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Analysis of the Banking System of Kazakhstan in Terms of the Present Crisis

Abstract. The article is devoted to the problematic issues of the modern banking system of Kazakhstan. Increased consumer and investment demand, coupled with the growth of business activity of the subject of the economy, has caused a steady growth of the banking sector in the pre-crisis period. At the same time it increased annually debits of banks, the real estate market and the construction industry formed the “bubbles” in asset prices, obviously, there has been a crisis.

Also article deals the with pre-crisis “credit bottom” left the banking sector with a large volume of non-performing loans, which have become the post-crisis for the banking system of Kazakhstan the main problem. Analyzes urgent measures to implement the principles and objectives adopted in the concept of development of the financial sector of the Republic of Kazakhstan until 2030 in accordance with the realities of the moment.

Keywords: economy, Republic of Kazakhstan, system of bank, the Concept of development of financial sector, global economy crises.

Introduction

Over the years, the Kazakh banking sector developed successfully, approaching the level of development of the banking systems of Eastern Europe, which has become part of the European and global banking system. However, when there were clear signs of the global financial crisis, the Kazakh banking system has been sorely tested. When the international capital market was closed, it was stepped liquidity crisis; there was a threat of large banks defaulting on foreign loans.

In the early 90s, when the numbers of commercial banks in Kazakhstan were 204, before the National Bank of Kazakhstan (NBK), there was a question of improvement of the banking sector. Based on the Law “On the National Bank of the Republic of Kazakhstan”, adopted on 31 August 1995, National Bank has launched a restructuring of the banking system. Weak banks liquidated or merged with large ones. During 1995-1999 Kazakhstan’s banking system was reformed, and second-tier banks made the transition to international standards. Second-tier banks of Kazakhstan had until the end of 2000 to reach international standards in terms of

capital adequacy, liquidity, asset quality, the level of management, accounting, administration and transfer of information. In 1997, the expansion of banking activities, as well as put higher demands on the opening of banks and their licensing division of investment and deposit banks was abolished provided.

In April 1999, by the decision of the government and the National Bank in Kazakhstan was regime of freely floating exchange rate based on supply and demand in the currency market, without significant intervention of NBK.

Methods

In this article, we implemented the system, structure, historical, comparative methods, and approaches. Structural analysis method allowed studying the situation in detail of banking system of Kazakhstan in terms of the present crises. Historic, historical and comparative methods allow studying each stage in the economic development of Kazakhstan. Application of the above methods and approaches helps to achieve a better understanding of the research problem.

Main body

Today, the banking sector of Kazakhstan remains the largest and dominant segment of the financial market of the state. By the 1 of January 2015 in the Republic of Kazakhstan operate 38 banks, including 16 banks with foreign participation (14 subsidiary banks), one bank with 100% of state participation ("Zhilstroisberbank of the Republic of Kazakhstan") and 3 banks with quasi-participation capital ("Halyk Bank", "BTA Bank" JSC, "Alliance Bank"). The share of five largest banks - "Kazkommertsbank", "Halyk Bank of Kazakhstan", "BTA Bank", "Bank CenterCredit" and "Sberbank" in total assets is about 52.4% in the total loan portfolio of 58, 9% by the 1 of January 2015. The total assets of banks are 18,239 billion tenge (\$ 9.6 billion), the total loan portfolio – 14,184 billion tenge (\$ 7.6 billion) [1].

Until the crisis of 2007, the Kazakh banking system was considered one of the best in the CIS. Banking reform has been carried out, created a two-tier system, well adapted to the market economy, created the legislative and methodological framework taking into account the experience of developed countries, implemented the basic principles of the control and regulation of the Basel Committee.

During the 2000-2007, annual GDP growth has averaged 10% in Kazakhstan. Increased consumer and investment demand, which is associated with the growth of business activity of economic entities, called the steady growth of the banking sector. There was cheap credit resources coming from external borrowing markets, banks received excess profits and successfully developed. Every year, increased external debt of banks: foreign loans by mid-2007 reached 45.9 billion US dollars or 50% of GDP [1, p.3]. Lending by banks economy over the period 2002-2007 increased by 13 times, banks' assets grew for 14 times, equity capital of more than 11 times. The level of loans to GDP reached more than 70%, which characterizes the dynamic pace of economic development in the pre-crisis period [1, p.4]. Banks actively offered consumer and mortgage loans. The availability of mortgage loans caused a high demand for real estate speculation in this market, the rapid rise in prices. At the same time housing prices in the primary market increased by about 5 times, on the secondary market - more than 10 times. In the pursuit of profit, ignoring the risk, banks have increased the scale of borrowing abroad, actively lending to the service sector and construction. House prices rise by tens of times faster than the dynamics of the solvency of the population. On the real estate market and construction was formed

a "bubble" in asset prices, and there has been a crisis [2].

NBK and the Agency for Financial Supervision (AFS), accept the methods of prudential regulation, failed to take adequate measures to stop the flow of excessive external borrowing. On the credit "bubble" the real estate market has grown, which subsequently burst and brought some major Kazakh banks into bankruptcy. Banks faced with a large volume of non-performing loans, which have become a major problem.

Kazakhstan is actively integrated into the global economy and dependence on world markets is high. The global economic crisis has come to Kazakhstan in 2008, before this moment the economy grew annually. With high rates were developed industry, construction, real estate market, the market of banking services (for the first half of 2007, loans to economy increased by 47%, deposits of residents - 24%) [3]. However, the first symptoms of stress in the financial markets began to appear in mid-2007. Worsened conditions for attracting foreign loans, the banks began to experience liquidity problems, have tightened credit policy and credit conditions. During the second half of 2007 the volume of attracted foreign loans declined by 6.3 billion US dollars. At the same time increased the interest rates on loans up to 15, 8% in tenge and 13.2% in foreign currency, respectively, instead of the 14.1% and 12.4% in the first six months [2, p.148]. In Kazakhstan liquidity regulation BWI carried out by providing short-term liquidity, early redemption of NBK notes and change the mechanism for calculating the minimum reserve requirement.

In conditions of limited access to external borrowing, the banks were forced to raise interest rates to tighten credit conditions. All this caused a reduction in lending to the economy as a whole. In 2008, banks of Kazakhstan have reduced lending to the economy by 39% [2, p.148].

The banking system of Kazakhstan was unable to avoid the negative consequences of the crisis. BWI showed decline in capital adequacy, assets, loans and deposits. The rapid growth of lending to the economy before the crisis, caused by the accumulation of interest rate risk in banks, easing requirements for borrowers and the deterioration of the quality of the loan portfolio. Deposits at the time also grew, but not as fast, their annual growth amounted to 32.6% [2, p.170].

Accumulated for the period from 2002 to 2007, the interest rate risk has caused the deterioration of the quality of the loan portfolio. Systematic measures to improve banks' capitalization and maintain

its liquidity helped to stabilize the situation in the economy. As a result, GDP growth in 2009 was 1.1%, at a time when Russia's GDP fell by 7.5% in the US by 2.7%, the loan portfolio of banks increased by 4.3% [3]. However, according to the FSA, there was a significant decrease in the total amount of the banking sector assets. Despite the fact that during this time there was a growth in assets after the devaluation of the tenge, deposits of more than 1.0 trillion tenge, as well as the completion of the assets in the form of investments to support the banking sector, in general, there was a significant reduction in assets. According to analysts' statements, these funds went to the repayment and servicing huge foreign debt of banks. Besides all this, the fall in prices for the main items of Kazakhstan's exports during the crisis, reducing the volume of investments, led to a decline in business activity and narrowing of the sales markets. This has a negative impact on the financial condition of borrowers and their ability to repay debts to the STB. All this, as well as carried out in February 2009, a 25% devaluation of the tenge, has undermined confidence in the domestic banking system. Thus, in 2009 the share of non-performing loans increased by 4.5 times and amounted to 37.7% of the loan portfolio [4]. The majority of non-performing loans and loans overdue more than 90 days accounted for three banks – "BTA Bank", "Temirbank" and "Alliance Bank". In this connection, it was decided restructuring solution.

In 2010, Kazakhstan's economy began to pick up the GDP growth rate. However, some banks have reduced their lending, respectively; on the lower level was the attitude of the loan portfolio to GDP. In 2011, the banking sector after stagnating in the previous years, began to show growth, increased the volume of lending. However, the ratio of banking sector assets and loan portfolio to GDP remained at the same low level.

Of the total volume of loans allocated in 2011, the share of loans was in the industry - 11.9%, agriculture - 3.8%, construction - 3.3%, trade - 9.1%, transport - 4.0%, communication - 0.05% and other loans - 43.5%. In 2014-2016, we observe a new wave of the global financial crisis, stagnation of the banking sector continues today. Thus, the share of non-performing loans amounted to 32-34% high figure in 2014. In world practice, the value of non-performing loans (NPL) does not exceed 10%, even more than 5% is considered to be above the norm. In Kazakhstan only by 2015, there was a decrease in this indicator to 23.5%. For the first time over the past few years, the share of non-performing loans tends to decrease. Unbalanced lending sectors of the economy,

low diversification of the loan portfolio of banks are reflected in assets and loan portfolio to GDP.

In accordance with the "Concept of financial sector development until 2030" assets of the banking sector should be not less than 80% of non-oil GDP, the loan portfolio - at least 60% of non-oil GDP, which involves the expansion of banks' participation in the financing of the economy, especially in the government development programs. The global financial crisis revealed the vulnerabilities of the banking sector of Kazakhstan: limited domestic resource base, strong dependence on foreign financing, the high level of credit risk, moderate risk - management, a large proportion of dollar-denominated loans, the ineffectiveness of the action the supervisor of instruments in the banking sector. In order to solve the existing problems in the financial sector and increasing the stability of the banking system to the high individual and structural risks in 2014 by the Government of the Republic of Kazakhstan, this concept was adopted [5].

Currently, there is a relatively low level of external debt allows banks start to raise external borrowing that will not lead to a crisis of external debt in its moderate volumes and efficient management. NBK is trying to stick to a conservative policy of external debt, avoiding the excessive growth of the debt of banks to non-residents. A favorable level of external debt of banks NBK believes maintaining the share of external liabilities of the banking sector in the aggregate amount of its liabilities at the level of not more than 30%, except for the obligations on the bonds, convertible into capital. Many analysts see the solution to the problems in the banking capital consolidation, consolidation of banks to increase their competitiveness on the national and international level. To keep the leadership in the international banking business, the bank must have a capital of more than 30 billion dollars, and assets of 300 billion dollars [4, p.21]. In Kazakhstan, the equity of all banks in January 2015 was 2623 billion tenge (14.1, billion dollars), and the assets of 18,239 billion tenge (100 billion dollars) – it is less than the capital and assets of the average American bank. The total assets of the banking system of the three countries of the Customs Union by the end of 2013, the share of Kazakhstani banks' assets was 5.3%, while the share of Russian banks - 92.5% and of Belarusian banks - 2.2% [6].

Thus, a significant influence of modern global financial crisis on the banking sector and the economy of Kazakhstan took place in 2008-2010, and then increased in 2014-2015 during the second wave of the crisis.

In 2014-2015 observed a further deterioration of external factors for the development of Kazakhstan's economy. There has been a general slowdown in world economic growth and the strengthening of geopolitical instability with the events around Ukraine, the war in Syria, which caused flows of refugees from the Middle East and the strongest migration crisis in Europe. Entering mutual sanctions between Russia and the EU countries, the United States led to a drop in growth and destabilization of the macroeconomic situation in Russia, which affected the economy of Kazakhstan. Against the background of strengthening the pace of US GDP growth was the strengthening of the dollar and the devaluation of national currencies of many countries.

The decisive factors of deepening crisis in Kazakhstan have been a sharp and prolonged decline in the price of oil, food, raw materials and metals on world markets. These raw materials form the basis of Kazakhstan's export and export dependence on volatile world prices lead to a drop in industrial production, increase unemployment, higher inflation and lower consumption. This once again shows the need for structural change and economic diversification.

In February 2014, the NBK decided not to maintain the exchange rate at the same level, to reduce the volume of currency interventions and reduce interference in the process of formation of the exchange rate of tenge. The exchange rate is formed at the level of 185 tenge per US dollar. This led to a slight acceleration of inflation due to higher prices for imported goods, as well as the devaluation expectations, reinforced by the decline in world oil prices.

For liquidity management of banks, the National Bank conducted operations to provide short-term tenge liquidity. Stabilization of the foreign exchange market has allowed the National Bank to extend the corridor to exchange rate fluctuations of the tenge against the US dollar in September 2014 and to establish an asymmetrical corridor $185 + 3 / -15$ tenge.

Experience shows that the provision of a stable exchange rate is costly gold and currency reserves of the National Bank and consistent with the practice of functioning of an open market economy. Furthermore, strict regulation of the exchange rate creates favorable conditions for speculative attacks on the currency market. The current money and foreign exchange markets, the situation reduces the efficiency of government programs to provide credit entities of the economy. Conductors of these

programs mainly appear banks. However, they now prefer to keep their reserves in foreign currency and refrain from lending in tenge. This makes it necessary to revise state policy in order to improve the implementation of monetary policy, inflation targeting regime appropriate.

All this required the development of additional measures to stabilize and improve the national economy. Therefore, the Government had developed a plan of joint actions of the Government of the Republic of Kazakhstan, the NBK and the AFS to stabilize the economy and financial system for 2015-2016 years, the anti-crisis program. The anti-crisis program identified priority sectors of Kazakhstan's economy, which need the support of the state: the financial sector, the real estate market, small and medium business, agriculture, industrial-innovative and infrastructural sectors.

Conclusion

The state's role in the crisis manifested in the creation of conditions for the exit of banks, enterprises and firms from the crisis. In times of global crises in all countries enhanced the role of government and the central bank, as businesses and banks need government support to solve complex problems. Today, investors and international experts are closely monitoring the ongoing public policy in Kazakhstan, on the correctness and timeliness of interventions depends on early exit from the crisis, banks, companies and businesses, to the influx of investment and economic recovery.

In order to maintain the banking system is necessary to achieve the following objectives: to ensure the stability of the payment system; maintaining the necessary volume and lending terms of the real economy; creation of conditions for the preservation of the investment activity level. This will enable banks to generate the required level of reserves and expand the opportunities for lending.

To support the banking system was established the Distressed Assets Fund, whose task is to improve the loan portfolios of domestic banks through the purchase of bad assets. The government decided to increase the size of deposits guarantee of the population up to 5 million tenge. So the population having bank deposits up to 5 million tenge, guaranteed them a return on demand, which will cover up to 99% of all investors. In addition, the state will provide additional sources of liquidity to banks to ensure timely service their obligations.

In addition, in April of 2015, the Government body of NBK approved the monetary policy of Republic of Kazakhstan until 2020, which defines the

conceptual approaches and principles for further development, suggested the introduction of inflation targeting as the most appropriate at the current stage of development. The document contains a set of measures aimed at achieving the inflation target, comprising:

- Improving the inflation analysis and forecasting system and other macro-economic indicators;
- Improving the efficiency of the interest rate channel of the transmission mechanism by expanding the system tools of monetary policy. NBK's exchange rate policy will be aimed at maintaining the inflation target, and in the case of foreign exchange shocks, the priority will be to ensure the stability of the financial market;
- Changes in the current system of decision-making on monetary policy in accordance with international best practices;
- Improving the efficiency of communication policy. The main objectives of the communication strategy will be a shift in priorities of economic agents from exchange rate to inflation and anchoring of inflation expectations at a low level.

The implementation of monetary policy of Kazakhstan up to 2020 will allow National Bank to ensure price stability for sustainable economic growth and contribute to the achievement of strategic goals of the country to join the top thirty most developed countries in the world.

Thus, the introduction of fundamentally new for Kazakhstan financial sector regulation mechanisms, including the tools of macroprudential and countercyclical regulation, will consist in a maximum reduction of risk of the financial system and to minimize the negative impact of external factors on the economy and financial system of the country.

Government of Kazakhstan jointly with the NBK continuously monitors processes in the world economy in time to take the necessary measures for the sustainable development of economy and global challenges. Lessons from the crisis demonstrate the need for the establishment in the context of globalization of new tools to facilitate the removal of barriers to the further progressive socio-economic development of the country.

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