Kazakhstan in 2012: Moving Beyond the Crisis

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Kazakhstan, Central Asia’s largest economy, got an early taste of the global financial crisis in 2007 but its moves to share losses with bank bondholders has helped it become one of the first to emerge from the other side. The government is trying to capitalize on its early lead by swiftly diversifying its economy beyond its traditional focus on natural resources, improving its investment climate and harnessing its location as a hub straddling China and Europe to keep foreign investment flowing.

The global economic crisis hit Kazakhstan much earlier than most other countries, with the first effects being felt in the autumn of 2007. Used to real GDP growth of between 9.8% and 13.5% between 2000 and 2006 thanks to a wave of foreign direct investment, real GDP growth fell to 8.9% before collapsing to 3.2% in 2008 and 1.2% in 2009. But by 2010, real GDP growth had returned to 7% and is set to remain between 6% and 7% for the foreseeable future, with the World Bank estimating 5.5% in 2012.

The fact that the growth continued, despite being much reduced, and the fact that the country did not enter into recession, is testament to the Government’s ability to deal with the impact of the crisis.

Kazakhstan’s crisis was above all a banking crisis. With rampant growth to 2007, western banks were more than willing to lend to their Kazakh counterparts, helping to fuel a dramatic real estate bubble. As the real estate market and international funding collapsed, Kazakhstan’s core financial institutions faced significant problems and were forced to apply for government support. In Kazakhstan, however, there was a novel twist in that the private sector creditors were forced to share the pain. In what some analysts have described as a lesson many western countries should follow, creditors to some of Kazakhstan’s major banks experienced significant haircuts, in some cases in excess of 60%. This reduction in the debt burden of the banking system, without passing it onto the government, has resulted in Kazakhstan returning to stability far earlier than many of its western counterparts.

Critics of the restructuring schemes, who suggested that Kazakhstan would lose some of its international credibility and that sovereign ratings would fall, were quickly silenced when in November 2011, Standard & Poor’s raised its investment rating of Kazakhstan one step to BBB+, with a stable outlook. The rating agency cited the effect of rising commodity exports on fiscal and current account surpluses, and also said that combined with high foreign direct investment inflows and prudent fiscal policies, these export increases would support twin fiscal and current account surpluses for the next few years.

Kazakhstan’s success in attracting over $120 billion in foreign direct investment since independence in 1991 has been largely based on its resource riches. A country the size of Western Europe, it is one of the world’s largest uranium miners and the second largest oil producer in the region after Russia. The government is leveraging its resource riches with its National Fund, which like many oil-rich Northern European countries is setting aside oil revenues to help boost economic growth and stability. Established in 2000, the fund had assets of US$ 43 billion at the end of 2011. The scale of the fund should allow it to boost stable growth far into the future.

The Strategic Development Plan of Kazakhstan by 2020 approved by President Nursultan Nazarbayev in 2010 focuses on non-resource based aspects of the economy, including agriculture and related processing, biotechnology, chemicals, pharmaceuticals and telecommunications. The political will and effort to encourage inward investment into the country has already lifted the country to 47 out of 183 economies in the World Bank’s Ease of doing business, an improvement of 11 places over its 2011 ranking of 58.

The country’s strategic geographical location between China and Europe, with Russia to the north is increasingly being seen as a key advantage. The Khorgos free trade zone economic development zone on the Chinese border which the government hopes will become Central Asia’s largest trade and logistics hub. Kazakhstan also received a US$ 2.1 billion loan from the World Bank for the South-West Roads’ Project, which will link it from China to Russia and Western Europe.

With a commodity rich landscape, a more stable banking system, which is less exposed to external funding shocks, a stable political system and strong growth prospects, Kazakhstan is an attractive place to invest. This coupled with the vast amount of opportunities, particularly across the resources, transportation, agricultural and logistics industries and the desire for the government to encourage foreign direct investment suggests that Kazakhstan continues to have a very bright future.