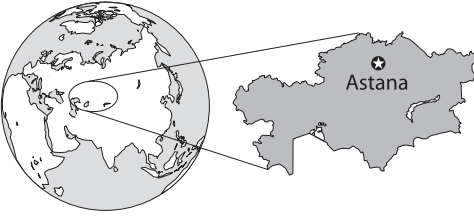


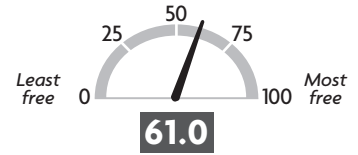
# KAZAKHSTAN



World Rank: **82**

Regional Rank: **12**

## Economic Freedom Score



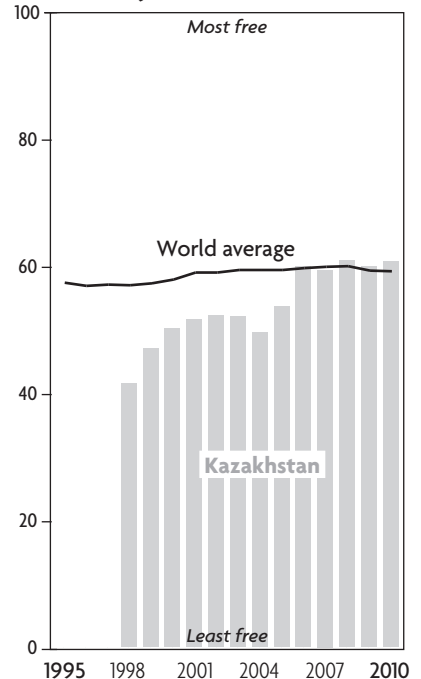
**K**azakhstan's economic freedom score is 61, making its economy the 82nd freest in the 2010 *Index*. Its score is 0.9 point higher than last year, primarily reflecting improvements in business freedom, property rights, and labor freedom. Kazakhstan ranks 12th out of 41 countries in the Asia-Pacific region, and its overall score is above the world and regional averages.

A series of economic reforms, along with high oil prices, allowed Kazakhstan to achieve economic growth of over 8 percent annually over the past five years. However, the global financial turmoil and economic slowdown have taken a considerable toll on the economy. Kazakhstan's financial freedom has eroded, but its fiscal freedom has improved as a result of reduction of the corporate tax rate to 20 percent at the beginning of 2009. Business competitiveness is up as a result.

Challenges to economic freedom remain considerable. The economy exhibits significant shortcomings in three areas: investment freedom, property rights, and freedom from corruption. Foreign investment is hindered by ad hoc barriers and favoritism toward domestic firms. Red tape and overly burdensome restrictions still hamper business freedom. The weak rule of law allows for significant corruption and insecure property rights.

**BACKGROUND:** Kazakhstan is an important energy and commodity producer in Central Asia and an economic development leader in the region. Oil output is projected to reach 3.5 million barrels a day in 2020. Excessive dependence on commodity exports makes the economy particularly vulnerable to global price changes, and the 2009 global recession has led to weakness and contraction in construction, banking, and commodities. Kazakhstan possesses an estimated 20 percent of the world's uranium reserves, but resource nationalism and corruption encourage investor uncertainty. President Nursultan Nazarbayev's Nur Otan party won all of the seats in the lower house of parliament in 2007, and presidential term limits have been abolished.

## Country's Score Over Time



## Quick Facts

**Population:** 15.7 million

**GDP (PPP):** \$177.4 billion

3.2% growth in 2008

8.1% 5-year compound annual growth

\$11,315 per capita

**Unemployment:** 6.6%

**Inflation (CPI):** 17.2%

**FDI Inflow:** \$14.5 billion

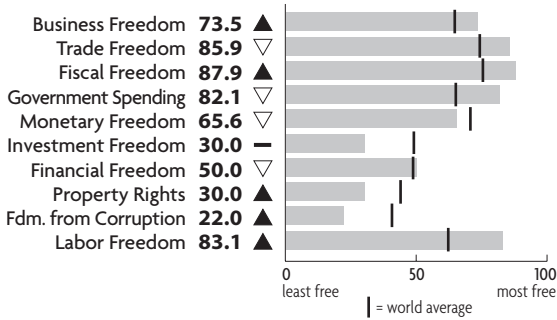
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## KAZAKHSTAN'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 73.5

The overall freedom to start, operate, and close a business is limited by Kazakhstan's regulatory environment. Starting a business takes an average of 20 days, compared to the world average of 35 days. Obtaining a business license requires more than the world average of 18 procedures, and fees are high.

### TRADE FREEDOM — 85.9

Kazakhstan's weighted average tariff rate was 2.1 percent in 2008. Liberalization has progressed, but services market access barriers, import licensing requirements, non-transparent regulations and standards, opaque government procurement, weak enforcement of intellectual property rights, and customs inefficiency and complexity add to the cost of trade. Ten points were deducted from Kazakhstan's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 87.9

Kazakhstan has a low income tax rate and a relatively low corporate tax rate. The flat income tax rate is 10 percent, and the standard corporate tax rate has been reduced to 20 percent from 30 percent. Other taxes include a value-added tax (VAT), property tax, excise taxes, and a minerals extraction tax implemented in 2009. In the most recent year, overall tax revenue as a percentage of GDP was 26.7 percent.

### GOVERNMENT SPENDING — 82.1

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 24.4 percent of GDP. Much of the economy is now in private hands, but government economic intervention will continue to rise under the Action Plan 2009.

### MONETARY FREEDOM — 65.6

Inflation has been high, averaging 14.8 percent between 2006 and 2008. The market sets most prices, but the government retains the right to control prices, influences them through state-owned enterprises and manufacturing subsidies, and has made little progress in promoting competition in agriculture. Ten points were deducted from Kazakhstan's monetary freedom score to account for policies that distort domestic prices.

## INVESTMENT FREEDOM — 30

The government plays a large role in overseeing foreign investment. Screening of foreign investment proposals is often non-transparent, arbitrary, and slow, and foreign ownership in some sectors is limited. An investor may be obligated to use local content in production or to train local specialists and contribute to the social development of the region. An unclear legal code, legislative favoritism toward Kazakh companies, inconsistent application of investment regulations, and government interference in commercial operations further deter investment. Subject to restrictions, foreign exchange accounts may be held by residents and non-residents. Most capital transactions, payments, and transfers are permitted with few restrictions. The Investment Law of 2003 weakened protections related to expropriation and compensation and provides no clear guidance for either process. Land ownership is restricted.

### FINANCIAL FREEDOM — 50

Although Kazakhstan's financial sector had experienced deeper reforms than other areas of the economy, the global financial crisis has revealed continuing weaknesses in regulation and supervision. Domestic banks expanded rapidly on the back of foreign borrowing, and much of their lending was directed to construction and real estate development. Weak risk management and overexposure to the property market have taken a severe toll on the country's banking stability. Non-performing loans reached about 10 percent in early 2009, and in the face of systemic risk, the government stepped in, taking up to a 25 percent stake in each of the four largest troubled banks. Capital markets remain underdeveloped, though the bond market has been growing. The insurance sector is small, and foreign companies are limited to joint ventures with local companies.

### PROPERTY RIGHTS — 30

Most legal disputes arise from breaches of contract or non-payment by the government. Corruption is widespread, and the judiciary views itself more as an arm of the executive than as an enforcer of contracts or property rights. Some foreign investors encounter serious problems short of expropriation. Piracy of copyrighted products is widespread, and enforcement of intellectual property rights is weak.

### FREEDOM FROM CORRUPTION — 22

Corruption is perceived as pervasive. Kazakhstan ranks 145th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption is a significant obstacle to investment, and law enforcement agencies occasionally pressure foreign investors to cooperate with government demands.

### LABOR FREEDOM — 83.1

Kazakhstan's labor regulations are flexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly. Regulations on work hours can be rigid.