

**KAZAKHSTAN****AIDAR ARIFKHANOV, Governor**

I am very honored and privileged to address the 38th Annual Meeting of the Asian Development Bank being held in the beautiful and fascinating city of Istanbul.

Let me on behalf of the Government of Kazakhstan and myself express our sincerest appreciation and thanks to the people and the Government of Turkey for excellent arrangements and extended hospitality to all of us.

We also would like to join other delegations in congratulating Mr. Haruhiko Kuroda with the appointment as the President of the Asian Development Bank and we believe that under the President's wise and visionary leadership, cooperation of the bank with its numerous member countries will be taken to new heights and many of currently contemplated initiatives will be brought to successful fruition and will help developing countries in particular to reduce poverty and bring about progress and economic prosperity to their people.

The Government of Kazakhstan wishes to wholeheartedly sympathize with all the countries that were affected and suffered from the Tsunami onslaughts and earthquake in terms of loss of human lives and physical property. We also are fully supportive and commend the Asian Development Bank's efforts in providing much needed assistance through recently established Asian Tsunami Fund and we hope that the concerned countries would be able to fully and effectively avail extended resources in the course of rehabilitation and reconstruction initiatives aimed to alleviate hardships brought about by the above mentioned calamitous events.

In 2004 the economy of Kazakhstan continued its strong performance with GDP growth at 9.4%.

On the demand side, the expansion was driven by strong domestic consumption supported by public sector wage raises and investment, including buoyant housing activity. On the production side, a rapid expansion of oil and gas output (up 11.1% and 47.7%, respectively) boosted the industry sector, which benefited from high world prices of oil and metals, while strong gains in transportation and communications output led the services sector. Moreover, the agriculture sector grew by 5.2%, well above its historical average.

Economic growth was accompanied by rising demand for labor and higher incomes. Accordingly, unemployment declined from an average of 8.7% in 2003 to 7.8% at end-June 2004. Employment gains were notable and the average real wage rose by 13.1% during the first half of 2004 from a year earlier, reflecting both the Government's policy to carry through substantial increases in wages in the public sector to raise incomes and living standards.

Industry and services rose by 10.1% and 10.8%, respectively. In 2004, the fiscal position remained strong aided by high economic growth. The general budget, inclusive the budget transfers to the National Fund of Kazakhstan, recorded a surplus of 2.3% of GDP.

As of January 2005, total international reserves of the National Bank of Kazakhstan equaled to USD 9.3 Billion, thus increased by 87.02% during 2004. Assets of the National Fund of Kazakhstan increased by 38.28% during 2004, thus totaling to USD 5.07 Billion by the beginning of 2005.

Kazakhstan is the first among CIS countries to obtain the investment class rating from three top major international rating agencies. Kazakhstan sovereign rating given by Moody's Investors Service, an international rating agency, is Baa3 with "positive" forecast, and this rating from other international rating agencies, such as Standard & Poor's and Fitch Rating's Ltd., is BBB - with "stable" forecast. In January 2005, OECD made a decision to improve Kazakhstan's rating and move it from risk category 5 to 4.

Nevertheless, challenges are many and they have to be tackled expeditiously and effectively.

Taking above into account, Mr. Chairman, we are fully aware of the necessity of ensuring that our economic development becomes sustainable and inclusive therefore creating a basis for long-term competitive economy requires a comprehensive and flexible governmental policy is aimed at qualitative renovation of all types of resources, i.e. human, produced and natural ones.

In this context a central role in this work is obviously being assigned to the Strategy of Industrial and Innovation Development of the Republic through 2015. The main objectives of Industrial and Innovation Development Strategy of the Republic of Kazakhstan are about:

1. Ensure average annual growth of 8.4% in processing industry
2. Improve labor productivity at least by 3 times and reduce GDP power intensity by twice
3. Encourage science-intensive and high-tech, export-oriented production capacities
4. Diversify export potential of the country in favor of goods and services with high added value
5. Implement international quality standards
6. Attract best practice of innovation and industrial management; and
7. Encourage private sector initiatives

It is also worth mentioning that intensification of market reforms will be accomplished in the following domains:

- Social, pension, utility, and administrative reform;
- Monetary and credit, tax and fiscal, agroproduction and industrial innovation policy;
- Programs: development of Kazakhstan's portion of the Caspian Sea; house building;
- Education and health care development; and social program.

In fact Mr. Chairman the main goal determined by the Head of the State for the country in the long term prospective is to become one of 50 most competitive countries in the world.

A key goal of the current year will be to develop a new pattern of interrelations among the business, authorities and the society. New partnership relations between entrepreneurs and

the government will be established in Kazakhstan, which will provide for the creation of productive business climate. Take measures to expand the scope of application of specialized tax treatment for small business entities, thus involving them to investing primarily into non-mineral sectors and of course further improvement and development of tax administration.

The Government has successfully designed and continued with the implementation of its 12-year Innovative Industrial Development Strategy for 2003-2015 to foster economic diversification. It undertook several important steps toward structural reforms. In particular, it passed several new laws to restructure railways and energy and to liberalize telecommunications. The policy effort to “de-bureaucratize” the economy included overhauling the permits and licensing system.

We firmly believe that a well-developed financial sector will significantly aid economic diversification and private sector development. Currently dominated by private commercial banks, the sector has been strengthening to efficiently channel the growing financial savings originating from extractive industries into funding for development of other parts of the real sector. Bank lending has grown rapidly and non - bank financial institutions (pension funds and insurance companies) are inevitably becoming active investors because the domestic securities market is an indispensable and significant source of financial intermediation. To address these issues, the Government has taken unprecedented steps toward financial sector deepening.

The Government has adopted a medium-term fiscal framework for 2005–2007 targeting reduction of the budget deficit to 0.5% by 2007, and identifying domestic resources of the public and private sectors as major means to deliver the Government’s priority development programs. Development of the Government’s capacity to develop sound investment programs and ensure sound management of public assets to match the availability of domestic funds is currently under way. Nonetheless, knowledge and expertise transfer is needed to facilitate the process. ADB’s role in this area will definitely be crucial.

Mr. Chairman, the Government of Kazakhstan continues to make efforts to achieve the Millennium Development Goals. In 2003, the Government increased pro-poor expenditure to 4.5% of GDP, helping reduce the proportion of the population living below the subsistence levels to the minimum.

The private sector remains a key engine for diversification of the economy and pro-poor growth. The Government established various state-owned bodies to promote the private sector through investment and public-private partnerships, especially for SMEs. They include investment vehicles (investment fund, innovation fund) and complementary facilities (export insurance corporation, technology transfer center, and marketing research center). The Government of Kazakhstan has fully identified the need for infrastructure facilities, institutional reforms, and investment operations that support private sector development.

The Government has also set SME development as a key vehicle for job creation. We believe ADB’s possible involvement will meet such development needs by providing credit lines to SMEs in urban and rural areas. ADB can also help domestic

banks enlarge credit portfolios and strengthen their capabilities for credit appraisal and risk management. Having signed the Framework Agreement for the Private Sector operations Kazakhstan Government is eagerly looking forward to tight and productive cooperation with the ADB in the nearest future.

Mr. Chairman, Kazakhstan continues to be a strong and loyal proponent of regional cooperation, and is intensifying its efforts to promote regional cooperation through various groups. As you well know Kazakhstan is an active participant in ADB's Central Asia Regional Economic Cooperation Program and has hosted the third ministerial conference in late 2004. We are fully aware that prosperity of the country greatly hinges on the successful implementation of regional initiatives. In this context we laud and welcome ADB's undertakings in this area.

With this let me reiterate our deepest thanks to all organizers of the 38 th Annual Meeting of ADB and the people of Istanbul in particular for generosity and warmth and wish all participants prosperity and success in our efforts to reduce poverty in Asia and the Pacific in times to come.

Thank you very much.