

THE WORLD ECONOMIC CRISIS AND ITS IMPACT ON THE SOCIOECONOMIC SITUATION IN KAZAKHSTAN

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The world financial crisis, which began with the collapse of the U.S. credit pyramid, is known to be the biggest crisis since the Great Depression.¹

The first signs of the crisis appeared in the U.S. mortgage market in 2006² (housing loans were not being repaid), and shortly afterwards this market collapsed, triggering a global liquidity crisis.³

¹ [http://www.ipd.kz/index.php?option=com_content&view=article&id=278%3A2008-11-01-07-20-06&catid=80%3A2008-09-06-10-05-09&Itemid=31&lang=ru], 15 June, 2009.

² [http://akmolinka.narod.ru/n161_16_12/actual.htm], 15 June, 2009.

³ In the early 2000s, American lobbyists from Wall Street developed a mortgage loan scheme for borrowers with a less than perfect credit history. Such loans came to be known as “subprime loans”; active lending in this segment began in

Housing prices in the U.S. plummeted, investments in housing construction fell, and the liquidity of the mortgage derivatives market began to decline. All of this took place against the background of a jump in credit spreads in money markets; the stocks of international companies plunged, and stock indexes fell significantly⁴ due to the bankruptcy of major financial institutions, primarily investment banks.⁵

Against the background of rising unemployment and tightening credit, the increase in U.S. consumer spending ceased in the second quarter of 2008 (for the first time since 1991).⁶

In the third quarter of 2008, investors withdrew \$20 billion from investment funds in developing countries for fear that the crisis might cause a recession in these countries.⁷

The U.S. economy's failure to cope with the escalating financial crisis was probably caused by the specific features of this economy:

- (1) issue of dollars not backed by international reserves;
- (2) issue of debt not backed by real assets (a gap between the financial and real sectors of the economy: pre-crisis world GDP stood at \$64-65 trillion, while the value of all obligations, including cash and financial instruments, was about \$500 trillion⁸); this resulted in a "bubble" that was further inflated by factoring (sale of accounts receivable to third parties). As a result, the right to receive payment from borrowers became a separate and quite independent asset;
- (3) organization of an unwarranted inflow of electronic money into the economy;
- (4) rapid growth of U.S. external debt (its annual increase is comparable to half of U.S. GDP);
- (5) use of dollars not backed by international reserves in the stock market;
- (6) excessive financial liberalization; credit (mortgage) policy was beyond the government's control and, in effect, beyond the law (long period of low interest rates, low savings rate, highly speculative stock market, etc.);
- (7) unjustified absence of strong government regulation of the financial market and industry (the U.S. insisted on the need to refrain from any kind of government intervention); the unfolding crisis only confirmed the concerns about the liberalization of the economy.⁹

Kazakh economist A. Essentugelov associates the specific features of the American model with the transition of developed countries from the industrial to the post-industrial socioeconomic order in the context of rapid globalization (1980s).¹⁰ In industrial society, the source of growth was industrial capital. Economic growth was achieved by increasing the scale of production and reducing unit costs. Large industrial enterprises with a considerable number of employees operated in the economy. They depended only weakly on bank credit; rather, it was the other way round.

Gradually the situation began to change. Economic growth slowed because it required increasing amounts of resources, which were limited a priori. This paved the way for innovations in the econ-

2003, and in the first three years loans were offered on easy terms. In 2006-2007 payments increased; coupled with an increase in unemployment this led to mass eviction of people from their homes because of bankruptcy. To this was added a sharp drop in the value of derivatives backed by these loans due to mass bankruptcies of borrowers. The crisis was in full swing [<http://www.utro.ru/articles/2009/02/09/796535.shtml>], 25 June, 2009.

⁴ [<http://economyclub.info/upload/Jakupova.doc>], 15 June, 2009.

⁵ [<http://bb.f2.kz/ru/economic/vliyanie-mirovogo-krizisa-sentyabrya-2008-na-kazahstan-t408.html>], 15 June, 2009.

⁶ [<http://economyclub.info/upload/Seytkasimov.doc>], 29 June, 2009.

⁷ Ibidem.

⁸ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

⁹ [<http://www.washingtonpost.com/wp-dyn/content/article/2008/10/09/AR2008100903425.html>], 16 June, 2009.

¹⁰ [<http://economyclub.info/upload/Essentugelov.doc>], 16 June, 2009.

omy in the form of new technologies that made it possible to produce the same (or larger) amounts of finished products at a lower cost. Thus, economic development became less dependent on invested capital than on the human factor (people's knowledge and abilities). Active work got underway to develop and implement innovations and to improve technologies; the role of the mass media increased, helping to create a qualitatively new economy.

The role of large enterprises as the main business entities gradually passed to small and medium enterprises, which were quicker to respond to changes in the market by using the achievements of scientific and technical progress.

The active innovation process required increasing investments: in human capital, R&D, testing, manufacture of high technology products, etc. At the same time, small and medium enterprises (accounting for 90% of GDP in the U.S., 80% in Germany, and 70-80% in other developed countries)¹¹ lacked the necessary financial resources and were badly in need of credit. This led to the modernization of the financial system and to the appearance of new financial instruments for investing capital. Money became an asset that could be used to make large profits without providing services to the real sector of the economy. That is why the actively developing financial sector tended to become increasingly autonomous.

Thus, there was a transition from the industrial to the post-industrial socioeconomic order. With an increase in the role of the human factor, industrial capital as an engine of economic progress gave way to financial capital, which provided new opportunities for development.

The transition to the post-industrial order went hand in hand with globalization, which served to increase the interdependence of once economically unrelated countries. It should be noted that globalization affected both sectors of the economy: real and financial. It created favorable conditions for the movement of goods, services, capital and labor. The boundaries between national financial systems began to erode as they merged into a single global system.

Using the latest achievements of information and communication systems, the financial sector developed rapidly with a reduction in transaction costs. It became possible to take part in market operations through the Internet, to purchase real and financial assets, speculate and make profit.

The rejection of the old (Bretton Woods) monetary system and the switch to a new, floating exchange rate system completed the formation of the modern U.S. economic model; that was also when the U.S. began to issue large amounts of dollars not backed by international reserves.

As an argument, A. Essentugelov quotes R. Dornbusch,¹² who wrote at the turn of the century: "Even with all the US prosperity, the world today has had an overdose of finance and hence it is far more likely that a serious accident can happen." The U.S. became the issuer of a de facto global reserve currency, the dollar, the demand for which kept increasing due to globalization and to the strength of the American economy.

From the 1970s on, the world economy as a whole successfully developed for quite a long time. Living standards in the U.S. were improved by means of strong credit and budget expansion, and consumption grew rapidly. Due to the soundness and profitability of the U.S. economy, many countries invested their surplus funds in the United States by acquiring treasury securities, while the U.S. government borrowed funds from these countries to cover its growing budget expenditures. The informal sector in many countries used the dollar as a medium of exchange.

Hence the stock of dollars circulating in the world economy in the early 21st century already exceeded the actual amount of produced goods and services. The "soap bubble" in the financial market swelled.

¹¹ [<http://economyclub.info/upload/Essentugelov.doc>], 16 June, 2009.

¹² Ibidem.

Whereas in industrial society the economic system is expressed by the formula “enterprise-market (trade)-consumer,” in post-industrial society it looks as follows: “enterprise-market (trade)-consumer; enterprise-profit-interest-dividends on shares-insurance of shares-loans to insurers-...”

All of this together resulted in a financial crisis. In industrial society, crises are caused by over-production, and in post-industrial (today’s) society the crisis began with excessive consumption of money (in the financial sector).

Low lending rates combined with diverse financial innovations and inadequate risk assessment led to a housing boom and to a critical situation in the housing market.

Given a very low savings rate and a high rate of consumption (with weak government regulation), global imbalances worsened and dependence on the outside world increased.¹³

The U.S. mortgage market expanded in large part due to sophisticated financial instruments, which is why the crisis that started in this market developed into a financial crisis. The development of many countries is connected with the U.S. economic and financial systems and, in fact, there are no boundaries between national banking systems,¹⁴ so that the financial crisis has spilled over into virtually all other countries and turned into a global one.

Kazakhstan was one of the first countries in the world to feel the effects of the 2008 wave of the global crisis,¹⁵ which hit it exactly a year earlier than other countries in the world.¹⁶ This is because, in the first place, the country’s economy is sufficiently deeply integrated into international markets.¹⁷ Due to its developed banking and financial systems, Kazakhstan turned out to be more vulnerable to the impact of the world financial crisis than other Central Asian countries (Uzbekistan, Tajikistan and Kyrgyzstan).¹⁸

The first signs of the world financial crisis appeared in Kazakhstan in early 2007, when the U.S. encountered the problem of subprime loans.¹⁹ At that time, construction in Kazakhstan was developing rapidly. For fear of another mortgage crisis (like the one in the U.S.), foreign banks stopped lending to Kazakh banks. Since foreign loans were the main source of funds,²⁰ second-tier Kazakh banks were unable not only to continue providing credit to the construction industry and other sectors of the economy, but also to meet their foreign obligations; their shares began to fall.²¹

Total banking sector debt soon rose to \$40 billion.²² In order to repay their external debts, banks cancelled all loans, and growth in the construction sector slowed significantly. The reduced opportunities of domestic banks to attract external financial resources curtailed credit to the domestic economy; there was a continued trend toward a reduction in banking system liquidity, compounded by large debts.

Sharp price changes in the world food market²³ led to a considerable increase in inflationary pressure on the economy.²⁴ Thus, the global liquidity crunch began to have a significant impact not only on the banking sector of the republic’s economy, but on its real sector as well.

¹³ [http://economyclub.info/upload/Jakupova.doc], 15 June, 2009.

¹⁴ [http://economyclub.info/upload/Kuchukova.doc], 29 June, 2009.

¹⁵ [http://www.ipd.kz/index.php?option=com_content&view=article&id=278%3A2008-11-01-07-20-06&catid=80%3A2008-09-06-10-05-09&Itemid=31&lang=ru], 24 June, 2009.

¹⁶ [http://economyclub.info/upload/Seytkasimov.doc], 29 June, 2009.

¹⁷ [http://akmolinka.narod.ru/n161_16_12/actual.htm], 15 June 2009.

¹⁸ [http://economyclub.info/upload/Fam%20Ti%20Chan.doc], 24 June, 2009.

¹⁹ Ibidem.

²⁰ [http://www.kazpravda.kz/index.php?uin=1151984397&act=archive_date&day=26&month=8&year=2008], 26 June, 2009.

²¹ [http://akmolinka.narod.ru/n161_16_12/actual.htm], 15 June, 2009.

²² [http://economyclub.info/upload/Fam%20Ti%20Chan.doc], 24 June, 2009.

²³ [http://www.polit.nnov.ru/2008/03/12/crisisdate/], 24 June, 2009.

²⁴ [http://ru.government.kz/documents/govprog/27], 24 June, 2009.

This vulnerability of the Kazakhstan economy is probably explained by the following peculiarities:

- (1) Increasing raw material orientation of exports, primarily due to oil and gas. Under favorable global market conditions (high raw material prices), the national economy not only obtained sufficient funds for active development, but also became heavily dependent on global demand for oil.²⁵ The pre-crisis economic growth was the result of favorable external economic conditions and growing raw material exports.²⁶ The annual drop in oil prices²⁷ has naturally reduced export earnings, posing a threat to the republic's National Fund and the state budget. This may result in a devaluation of the tenge,²⁸ wage cuts, etc.
- (2) Open markets, growing imports and free importation of goods were a disincentive to the development of the real sector of the economy (noncompetitiveness of local products). Growth in imports coupled with a rise in average contract prices, a decline in labor productivity growth rates and a number of other factors fueled inflation in the country in May 2008.²⁹
- (3) The established trend toward an inflow of foreign loans and poor banking regulation. The inflow of loans accelerated, including due to tax breaks. Under the republic's Tax Code that operated until 2009, financial institutions and construction companies were exempt from VAT, and this played a significant role in the collapse of the real estate market in late 2008.³⁰
- (4) The sharp reduction in the flow of credit from abroad and the world liquidity crisis hit the country's construction industry; in the first half of 2008, investments in housing construction fell by 2.3%, and the volume of newly constructed housing decreased by 7.7%. Before the crisis, many banks made wide use of borrowed funds (in 2008, the share of external borrowings exceeded 50%) to provide credit to construction market players. They were involved in speculative financing of the economy through resale of low-interest loans (obtained at 5% per annum) in the domestic market (at interest rates of 12-15%),³¹ often to borrowers that were inherently incapable of repaying these loans and applied for new ones in order to refinance existing debts.³²
- (5) At the start of the crisis, in August 2007, Kazakhstan's external debt was \$96.4 billion (in 2001-2007, it increased 8-fold), while its GDP was just over \$100 billion.³³ In 2008, the country's total external debt was virtually equal to GDP, exceeding \$105 billion; of this, the external debts of commercial banks exceeded \$45 billion.³⁴ In eight years, total banking sector assets increased 21.7-fold, and credit to the economy, 21.8-fold.³⁵ In 2009, Kazakhstan was due to repay \$11 billion of external debt, and this creates problems with credit to the economy and further economic growth.³⁶ In other words, ineffective banking regulation has led

²⁵ [<http://economyclub.info/upload/Seytkasimov.doc>], 29 June, 2009.

²⁶ *Ibidem*.

²⁷ Kazakhstan President Nursultan Nazarbaev's 2009 Address to the Nation [http://www.akorda.kz/www/www_akorda_kz.nsf/sections?OpenForm&id_doc=73738D165C03D67D062575710070A04F&lang=ru&L1=L2&L2=L2-22].

²⁸ [<http://economyclub.info/upload/Alpyspaeva.doc>], 24 June, 2009.

²⁹ [<http://economyclub.info/upload/Iskakova.doc>], 29 June, 2009.

³⁰ [<http://souz-atameken.kz/rus/pressfile/?cid=30&rid=6590>], 29 June, 2009.

³¹ [<http://economyclub.info/upload/Seytkasimov.doc>], 29 June, 2009.

³² *Ibidem*.

³³ *Ibidem*.

³⁴ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

³⁵ *Ibidem*.

³⁶ *Ibidem*.

to over-accumulation of external debt coupled with poor risk management in the financial sector itself.

- (6) As a result of the third peculiarity, issued credit was concentrated in the construction sector and the real estate market, which currently have a significant amount of delinquent loans.
- (7) The flow of capital into Kazakhstan unbalanced the exchange rate and created opportunities for exposure to risks (devaluation, liquidity and credit); such risks appear when the flow of capital reverses direction.³⁷
- (8) Low rates of labor productivity growth lead to the conclusion that little importance is attached to this factor even though it is the basis of economic growth.³⁸
- (9) There is no effective economic diversification mechanism; the economy is unbalanced, while the level of raw material processing is low.³⁹

Consequently, as a result of the world financial crisis in Kazakhstan:

- (1) export prices declined significantly, so that budget revenues fell while expenditure items remained intact; at the same time, domestic prices for oil products changed very little; unemployment increased⁴⁰;
- (2) the inflow of foreign investment shrank because the main funding sources were blocked and foreign lenders began to call in loans; there was a rapid outflow of speculative capital⁴¹; opportunities for refinancing the external debt of the national banking system worsened sharply, and economic growth began to slow⁴²;
- (3) banking system liquidity began to decline; domestic bank shares slumped;
- (4) a credit default crisis started in the real sector of the economy; activity in the construction sector declined sharply; specialized debt collection agencies appeared in the country;
- (5) real problems in two sectors (banking and mining) led to panic in other sectors; aware of the shortage of funds at large and powerful corporations, players in these markets feared that problems might appear in their own activities as well. Companies concluded short-term (instead of long-term) contracts, stopped investing, cut their staffs, wound up entire lines of business and banned new projects. It should be noted that the perceived threats were often nonexistent, while the consequences of such decisions are unpredictable;
- (6) expectations of a “rainy day” have spread to consumers as well. They also tend to reduce their spending, are reluctant to invest in time deposits and to repay loans, while consumption declines.

Today we can identify five global market trends associated with the crisis and posing a threat to the Kazakhstan economy⁴³ (see Table 1).

³⁷ [<http://economyclub.info/upload/Seytkasimov.doc>], 29 June, 2009.

³⁸ [<http://www.zakon.kz/our/news/news.asp?id=30081515>; http://www.akorda.kz/www/wwww_akorda_kz.nsf/sections?OpenForm&id_doc=5995684C07768CD1462572340019E67F&lang=ru; <http://www.nomad.su/?a=4-200605060004>], 29 June, 2009.

³⁹ [<http://economyclub.info/upload/Seytkasimov.doc>], 29 June, 2009.

⁴⁰ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

⁴¹ Ibidem.

⁴² [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

⁴³ [<http://economyclub.info/upload/Alpyspaeva.doc>], 24 June, 2009.

Table 1

Global Crisis: Worldwide Market Trends and Threats to Kazakhstan

Trend	Source	Challenge to Kazakhstan's Economy
Cyclical slowdown in the world economy (decline in global demand)	Characteristic of many world markets	May lower demand for export products (oil, gas, metals and grain ⁴⁴) and so reduce export earnings going into the National Fund of Kazakhstan and the state budget, which will have a negative effect on public investment and consumption, lead to a devaluation of the tenge, to wage cuts, etc. In the recent past, a drop in demand for steel caused a temporary decline in production at Arcelor Mittal in Kazakhstan, and this in turn had an effect on coal producers, mining and other related industries. As a result, the incomes of thousands of families in Kazakhstan declined.
Limited sources of financing	Conditions at international financial institutions	The significant reduction in external sources of financing for the banking system limits opportunities for providing credit to the economy.
High price volatility in world commodity markets	World commodity markets	A sharp drop in prices will have the same effect as the trend toward a cyclical slowdown in the world economy. The trade balance may worsen, and this may have a negative effect on the current account: Kazakhstan's external position will weaken. The greatest danger is a protracted decline in world oil prices below the threshold level of \$60 per barrel. This may lead to a decline in industrial production, higher unemployment, inflation, and lower consumption. According to some forecasts, ⁴⁵ the drop in oil prices may be postponed until the global crisis enters the phase of an industrial slump. The crisis in financial markets stimulates speculative investments in oil purchase and sale transactions, which are believed to be more reliable. Active speculation leads

⁴⁴ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

⁴⁵ [http://www.ipd.kz/index.php?option=com_content&view=article&id=278%3A2008-11-01-07-20-06&catid=80%3A2008-09-06-10-05-09&Itemid=31&lang=ru], 25 June, 2009.

Table 1 (continued)

Trend	Source	Challenge to Kazakhstan's Economy
		to the formation of a price bubble in the oil market. This trend appears favorable, but in the long term it provides grounds for preserving the existing parameters of the natural resource-based economy without an effective mechanism for redistribution into the manufacturing sector and innovations.
Global stock market meltdown	World stock markets	Leads to a sharp drop in the value of Kazakhstan company shares.
Panic in financial markets, bankruptcy of large investment banks, sharp rise in Libor rates	World financial markets	Significantly limits foreign liquidity markets, creating difficulties for external debt refinancing by banks and corporations. Rising Libor rates may lead to delay in repayment of foreign loans by banks due to specific credit terms: many loans were issued at a floating Libor-based rate.

When the first signs of the crisis appeared in Kazakhstan, according to some experts, there were two possible development scenarios.⁴⁶

The first scenario envisaged a contraction in the economy.

- First, it was possible to ensure, through administrative measures, a decline in the prices of produced goods (by reducing the prices of productive resources). For example, cuts in oil prices would have lowered the price of oil products (primarily gasoline); at the same time, this would have reduced transportation costs, with an appropriate effect on pricing.
- Second, it was possible to reduce the cost of infrastructure projects: roads, electric power plants and pipelines.
- Third, it was possible to review some items of government expenditure where costs far exceed benefits.

The choice of this scenario could have resulted in an immediate decline in GDP growth rates (even to the point of negative growth). But it could have provided an opportunity to maintain real living standards in the country and prevent a severe budget deficit.

The second scenario was designed to maintain the size of the economy. This was possible given a replacement of foreign loans and natural resource revenues by an alternative financing source. The National Fund could become such a source (given a reduction in reserve requirements for second-tier banks), so enabling the republic to expand its economic capacity.

The government of Kazakhstan chose the second scenario: money from the National Fund was channeled into banking, construction, infrastructure and industrial projects.

⁴⁶ [<http://www.dialog.kz/site.php?lan=ru&id=92&pub=1467>], 25 June, 2009.

Kazakhstan Prime Minister Karim Masimov told the Senate of the country's Parliament in November 2008 that "we should use the current situation to the best advantage so as to emerge from the crisis with a stronger and more competitive economy. As historical experience shows, the cyclical development of the world economy is a natural process, and recessions are always followed by recoveries. The eventual economic recovery will lead to a significant increase in world consumption, and we should be ready to take advantage of the opportunities offered by an improvement in global market conditions. That is why even today we should focus on creating export-oriented competitive lines of production and on developing infrastructure and human resources."

The main instruments adopted by Kazakhstan to mitigate the effects of the global financial crisis are monetary control and anti-inflation policy.⁴⁷

It was decided to limit external borrowing, lower reserve requirements for banks, and provide the necessary assistance (monetary and administrative) to the worst affected areas of the economy: shared housing construction, small and medium business, and the agro-industrial complex.⁴⁸ Measures are being taken to ensure food security and improve export-import operations.

As part of the chosen course, the government, the National Bank and the Financial Supervision Agency have adopted a Joint Action Plan to stabilize the economy and the financial system for 2009-2010. Allocations under this plan total \$15 billion (\$10 billion from the National Fund, and \$5 billion from the budget and pension savings), or 20% of GDP.⁴⁹

This amount is distributed as follows:

- \$4 billion to ensure the stability of the financial sector;
- \$5 billion to stabilize the real estate market;
- \$1 billion to support small and medium business;
- \$1 billion to boost the development of the agro-industrial complex;
- \$4 billion to implement breakthrough innovative, infrastructure and industrial projects.

The main operators appointed to implement the Joint Action Plan (on behalf of the government) are the Sovereign Wealth Fund (SWF) Samruk-Kazyna and the KazAgro holding company. They obtain loans from the National Fund by issuing bonds.

In order to ensure financial sector stability, work is underway to improve the payment system, provide the necessary amount of credit to the real sector of the economy on reasonable terms, and create conditions for maintaining the level of investment activity. Banks will be provided with additional sources of liquidity. The National Bank has lowered reserve requirements for second-tier banks from 2% to 1.5% for domestic liabilities and from 3% to 2.5% for other liabilities.⁵⁰

On the whole, the government has set three tasks before banks:

1. to increase credit to the economy;
2. to continue financing projects in the area of industrialization and innovations;
3. to continue lending to small and medium businesses.⁵¹

A whole package of measures is being implemented for this purpose:

—steps are being taken to recapitalize four systemically important banks;

⁴⁷ [http://akmolinka.narod.ru/n161_16_12/actual.htm], 26 June, 2009.

⁴⁸ *Ibidem*.

⁴⁹ [<http://news.kkb.kz/news/show.asp?no=1165776>], 26 June, 2009.

⁵⁰ [<http://www.aktau-business.com/2009/03/04/nacionalnyjj-bank-kazakhstan-snizil-normativy.html>], 26 June, 2009.

⁵¹ [<http://economyclub.info/upload/Nesternko.doc>], 29 June, 2009.

- the level of bank deposit guarantees for retail deposits at second-tier banks has been raised (to 5 million tenge);
- the activities of the Distressed Assets Fund operating in the country are geared to improve the loan portfolios of domestic banks through the purchase of doubtful debts and their subsequent management (so as to increase investor confidence in the banking sector); the Fund is a market institution that performs a stabilizing function as a guarantor of financial stability;
- the range of instruments accepted as collateral for repo transactions is expanding;
- national companies, joint stock companies, state-owned enterprises and legal entities (with a government stake in authorized capital), and also state organizations whose assets are managed by the National Bank place their temporarily idle funds on deposit with second-tier banks;
- the government guarantees all pension payments;
- measures are being taken to attract pension assets for financing priority investment projects in order to diversify the investment portfolios of retirement savings funds;
- under the stabilization program, the government and akims (regional governors) are authorized to take measures to increase employment and raise household incomes by implementing various additional investment and regional programs.

As part of the efforts to stabilize the real estate market in Astana and Almaty, work is in progress to launch a program for mortgage lending and for developing the housing sector. This program is intended for citizens whose residential floor area does not exceed 120 square meters. Mortgage loans are to be issued for terms of up to 15 years at an interest rate of 10.5-12.5% per annum (with the right to prepay) and only for housing projects under construction.

Another measure to stabilize the real estate market is work to set moderate prices for new housing in the Astana and Almaty markets. The akimats (regional governments) are entitled to purchase, at moderate prices, apartments in completed housing projects or projects nearing completion.

Funds are being allocated for the construction of rental housing under a program run by the Samruk-Kazyna Real Estate Fund, a subsidiary of SWF Samruk-Kazyna; this will make it possible to build an additional 265 thousand square meters of housing. All these projects will be sold through the housing savings system, which will enable government and public sector employees and young families to obtain bridging loans at no more than 4% per annum.

In addition, measures are being taken to prevent another shock in Kazakhstan's construction market. More stringent requirements have been imposed on potential real estate developers and credit institutions in the "shared construction" market in order to enhance the protection of its participants.

The authorities continue to provide financial support and to lower administrative barriers for small and medium business. Most of the allocated funds are used to refinance current projects, and the rest, to implement new ones. Loan programs are operated by banks; steps are being taken to resolve the issue of stabilizing fee rates at no more than 14%.

Previously adopted programs of support for small and medium business are being reviewed so as to determine the effective rate. The DAMU Entrepreneurship Development Fund is introducing a loan guarantee mechanism.

The Samruk-Kazyna Fund is developing a microcredit program for entrepreneurs from rural areas.

Small and medium businesses have been given access to contracts awarded by government agencies, national and holding companies (in the past, their participation was contingent on a certain amount of working capital); preference in choosing suppliers will be given to domestic companies. In the purchase of large lots of imported equipment, a necessary condition is its assembly, repair and maintenance within the republic.

Apart from that, the new Tax Code (effective from 1 January, 2009) provides for a number of tax breaks associated with the implementation of investment projects by enterprises.⁵² The rate of corporate income tax has been cut from 30% to 15%; VAT has been reduced to 12%⁵³; and other fiscal measures have been taken.⁵⁴

To accelerate the development of the agro-industrial complex, the state channels investments into the modernization of existing and the development of new export-oriented sectors. Priority is given to the grain, meat and dairy, and fruit and vegetable sectors. It is planned to expand fruit and vegetable production using drip irrigation techniques, greenhouses, vegetable storage facilities, poultry plants, commercial dairy farms, feedlots, modern meat packing complexes, plants for the production and deep processing of fine wool, agricultural machinery assembly lines, and Agrotech markets.

Special emphasis is placed on the development of export infrastructure. Regional buffer stocks of grain and flour have been created, and multilateral agreements have been concluded between regional akimats, grain producers and milling companies on stable grain and flour supplies to regional markets.⁵⁵

The government continues its active work to implement innovative, infrastructure and industrial projects. It has taken a decision on large-scale construction and modernization of the country's infrastructure so as to resolve systemic problems in the economy, including the problem of employment. Work is underway to implement a program called 30 Corporate Leaders of Kazakhstan.

In order to modernize the electric power industry and enhance its investment appeal, it is planned to limit tariffs for various groups of energy producers (for a term of at least 7 years), with periodical adjustments based on the previous year's inflation rate. Tariffs will include an investment component, while the electricity connection fee will be abolished.

It is planned to implement a set of measures in saving energy and using renewable energy sources. New power stations will be built on Lake Balkhash and in the Kostanay Region, and the Ekibastuz GRES power plants will be renovated.⁵⁶

Work is in progress on direct budget financing of 19 most promising investment projects (8 energy, 5 transport, 3 oil and gas, etc.), which are to help modernize and maintain the competitiveness of the economy in the post-crisis period.⁵⁷

An inventory of projects ordered by President Nazarbaev has resulted in a list of 45 breakthrough projects (28 production and 17 infrastructure) at a total cost of about \$54 billion.⁵⁸

The government is developing a five-year plan for the country's accelerated industrial-innovative development, which is to include an industrialization map for 2010-2020 and a scheme of rational distribution of production facilities. These efforts are to be focused on seven selected areas: the agro-industrial complex and agricultural processing; construction; oil refining; metallurgy; chemical industry and pharmaceuticals; energy; transport and telecommunications infrastructure. Work to select other areas is still in progress.

The industrial development plan will take effect from January 2010.⁵⁹ (Its final version had to be presented on 1 August, with final approval on 1 December, 2009).⁶⁰

The so-called Roadmap⁶¹ adopted in pursuance of the tasks set by the head of state in his 2009 Address is already being put into effect. It is designed to implement a strategy for regional employ-

⁵² [<http://bb.f2.kz/ru/zakon/skachat-nalogovyj-kodeks-respubliki-kazahstan-2009-goda-t639.html>], 29 June, 2009.

⁵³ Ibidem.

⁵⁴ [<http://www.minplan.kz/economyabout/247/5898/>], 30 June, 2009.

⁵⁵ [http://akmolinka.narod.ru/n161_16_12/actual.htm], 15 June, 2009.

⁵⁶ [http://www.samruk-kazyna.kz/page.php?page_id=19&lang=1&article_id=235&parent_id=15], 29 June, 2009.

⁵⁷ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

⁵⁸ [<http://economyclub.info/upload/Nurmaganbetov.doc>], 29 June, 2009.

⁵⁹ [<http://v.zakon.kz/140325-gotovimsja-k-industrializacii.html>], 30 June, 2009.

⁶⁰ [http://www.kazakhstan.kz/rus/news/economy/2009_06_02_19_30_00], 30 June, 2009.

⁶¹ [<http://mirtv.ru/content/view/66468/86/>], 30 June, 2009.

ment and personnel training, accelerated development of the agro-industrial complex, implementation of the second section of the 30 Corporate Leaders program, industrial and infrastructure projects.⁶²

The Roadmap covers several areas:⁶³

1. Development of the housing and public utilities system.
2. Repair and construction of roads.
3. Repair of schools, hospitals and other social facilities.
4. Repair and renovation of priority social and cultural facilities in towns and cities, settlements, auls (villages) and aul districts.
5. Increase in social employment and youth training programs.
6. Expansion of opportunities to use social employment and youth training programs with due regard for regional demand for jobs.
7. Training and retraining of personnel.

As part of personnel training and retraining, summer schools (functioning during the three summer months) open to all comers (from 18 to 50 years) will provide free training in trades that are most in demand in the labor market. These include hairdressers, flower growers, welders, drivers, tailors, cooks, etc. Each participant in this program will receive a monthly allowance of \$50 and will subsequently have an opportunity to get a job under ongoing investment projects.

Employment agencies will select specialists from among people registered as unemployed and assign them to jobs (according to the needs of investment projects).

Participants in the Roadmap project will be recruited to work in reconstructing and developing various vital infrastructure sectors: housing and public utilities systems (water supply and sewerage, heating and power supply); repair and thermal insulation of schools, hospitals, etc.; repair, renovation and construction of local roads; social projects in towns and cities, settlements, auls (villages) and aul districts.⁶⁴

For graduates of universities, colleges and lyceums, the project envisages practical training for terms of up to 6 months and with a salary of at least 15,000 tenge, whereupon they may get a full-time job.⁶⁵

Today the country has completed the first stage of the Kazakhstan-2030 Strategy.

Due to changes in domestic and foreign market conditions, the government is working, by order of the president, on a socioeconomic development strategy until 2020, which will be adapted to the new stage in the country's development to the maximum extent and will help to meet today's economic and political challenges.⁶⁶

Thus, measures are being taken and improved in the country to revive the economy and mitigate the effects of the crisis (GDP growth in 2008 slowed by almost two-thirds from the previous year to 3.0%).⁶⁷

⁶² [<http://www.khabar.kz/index.cfm?id=76139>], 30 June, 2009.

⁶³ [<http://dorkarta.enbek.gov.kz/>], 30 June, 2009.

⁶⁴ [http://209.85.129.132/search?q=cache:kpAF7qKvc98J:www.yujanka.kz/economics.php%3Fsubaction%3Dshowfull%26id%3D1241417811%26archive%3D%26start_from%3D%26ucat%3D2%26+%D0%93%D0%BE%D1%81%D0%BF%D1%80%D0%BE%D0%B3%D1%80%D0%B0%D0%BC%D0%BC%D0%B0+%C2%AB%D0%94%D0%BE%D1%80%D0%BE%D0%B6%D0%BD%D0%B0%D1%8F+%D0%BA%D0%B0%D1%80%D1%82%D0%B0%C2%BB+%D0%B2+%D0%9A%D0%B0%D0%B7%D0%B0%D1%85%D1%81%D1%82%D0%B0%D0%BD%D0%B5&cd=3&hl=ru&ct=clnk&gl=ru], 30 June, 2009.

⁶⁵ Ibidem.

⁶⁶ [<http://eng.minplan.kz/2020/>], 30 June, 2009.

⁶⁷ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

As a result of the implementation of the anti-crisis Joint Action Plan, real GDP growth in 2009 will be in the range of 1-3%;⁶⁸ unemployment in 2009-2010 will not exceed 8.0%; and inflation at the end of 2009 will be 11.0%.⁶⁹

Despite the crisis, pensions, wages and student grants in 2009-2010 will increase by 25%, and in 2011 by another 30%⁷⁰ Thus, the state's social spending will double by 2011.⁷¹

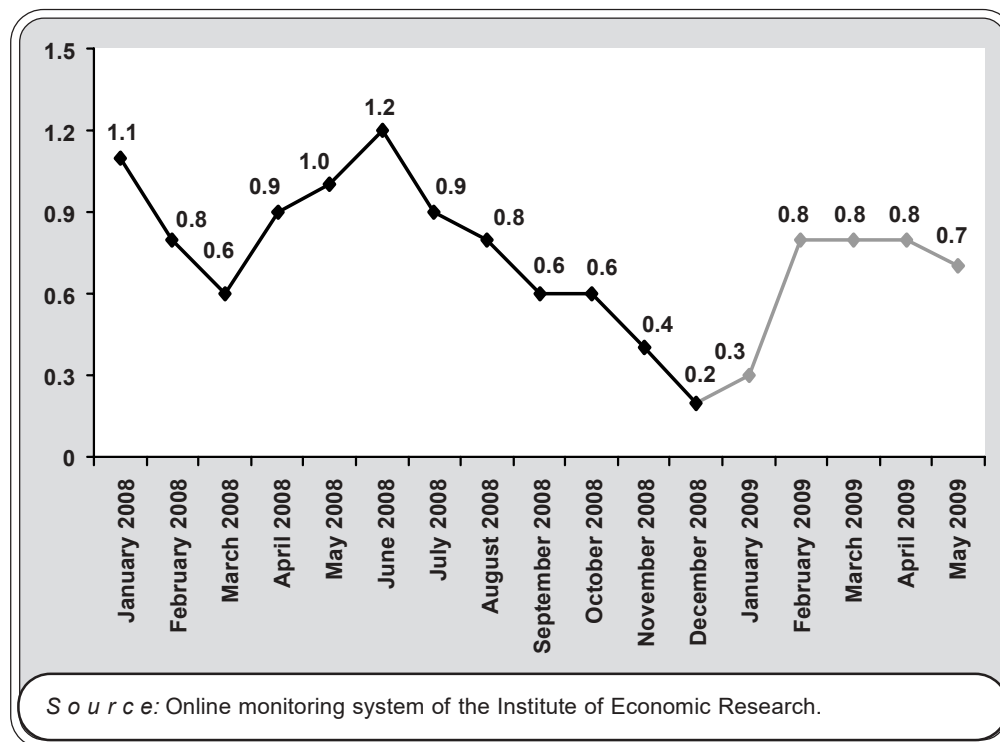
In the first quarter of 2009, GDP fell by 2%, whereas in the fourth quarter of 2008 it increased.⁷²

In May 2009 (compared to April), the index of industrial production was 100.7%. According to the Statistics Agency, inflation in May 2009 over December 2008 was 3.5%, or 1.0 percentage point lower than in the same period of the previous year (4.5%).

In annual average terms, inflation in January-May 2009 over the same period of the previous year was 8.7%, compared to 19.0% in January-May 2008 (see Fig. 1).

Figure 1

Inflation in 2008-2009
(month-on-month, %)



⁶⁸ [<http://ru.government.kz/documents/govprog/27>], 30 June, 2009.

⁶⁹ [<http://economyclub.info/upload/Kuchukova.doc>], 29 June, 2009.

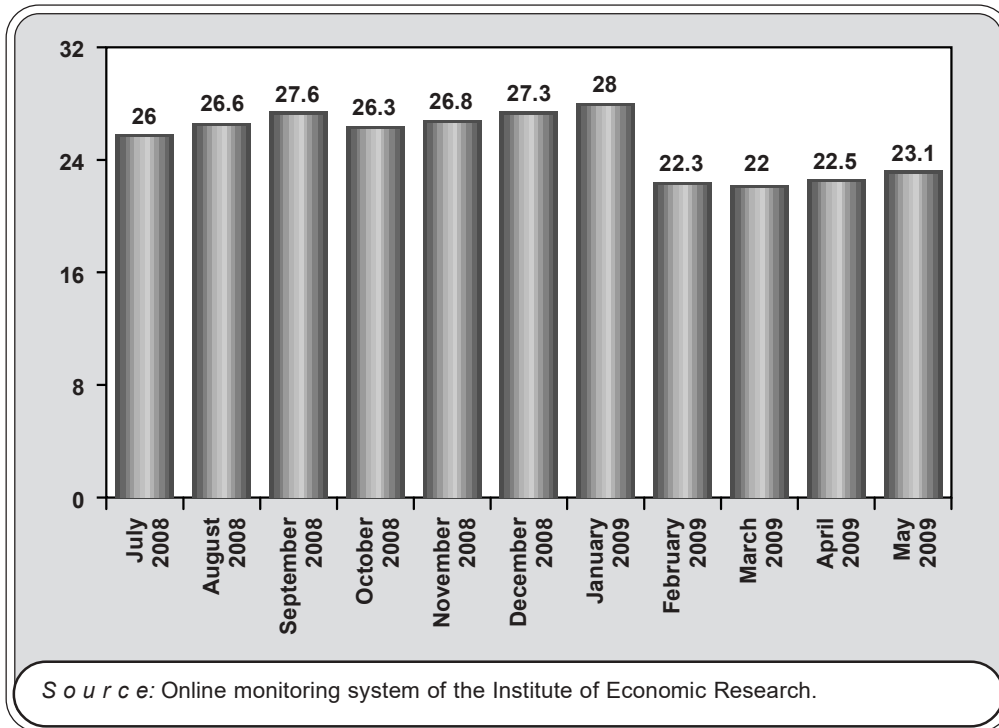
⁷⁰ [http://www.ipd.kz/index.php?option=com_content&view=article&id=278%3A2008-11-01-07-20-06&catid=80%3A2008-09-06-10-05-09&Itemid=31&lang=ru&limitstart=3], 29 June, 2009.

⁷¹ [<http://www.automan.kz/57443-raskhody-gosudarstva-na-vyplatu-pensij-i.html>], 30 June, 2009.

⁷² [<http://www.inform.kz/ShowArticle?id=234389>], 29 June, 2009.

Figure 2

National Fund of the Republic of Kazakhstan
(billions of dollars)



According to the online monitoring data of the Institute of Economic Research of the Kazakhstan Ministry of Economy and Budget Planning, unemployment in the first quarter of 2009 was 6.9%.

Despite difficult economic conditions, the republic has mainly retained its reserves. As of 30 June, 2009, its total international reserves and National Bank assets exceeded \$43 billion (see Figs. 2 and 3). If the situation worsens, they will help the government to implement its stabilization measures.

As regards forecasts, the Ministry of Economy and Budget Planning⁷³ predicts GDP growth of 1% in 2009, 3.0% in 2010, and up to 4.3% in 2013. The surge in inflation to 11% at the end of 2009 is to give way, as a result of the devaluation of the tenge, to a gradual decline in inflation rates to 5.5-7.5% at the end of 2013.⁷⁴

In 2010-2013, investments are expected to increase at a rate of 4.4-5.3%, and this will ensure a sufficiently high rate of capital formation allowing active technological modernization. Consumption in 2010-2013 is to increase at 2.7-3.5% (see Table 2), with public consumption growing faster than household consumption.⁷⁵

⁷³ [<http://www.minplan.kz/economyabout/247/5898/>], 30 June, 2009.

⁷⁴ Ibidem.

⁷⁵ Ibidem.

Figure 3

International Reserves of the Republic of Kazakhstan
(billions of dollars)

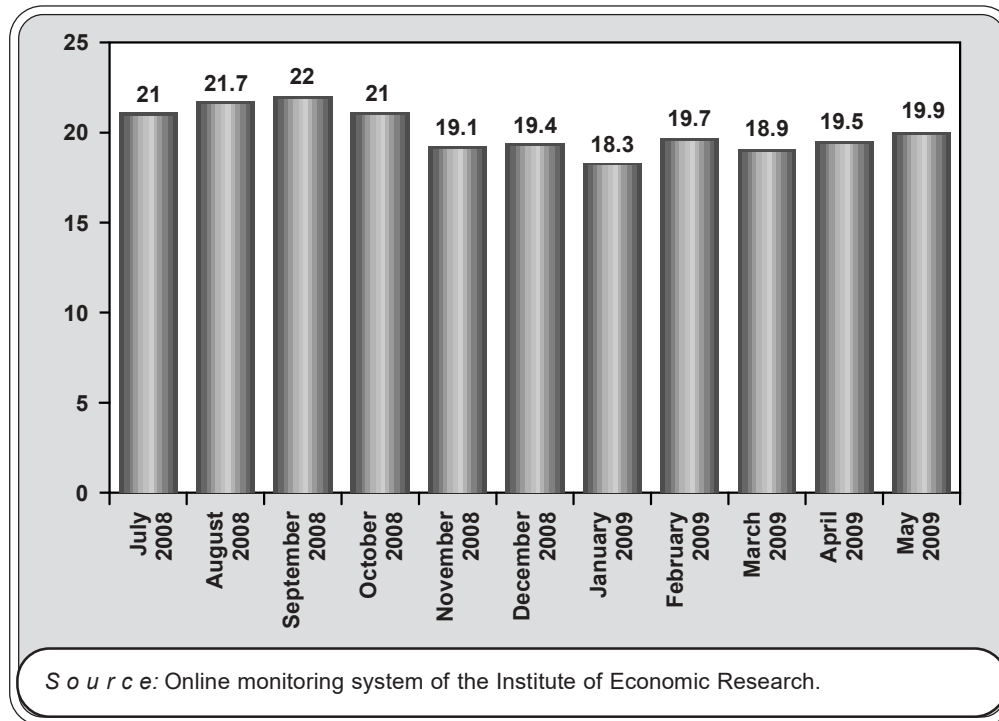


Table 2

Indicators of Economic Growth for 2009-2013
(year-on-year, %)⁷⁶

Indicators	2009	2010	2011	2012	2013
Consumption	0.3	2.7	3.1	3.3	3.5
including: private	-0.2	2.2	2.5	2.7	3.0
public	3.0	4.4	5.0	5.2	5.3
Investments	0.0	4.2	4.6	5.1	5.3
Exports of goods and services	2.0	3.1	2.0	2.3	3.2
Imports of goods and services	0.4	3.7	1.1	1.5	2.7

⁷⁶ [<http://www.minplan.kz/economyabout/247/5898/>], 30 June, 2009.

The Ministry of Economy and Budget Planning expects a decline in unemployment from 7.4% in 2009 to 6.8% by 2013.⁷⁷

Thus, the world crisis is yet another endurance test for Kazakhstan. It has created the prerequisites for improving the economic system and has enabled banks to group together and get down to restructuring their loan portfolios built up in the pre-crisis period. Consequently, there is every reason to say that Kazakhstan now has all the prerequisites for continued stability and economic recovery.

As for the prospects of global economic development, the peak of the crisis is expected in 2009-2010, followed by a depression in 2010-2013 with a subsequent restructuring of the world economy for new development.⁷⁸

According to the IMF, the economic crisis in Europe will probably last until the second half of 2010.⁷⁹ But it may last even longer unless the governments of European countries combine their efforts in implementing an anti-crisis policy and provide serious support to unstable financial institutions.

In 2009, the IMF⁸⁰ expects the economies of 16 eurozone countries to shrink by 4.2%. Their position will improve only in 2010 (when the decline will be no more than 0.4%).

In emerging market countries, GDP in 2009 is expected to decline by 4.9%, whereas in 2010 their economies will grow by 0.7%. And according to the World Bank, the world economy in 2009 will shrink by 3%.⁸¹

Chairman of the U.S. Federal Reserve System Ben Bernanke⁸² said that the American economy should start growing in 2009, so stabilizing the development of countries dependent on it.

Measures to overcome the consequences of the global financial crisis are being taken throughout the world; the only thing now is to wait for the results.

Unemployment in the U.S. and Europe is currently around 10%.⁸³

In the U.S., the quarterly decline in GDP was 5.7%, and industrial production in the euro area in April 2009 was down 21.6% from the same period of 2008.

Chinese exports in May fell by 26.4% (year-on-year), with similar figures for imports.

In 2008 and early 2009, there was a whole series of international summit meetings aimed at developing measures to overcome the global economic crisis.⁸⁴ These include the G2 Summit (Washington, U.S., 15 November, 2008), a forum of the Asia-Europe Meeting (ASEM), the New World, New Capitalism Conference (Paris, France, 8-9 January, 2009), the World Economic Forum (Davos, Switzerland, 28 January-1 February, 2009), the 2nd Astana Economic Forum (Astana, Kazakhstan, 11-12 March, 2009), and others.

These measures demonstrate the desire of nations to solve the common problems facing the world through joint efforts. Hopefully, mankind will overcome the crisis and continue its development.

⁷⁷ [<http://www.minplan.kz/economyabout/247/5898/>], 30 June, 2009.

⁷⁸ [http://www.ipd.kz/index.php?option=com_content&view=article&id=278%3A2008-11-01-07-20-06&catid=80%3A2008-09-06-10-05-09&Itemid=31&lang=ru], 15 June, 2009.

⁷⁹ [<http://www.kazks.kz/article/163.html>], 15 June, 2009.

⁸⁰ Ibidem.

⁸¹ [<http://www.kabmir.org/news/1324-svobodnoe-padenie-mirovoy-ekonomiki-prodoljaetsya.html>], 30 June, 2009.

⁸² [<http://www.kazks.kz/article/163.html>], 15 June, 2009.

⁸³ [<http://www.kabmir.org/news/1324-svobodnoe-padenie-mirovoy-ekonomiki-prodoljaetsya.html>], 30 June, 2009.

⁸⁴ [<http://www.economyclub.info/>], 30 June, 2009.