

Creating a balanced portfolio

INTERVIEW WITH **KAIRAT KELIMBETOV**

CHIEF EXECUTIVE OFFICER, SAMRUK-KAZYNA



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We have about US\$70 billion of assets under management

How would you describe the performance of the Kazakhstani economy over the past decade?

Between 2003 and 2007 economic growth rates were about 9-10 per cent annually in Kazakhstan. In eight years, we almost doubled the GDP of our economy. On the one hand this was a great success; on the other hand, we understood that this growth was mostly related to oil. We quickly realised that we needed to think about factors beyond oil, gas and other raw materials in order to diversify the economy.

We started to research different scenarios, together with some Harvard Kennedy School professors. We realised that the overheating of the Kazakhstani economy would very soon become a problem, and that we would start to face this problem in 2005-07. If you can imagine driving an old car at a speed of 3,000 kmh, it seems unsafe. That happened in 2007-08, when the first signals of the sub-prime crisis in the US helped us to be properly prepared for the worst-case scenario, which happened after Lehman Brothers collapsed.



The Bayterek monument in Astana

The first challenge for Kazakhstan was brought about by two events that damaged the sustainable development of the Kazakhstani economy. The first was when the Western markets stopped refinancing the loans of Kazakhstani banks. These loans represented a significant amount of money. In previous times, the debt in the Kazakhstani banking sector was about US\$45 billion. Suddenly, Western markets stopped lending to the Kazakhstani economy – that was the first shock.

The second shock was the oil factor. In previous years, you will remember, oil prices were more than US\$100 a barrel, then it suddenly changed, which also had an impact on the sustainable development of the economy. The Kazakhstani government faced challenges at this time and prepared some of the most efficient anti-crisis measures among the CIS countries, with a stimulus package for our economy. In terms of its size compared to GDP, it was among the top ten in the world, at around 17 per cent of GDP. We injected about US\$15 billion into the economy. The first stimulus package was for US\$5 billion, and the second was for US\$10 billion. This money went mostly to problem areas, like the banking sector. We recapitalised the top four banks in Kazakhstan, we injected money into real estate and supported SMEs, and made some crucial investments in infrastructure projects.

What steps is the government taking to encourage economic diversification?

In developing our diversification initiatives we looked at various diversification models in other oil-rich countries. There are not many successful examples. We could cite Norway and some Gulf countries, but mostly countries with oil-rich resources do not grow as dramatically as countries without the oil factor. The Kazakhstani initiatives regarding competitiveness, which we developed with Professor Michael Porter from Harvard Business School, gave us some ideas about the development of the seven priority clusters, which are based on the competitive advantages of Kazakhstan. We are thinking about the development of oil and gas machinery in Kazakhstan, the mining sector, the petrochemical industry, the chemical industry and metallurgy. Recently, we have started the construction of some significant projects amounting to around US\$20 billion of investment.

This is a joint venture with some of the most famous companies in the world, such as General Electric, Siemens, Alstom, Samsung from Korea and Huawei from China. This is of great interest to Kazakhstan, as a promising industrialisation programme among the CIS region.

What other measures have you taken to ensure the sustainable development of the Kazakhstani economy?

One of the main principles of Kazakhstan's development over the last 20 years has been to use best international practice, so when we started our reform programmes, we followed the best international examples. Following the experience of the Norwegian oil fund, we have created a special national oil fund which now amounts to about US\$55 billion. This was invaluable in terms of fighting the crisis in recent years. Similarly, we undertook our pension reform following the example of the Chilean pension reform. We also studied the experiences of Singapore and Malaysia, and agreed to the creation of a special sovereign wealth fund, Samruk-Kazyna, of which I am the Chief Executive. This is the main asset of the government, in terms of oil, gas, uranium and mining. We have about US\$70 billion of assets under management. This particular institution became the main vehicle of the government to fight the crisis. All the money from the national oil fund is channelled into the economy of Kazakhstan through us, and I believe we have done a great job of helping the recovery of the economy of Kazakhstan. In 2008, our growth rate was about 3 per cent, and last year's was about 9 per cent. This year we expect more than 5 per cent, and in the first quarter of this year GDP growth was about 7 per cent.

What role does Samruk-Kazyna play in the development of new projects?

Our challenge was how to bring investment to industrialisation and innovation programmes, not just to the oil, gas and uranium sectors. We understood that we needed to create special conditions for major companies in different areas. We have started to do this with the creation of Samruk-Kazyna as a vehicle. To manage this process, we are working very closely with major companies in the oil, uranium and mining sectors in order to develop new projects in Kazakhstan. We have established a new culture, based on the private equity philosophy. We have created several joint funds with the European Bank for Reconstruction and Development (EBRD) and with sovereign wealth funds from Abu Dhabi and China. All of these funds are now beginning to invest in the Kazakhstani economy.

What about Kazakhstan's international economic relationships?

Kazakhstan has an important geostrategic position. In July of this year, Kazakhstan became part of a Customs Union with Russia and Belarus, and Kyrgyzstan and Tajikistan have already voiced their interest in joining as well. We are also part of the Shanghai Cooperation Organisation. Last year, we borrowed about US\$15 billion from China. China is playing an increasingly significant role in the development of the Kazakhstani economy, and we understand that China will probably be the second driver of economic growth in Kazakhstan, together with other partners from the Customs Union who would like to participate in this way.

In terms of the relationship between GCC countries and the Caspian region, together with our partners from the Gulf Countries, Kazakhstan has the opportunity to create a real economic bridge, building on the foundation of our historical, religious and cultural ties. Now, I think we have great opportunities to develop financial investment flows between us and to develop shared experience in how to diversify our economies. This will come not just from economic theory but also from practical experience. From the beginning, Kazakhstan took the approach of having a pragmatic balance between the US, EU, China, Russia and other countries in order to attract investment. This approach has been successful and we want to develop it further.

We have established a new investment culture, based on the private equity philosophy

Zenkov Cathedral
in Almaty

