

Survival Game

PwC presents the fourth Kazakhstan edition of PwC's 19th Annual Global CEO Survey 2016

AS PART OF THE 19TH EDITION OF GLOBAL CEO SURVEY, PwC KAZAKHSTAN HAS CONDUCTED ITS FOURTH ANNUAL CEO SURVEY IN KAZAKHSTAN

In 2016, almost 1,500 executives from 84 countries, including more than 50 CEOs of companies in Kazakhstan, shared their thoughts about the challenges facing the private sector within the framework of the global CEO Survey. The Kazakhstani edition was conducted with support from Forbes Kazakhstan.

Last year, 20 percent of leading domestic companies expected an improved business environment and prosperity on a global scale. This year, only 13 percent of Kazakhstan's CEOs believe that the world economy will show growth in the next 12 months. One in four executives is convinced that his or her company will grow revenues this year, while 38 percent plan to downsize in the coming months. The private sector hopes for more cooperation from the government in regulations, a more decisive anti-corruption crackdown and greater macroeconomic predictability.

COMBATING CRISIS

The crisis has brought changes to the lives of Kazakhstan companies - 77% of CEOs plan cost reductions this year, up from 61% just two years ago. The heads of the companies are committed to more cautious spending, have suspended some investment projects, and most disturbingly- have planned staff reductions. In nearby Russia, only 64% of CEOs plan cost reductions, as many companies have already gone through business adjustments following the drop in commodity prices and the imposition of sanctions.

In Kazakhstan, 40% of executives surveyed are considering entering into a new strategic alliance or joint venture; however, they do not disclose details on the grounds of confidentiality or lack of concrete plans. 43% of CEOs in Russia and 49% of CEOs worldwide are also considering joining forces with other players.

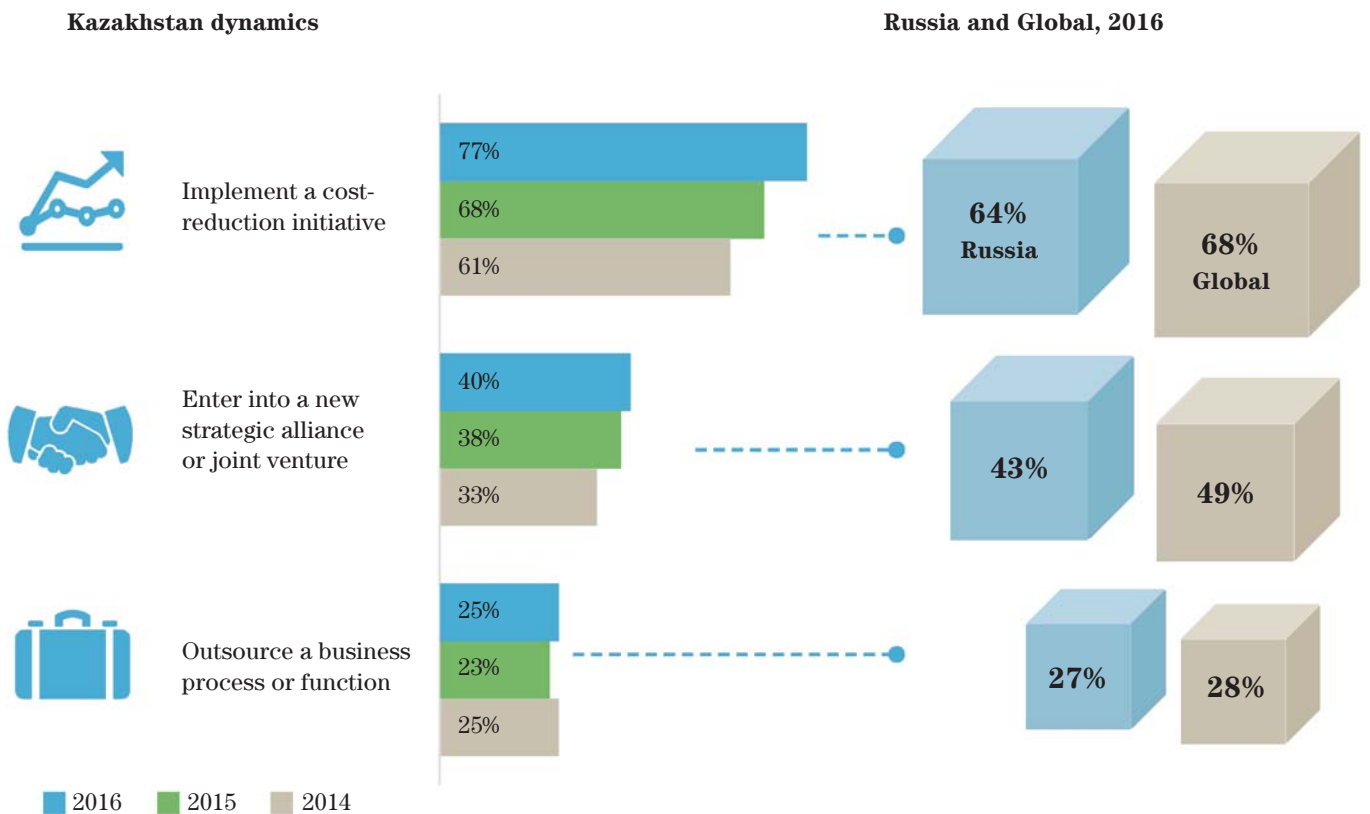
Similar to last year, outsourcing of some business processes and functions came in third in popularity, with one in five CEOs considering this option.

EXPECTATIONS FROM THE GOVERNMENT

Traditionally, Kazakhstan's private sector expects more active cooperation and support from its government. As many as 54 percent of CEOs believe that the government should focus on creating a more predictable macroeconomic environment; this has been leading the CEOs' list of priorities. Forty-eight percent think that the government should focus on making Kazakhstan more attractive to investors. The fight against corruption and bribery should also be among the key priorities of the government, according to almost half of CEOs participating in the survey.

The business community is rather critical of the achievements of the government in the above areas. Sixty-one percent of CEOs believe that anti-corruption efforts are not effective. According to 55 percent of corporate leaders, measures to improve macroeconomic predictability could have been more effective. Almost 40 percent of respondents think that the government is not working hard enough to make the country more attractive to investors.

Graph 1. Major restructuring plans for the next 12 months, % of respondents



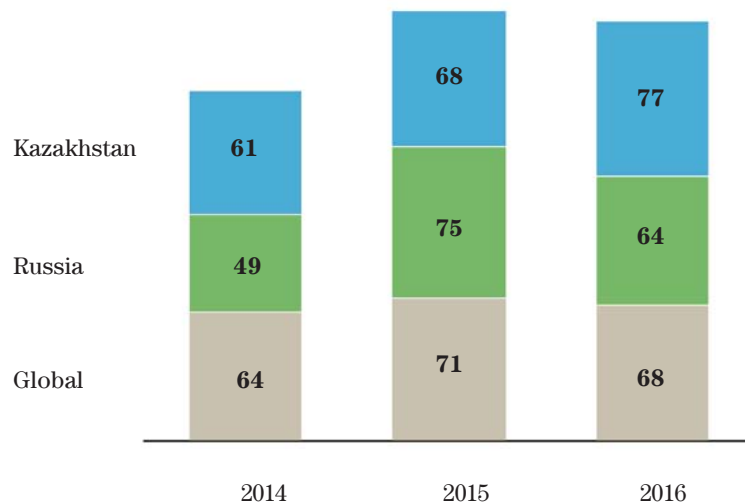
The government could have been more committed to promoting an innovation-driven environment and making cheap capital more accessible, said 57 percent of respondents. Half of CEOs believe that the authorities need to do more in terms of developing highly skilled human capital capable of adapting to changes in the economy. Interestingly, 50 percent of corporate leaders are willing to cooperate with the government on this issue, as well as in increasing Kazakhstan's appeal to investors.

Business leaders expect to see concrete steps taken by government to reduce regulation and state interference in the private sector, while they are still hoping for increased support from the government.

CHALLENGES FOR BUSINESS GROWTH

Volatile commodity prices pose the greatest threat to their businesses, according to 80% of participating CEOs in Kazakhstan. Seventy-seven percent are concerned with bribery and corruption. Changes in the cost base and consumer behavior are on the key risk lists of the same percentage of respondents.

Graph 3. Cost reduction as a priority step in Kazakhstan, Russia and Globally, %



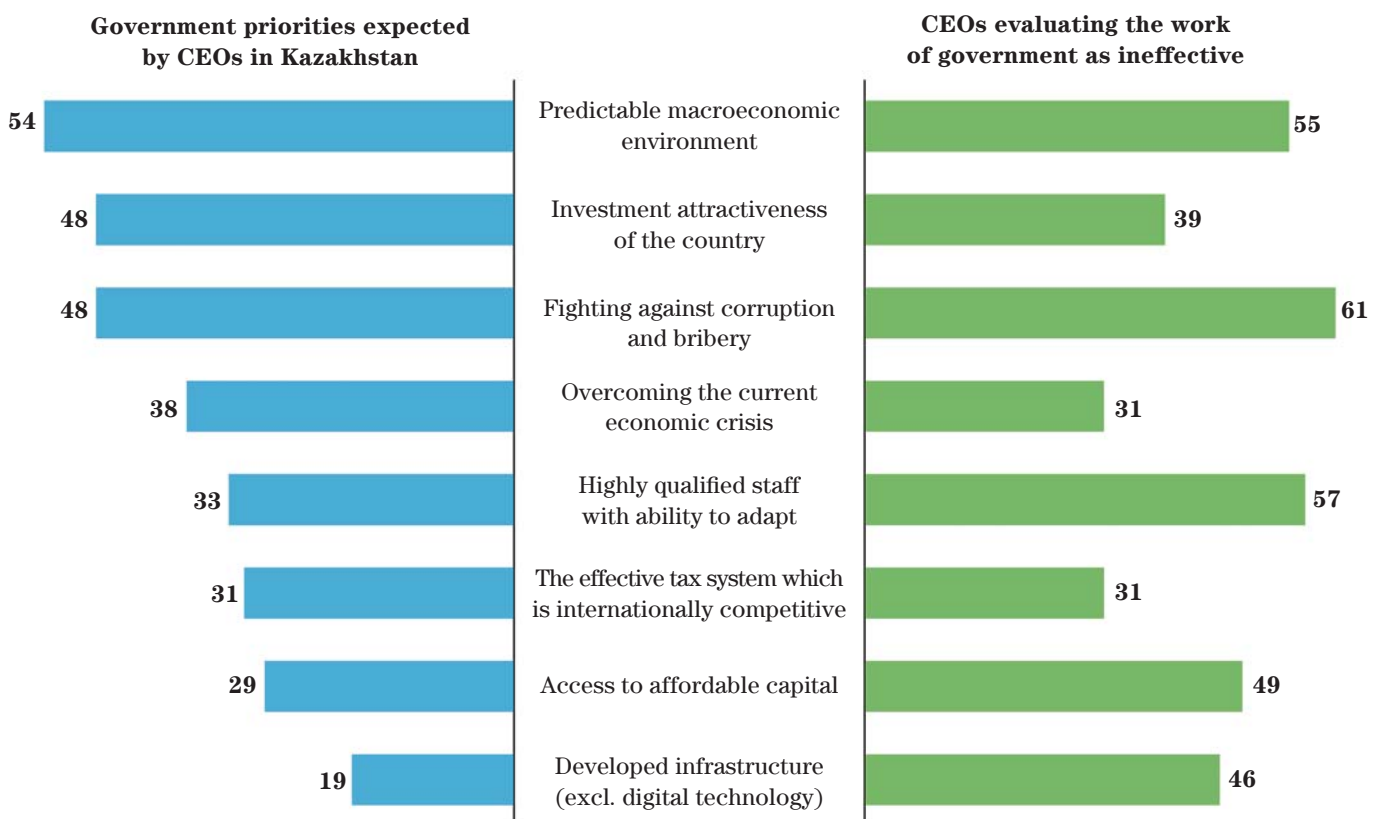
The survey shows the level of stress the private sector is facing under current economic conditions. What we are witnessing today could be attributed to the decades-long relationship between the government and business. The private sector has been trained to live according to the formal and informal rules established by the government and has become highly dependent on the State. The current crisis is by far more painful for the private sector

than the previous declines. With the lack of predictability and clarity on the part of the government, survival for businesses becomes even more challenging.

The full version of the survey covers many other topics affecting the private sector, including survival tips, analyses, interviews, etc.

The Survey will be available at www.pwc.kz by end of May 2016.

Graph 2. Government priorities expected by CEOs in Kazakhstan, %



Kazakhstan Joins the WTO

By Samat Karmys, Senior Associate, Tax & Law Services, EY

On 12 October 2015 Kazakhstan ratified the Protocol on Kazakhstan's accession to the World Trade Organization (WTO). As of 15 December 2015 Kazakhstan was announced the 162nd member of the WTO. WTO accession requires Kazakhstan's legislation to be brought into conformity with the provisions of international trade law, including WTO rules. To that effect, the President of Kazakhstan has already signed the relevant law to introduce amendments into a number of legislative acts.



Some of the relevant legislative changes, however, were additionally driven by Kazakhstan's need to balance its WTO obligations with those relating to its membership in the Eurasian Economic Union (EAEU),¹ of which Kazakhstan is also a Member State.

Below we outline some of the major conditions for Kazakhstan's accession to the WTO that triggered changes to local and EAEU legislation, and reservations that Kazakhstan has negotiated for transition period.

IMPORT DUTIES

Currently Kazakhstan imposes import duties according to the Common Customs Tariff (CCT) of EAEU, the common external customs tariff applied to goods imported into any of the Member States of the EAEU from outside of the EAEU. Within five years after accession to the WTO, Kazakhstan is expected to decrease import duties on certain commodities to the level determined by its WTO accession obligations (Kazakhstan's bound tariff rates). In effect, upon accession, Kazakhstan's duty rates will be lower than the rates contemplated by the CCT of the EAEU.

According to Kazakhstan's schedule of concessions, import customs duties of 3,081 items will be decreased by 2-5 % or reduced to 0%, depending on the type of goods.

In this regard the EAEU has adopted a list of goods (the Withdrawal List), that are subject to lower import customs duty rates than those set out by the CCT of the EAEU. The Withdrawal List currently contains 1,347 items, including: pharmaceuticals, agricultural products, precious stones and metals, textiles, transportation goods, and others.

In line with its EAEU obligations, Kazakhstan has undertaken commitments not to allow goods on the Withdrawal List that are imported at lower customs duty rates from other WTO members to be exported to other EAEU Member States.

What it means in practice is that goods on the Withdrawal List imported into Kazakhstan should be imported either at Kazakhstan's bound tariff rates without the right of export to other EAEU Member States, or at the rates of CCT of the EAEU, if the goods will be further exported to other EAEU Member States.

For purposes of monitoring the movement and trade of goods on the Withdrawal List, the EAEU has also introduced changes in the rules for executing customs declarations. Thus, when importing goods on the Withdrawal List, importers must submit a separate customs declaration if these goods are imported subject to Kazakhstan's bound tariff rates. Besides, companies were mandated to issue electronic invoices in the event of sale and export of goods on the Withdrawal List to other EAEU member-states irrespective of the type of customs duty rate applied (CCT or Kazakhstan's bound tariff rates).

Failure to comply with the above requirements leads to administrative sanctions and a prohibition on exporting goods on the Withdrawal List to other EAEU Member States.

EXPORT DUTIES

Kazakhstan has reserved the right to continue to impose export duties on certain goods that are currently subject to export duty in Kazakhstan (e.g. crude oil and oil products, remnants and scrap of ferrous and non-ferrous metals, elements of locomotive rolling-stock, wool and domestic animal hide, and others).

In line with its WTO schedule of concessions, Kazakhstan started calculating export duties for crude oil and oil products according to special formulas (instead of previously applied fixed rates).

Export duty rates on crude oil are determined in accordance with the average market price of crude oil calculated based on the special formula for the previous period. Average market price of crude oil is calculated by the State Revenue Committee of the Ministry of Finance of the RK and published on its official website before 25th day of a month preceding a month when the so calculated export duties must be applied.

Calculation of export duty rates on oil products is performed by the Ministry of National Economy of the RK quarterly using special formula which envisages consideration for arithmetic mean value of average market prices of crude oil for three calendar months. In case of decrease of average market price on crude oil lower than USD 375 per ton (approximately USD 49 per barrel), export duty rates on oil products are approved in fixed amount without application of the formula.

¹ Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia