

66th East Jour Fixe

Kazakhstan – From Star Performance to Crisis Management and Back Again?

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On April 30, 2010, the Oesterreichische Nationalbank hosted the 66th East Jour Fixe (EJF) on “Kazakhstan – From Star Performance to Crisis Management and Back Again?”. The event focused on real economic and financial sector developments in Kazakhstan, examining in particular the country’s experiences during the recent crisis as well as current challenges and prospects.

Peter Mooslechner, Director of the OeNB’s Economic Analysis and Research Department made an introductory statement and chaired the keynote session. In his statement, Mooslechner presented some stylized facts about Kazakhstan and drew comparisons with other CESEE economies. Inter alia, he pointed out that Kazakhstan is a large and sprawling Eurasian country, whose area equals about two-thirds of the territory of today’s European Union, and whose population is almost twice as large as Austria’s. Moreover, Kazakhstan’s GDP per capita in PPP exceeded EUR 9,000 in 2009, which corresponds approximately to the level of Turkey’s, Bulgaria’s or Serbia’s GDP per capita. As regards the financial sector, Kazakhstan features a particularly dynamic banking sector, whose depth of intermediation (measured in terms of credit to the private sector in % of GDP) in 2007 had expanded to a level comparable with that of Hungary.

The keynote speech was delivered by *Ralph de Haas*, who is a Senior Economist in the Office of the Chief Economist of the European Bank for Reconstruction and Development (EBRD). His presentation consisted of two parts: 1) Kazakhstan and the crisis, and 2) beyond “oil and banks”: the need to diversify. In the first part, de Haas referred to the pre-crisis credit boom that was largely fueled by strong foreign capital inflows to the banking sector. Eventually Kazakhstan faced a sudden stop in foreign lending, when global liquidity conditions tightened as a result of the U.S. subprime crisis. The collapse of the oil price in the second half of 2008 intensified the crisis impact. As a consequence, GDP growth declined markedly before bouncing back in the final quarter of 2009. In the second part of his presentation, de Haas elaborated on the rationale for economic diversification of the Kazakh economy. In his view, the dominance of hydrocarbons increases macrovolatility, which discourages investments in physical and human capital. Moreover, Kazakhstan has to prepare for the post-peak oil production period. As one of the structural problems that make bottom-up diversification difficult, de Haas mentioned the lack of medium-sized companies. According to him, industrial policy should focus on improving educational standards and infrastructure as well as on reducing corruption, while the financial system would benefit from the development of a local deposit and currency market that would reduce the dependency on foreign funding.

The panel session, which was chaired by *Doris Ritzberger-Grünwald*, Head of the Foreign Research Division of the OeNB, provided more insights into specific features of the Kazakh economy. *Olga Pindyuk*, Research Associate and Country Specialist Kazakhstan, Vienna Institute for International Economic Studies (wiiw), spoke about the role of the oil sector. Once extraction from the giant Kashagan oil field in the Caspian Sea gathers momentum, Kazakhstan will become the 10th largest world producer of oil. Most of the produced oil is exported, and oil

and related products account for 65% of merchandise exports. Pindyuk then elaborated on the “resource curse” or “paradox of plenty.” Resource-rich countries often face difficulties in transforming oil wealth into physical and human capital and often display less economic growth and worse development outcomes over the long term. However, in the case of Kazakhstan, Pindyuk *inter alia* pointed to the relatively low poverty rate achieved. She also mentioned that money from the oil stabilization fund was used to finance the government’s anti-crisis package. Pindyuk concluded that Kazakhstan should continue pursuing the current fiscal and macroeconomic policies and that diversification of the economy should be encouraged. Improving the investment and business climate should also be on the agenda of policymakers.

Stephan Barisitz, Economist at the Foreign Research Division of the OeNB, gave an analytical overview of recent developments in Kazakhstan’s banking sector, based on a paper coauthored by *Mathias Lahnsteiner*, also OeNB. Whereas foreign strategic investors dominate the banking sectors of most CESEE countries, this is not so in Kazakhstan, where domestic capital holds sway. In comparison with peer countries, Kazakhstan featured a particularly dynamic credit boom and bust. As Barisitz pointed out, large losses stemming from real estate exposure (burst of the housing bubble), generous lending to dubious partners, and fraud, played a role in the skyrocketing of nonperforming loans and the decapitalization of the sector in 2009. Despite costly crisis-response measures, which included the nationalization of two leading banks, the latter two subsequently defaulted on their large foreign liabilities and initiated debt-restructuring negotiations, promising steep haircuts for creditors. In Barisitz’s view, continuing high credit and solvency risks and a weak institutional environment weigh on investor sentiment. But he also drew attention to shock-absorbing factors: the oil price-driven recovery of the real economy, improved liquidity, depositor confidence, record-level official foreign exchange reserves and the oil stabilization fund, and modest public debt.

Finally, *Hans Holzacker*, Chief Economist of ATF Bank (UniCredit Group), presented developments of the Kazakh banking sector from the perspective of a leading bank operating in that country. Holzacker drew attention to the decoupling of credit from deposits that Kazakhstan had experienced particularly in the years prior to the crisis. He also argued that at the current juncture there are already various factors in place that could lift lending activity: sufficient liquidity, a decrease of the loan-to-deposit ratio, the reduced foreign debt load of banks, declining indebtedness of households and the economic recovery. However, there are still several factors that prevent the actual acceleration of credit growth, including weak investment and credit demand. Economic growth has not yet improved the financial situation of sectors in which problem loans are concentrated (construction, trade, for small banks also consumer credit). Furthermore, Holzacker presented the regulatory measures that are currently considered by the Kazakh financial sector regulators. These measures focus on capital adequacy requirements, liquidity regulations and provisions. In addition, several measures are to be taken to reduce off balance sheet activities.