SAMRUK KAZYNA

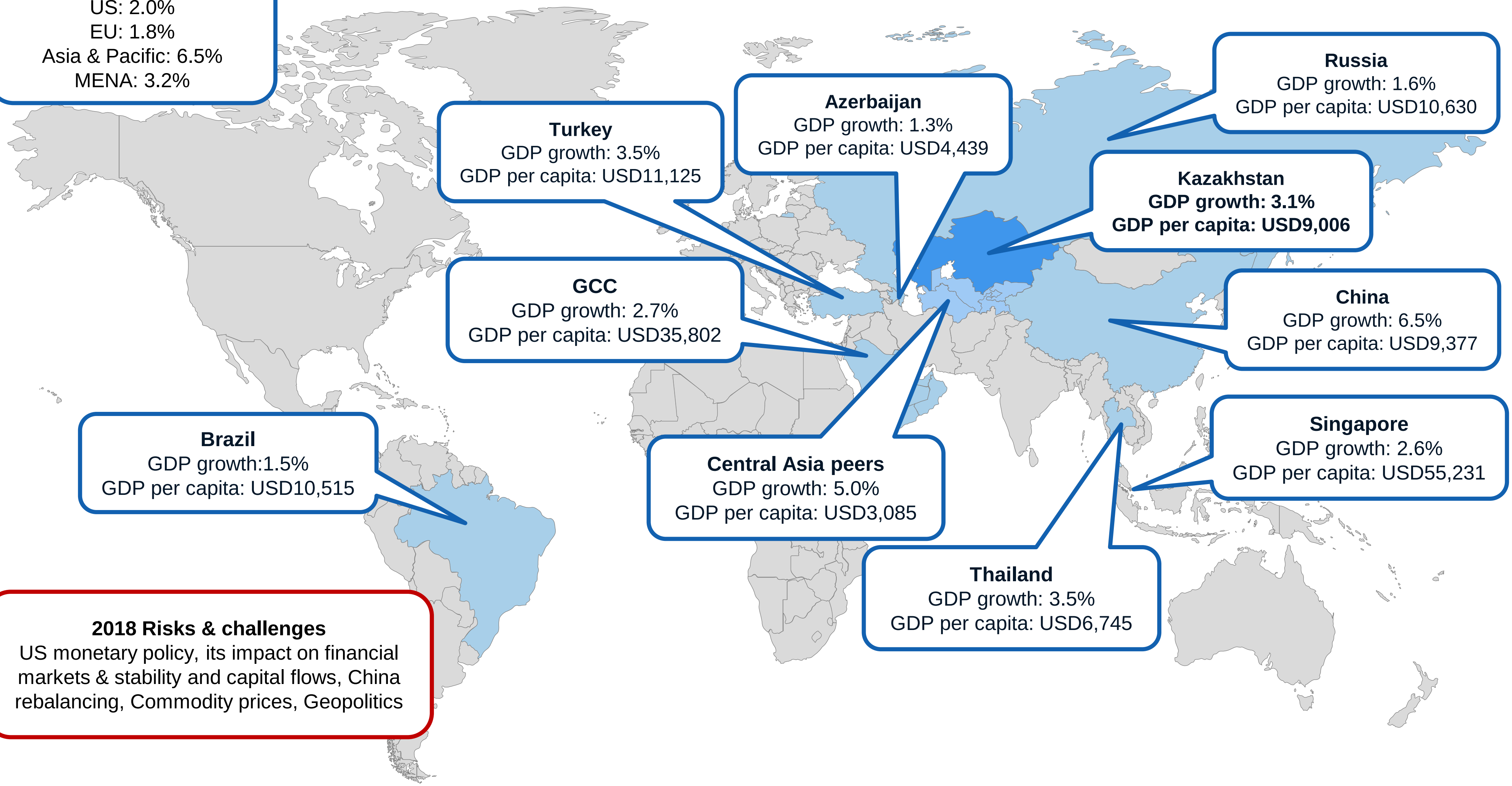
Kazakhstan’s 2018 Macroeconomic & Sector Dynamics

January 2018

Positive growth prospects in 2018 with stronger global growth driven by selected advanced & emerging economies

2018 GDP growth
US: 2.0%
EU: 1.8%
Asia & Pacific: 6.5%
MENA: 3.2%

2018 GDP Growth (%) vs. GDP per capita (USD)

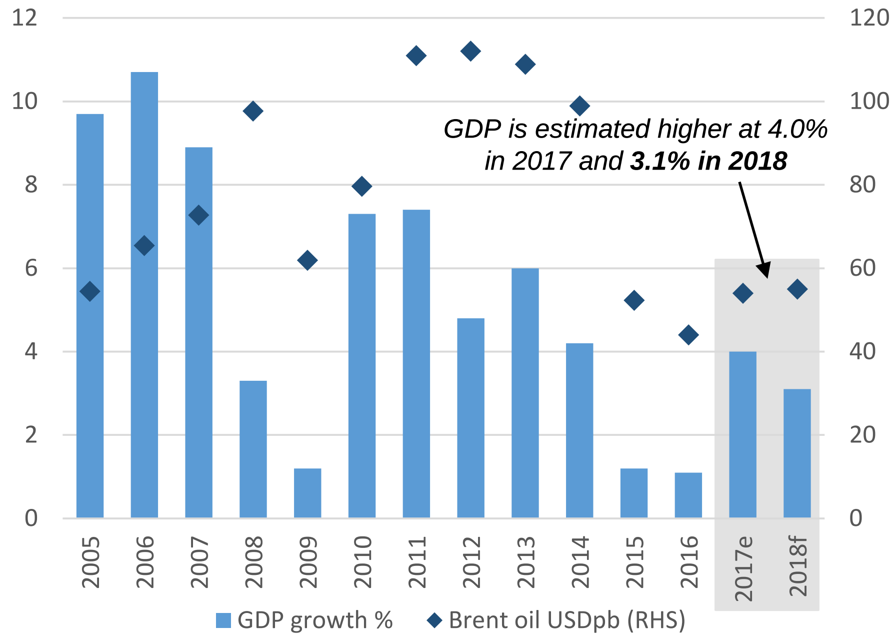


2018 Risks & challenges
US monetary policy, its impact on financial markets & stability and capital flows, China rebalancing, Commodity prices, Geopolitics

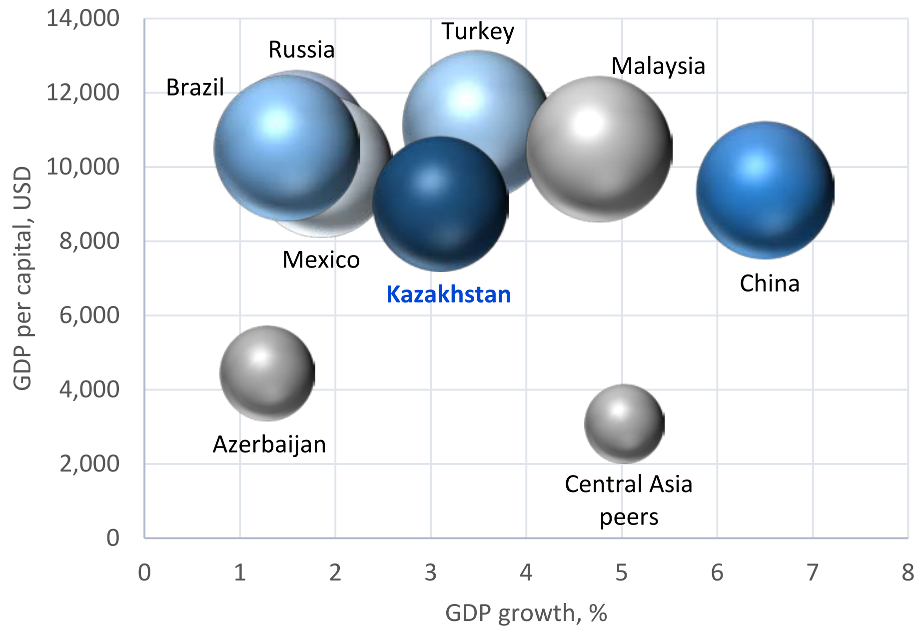
Source: International Monetary Fund, Central Banks, KZ Ministry of National Economy August 2017

Growth momentum is expected to sustain in 2018 driven by higher oil prices and increase in oil production

GDP Growth vs. Brent Price



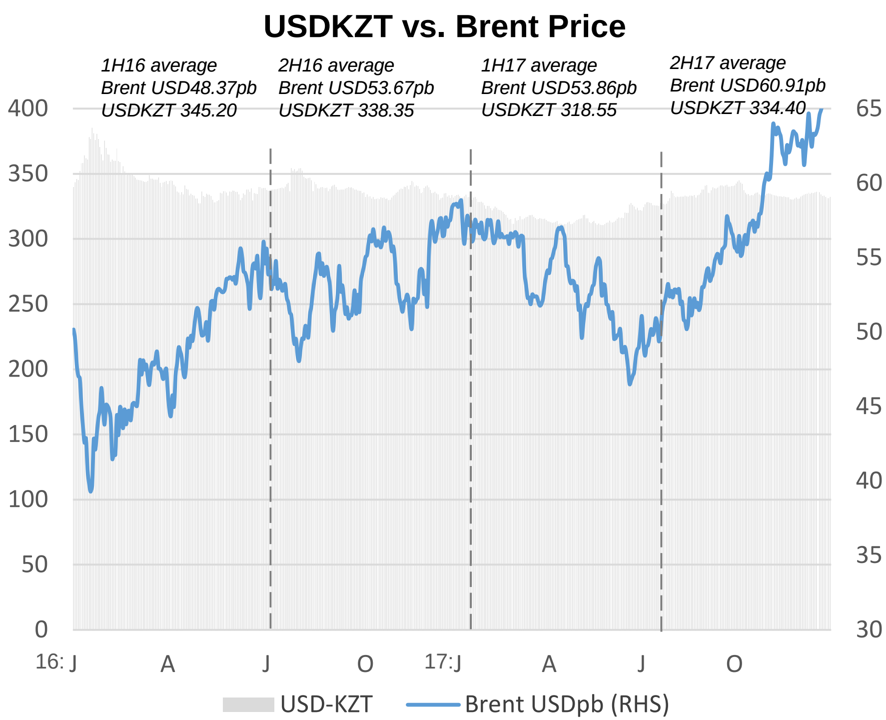
2018 GDP Growth (%) vs. Per Capita (USD)

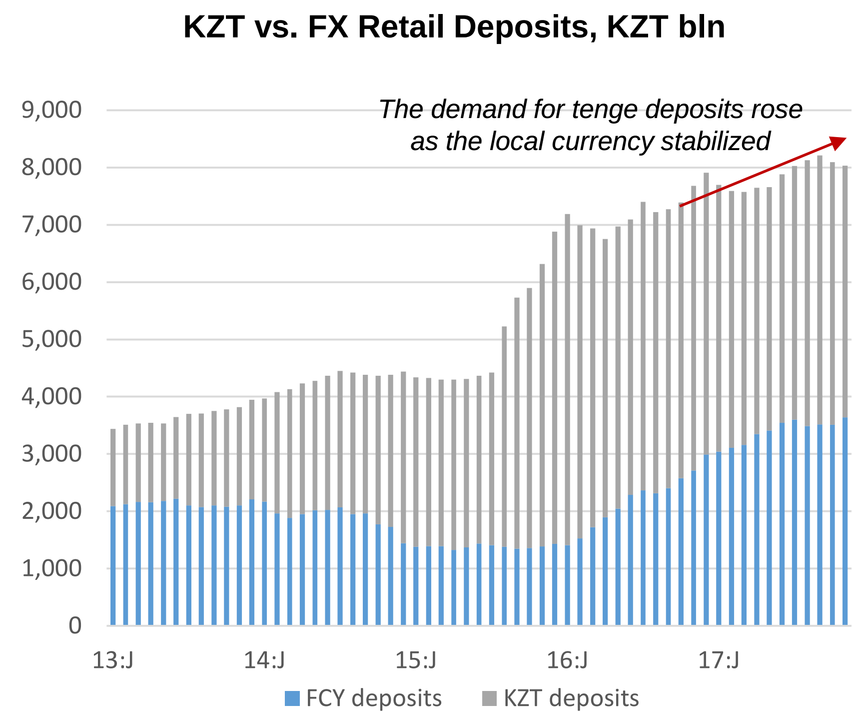


- Kazakhstan's **2017 GDP growth is estimated at 4.0%** (2016: 1.1%).
- Growth last year was supported by higher oil prices & production, public spending on large infrastructure projects and improved economic performance in key trading partners.
- **Moody's and S&P affirmed Kazakhstan's sovereign ratings at Baa3 and BBB- respectively, with outlook revised upward to Stable**, reflecting positive growth dynamics.
- **Economic growth is expected at 3.1% in 2018** on **sustained oil prices, stabilization of oil production & growth contribution from non-oil economies**.
- China's investment under the Belt & Road initiative will also lead to steady improvement in infrastructure and cross border connectivity, contributing to increased economic activities.
- Kazakhstan's economy is projected to grow by **3.7% per annum between 2018 and 2022**.

Source: National Bank of Kazakhstan, Ministry of National Economy August 2017, International Monetary Fund, Bloomberg, Samruk-Kazyna

USDKZT exchange rate strengthens, underpinned by relatively stable global and domestic developments





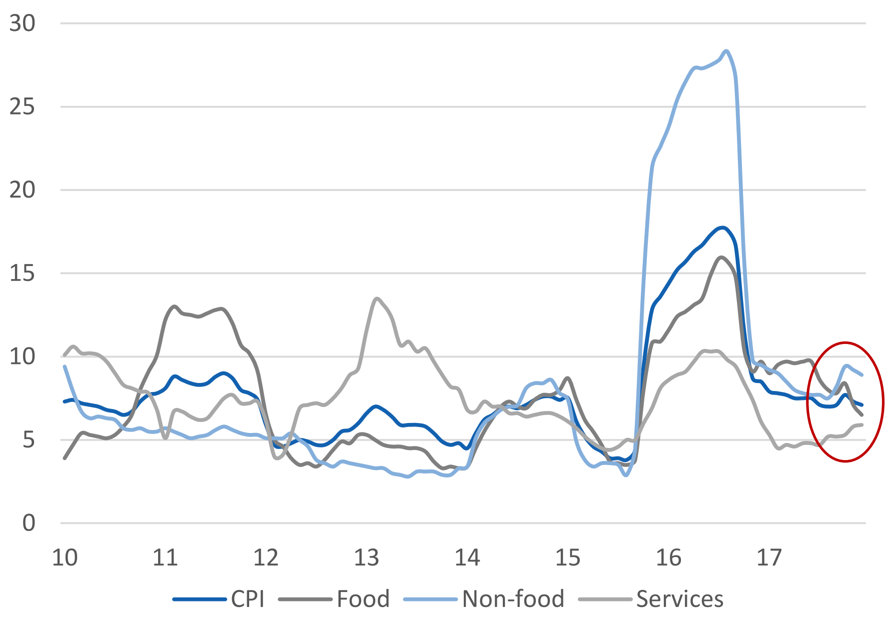
- **USDKZT exchange rate averaged at 326.0 in 2017** (2016: 342.2 average), supported by positive growth dynamics and recovery in global oil prices. We anticipate **USDKZT to remain stable at 330-340 in 2018**.
- As at 29 December 2017, USDKZT closed at 331.31, strengthening from last year's low of 345.11.

- **Tenge retail deposits grew by 21.7% in the first 11 months of 2017**, while FX retail deposits fell by 10.7%, reflecting improved market confidence in the local currency.
- Rebound in tenge deposits was supported by recovery in global oil prices (and stabilization of the tenge) and the changes in interest rate in favor of local currency deposits. This trend is expected to continue into 2018.
- Subsequently, domestic money market experiences structural **liquidity surplus** condition, at KZT3.183tln as at 29 December 2017.

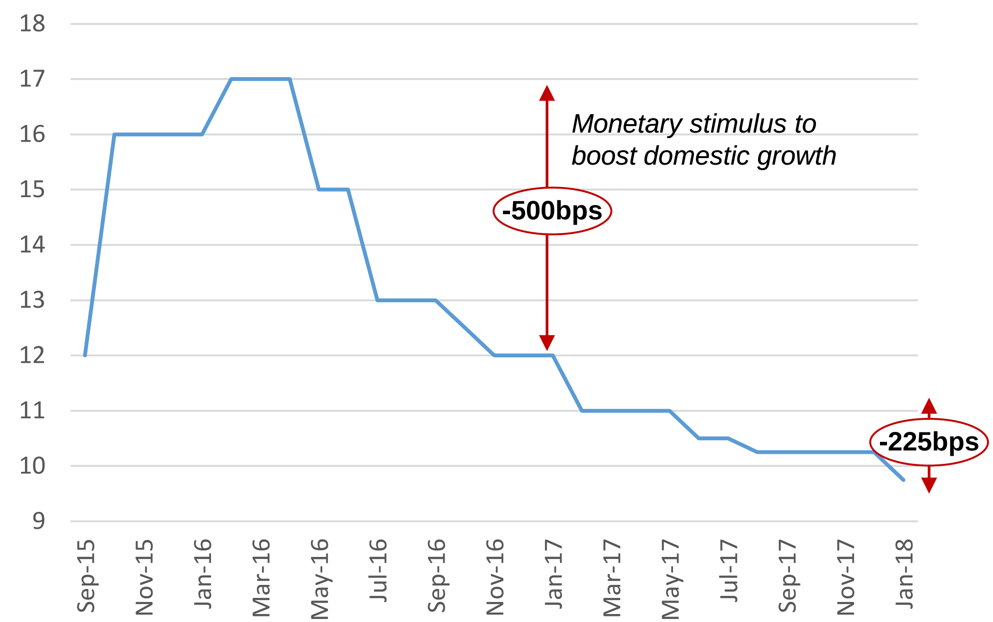
Source: National Bank of Kazakhstan, Bloomberg, Samruk-Kazyna

Inflation is expected to ease further in 2018 supported by a stronger tenge

Monthly Inflation Trends, %



Base Rate, %

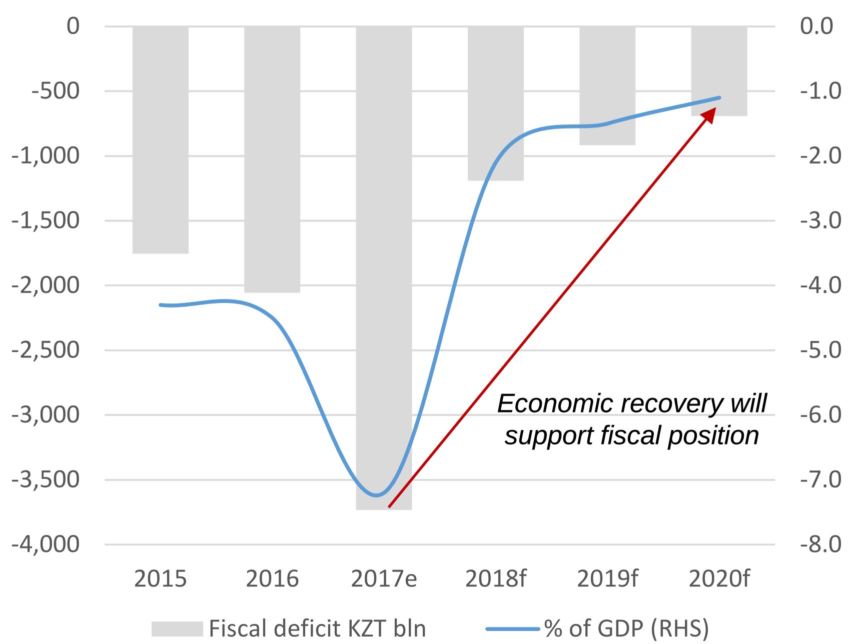


- **Inflation stood eased to 7.1% as at end-2017** from 8.5% as at end-2016, within the official target 6%-8% for 2017.
- Reflecting this confidence, **the regulator cut the Base Rate from 12% to 10.25%** in 2017, and a further 50bps to **9.75% in January 2018**, to boost consumption, business spending and the general economic activities.
- **Stimulating fiscal & monetary policy** is the main driver **supporting domestic demand**.
- Inflation is expected to stay within target of **5%-7% inflation target for 2018**.
- Monetary policy stance moving forward depends on (1) conditions on the international markets and in countries (key trade partners), (2) macroeconomic dynamics domestically.

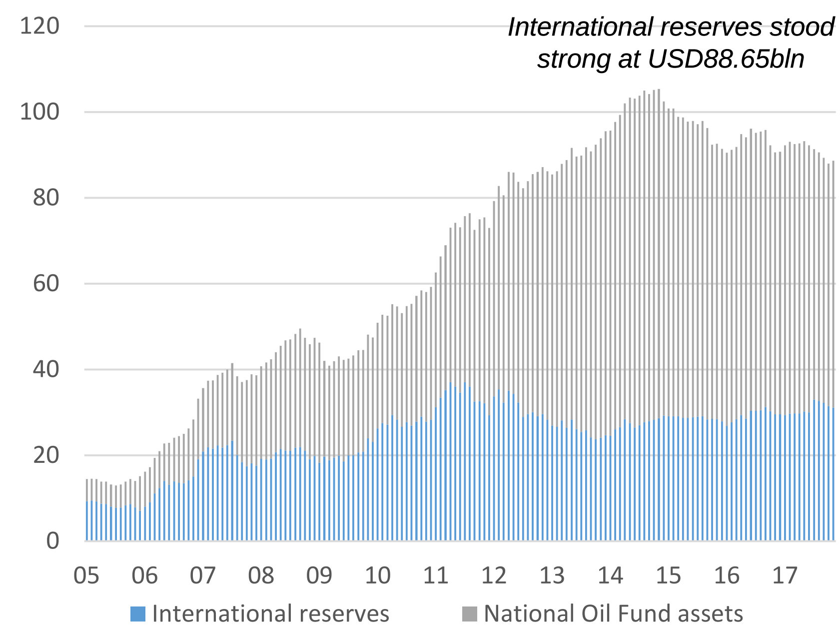
Source: National Bank of Kazakhstan, Ministry of National Economy August 2017, Samruk-Kazyna

Fiscal position and international reserves are strong to support fiscal stimulus programs

Fiscal Position, KZT bln & % of GDP



International Reserves, USD bln



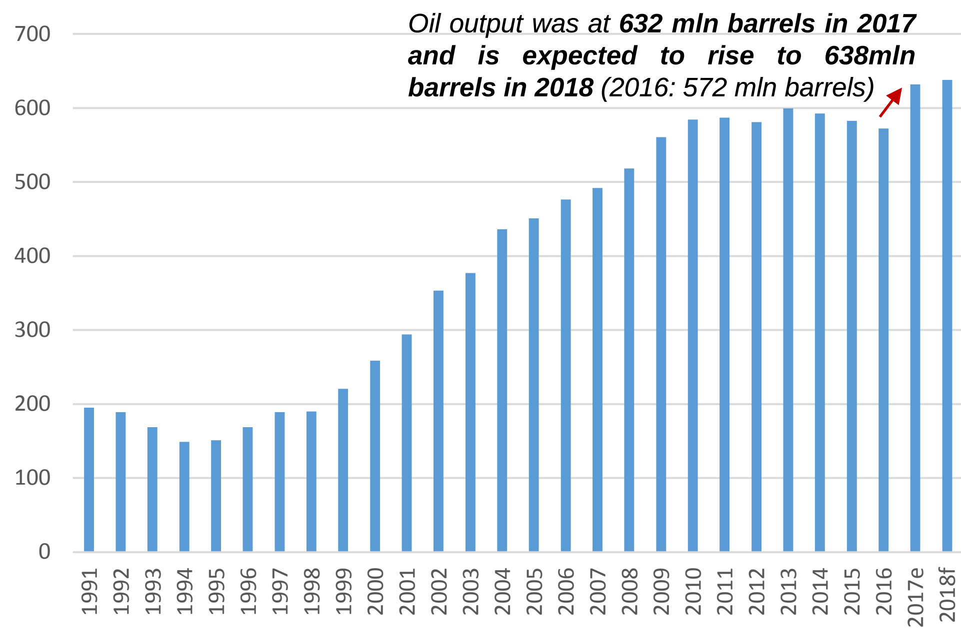
- On the back of increased government spending, budget deficit is estimated at 7.2% of GDP in 2017. Gradual economic recovery will see deficit easing gradually to **2.1% of GDP in 2018, 1.5% in 2019** and **1.1% of GDP by 2020**.
- Despite falling oil revenues and the overall economic slowdown, **Kazakhstan's fiscal position stood strong to support fiscal stimulus programs.**

- Resources of the National Oil Fund allow the government to execute massive infrastructure projects, aimed at lifting investments and domestic demand.
- Kazakhstan's **total international reserves stood at USD88.65bln** as at November 2017 (NBK reserves at USD31.07bln, National Fund assets USD57.57bln).

Source: National Bank of Kazakhstan, Ministry of National Economy August 2017, Samruk-Kazyna

Kazakhstan is the 17th largest oil producer globally

Oil Production, mln barrels



- Kazakhstan has tripled its oil output since 1991, driven by Tengiz and Karachaganak. Oil production was at **632 mln barrels (86.2 mln tons) in 2017 and is expected at 638mln barrels (87smln tons) in 2018**, mainly attributable to resumption of oil production from Kashagan.
- Oil & oil products export markets are **Italy (38%), Netherlands & Switzerland (12% each), France & Spain (8% each), China & Greece (5%)**.

18% of GDP
53% of total exports

1.8%
of the world's proven total oil reserves, ranks **12th** globally

More than **90%** of oil reserves are concentrated in the **15 largest oil fields**

- Tengiz
- Kashagan
- Karachaganak
- Uzen
- Zhetybai
- Zhanazhol
- Kalamkas
- Kenkiyak
- Karazhanbas

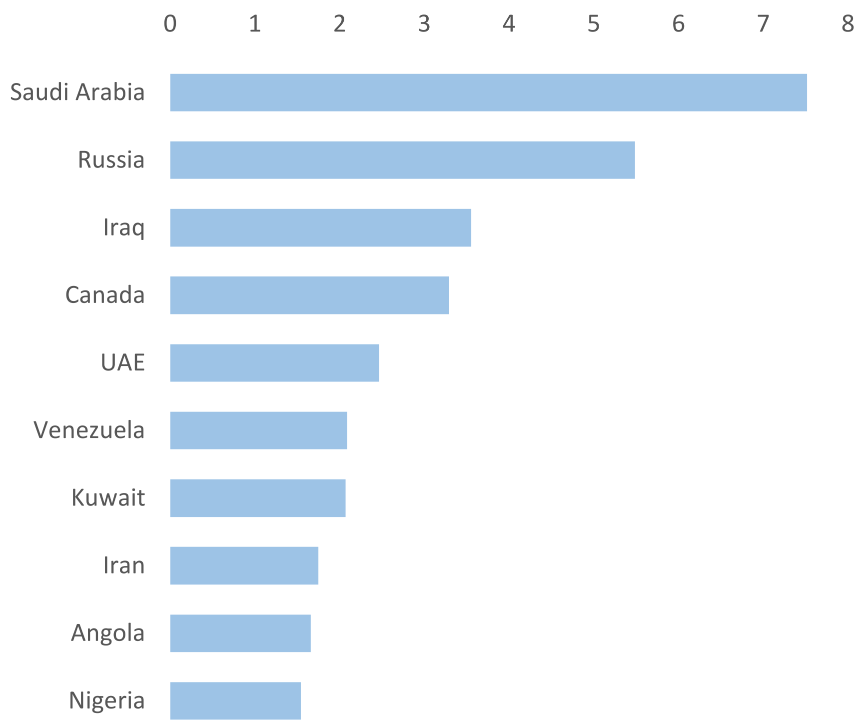
- Kumkol
- North Buzachi
- Alibekmola
- Central and Eastern Prorva
- Kenbai
- Korolevskoye

**We estimate using a conversion rate factor of one ton to 7.33 barrels for the country's overall output*

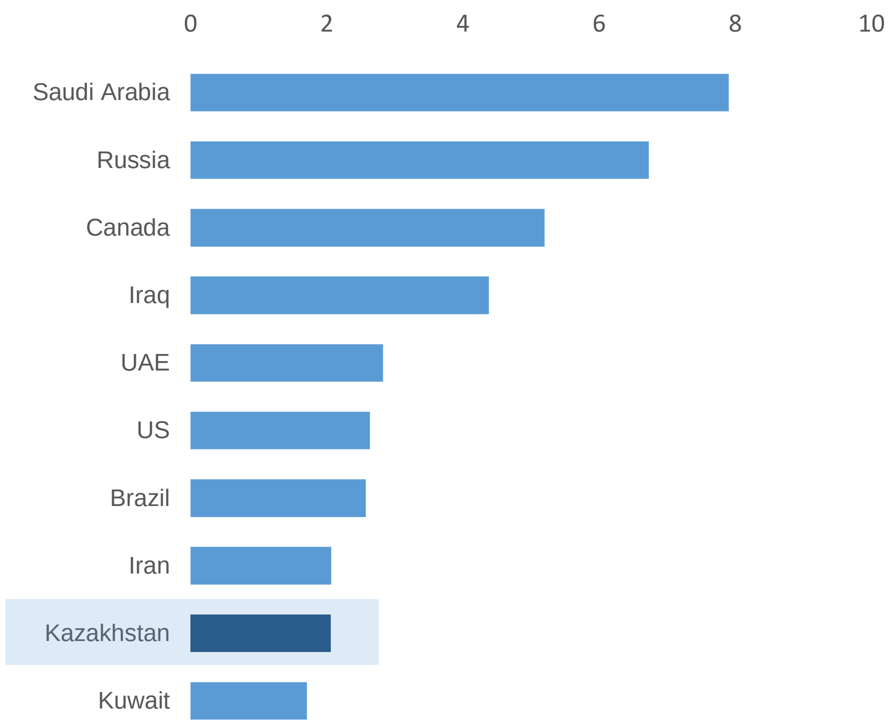
Source: Statistics Committee, The National Energy Report, Kazenergy 2016-2017, Samruk-Kazyna

Kazakhstan to join top 10 global oil exporters by 2030

Top 10 crude oil exporters, mln bpd (2016)



Top 10 crude oil exporters, mln bpd (2030f)

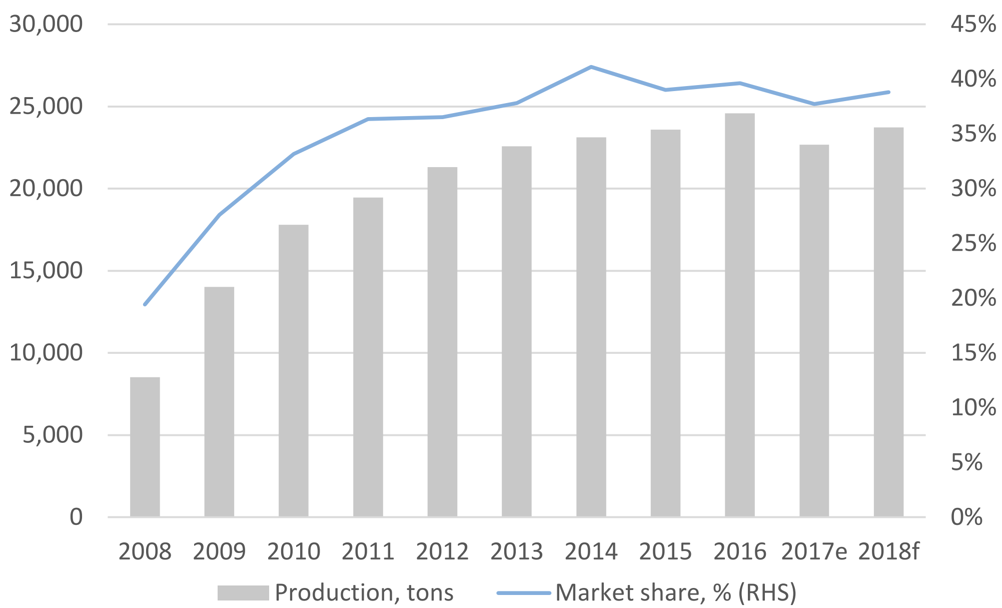


- Kazakhstan to join the ranks of the **top 10 oil exporters by 2030** up from its current position in the top twenty.
- This is in line with **Kazakhstan Strategy 2050 and 100 Steps government program**.
- The forecast of oil output growth is based on assumptions including **Kashagan phase 2 development**, and application of **new technology at mature fields.**

Source: The National Energy Report, Kazenergy 2016-2017, IHS Markit, Samruk-Kazyna

Kazakhstan has been a leading uranium producer since 2009, contributes ~40% of global output

Uranium Production, tons



- Since 2009, Kazakhstan has been **a leading uranium producer in the world and is expected to be a dominant producer up to 2020**. In 2016, its share in global uranium production **from mines was at 40%.**
- The country is estimated to produce approximately 22,700 tons of uranium in 2017 (2016: 24,000 tons) and output is expected at approximately 23,000 tons in 2018.
- All of the produced uranium is exported, primarily under long-term contracts, as Kazakhstan does not presently possess nuclear power generation capacity.

8.3%
of the global uranium reserves, ranks **3rd** globally

45% of uranium exported to China

The **largest ISL mines:**

- South Inkai
- Inkai 1,2,3
- Central, West, East Mynkuduk
- Akbastau
- Karatau
- Tortkuduk
- Kharasan 1,2
- Akdala

- Zhalpak
- Moinkum
- Kanzhugan
- Irkol
- Semizbai
- Zarechnoye
- North, South Karamurun
- Uvanas

Source: Statistics Committee, USGS mineral commodity report in 2016, Kazgeology, WNA, Samruk-Kazyna

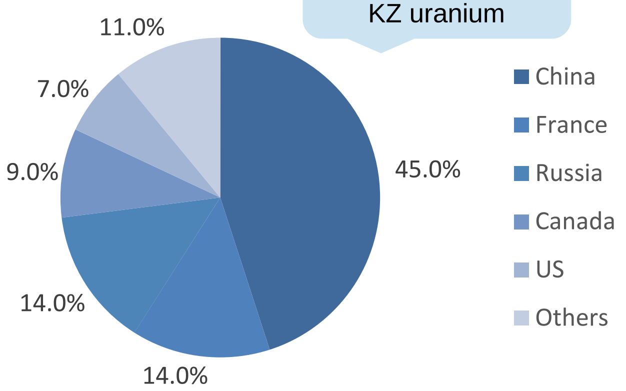
Mining industry contributes 8% of Kazakhstan’s GDP

Kazakhstan’s Major Mineral Production & Reserves

Mineral	Production, 000 tons	% of global output	World ranking	Reserves, 000 tons	% of global reserves	World ranking
Iron ore	21,000	0.9%	12	2,500,000	1.5%	11
Uranium	24.6	40.0%	1	363	8.3%	3
Zinc	340	2.8%	8	11,000	5.0%	6
Lead	41	0.9%	12	2,000	2.3%	8
Coal	44,100	1.2%	9	25,605,000	2.2%	8

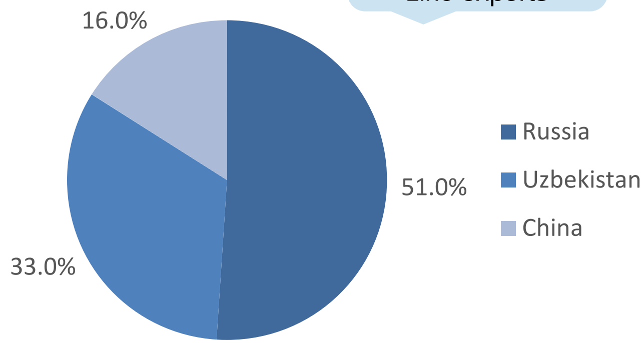
Uranium Export Markets

China is the largest importer of KZ uranium



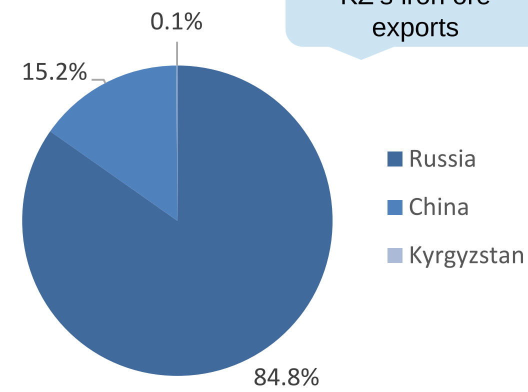
Zinc Export Markets

Russia accounts for 51% of KZ zinc exports



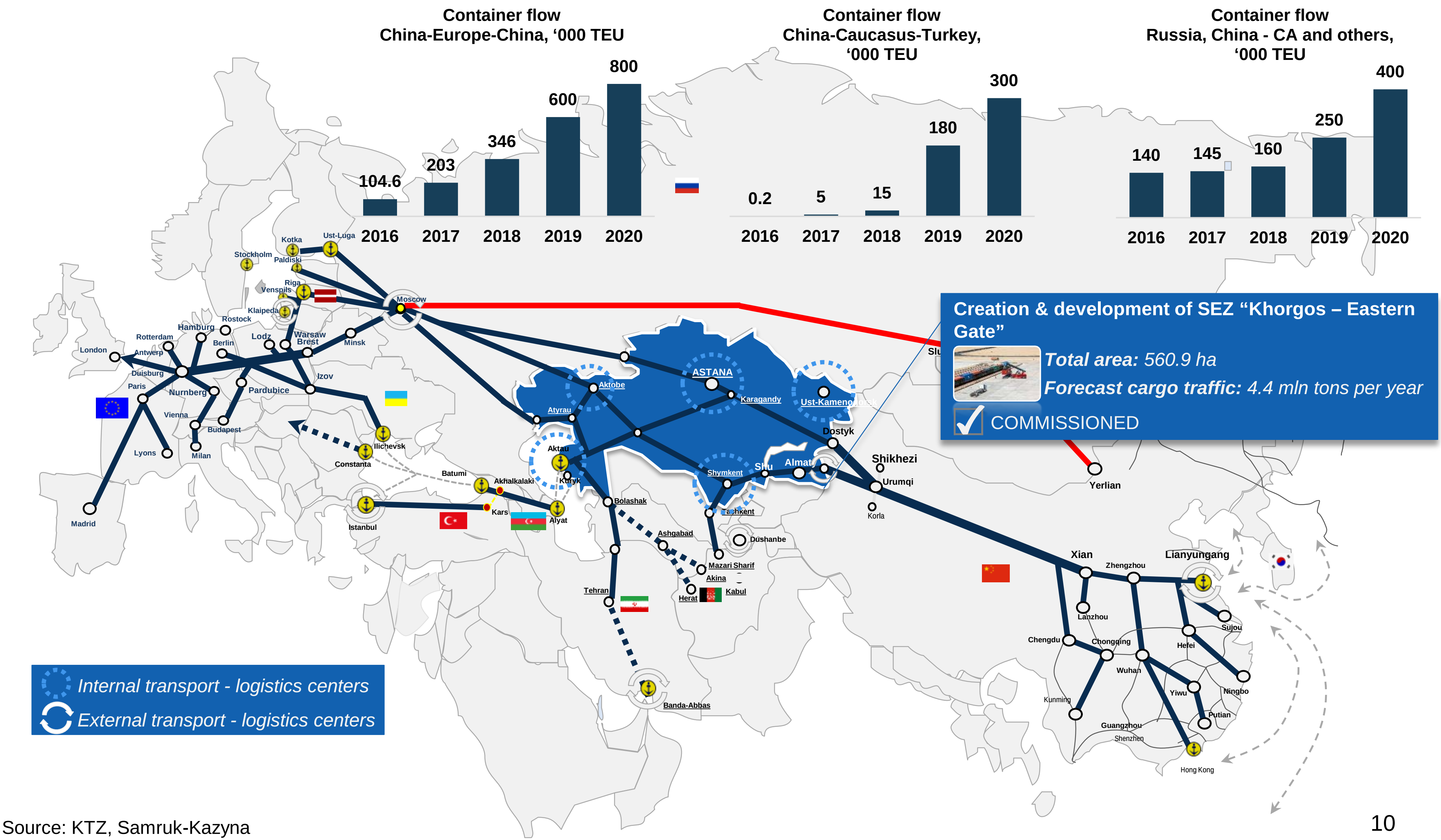
Iron ore Export Markets

Russia dominates KZ’s iron ore exports



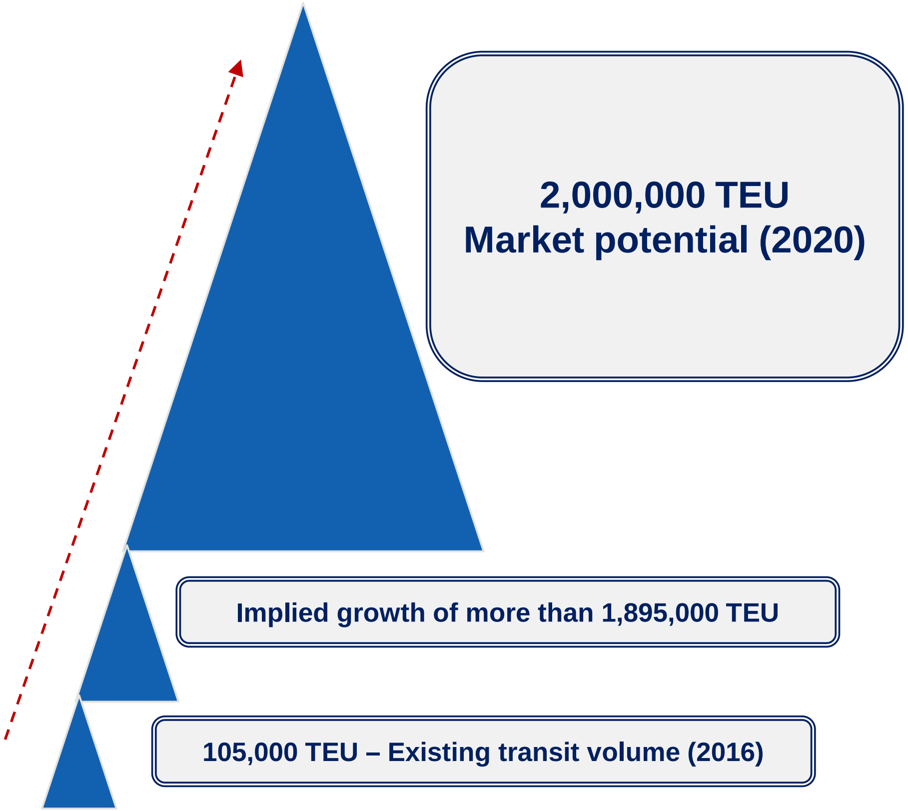
Source: Statistics Committee, USGS mineral commodity report in 2017, BP Statistical Review 2017, Samruk-Kazyna

B&R implementation in Kazakhstan will be enhanced by Nurly Zhol, significantly improving rail & road infrastructure



Source: KTZ, Samruk-Kazyna

Kazakhstan plays a key role in Belt & Road success, continues to invest in B&R initiatives to improve transit potential



Key indicators	Sea transport	Rail & Road via Central Asia
Transit time	40 days	22 days
Opportunity cost*	USD32,800	USD18,000
Total cost*	USD36,400	USD26,600

**Cost per TEU*

Potential spillover effects on Kazakhstan

- **USD7bln** of estimated infrastructure investments over the next 5 years
- **4.5%-7.0%** contribution to domestic GDP growth by 2021
- Over **200,000 jobs** created by 2021

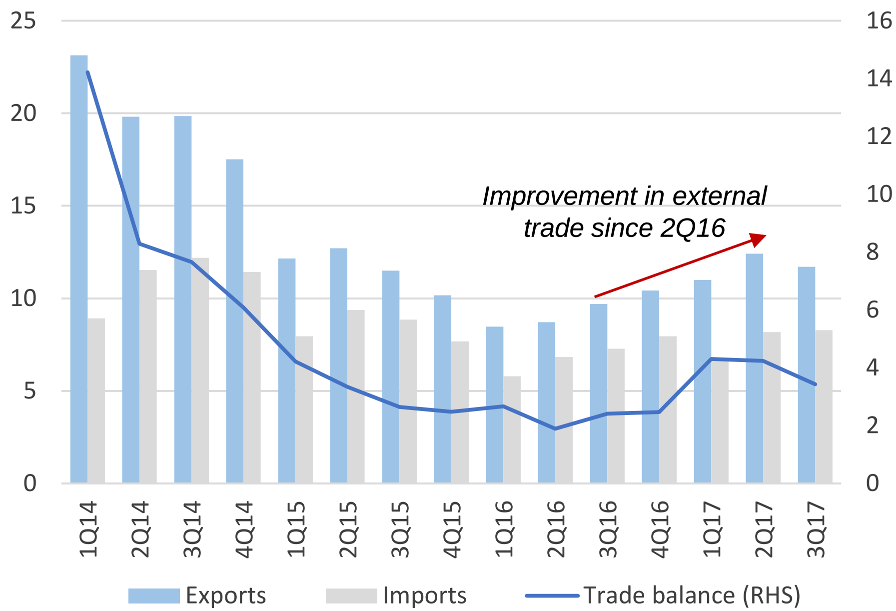
- ✓ *As at September 2017, total **infrastructure investments in Kazakhstan exceeded USD20bln**, including approximately USD1bln direct financing from China's investors (into Khorgos).*
- ✓ *In addition, China is expected to provide more than USD250bln to fund infrastructure projects in the Asia region, with Kazakhstan being one of the primary beneficiaries.*

B&R implementation is expected to be faster in Kazakhstan vs. other participating countries, Nurly Zhol program already significantly improved the country's rail & road infrastructure

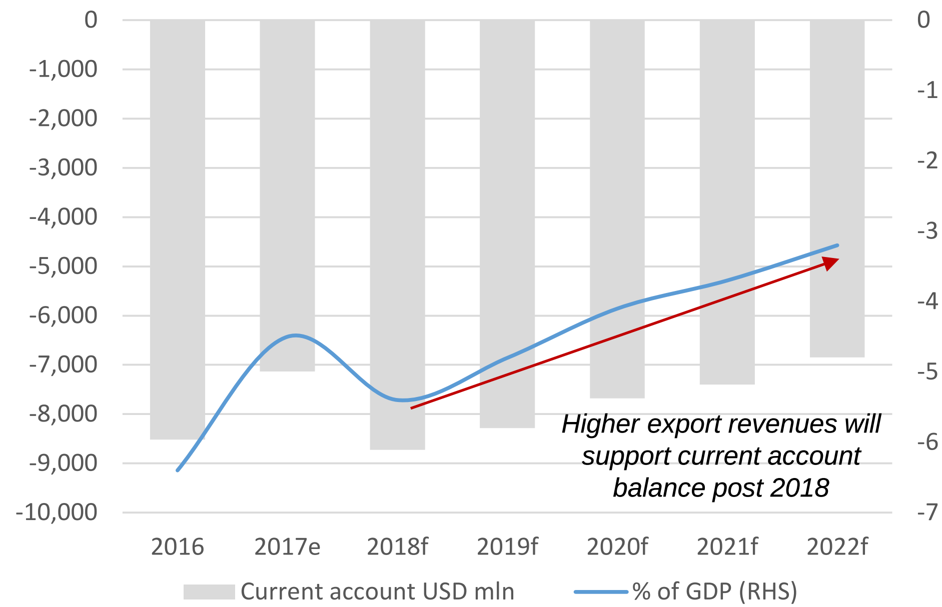
Source: President Nazarbayev's address to the nation January 2017, IFC, SCMP, Samruk-Kazyna

Higher oil prices will support export revenues, while a relatively weak tenge supports export volumes

External Trade Trend, USD bln



Current Account Trend, USD mln & % of GDP



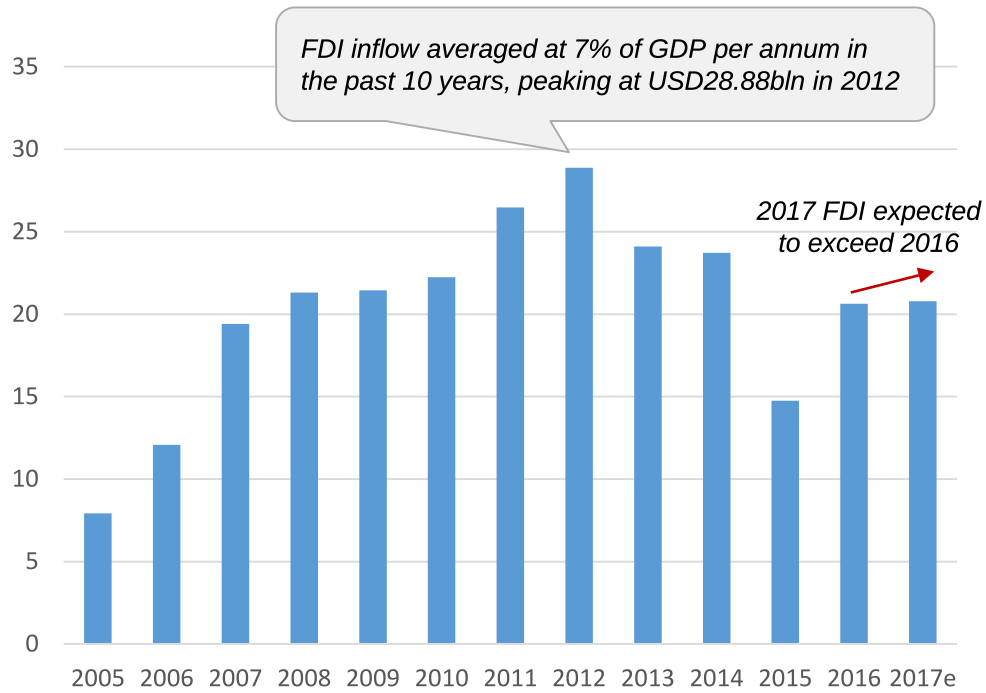
- **Total trade turnover** is expected to **exceed USD80bln in 2018**, with exports of USD47.5bln and imports of USD34.0bln.
- Current account balance is projected at –USD8.73bln or -5.4% of GDP in 2018 (2017: -USD7.13bln or -4.5% of GDP).

- Improved global economic dynamics, recovery in commodity prices and sustained growth in key trading partners will drive Kazakhstan's external trade. Against this backdrop, **total trade turnover could potentially exceed USD100bln by 2022**.
- As such, current account balance is expected to improve to **-3.2% of GDP by 2022**.

Source: National Bank of Kazakhstan, Samruk-Kazyna

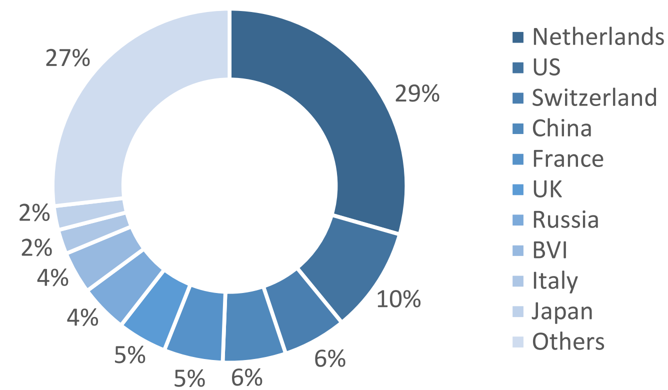
Foreign companies investing strongly in Kazakhstan, FDI of >USD255bln

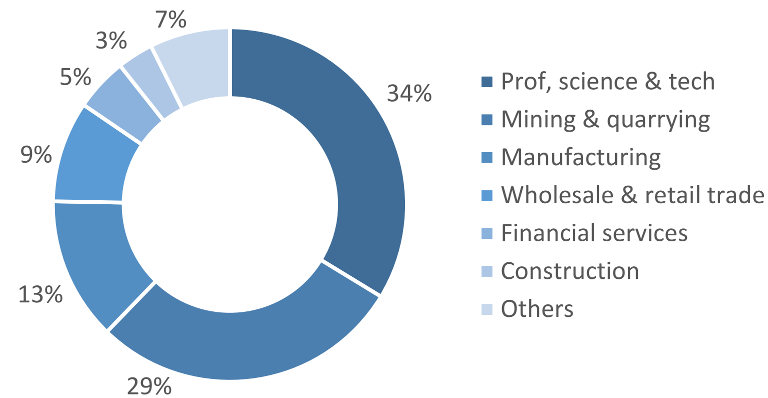
Gross FDI Inflows, USD bln



- Kazakhstan attracted more than **USD255bln of gross foreign investments** since independence, leading other CIS countries.
- The Netherlands remain the largest investor in Kazakhstan, trailed by the US, Switzerland, China and France.
- On sector distribution, almost 34% of FDI inflows were injected to professional scientific and technical activities sector (geological exploration), 29% to mining & quarrying sector, 13% to manufacturing, and 9% to trade.

Cumulative FDI by Sector & Country (as at September 2017)





Source: National Bank of Kazakhstan, Samruk-Kazyna

Kazakhstan is building an investor-centric environment to accelerate its drive in attracting foreign investments

World Bank's Doing Business 2018 Ranking

Country	Doing Business	Starting a Business	Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Sweden	10	13	27	6	9	77	29	27	18	36	16
Germany	20	113	24	5	77	42	62	41	39	22	4
Thailand	26	36	43	13	68	42	16	67	57	34	26
Spain	28	86	123	42	53	68	24	34	1	26	19
France	31	25	18	26	100	90	33	54	1	15	28
Russia	35	28	115	10	12	29	51	52	100	18	54
Kazakhstan	**36**	**41**	**52**	**70**	**17**	**77**	**1**	**50**	**123**	**6**	**39**
Italy	46	66	96	28	23	105	62	112	1	108	24
Belgium	52	16	39	103	138	105	57	59	1	52	11
Azerbaijan	57	18	161	102	21	122	10	35	83	38	47
Turkey	60	80	96	55	46	77	20	88	71	30	139
Vietnam	68	123	20	64	63	29	81	6	94	66	129
China	78	93	172	98	41	68	119	130	97	5	56
India	100	156	181	29	154	29	4	119	146	164	103
Philippines	113	173	101	31	114	142	146	105	99	149	59

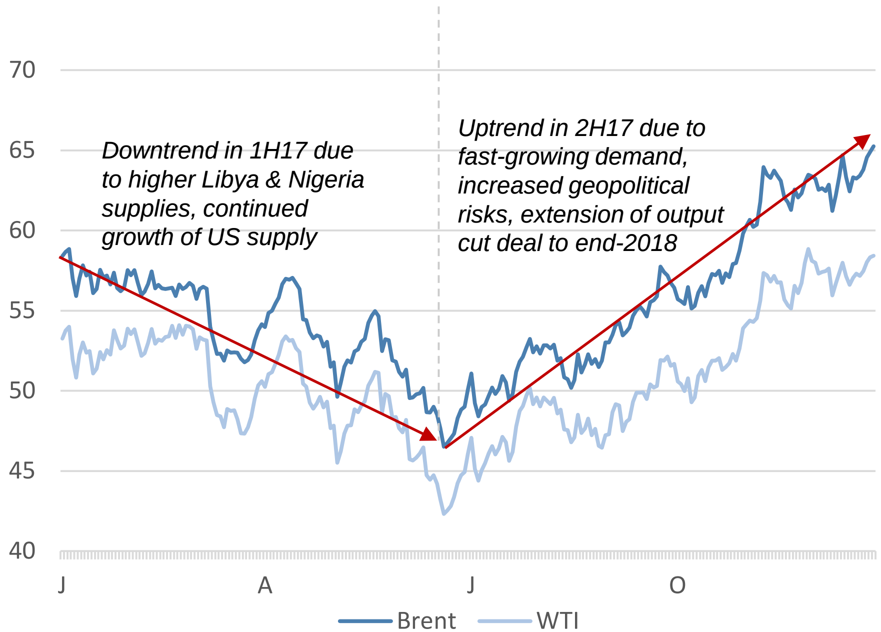
- Initiatives undertaken by the Government have been **investor-centric and business friendly** to create a more dynamic business environment and enhance the country's competitiveness as a preferred investment destination.

- The World Bank ranks Kazakhstan **1st place globally in protecting investors**, 1st place in terms of doing business in Central Asia, 5th place within Europe and Central Asia, and 36th place globally.

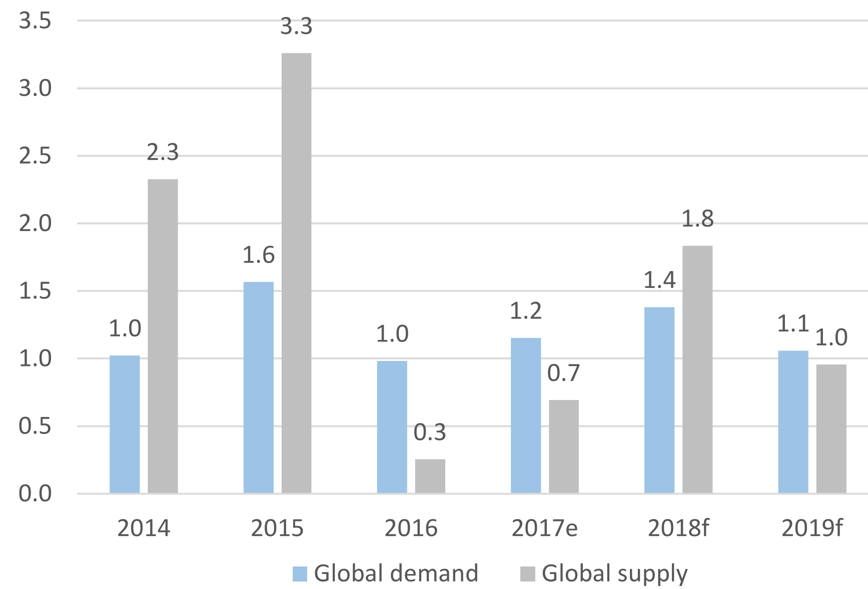
Source: World Bank's Doing Business 2018

Oil supply glut is expected to tighten in 2H19 subject to extension of output cut deal beyond 2018

Brent vs. WTI Price Trend, USD pb



Global Oil Demand and Supply YoY Change, mln bpd (2014-2019f)



- Brent is now trading at USD67pb for the first time since September 2015 on the back of political tensions in Iran. **However, a correction in oil prices is likely on the back of significant excess oil inventories due to seasonal decline expected in the world oil demand in 1Q18.**
- On the positive side, increased geological risks, possible supply outages will support oil prices in 1Q18.
- **Brent oil price is forecast to average at USD58pb in 1Q18 based on market consensus, while forward curve shows oil price at USD67pb. We forecast Brent price to average at USD62-63pb in 1Q18.**

- **World oil demand growth is forecast to accelerate to 1.4mln bpd in 2018 from 1.2mln bpd in 2017.** The main drivers of oil demand growth will be China, India and the US.
- **World oil supply growth is expected at 1.8mln bpd in 2018, higher than 0.7mln bpd growth in 2017.** The main contributor to the supply growth will be non-OPEC supply, particularly US, while OPEC production is expected to remain barely flat at 32mln bpd.
- Oil supply and demand balance is expected to tighten in 2H19 subject to extension of output cut deal through 2019. **There is a risk of significant oversupply in 2019, if oil producers exit production cuts agreement.**

Source: Wood Mackenzie, Bloomberg, Samruk-Kazyna

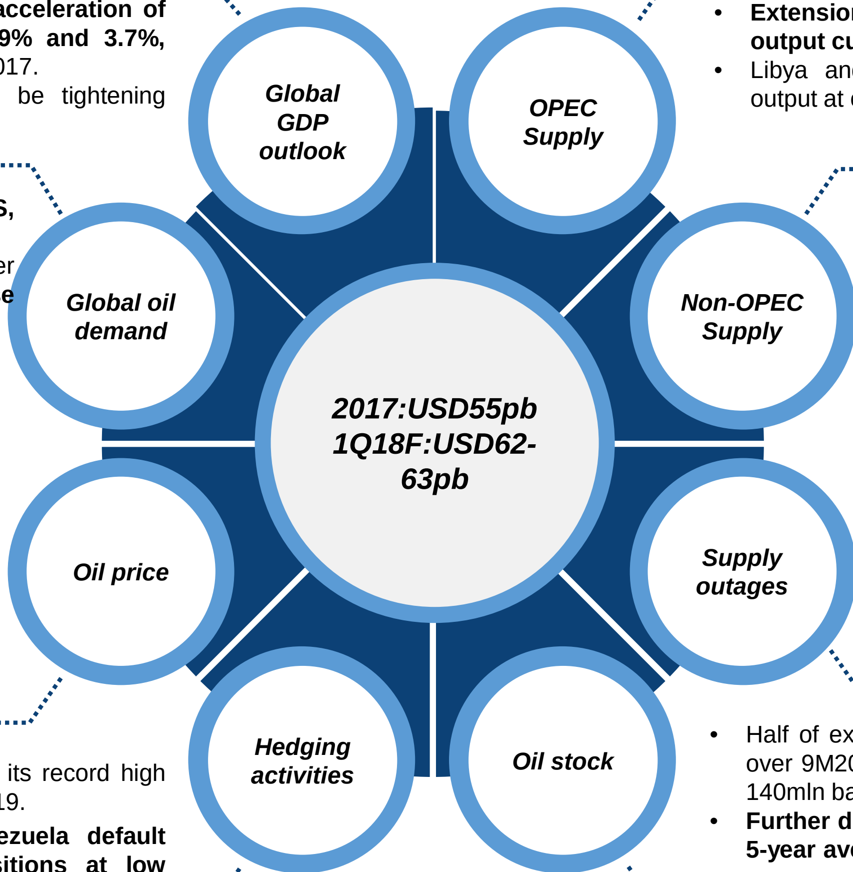
Rising US output remains a key concern in 2018

- **World Bank and IMF forecast an acceleration of world GDP growth in 2018 to 2.9% and 3.7%,** respectively from 2.7% and 3.6% in 2017.
- However, global central banks will be tightening monetary policy in 2018.

- **Extension of OPEC and non-OPEC producers output cut deal to Dec 2018**;
- Libya and Nigeria have agreed to limit their output at combined 2.8mln bpd.

- **Higher oil demand is expected in the US, China and India in 2018;**
- Higher oil prices may create a hangover effect, i.e. **negatively affecting Chinese import levels and oil demand growth.**

- **Higher US output will limit further oil price growth and remains a key concern in 2018;**
- Large-scale projects in Brazil and Canada to come online rising supply by combined 0.5mln bpd;
- Significant oversupply in 2019 is expected, if OPEC and Non-OPEC oil producers exit production cuts agreement.



- Higher oil price environment is needed for Russian president election in March 2018 and IPO of Saudi Arabia's oil company, Aramco.
- OPEC highlighted USD60-65pb as an acceptable oil price for both producers and consumers.
- **Brent price averaged at USD55pb in 2017 and is forecasted to be at USD62-63pb in 1Q18.**

- Possible output outages in Middle East;
- Decline in oil output from Venezuela might be significant risk to supplies in 2018.

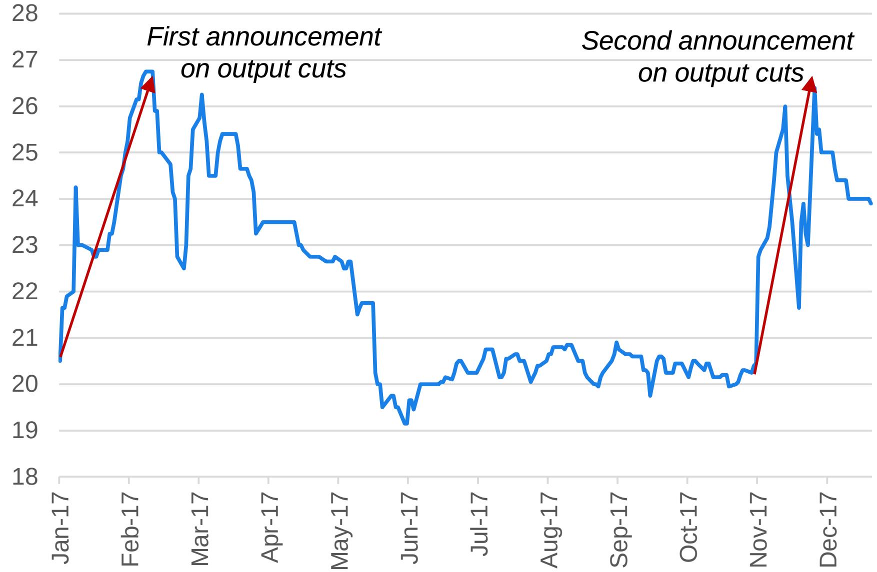
- The net long position reached its record high level on 26 December at 556,619.
- **Middle East tensions, Venezuela default risks have kept short positions at low levels.**

- Half of excess global oil stocks was removed over 9M2017, although their level remained at 140mln barrels above the five-year average;
- **Further decline of OECD oil stocks towards 5-year average is expected in 2018.**

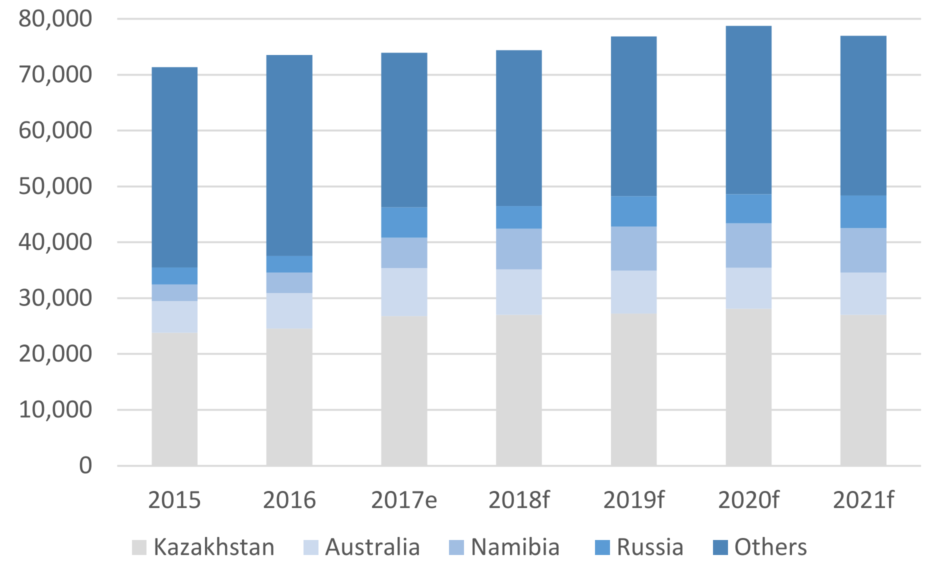
Source: Wood Mackenzie, Bloomberg, Samruk-Kazyna

Uranium oversupply to fall in 2018, supporting prices

Uranium Price Trend, USD pb



World Uranium Production (U3O8), tons (2015-2021F)



- **In 2017, the global uranium market continued to experience low prices and significant oversupply. This has led to output cuts by the largest uranium producers, which were the main 2017 trend.**
- The impact of the first announcement by the largest producer to reduce output by 10% back in January 2017 was short lived, with uranium price rising to USD26lb in Feb 2017 and declining to USD19-21lb in 3Q17. The second announcement was made in early Dec 17, as a result of which prices surged to USD26lb.
- **In 2018, uranium prices are forecast to increase based on market expectations due to combination of decrease in oversupply and higher demand.**

- **World uranium oversupply is expected to fall in 2018, due to supply cuts announced by major producers.**
- World uranium demand is expected to rise as utility companies have not contracted their 30-35% needs in 2020. Japanese reactors restart, 20 of Chinese reactors coming online could be a demand source in the near future.
- Supply deficit is expected due to supply disruption, since it is economically unviable for companies to mine uranium at a cost of USD50lb and sell it for USD20lb to USD25lb.

Source: Wood Mackenzie, Bloomberg, Samruk-Kazyna

Bullish on lead and zinc, while bearish view on iron ore and gold

ZINC

14.3mln tons of demand in 2018 (+2.5% YoY)

14.1mln tons of zinc metal supply in 2018 (-1.4% YoY)

-0.22mln tons of deficit in 2018

~USD2,938 per ton market consensus price for 2018

Continued supply deficit, declining global inventories will support zinc prices in 2017. There is downside risk to zinc price **due to slower-than-anticipated demand from China.**

LEAD

11.8mln tons of demand in 2018 (+0.9% YoY)

11.77mln tons of lead metal supply in 2018 (+1.6% YoY)

-0.13mln tons of deficit in 2018

~USD2,300 per ton market consensus price for 2018

Lead price is forecast at USD2,300 per ton in 2018. Lead prices will be supported by supply deficit in 2018.

IRON ORE

1.6bln tons of world trade of iron ore in 2019 (+1.7%)

1.1bln tons of Chinese iron ore import in 2018-2019

87mln tons of iron ore surplus in 2018 (+138% YoY)

~USD59 per ton market consensus price for 2018

Iron ore price is forecast at USD59.00 per ton in 2018 driven by low-cost supply from Australia and Brazil and moderating demand from China.

GOLD

144mln ounces of supply in 2018 (+0.4% YoY)

124mln ounces of demand in 2018 (+2.1% YoY)

20mln ounces of surplus in 2018 (-8.6% YoY)

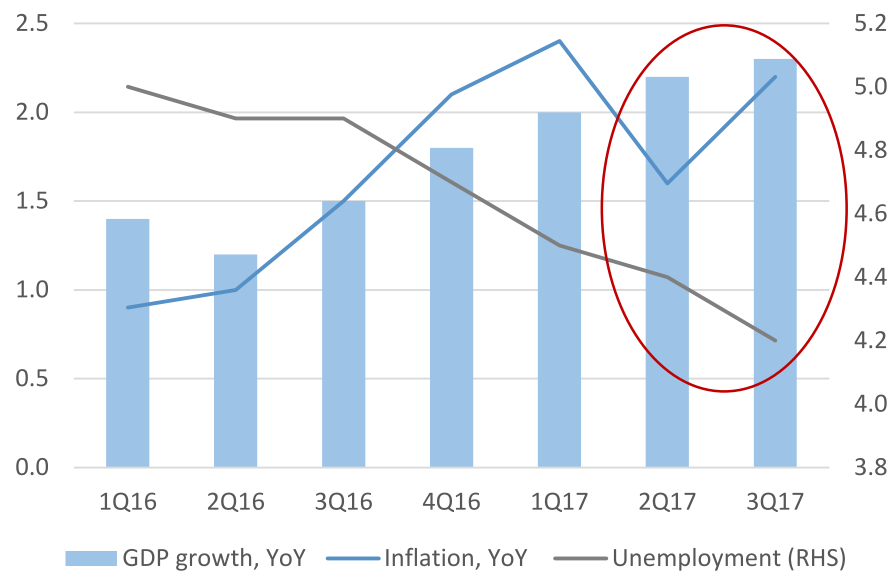
~USD1,268 per ounce market consensus price for 2018

Gold prices are anticipated **to ease next year on expectations of higher US interest rates. Geopolitical risks will support prices.**

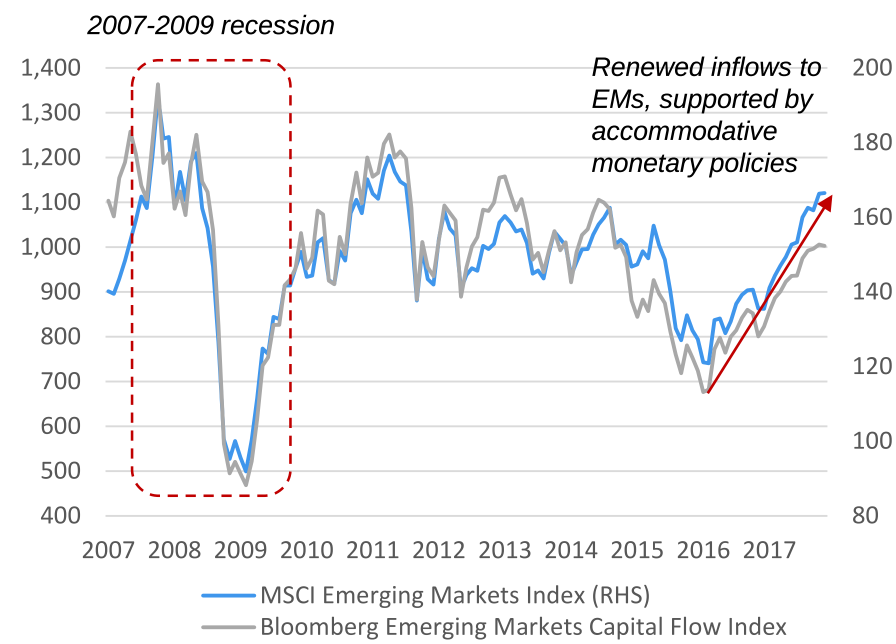
Source: www.worldofexports.com, Resource and Energy Report, ILZSG, Metals Focus, Bloomberg, Samruk-Kazyna

US Fed monetary policy stance, balance sheet unwinding & implications on EMs capital flows

US Growth, Employment and Inflation, %



EMs Capital Markets/ Capital Flows (2007-2017)

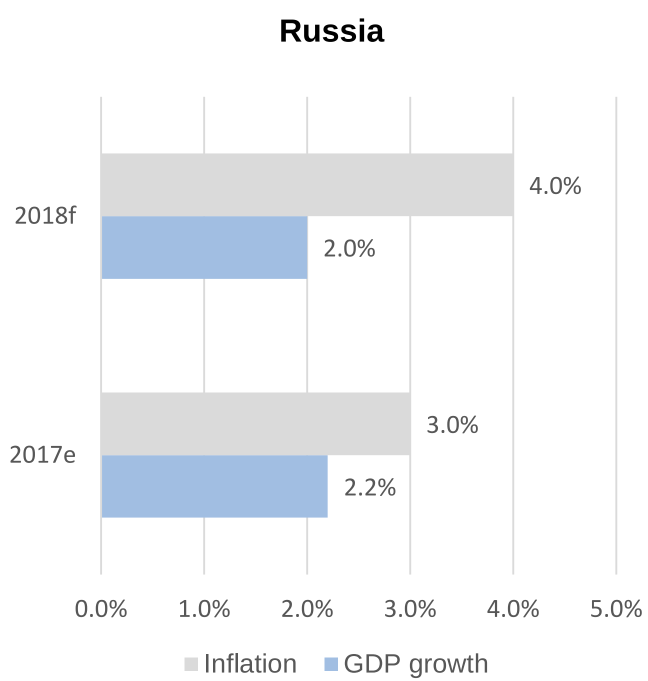


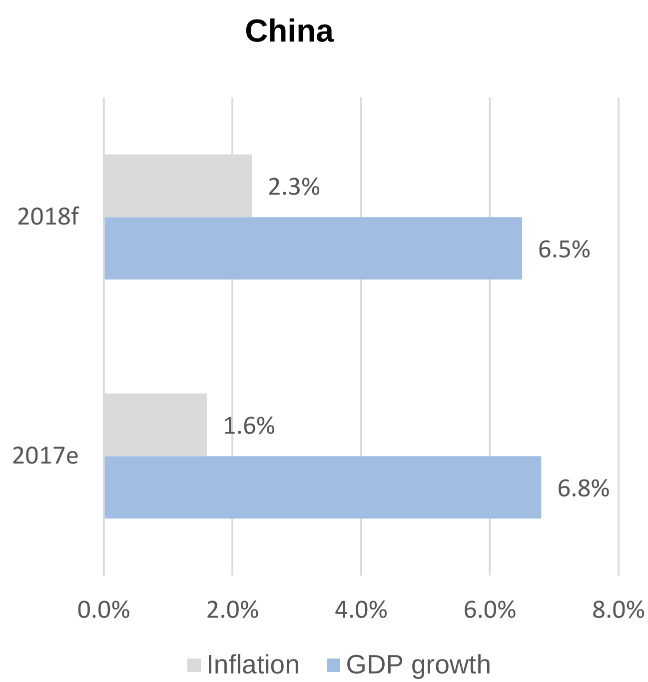
- US economy registered back-to-back 3% growth in 2Q and 3Q, backed by moderate consumer spending as investment picked up. Inflation expected to reach 2% in the medium-term.
- Three rate hikes in 2018 may only be justified if inflation pressures recover materially, hinge on (1) substantial firming of wage pressures as labor slack diminishes, (2) currency stability as the balance sheet runoff intensifies.
- Fed’s balance sheet stands at USD4.25tln, it would take approx. 3-4 years to bring assets down to the level consistent with the required level of liabilities.

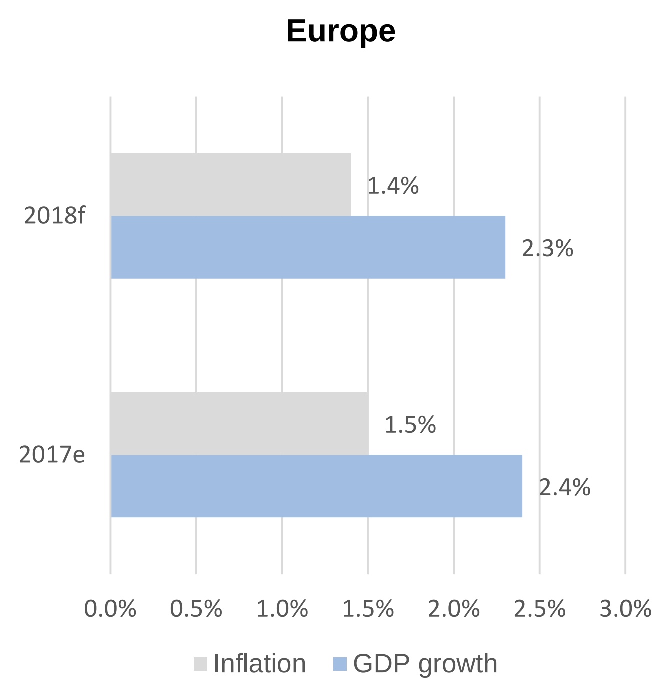
- Implications of higher US interest rates and a strong USD on EMs include (1) higher domestic currency value of foreign debt, (2) higher cost of refinancing, (3) lower commodity prices, (4) capital flows.
- Impact on EMs confidence & capital flows vary depending on (1) % of FX debt, (2) domestic growth prospects, (3) reliance on commodities.

Source: US Federal Reserve, Bloomberg, Samruk-Kazyna

Regional growth dynamics: Russia, China & Europe







- **Russia's GDP growth expected at 2% in 2018**, supported by higher oil prices & exports. Recovery in investment & domestic demand on marginal increase in wages (real 3%, nominal 7%).
- Inflation is estimated to remain slightly below 3% in 2017 (official target <4.0%, 2016: 5.4%), helped by strong harvests and relative strength of ruble.
- Expect ruble to be volatile, reacting sharply to changes in oil prices, US monetary policy, geopolitics.

- **China's GDP of 6.5% in 2018**, against the backdrop of moderate deleveraging and property tightening measures. To achieve the goal of doubling 2010 GDP by 2020, China needs to grow by 6.3% in next 3 years.
- Policymakers likely to calibrate the pace and degree of tightening to avoid market volatility i.e. allow tighter regulations to lift market rates vs. raising benchmark interest rate.
- If the US raise rates >2 times in 2018, PBOC is expected to lift repo rates. If CPI sustains at 3.0%, the key interest rate will need to be raised.

- Europe made significant progress, with **GDP projected at 2.3% in 2018**. Market estimates spare capacity of ~0.5% of potential GDP in 3Q (mainly in Spain & Italy).
- Germany operating slightly above sustainable level of output, challenge to setting of a single monetary policy.
- Sluggish productivity growth vs. international peers, poses risk to fiscal sustainability. Scope to outgrow debt limited by productivity growth in the long-run.
- Higher oil prices may limit household spending power. Lower unemployment has yet to impact wage growth.

Source: Central Banks, Bloomberg, Samruk-Kazyna

Kazakhstan’s 2018 growth outlook, risk & challenges

2018 GDP growth of 3.1%

Growth drivers being higher oil prices and oil production, positive global growth, regional trades with key partners, growth contribution from non-commodity sectors.

Oil production of 86.2 mln tons in 2017 & 87mln tons 2018

Oil production from Kashagan expected at 370K bpd in 2018 (2017: 270K bpd). KZ’s oil production projected to grow at 0.5% CAGR during 2019-2022.

Trade turnover to exceed USD80bln in 2018

Exports of USD47.51bln, imports of USD34.03bln, trade balance USD13.48bln. Current account balance projected at –USD8.73bln or -5.4% of GDP in 2018.

Fiscal position to improve significantly

Fiscal deficit expected lower at KZT1.19tln or -2.1% of GDP. Focus on priority spending i.e. Nurly Zhol KZT243.3bln, agri devt KZT195bln, transport KZT292.6bln.

Inflation expected at 5-7% in 2018

CPI of 7.1% in 2017, within official target. A stable tenge & improved domestic oil markets are expected to keep CPI in check.

USDKZT to range at 330-340 in 2018

Positive growth dynamics, improved global/regional conditions and marginally higher oil prices will provide support to the tenge.

Improved governance & ratings outlook

KZ ranks 1st globally on protecting minority investors. S&P affirms KZ sovereign ratings at BBB-, outlook lifted to Stable from Negative on improved growth outlook.

Risks & challenges 2018

(1) Commodity prices, (2) economic performance of key trade partners, (3) regional geopolitics, (4) US monetary policy & unwinding of balance sheet.

Thank You