

# FINANCIAL REGULATION IN KAZAKHSTAN AND RESPONSE OF GOVERNMENT TO FINANCIAL CRISIS IN USA

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## **Introduction**

Financial institutions like banks play crucial role in promoting greater economic efficiency by channeling funds from people who do not have a productive use for them to those who do. So, well-functioning and strictly regulated financial institutions are very important in producing higher economic efficiency. That's why financial regulators are considered as one of the most important regulatory authorities in every country all over the world. According to most specialists, Kazakhstan has very good and efficient banking institutions. This good evaluation of our banking system can be credited to our comprehensive regulators. So, in my work I tried to disclose some information about financial regulation in Kazakhstan and try to evaluate it in view of its response to financial crisis in USA.

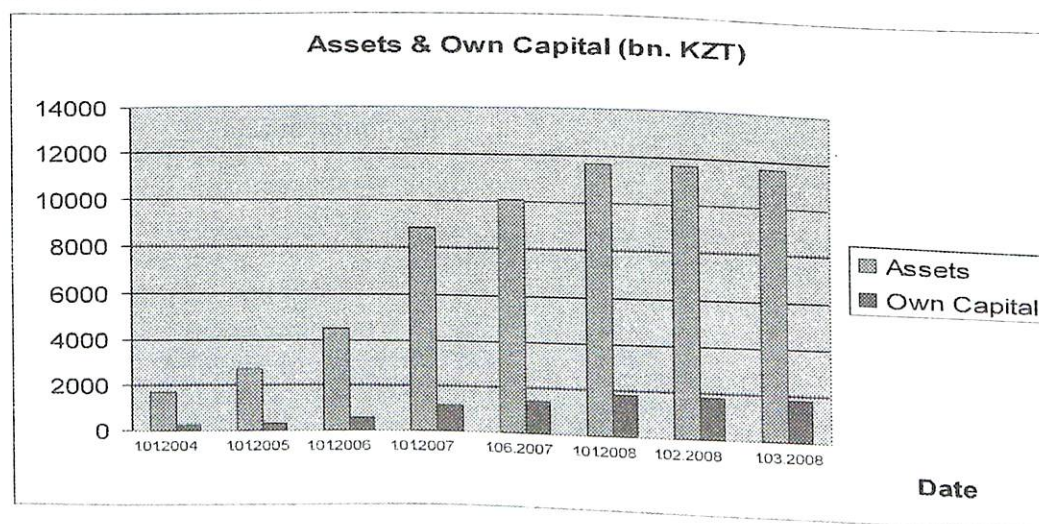
## **The main regulators of financial institutions in Kazakhstan**

The financial sector follows the rule and regulations defined by National Bank and Financial Supervision Agency (AFN). They both watch closely on activity of banks which are the main representatives of financial sector. National Bank's activities are mainly connected with money supply, inflation, exchange rate, etc. However, AFN looks after the adequacy of banking management and financial transparency.

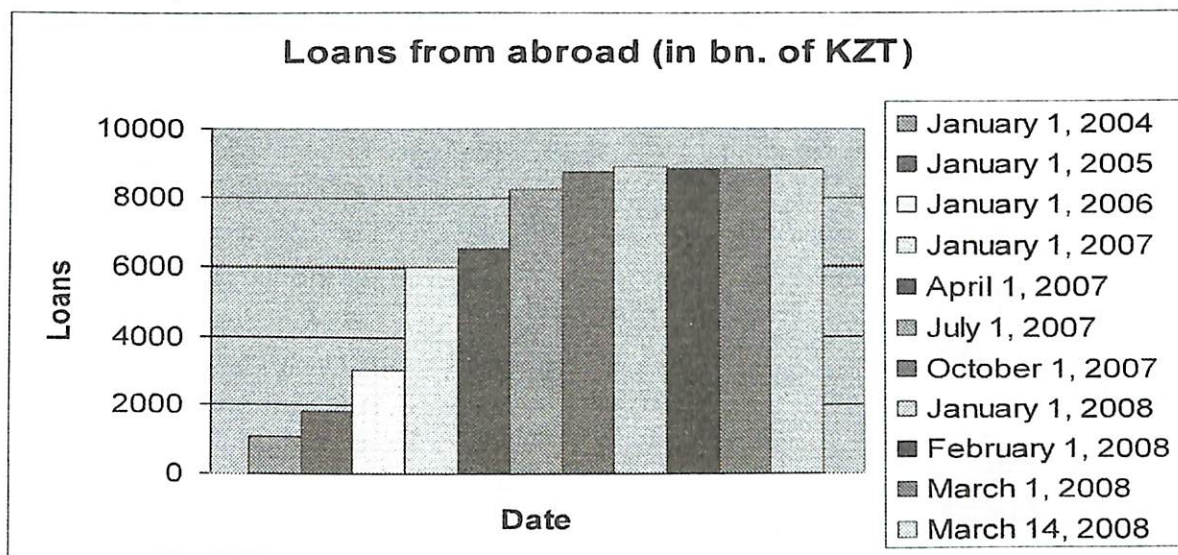
## **The financial figures of activity of Kazakhstan banks**

Kazakhstan banks have shown rapid growth in all figures for the last 5 years. However the financial slump in USA has cooled the huge growth of our banks. For years of growing, our banks have maintained very good financial ties with foreign banks. So they have reached some very good credit history with foreign banks. Due to substantial growth of oil sector, Kazakhstan banks were actively financing the growth of economy. Let's look at the main figures of Kazakhstan banks:

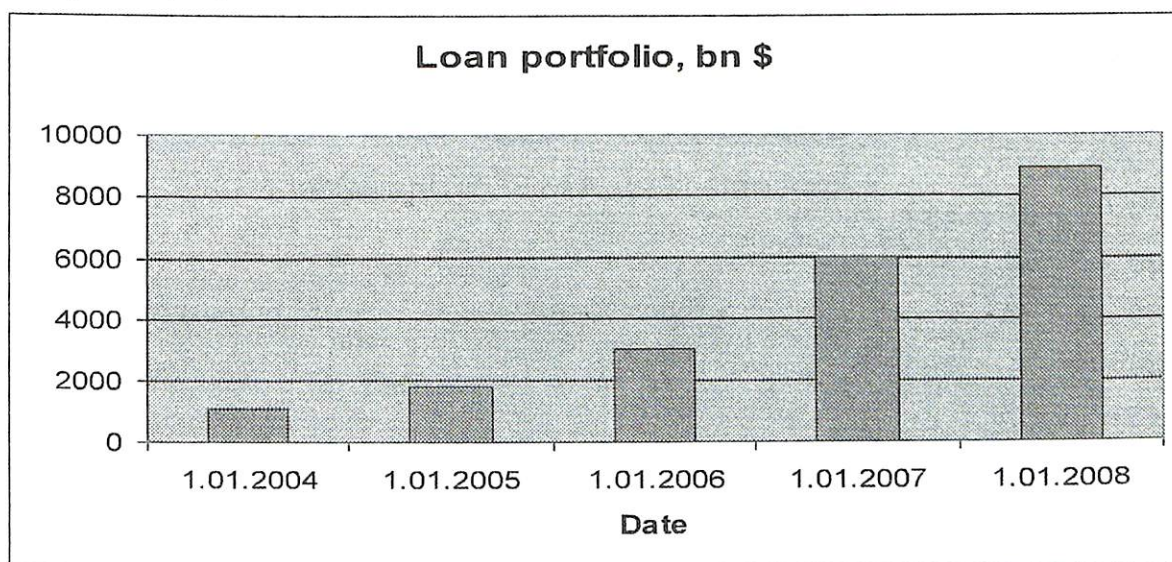
## ***Growth of assets and own capital***



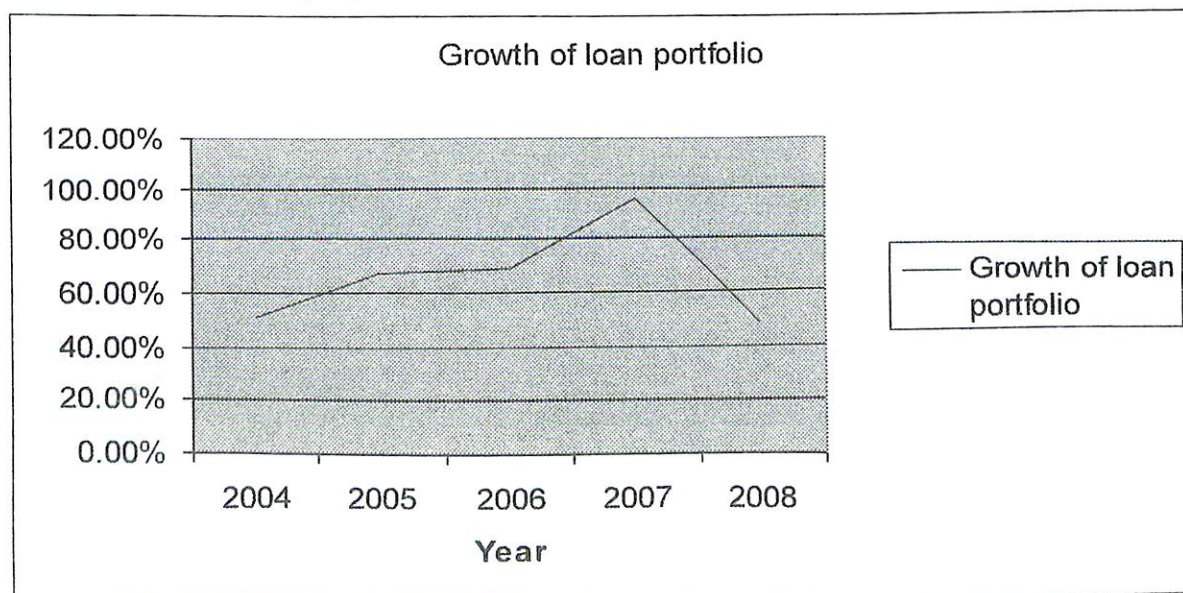
*Growth of loans from abroad*



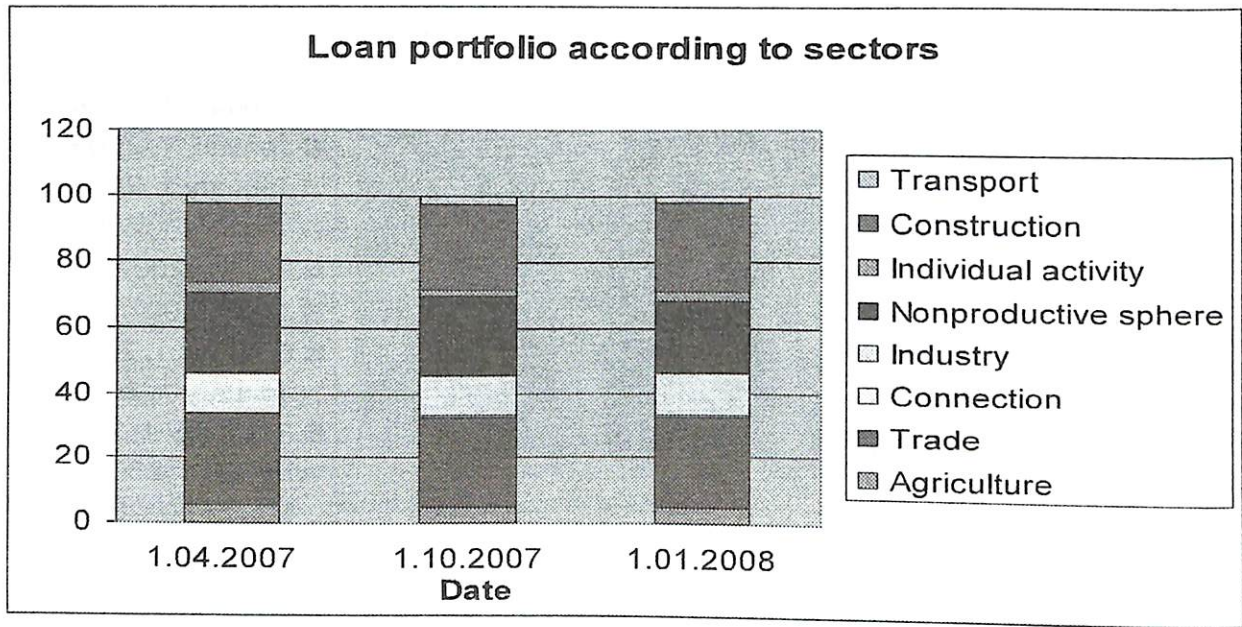
*Growth of Loan portfolio*



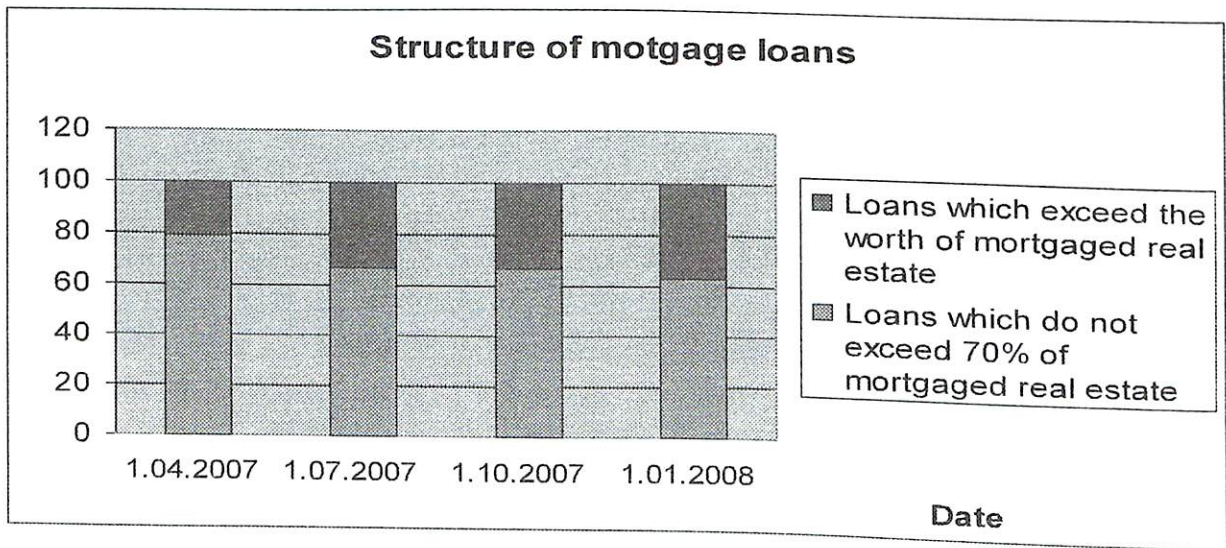
*Dynamic of growth of loan portfolio*



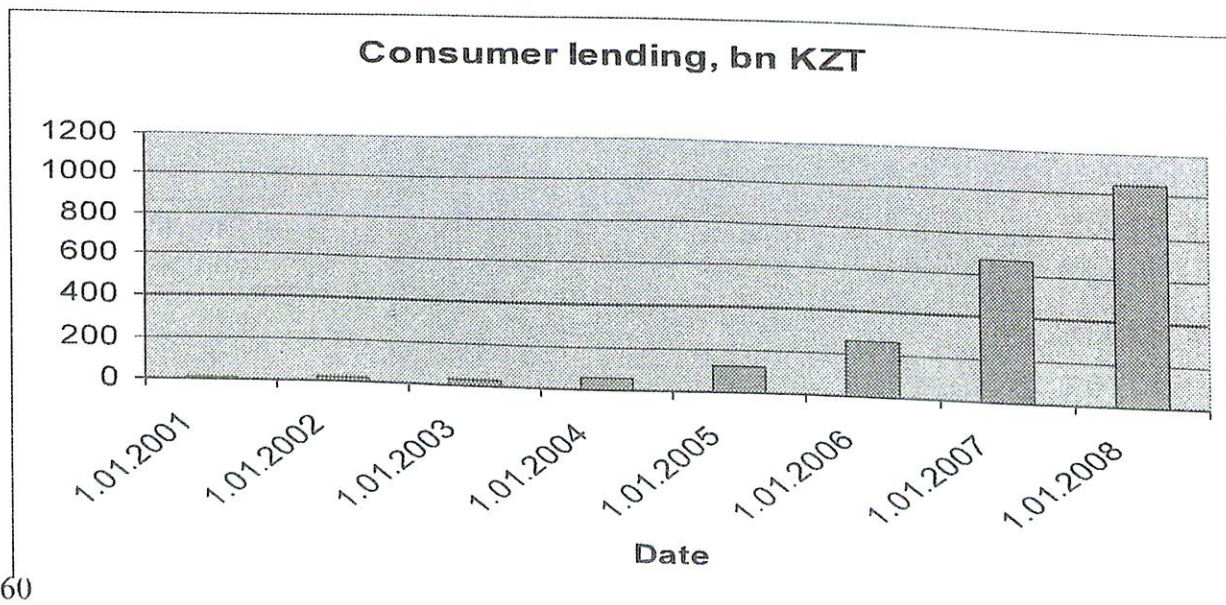
*Loan portfolio according to sectors*



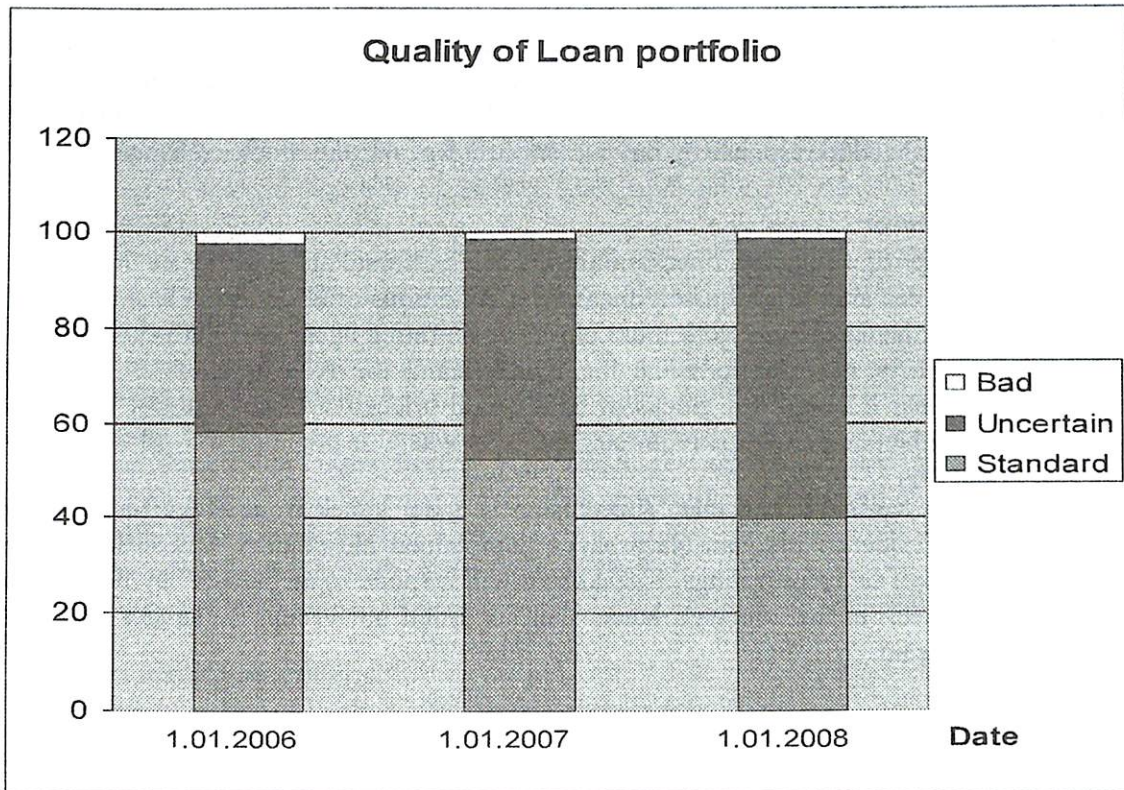
*Structure of mortgage loan in 2007-2008*



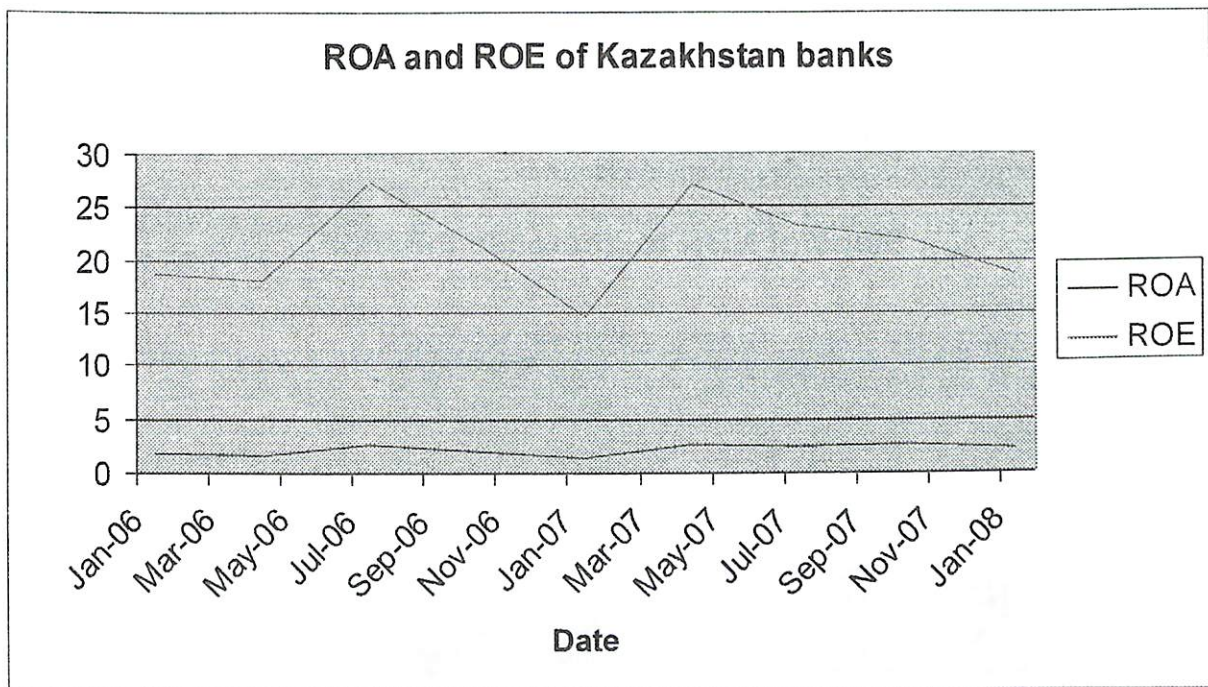
*Growth of consumer lending*



Dynamic of quality of loan portfolio



Dynamic of ROE and ROA



**The influence of USA crisis on Kazakhstan financial sector**

Kazakhstan banks (the main representatives of financial sector) have been influenced by the liquidity shortage since August. During August and September, bank did not issue Eurobonds. The USA banks and other financial organizations started to feel cold to banks. That's why the growth of Kazakhstan banks assets and loan portfolio decreased. So, financial institutions were forced to take funds from somewhere else. National Bank responded to this fact and has given 1,300bn KZT (\$10bn) of short-term funds to support their liquidity. The problem is really challenging, because the total assets of banking system achieved 11,205bn KZT (\$92.6bn) as of 3rd quarter of 2007 or nearly 90% of GDP.

**Government response**

After these events Standard & Poor's has cut Kazakhstan's debt ratings and lowered the outlooks on three banks, because of high level of foreign debts. Kazakhstan banks have been hit by the troubles

from the US sub-prime crisis. The prices on shares of banks that are listed in London (Kazkommertsbank, Alliance and Halyk Savings Bank) have decreased substantially. The major two banks Kazkommertsbank and BTA Bank faced the massive withdrawals of deposits, part of which moved to Halyk Bank. Many banks in the country have also been hurt by an outflow of deposits and losing confidence in the national currency, tenge. At the end of August dollar has appreciated sharply and National Bank was obliged to respond by buying tenge on Kazakhstan Stock exchange.

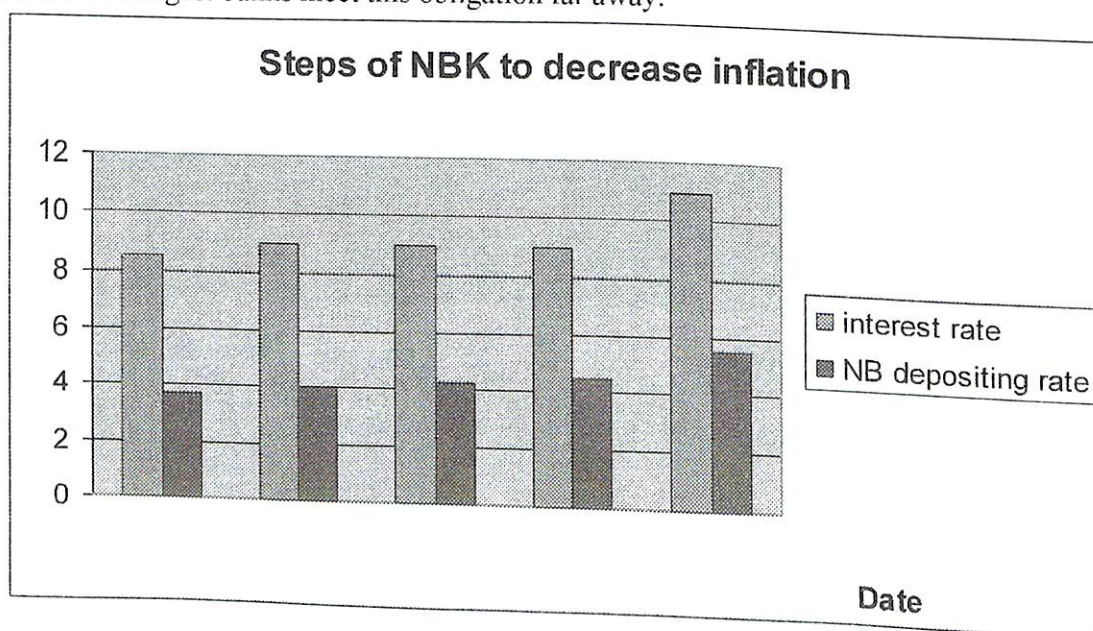
### **Official Government response**

After decreases in ratings of banks by international agencies, Nursultan Nazarbayev immediately declared that rating agencies are not adequately measuring conditions of Kazakhstan and Kazakhstan banks. President said that banks should work more closely with rating agencies and disclosure all the needed information to them in order to make them understand the real situation of banks. So, government announced that it would buy stocks of banks until prices reach "pre-August levels" and will do the same for non-banking stocks if required. The state was also prepared to lend \$4bn (£2bn) to banks to ensure liquidity,

Prime Minister Karim Masimov said that "Kazakhstan is under attack from hedge funds and we will fight back," after president Nursultan Nazarbayev complained the country was suffering from "unfounded" downgrades of its credit ratings. Kazakhstan will respond to an "attack" by hedge funds by buying shares next week in the country's banks that are listed on foreign exchanges to support prices, its prime minister said.

### **Financial regulators response**

- ✓ National Bank raised the interest rate from 9 to 11%. So, as a result, supply of money decreased.
- ✓ National Bank decreased the reserve requirements for domestic liabilities of banks to 5% (from 6%)
- ✓ National Bank increased the reserve requirements for nondomestic liabilities and debt securities from 8 to 10%
- ✓ AFN stated new requirements for bank reserve capital to be at least 2% of loan portfolio after 2nd May of 2008. Besides this AFN claimed that the minimum bank capital will rise from 1bn KZT to 1,5bn KZT in 2009 and 2bn KZT in 2010. However, this requirement will alter only small banks, because the largest banks meet this obligation far away.



There are some problems that are faced by the National Bank of Kazakhstan. In 2007, the inflation has reached maximum for the last 5 years and estimated to be 15%. So, in 2008 the Bank has its strict goal to keep inflation on the low level. However, mortgage crisis in USA has influences our banking system and there had arisen another problem of liquidity. But there is tradeoff between maintaining inflation at low level and solving liquidity problem for banks. So, National Bank raised interest rate form 9 to 11% in order to keep inflation at low level. And after some time it has decreased reserve requirement for banks domestic liabilities from 6 to 5%. This step was promoted in order to maintain liquidity for banks

### What has happened in banking sector for last year?

- ✓ Alliance Bank conducted an IPO on London Stock Exchange and sold 17.4% for \$704mln
- ✓ UniCredit Group bought 91.8% of ATF Bank (Kazakhstan's fifth largest bank) for \$2.1 billion.
- ✓ German Allianz has bought ATF Polis (insurance company of ATF Bank)
- ✓ Kazkommertsbank and Caspian Bank refused to increase the interest rate on deposits of people.
- ✓ Israel Bank Hapoelim thought its subsidiary in Turkey bought Demir Bank
- ✓ Massive outflows of deposits of people from Kazkommertsbank and BTA Bank (partially to Halyk Bank)
- ✓ Halyk Bank refused to take funds from Government (part of \$4bn); because CEO Marchenko said that bank faces another problem: excess of liquidity due to new inflow of deposits (Halyk market share of deposits increased to 25%)
- ✓ Renaissance Capital (Russian Investment Bank) bought 10-15% of Kazkommertsbank on LSE for \$500mln. As was stated by Renaissance, it bought shares for its client, but refused to tell for whom.
- ✓ EBRD announced that it will give \$1bn to Kazakhstan banks this year.
- ✓ Kookmin Bank (10th largest bank in Asia and largest in South Korea) has announced that it has bought 30% stake in Bank Center Credit. The sellers of stocks agreed to put part of their received money (\$240mn) on deposit in Center Credit. Korean Bank also plans to increase its share to 50.01% in near future through issuing of new stocks.
- ✓ Halyk Bank conducted a demonstrative issuance of obligations on LSE, demand exceed supply 3 times

### Conclusion

Positive implications of crisis:

- ✓ Changing of policy of banks toward more cautious activity
- ✓ New banking technologies which will be implemented by newcomers of banking sector (international financial groups UniCredit, Kookmin Bank)
- ✓ Right evaluation of risks connected with investments in real estate by banks.
- ✓ Only the strongest banks and construction companies will survive, so market will be more efficient.
- ✓ Government will understand the main risk of financial sector and will change its policy so as to make the growth more stable.

So, in conclusion I want to say that crisis in USA has some positive implications on our financial system, because only in hard situations we can truly evaluate our system. So, crisis had positive implication on banking system, because banks will now to reevaluate their risks and try to hedge from them. Our regulatory authorities will get more experience, so our financial system will become more efficient in the long-run

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## SAMRUK" & "KAZYNA" STATE HOLDINGS

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### INTRODUCTION

In order to further improve the country's competitive edge and regional role through enforcing the principles of efficient corporate governance and management, greater transparency and accountability as well as by boosting its financial markets the Government has taken major steps in early 2006, namely it established the "Samruk" State holding company, "Kazyna" Fund for sustainable development and initiated the establishment of the **Regional Financial Centre in Almaty (RFCA)**.