fitted with its first payload that ends up becoming permanent. Modularity (though) does work for smaller vessels, for OPVs, hydrographic survey ships and things like that," according to Shephard Media.

Kazakhstan acquires one more dry cargo vessel

Kazakhstan's national fleet has obtained the 7 thousand ton deadweight Zhibek Zholy and Atameken dry cargo vessels.

Zhibek Zholy was launched on July 12 at the Nevsky Shipyard Shlisselburg freighter, successfully passed the test and arrived at the Aktau Port on September 27 this year.

"On October 6 of this year, the Atameken dry cargo vessel descended into the water; it will arrive at the Aktau Port in November this year," the Kazakh Ministry for Investments reports.

The ministry noted this event largely will intensify the maritime transport of dry cargo and increase Kazakhstan's transit-transport potential, Akipress reports.

Astana International Airport expanding

Capacity will be more than doubled up to the World Expo-2017 in Kazakhstan's capital Airport with catchment area of 250 million people in the CIS countries.

Air Astana, the national airline of Kazakhstan, is the 'Official Carrier' of the Astana Expo-2017, which will be held from June 10 to September 10, 2017 in the ultramodern Kazakhstan capital of Astana and is expected to attract over two million visitors.

The organizers of the World Expo, which will have the theme of Future Energy, expect more than 100,000 guests arriving by plane – also from overseas.

The booming international airport of Astana, which handled more than 3.6 million passengers in 2015, is currently being extended. In recent years it has regularly achieved double-digit passenger growth rates and even in 2015, an economically difficult year for Central Asia, it registered growth of 5%. Its capacity is planned to increase to 8.2 million passengers by spring of 2017 and thus more than double. Astana's airport project with a new terminal for international traffic, terminal space of 47,000 square meters and six flexible passenger gates for jets of various sizes, is progressing according to plan.

First operational tests will follow in February 2017, and the new international part of the airport will go into official operation in May. The existing terminal will then be used exclusively for domestic traffic.

The expansion of Astana International Airport will simultaneously strengthen the position of Air Astana, which in Kazakhstan's capital, beside the metropolis of Almaty, operates the most important hub for air transport in Central Asia and from there currently offers 420 flights per week. Astana Airport, in the capital with its population of 800,000, has a catchment area of 250 million people from the CIS countries, which the airline clearly defines as its home market.

More than 100 countries and 18 international organizations are expected to participate, with exhibits on the 429 acre EXPO site and, for example, are expected to present concepts for the development of new energy sources and for a sustained reduction in energy consumption, but also for future energy storage and networking, Travel Daily News reports.

Car sales rising in Kazakhstan

Kazakhstan's car market is gradually recovering following the crisis of 2014 -2016, the Association of Kazakhstan Auto Business says.

Demand for new cars has risen slightly and official dealers sold 3,356 new cars in September and 32,581 cars since the beginning of 2016, according to the association.

The top 20 best sellers brands in September were Lada (18.68% market share), Toyota (18.11% market share), Renault (9.07% market share), Hyundai (8.16%), Gaz (4.94%), Volkswagen (4.75%), UAZ (3.75%), Nissan (3.39%), KAMAZ (this and subsequent brand - less than 3% market share), Skoda, Chevrolet, Jac, Geely, Hyundai Com Trans, Peugeot, Mitsubishi, Ford, Subaru, Daewoo, Mazda, BMW.

Sales of Lada (the traditional market leader) dropped 42% in September compared to August, Hyundai sales decreased by 14%, Kia – by 33%, Volkswagen – 12%, UAZ – 29%, Kamaz – 43%, BMW – 11%, Jac – 46%, Geely – 49%, Land Rover – 10%, Peugeot – 14%, Skoda – 56%, Mazda – 15%.

The sales of Toyota cars on the contrary increased by 10%, Renault sales increased by 12%, Lexus – 69%, Nissan – 27%, Ford – 252%, Ravon – 380%, Subaru – 33%, Mercedes-Benz – 57%, Mitsubishi – 5%.

As much as 34% of the new cars sold in Kazakhstan in January – July cost less than 3 million tenge (331.01 tenge = \$1), 25% – 3-5 million tenge, 8% – 5-7 million tenge, 16% – 7-9 million tenge, others – over 9 million tenge.

Association of Kazakhstan Auto Business forecasts further stabilization of the car market and increase in car production and sales.

However, the association noted that the end of 2015 and the first half of 2016 were the most difficult periods in the history of Kazakhstan's car industry and forecast that car sales would fall this year, Trend reports.

Kazakhstan approves car recycling program

A program to purchase old cars will be launched in Kazakhstan. A car must not exceed 3.5 tons or seven seats. The car owner will receive financial compensation for their vehicles, the amount of which varies depending on the model and condition of the car.

If the car is fully assembled, payment will be 150,000 tenge (\$451). If it needs significant maintenance but has a body, doors, an engine, a gearbox, the owner will receive 48,000 tenge (\$144).

A meeting of the working group on the implementation of the extended obligations of producers and importers with the participation of officials from the Ministry of Investments and Development, the Atameken National Chamber of Entrepreneurs, KazAvtoProm, the Association of the Kazakhstan Car Business, car manufacturers and the Operator ROP (oversees the enhanced obligations of manufacturers) was held on October 3. ROP will define the terms for acceptance of vehicles and payments.

Receiving stations will be stationed in 17 cities.

A pilot project has been developed, according to which, car owners must submit their old vehicles to the project operator for recycling, the Astana Times reports.

Kazakhstan to launch first junk car recycling plant in 6 months

The plan is to launch first junk car recycling plant with the capacity from 10 to 15 cars per year in six months that will allow Kazakhstanis to recycle their scrap cars, the First Deputy Minister for Investment and Development Albert Rau stated during the press conference at CCS.

Earlier, it was reported that Kazakhstan delays the construction of the first junk car recycling plant. However, official information about the delay was not received. In this regard, Rau said that the plants will be launched in the near future.

“Everything is established. Currently, tendering procedures are held. According to the latest data, the first plant will be launched in six months,” said Rau.

According to him, Kazakhstan plans to launch at least three junk car recycling plants with capacity of about 10 to 15 cars per year. The plants will be located in close proximity to large cities of Kazakhstan, such as Astana, Karaganda, Almaty and Shymkent. In the future, if the business will be profitable, they plan to increase it.

“The receiving points will be located in each region, and then after the press they will be packed for transportation and sent to the factory for further disassembly. Our task is to get rid of recycled spare car parts and prevent secondary use. We are talking about road safety, if recycled spare car parts get on the secondary market,” Rau said.

According to Rau, Russia created barriers first when was defending itself from reducing customs duties at the entry into WTO. Kazakhstan introduced the same thing, only in accordance with the Environmental Code.

“The barriers are mutual. Russians compensate scrap, assemblage for their producers, when the realization comes to the domestic market. When the realization comes to the foreign market, they avoid payment. We will have about a similar scheme. We must also consider the issues of compensation to the external market. Everything is fine in domestic market. Domestic enterprises receive not compensation, but state support for the production of environmentally friendly cars. Therefore, we have synchronized actions,” Rau said, according to Primeminister.kz.

AGRICULTURE

Agricultural funding doubles in Kazakhstan

The volume of loans into Kazakhstan’s agricultural industry has doubled over the last two years.

The share of loans to agriculture among all loans in the economy rose from less than 5% to 9%, Energy.kz reports.

The agricultural sector loan portfolio rose 7% to 734 billion tenge in the last two years, trend.az reports.

In January-August 2016, banks issued new loans to the agricultural sector valued at 188 billion tenge, which is 2 times more than the same period of 2015.

The increase in agriculture funding had a positive impact on this area - in the first half of 2016 small, medium-sized and large agricultural producers received 10 billion tenge in net profit compared to a 7.3 billion tenge loss in the same period of 2015. Profitability hit 3% in January-June 2016.

As much as 43% of all the loans to the agricultural sector were issued by the KazAgro National Holding.

KazAgro's loan portfolio rose by 84 billion tenge, or 20% in 2015, Akipress reports.

Kazakhstan, Poland discuss establishment of agricultural projects support fund

Poland is keen on investing in agricultural processing projects of Kazakhstan. Polish Minister of Agriculture and Rural Development Krzysztof Jurgiel said it at a meeting with Kazakh Ambassador to this country Altay Abibullayev, the press service of the Kazakh MFA informs.

The meeting focused on discussion of the course of implementation of the agreements reached during the Kazakh President's state visit to Poland on August 22-23, 2016.

The Polish side confirmed its readiness to organize consultations for Kazakhstani experts in Warsaw in order to study Poland's successful experience in development of agriculture, system-wide support of farming and export of agrarian products. K. Jurgiel informed about Polish businessmen's interest in attending agricultural and food industry exhibitions - KazAgro/Kazfarm 2016 to be held in Astana on October 26-28, 2016 and World Food Kazakhstan scheduled for November 2-4, 2016 in Almaty.

The parties exchanged information on the course of fulfillment of internal procedures on enactment of the Intergovernmental Agreement on Cooperation in Agriculture dated August 23, 2016.

This document is aimed at promotion of agricultural cooperation at the level of the two countries' governmental establishments and business communities. According to Abibullayev, the enactment of the Agreement and activation of the bilateral cooperation will require adoption of additional measures on support of mutual trade and stimulation of investments for agrifood companies.

The sides exchanged also views on possible establishment of a joint fund of agricultural projects support.

K. Jurgiel expressed satisfaction over the visit of Kazakhstan's veterinary inspection to Poland that completed its mission on October 19, 2016 which, in turn, will offer broader opportunities for both countries' businessmen in agricultural cooperation, Kazinform reports.

Kazakhstan's livestock production 7.8% up in 2016

Kazakhstan's gross livestock output hit 1.03 trillion tenge over the first 8 months of 2016, according to the Ministry of Agriculture.

Livestock production rose 7.8% in January-August of this year (229.7 thousand tons), milk - 15.8% (843.5 thousand tons), eggs - 0.1% (2,289.9 million).

In 2016-2018, the ministry plans to provide more than 75 thousand people with permanent jobs in the agriculture industry, the ministry says, according to Akipress.

Kazakhstan to supply beef and mutton in China by the end of the year

By the end of the year, Kazakhstan will start exporting beef and mutton in China, said Vice Minister of Agriculture Gulmira Issayeva at a briefing in the Ministry of Agriculture.

"There is increasing a great demand for organic meat, thus China cooperates with Kazakhstan. We are discussing the delivery of ecological and organic meat. Volumes, which we plan to deliver a year, ranging from 50 to 60 thousand tons of beef and 300

thousand tons of mutton. This figure is made on the basis of the estimated capacity of the meat processing companies that have applied to carry out the inspection and inclusion in the register of enterprises, which have the right to supply their products to China,” Issayeva said.

According to her, it is expected that Kazakhstan will export meat to China by the end of the year.

“We look forward to successful completion of the inspection, the inclusion of these businesses in the register by the end of this year, the beginning of the supply of beef and mutton,” Issayeva added.

It should be reminded that China lifted the restrictions on foot and mouth disease from 9 regions of Kazakhstan. Since 2013, the supply of meat and meat products from Kazakhstan to China, related to the registration of the foot and mouth disease outbreaks in the territory of East Kazakhstan Region, was restricted, according to Primeminister.kz.

EXHIBITIONS IN KAZAKHSTAN (November - December 2016)



AgriCA

Central Asian International Conference for Cattle Breeding, Poultry Farming and Veterinary
2 November 2016, Almaty

Organizer: Iteca

www.agroworld.kz



AgroWorld Kazakhstan

Central Asian International Agricultural Exhibition
2 – 4 November 2016, Almaty

Organizer: Iteca

www.agroworld.kz



World Food Kazakhstan

Central Asian International Food Exhibition
2 – 4 November 2016, Almaty

Organizer: Iteca

www.worldfood.kz



Horex Kazakhstan

Central Asian International Exhibition for HoReCa Industry
2 – 4 November 2016, Almaty

Organizer: Iteca

www.horex.iteca.kz



KazUpack

International Exhibition on Packaging, Tare and Label
2 – 4 November 2016, Almaty

Organizer: Iteca

www.worldfood.kz/ru/kazupack/



CleanExpo Kazakhstan

Kazakhstan International Exhibition on Cleaners and Detergents, Dry Cleaning and Laundry Machines, Cleaning Equipment
2 -4 November 2016, Almaty

Organizer: Iteca

www.cleanexpo.kz



Astana Zdorovie

Kazakhstan International Exhibition on Healthcare
3 – 5 November 2016, Astana

Organizer: Iteca

www.astanazdorovie.kz



Astana Medical Forum

3 November 2016, Astana

Organizer: Iteca

www.astanazdorovie.kz



Mangystau Oil, Gas and Infrastructure

Mangystau Regional Exhibition on Oil, Gas and Infrastructure

8 – 10 November 2016, Aktau

Organizer: Iteca

www.mangystau.oil-gas.kz



AgriTek Shymkent

Kazakhstan International Exhibition for Agriculture, Horticulture, Animal Husbandry and Stock Breeding

9 – 11 November 2016, Shymkent

Organizer: TNT Productions

www.tntexpo.kz

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/>

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