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 COUNTRY
REPORT



KAZAKHSTAN

November 2017

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For further information

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1. General information

1.1 Geography

- Area: 2,724,902 km².
- Type of Climate: The climate is very continental, with cold winters and hot, dry and semi-dry summers.

1.2 Population

- Total Population: 17,797,032.
- Natural Increase: 1.4%.
- Density: 7 Inhabitants/km².
- Urban Population: 53.2%.
- Population of main cities: Almaty (1,548,354); Astana (852,985); Symkent (711,873); Qaragandy (492,172); Aktobe (387,945); Taraz (356,965).
- Ethnic Origins: Kazakhs (Qazaq) - about 63%, Russians - about 24%, Uzbeks - about 3%, Ukrainians - about 2% and other groups (including Uighurs, Tatars and Germans) - about 8%.
- Religion: Muslims 47%; Orthodox Christians 44.2%; Protestants 1.9%; Others 6.9%.

1.3 Language

- Official Language: Kazakh is the State language and Russian is the language for intercommunity communication.
- Other Languages Spoken: English is still rather less spoken.
- Business Language(s): Russian.

1.4 Government

- Republic based on a Parliamentary democracy with a strong presidential system.
- Current Political Leaders: President: Nursultan A. Nazarbayev (since December 1991, re-elected for a fifth mandate in 2015).
- Prime Minister: Bakhytzhan Sagintayev (since 8 September 2016).
- Next Election Dates: Elections for deputies of the Majilis planned in 2017.
- Elections of Senators planned in 2014.

1.5 Currency

- National Currency: Kazakhstan Tenge (KZT).
- Type of Economy: Lower-middle-income economy, Transition country.
- Dependence on hydrocarbon exports.

2. Economy

2.1 General Overview

The growth of the Kazakhstan economy is largely based on oil and gas revenues (35% of GDP and 75% of exports). Today, Kazakhstan is seeking to diversify its industrial base and technology sector, particularly through partnerships with foreign companies.

In 2016, economic growth was negatively affected by the slowdown of the Russian and Chinese economies and falling commodity prices. According to estimates, the economy contracted by 0.9%. The growth is forecast to recover to 0.6% in 2017, with a gradual increase driven by the oil and the gas sector.

Kazakhstan holds 75% of the hydrocarbon reserves of the Caspian Sea (3% of global oil reserves, 1.7% of gas reserves) and could become the fifth largest oil producer in the world by 2020, once the giant field of Kashagan (40% of the country's proven reserves) becomes fully operational (with an extraction capacity expected to reach 370,000 barrels per day by the end of 2017).

Kazakhstan also has the world's second largest reserve of uranium (biggest producer).

Major public infrastructure investment projects are expected to boost the construction sector.

In 2008, the country was badly hit by the economic crisis of 2008-9, notably due to the weakness of its banking system. However, Kazakhstan recorded strong growth between 2009 and 2013.

Nevertheless, its financial system remains fragile.

The country is dependent on oil prices, and the economy is still driven by oil exports, despite government efforts to diversify.

Since 2015, Kazakhstan has been a member of the Eurasian Economic Union (together with Russia, Belarus, Armenia and Kyrgyzstan), which could eventually help facilitate this diversification. Moreover, Kazakhstan is turning more towards China for its developmental needs, while China needs the country to develop its 'Silk Road' project.

Thus, in the summer of 2015, a railway terminal was opened on the Chinese side of the border. The Kazakh President, who is now 75 years old, was re-elected in 2015 with 97% of votes. He appears to be preparing his succession considering that he appointed his daughter as the Deputy Prime Minister.

Wages have been increasing since 2010 and the unemployment rate has been decreasing steadily (5% in 2016). Inflation eased due to slowdown in food price rises in Russia.

Kazakhstan has an abundance of raw materials, in particular hydrocarbons. Commodities accounted for 88% of exports in 2014. But this lack of economic diversification makes the economy highly vulnerable to the global demand for and the prices of commodities. It is exposed to the business cycle of Russia, its main trading partner. Moreover, the shutdown of the offshore Kashagan oilfield in October 2013 (unlikely to resume before 2017) due to damage to the pipeline infrastructure has hit the country.

As a result, economic growth decelerated from an average annual +8% in 2000-2013 to +4.3% in 2014 and +1.2% in 2015. In 2016, real GDP contracted by -0.2% y/y in Q1 and grew by +0.4% y/y in Q2. Euler Hermes expects the recovery to continue, but only gradually, resulting in full-year growth of +0.4% in 2016 and +2% 2017.

Main Indicators	2014	2015	2016	2017 (e)	2018 (e)
GDP (billions USD)	221.42	184.39	133.76e	157.88	173.85
GDP (Constant Prices, Annual % Change)	4.3	1.2	1.1e	2.5	3.4
GDP per Capita (USD)	12,709	10,428	7,453	8,667	9,403
General Government Balance (in % of GDP)	2.2	-6.7	-4.2	-6.1	-2.0
General Government Gross Debt (in % of GDP)	14.5	21.9	21.1	21.8	22.1
Inflation Rate (%)	6.7	6.7	14.6	8.0	7.2
Unemployment Rate (% of the Labor Force)	5.0	5.0	5.0	5.0	5.0
Current Account (billions USD)	5.96	-5.46	-8.16	-6.35	-4.93
Current Account (in % of GDP)	2.7	-3.0	-6.1	-4.0	-2.8

Table 1: Main Economic Indicators. Source: IMF – World Economic Outlook Database, 2016

Strengths

- Abundance of raw materials, in particular hydro-carbons.
- The National Fund of the Republic of Kazakhstan (NFRK, the national oil fund) still holds ample assets (USD65bn in July 2016 though this was down from a peak of USD77bn in August 2014).

Weaknesses

- Interventionist and protectionist economic strategy.
- Regional instability in Central Asia.
- High vulnerability to world commodity prices.
- Vulnerability to Russian business cycle.
- Weak monetary policy track record.
- Exchange rate vulnerability to external shocks.
- Banking sector crisis from 2009 not yet resolved.
- High external debt burden.

2.2 Structure of the Economy

The agricultural sector accounts for less than 5% of the country's GDP and employs less than one-fourth of the workforce. However, the importance of this sector has been decreasing.

Kazakhstan, with more than 22 million hectares of agricultural land, is the 6th largest global producer of cereals, despite low yields per hectare. Livestock farming is also an important activity. Kazakhstan is practically self-sufficient in food production.

Kazakhstan is rich in natural resources; almost all of which are present in its subsoil.

Industry represents 36% of the GDP and employs one-fifth of the workforce. The production of hydrocarbons has been increasing steadily since 2008. Manufacturing activities are limited to textile, chemical products, fertilizers and pharmaceutical products.

The services sector has been growing steadily. In 2016, it contributed slightly more than 60% of the country's GDP and employed around 60% of the workforce.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	18.0	20.6	61.4
Value Added (in % of GDP)	4.8	33.5	61.7
Value Added (Annual % Change)	5.5	0.6	0.8

Table 2: Economic Activity by Sector. Source: World Bank, 2016

2.3 Taxation

- Value added tax (VAT) - 12%.
- Company Tax : 20%.
- Withholding Taxes:
Dividends: 15%/20%, Interest: 15%/20%, Royalties: 15%/20%.
- Social Security Contributions Paid By Employers: 31.5%.

3. Trade Relations

3.1. Imports-Exports

Kazakhstan is open to international trade, which represents 53% of the GDP (WTO 2015, latest available data). Its main export goods are oil, petroleum products, coal, iron ore, chemical products, machinery, cereal, wool and meat. Its main export partners are the European Union, China, Russia, Ukraine, and the United States.

The country mainly imports machinery, electric and electronic equipment and food products. Russia is an important political and economic partner. The two countries have undertaken common projects in many fields including energy.

Additionally, since January 2015, Kazakhstan, Belarus, Russia, Armenia and Kyrgyzstan have been part of the Eurasian Economic Union. Kazakhstan's main import partners are Russia, China, the European Union, Ukraine, and the United States. Since November 2015, the country has been a member of the WTO.

Since 75% of its exports consist of oil and gas sector, the country has suffered from the fall in world prices in 2015. Higher oil prices and increase in output will help boost tax revenues from the oil and gas sector. Despite a low rate of growth of demand in the country's leading export markets such as the EU, China and Russia, export revenues from the oil and the gas sector are expected to increase in 2017.

Foreign Trade Indicators	2012	2013	2014	2015	2016
Imports of Goods (<i>million USD</i>)	46,358	48,806	41,296	30,186	25,175
Exports of Goods (<i>million USD</i>)	86,449	84,700	79,460	45,726	36,776
Imports of Services (<i>million USD</i>)	12,644	12,095	12,639	11,489	10,997
Exports of Services (<i>million USD</i>)	4,606	4,906	6,110	5,941	6,255
Imports of Goods and Services (<i>Annual % Change</i>)	24.8	7.8	-4.0	-0.1	n/a
Exports of Goods and Services (<i>Annual % Change</i>)	4.8	2.7	-2.5	-4.1	n/a
Imports of Goods and Services (<i>in % of GDP</i>)	29.6	26.8	25.6	24.5	29.2
Exports of Goods and Services (<i>in % of GDP</i>)	44.1	38.6	39.3	28.5	32.6
Trade Balance (<i>million USD</i>)	38,145	34,792	36,246	12,679	n/a
Foreign Trade (<i>in % of GDP</i>)	73.7	65.4	65.0	53.0	61.8

Table 3: Foreign Trade Indicators. Source: World Bank 2016

Main Customers (% of Exports)	2014
Italy	20.5%
China	12.5%
Netherlands	11.2%
Russia	6.6%
France	6.0%
Switzerland	5.8%
Romania	4.0%
Austria	3.6%
Spain	3.0%
Turkey	2.9%

Table 4: Main Customers. Source: Comtrade, Latest Available Data

Main Suppliers (% of Imports)	2014
Russia	33.3%
China	17.9%
Germany	5.6%
United States	4.9%
France	2.6%
South Korea	2.6%
Italy	2.5%
Turkey	2.5%
Uzbekistan	2.5%
Japan	2.2%

Table 5: Main Suppliers. Source: Comtrade, Latest Available Data

78.2 bn USD of products exported in 2014	
Petroleum oils and oils obtained from bituminous...	68.5%
Petroleum gas and other gaseous hydrocarbons	4.2%
Petroleum oils and oils obtained from bituminous...	3.8%
Radioactive chemical elements and radioactive...	2.4%
Copper, refined, and copper alloys, unwrought ...	2.2%
Ferro-alloys	2.0%
Iron ores and concentrates, incl. roasted iron...	1.4%
Wheat and meslin	1.2%
Copper ores and concentrates	1.1%
Unwrought zinc :	0.8%

Table 6: Top 10 Exported Goods. Source: Comtrade, Latest Available Data

41.2 bn USD of products imported in 2014	
Motor cars and other motor vehicles principally...	5.6%
Petroleum oils and oils obtained from bituminous...	3.4%
Medicaments consisting of mixed or unmixed...	2.7%
Automatic data processing machines and units...	1.7%
Tubes, pipes and hollow profiles, seamless, of...	1.7%
Transmission apparatus for radio-telephony,...	1.6%
Powered aircraft e.g. helicopters and aeroplanes;...	1.5%
Taps, cocks, valves and similar appliances for...	1.4%
Machinery for sorting, screening, separating,...	1.4%
Motor vehicles for the transport of goods, incl....	1.3%

Table 7: Top 10 Imported Goods. Source: Comtrade, Latest Available Data

3.2 Foreign Direct Investment

Although Kazakhstan favours domestic investors over foreign investors, FDI keeps flowing in. In 2016 FDI amounted to USD 9 billion, an increase of 126% compared to 2015, as the country has been increasingly receiving more FDI from China.

The country plans to seek foreign companies to finance the Eurasia oil exploration project, estimated to cost USD 500 million. The first round of negotiations with promising participants to the project (ENI, ROSNEFT, CNPC, SOCAR, NEOS Geosolutions as well as the Kazakh JSC NC KazMunayGas) was held in February 2017 in Astana.

The oil and mining sectors are still the most attractive for investors since they concentrate more than half of the FDI. During the last decade, the country, known as the 'locomotive' of post-Soviet Central Asia, has tripled its oil production. However, FDI flows to the oil industry are in jeopardy as global oil prices fell sharply in 2015. In addition, FDI flows to the manufacturing sector are steadily increasing.

Foreign Direct Investment	2014	2015	2016
FDI Inward Flow (million USD)	8,406	4,012	9,069
FDI Stock (million USD)	132,574	120,187	129,773
Number of Greenfield Investments***	46	46	29
FDI Inwards (in % of GFCF****)	17.6	8.8	28.7
FDI Stock (in % of GDP)	59.9	65.2	97.0

Table 8: Foreign Direct Investment. Source: UNCTAD

4. Greece – Kazakhstan Bilateral Relations

4.1 Greek exports to Kazakhstan

Kazakhstan offers opportunities for exports of Greek products in the sectors of construction and building materials, chemicals, food and drink products.

In general, there is a lot of potential for improvement of the bilateral economic relations as Kazakhstan has been experiencing growth the past two decades and the consumer demand for a series of products has been increasing steadily.

Exports To Kazakhstan	2014	2015	2016
Food & Live Animals	1.004.387	1.351.770	1.290.627
Beverages & Tobacco	:	:	1.238
Crude Materials, Inedible	31.945	:	2.060
Mineral Fuels, Lubricants	49.641	18.372	4.443.889
Animal & Vegetable Oils, Fats	73.167	138.445	94.087
Chemicals & Related Products	828.615	459.093	357.461
Manufactured Goods	596.842	1.428.946	1.313.365
Machinery & Transport Equipment	1.478.516	2.789.618	2.555.816
Miscellaneous Manufactured Articles	2.941.175	4.094.672	2.560.677
Other Commodities	66.562	94.464	68.922
Total	7.070.850	10.375.380	12.688.142

Table 9: Greek Exports to Kazakhstan. Source: Eurostat

5. Business Culture and Communication

5.1 Dress Code

Dress code in Kazakhstan for office environments is rather conservative. Men almost always wear ties and suits (usually, black/dark pants and white/light color shirts).

Ladies have more freedom in choosing their attire to the point that it often looks like a fashion show.

This dress code is oftentimes observed even for more casual and informal settings.

5.2 Punctuality

The approach to deadlines and punctuality is rather lax. Kazakhstanians do not yet have a rather developed and strict system of appointments that people in Western countries normally observe.

5.3 Verbal and non-verbal Communication

Good topics of conversation when establishing a personal relationship include art, food, drink, and sports. Avoid politics, religion, and ethnicity if possible.

Kazakh suggestions and imperatives don't translate well, and you may find someone giving you dog commands (Sit! Speak! Eat!) or mistake the difference between a command and a suggestion.

When explaining something, Kazakhstanians tend to explain the reasons behind the problem and might start from some "prehistoric" times which people in the West find annoying or even misinterpret as avoiding direct questions where Kazakhstanians are merely trying to give a thorough answer.

It's usually best to ask follow-up questions when you think someone might want you to do something.

Though Kazakhstanians are less concerned about the space around them, they are not totally oblivious of their surroundings. It is customary to keep an arm's length during a conversation.

It is also very important to establish initial eye contact with the person though it is never a good idea to stare at the person, which could be viewed as hostility or aggressiveness or at least as a sign of disrespect. The latter is especially true for interaction of younger people with older ones or elders.

Touching is not acceptable in formal settings especially between the members of the opposite sex and would be probably viewed as unwarranted familiarity.

As a rule, handshakes are more typical for men than for women though presently more and more business and professional women follow the suit of shaking hands. In general, even women in professional settings are treated more gallantly than in the West where women might take it as a sign of gender discrimination. In Kazakhstan, if a lady is carrying a bag or getting off the bus, it is impolite not to offer a hand.

Normally, Kazakhstanians use more gestures when socializing, which is especially true for informal settings.

In Kazakhstan, public displays of affection or other emotions are more acceptable especially among people of the younger generation, which tends to be more relaxed than older people who were raised under the strict rules and taboos of the Soviet system. Older generation might frown at the displays of emotion and affection and disapprove of them. Displays of anger could also be seen even in professional settings where superiors sometimes yell at their employees. This might stem from the Soviet times with its strict, nearly military hierarchy and command system of management whereby superiors had almost total and unrestricted power over their subordinates.

6. Useful Contacts

Greek Embassy in Astana

Address : 109 Microdistrict Karaothel 2, 010000, Astana

Tel: (0077172) 563714

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E-mail: gremb.ast@mfa.gr

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Head: Mr Alexei Volkov, Ambassador

7. Sources

International Organizations

- OECD: Global Economic Outlook, Economic Surveys
- World Economic Forum: Global Competitiveness Reports
- IMF: Country Information
- International Trade Center
- UNCTAD
- The World Bank
- World Trade Organization: Trade Policy Reviews
- European Commission: Market Access Database, Eurostat
- Fitch Group: BMI Research
- The Economist Intelligence Unit
- Global Affairs Canada: Country Insights
- Euler Hermes: Economic Research, Country Reports

Financial Institutions

- Eurobank: Export Gate
- Rabobank: RaboResearch
- Banco Santander: Santander Trade

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