



# Kazakhstan recovering from economic crisis, still banking system weak: IMF

By Balachander | August 19, 2010 3:18 AM EST Article RATE STORY: +1 EMAIL PRINT SHARE RSS

Kazakhstan is recovering from economic crisis due to a timely stimulus program and higher oil prices, but stagnant credit growth and banking sector troubles continue to weigh on economic activity, the International Monetary Fund said.



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The IMF projects that the oil-rich Central Asian economy will grow by 4 percent in 2010, chiefly driven by higher exports, increasing commodity prices, and foreign direct investment.

But the IMF stressed that Kazakhstan must resolve bank weaknesses exposed by the crisis.

"A comprehensive strategy to reduce nonperforming loans is urgent and should be accompanied by a full assessment of recapitalization needs for systemically important banks," the IMF said.

The country would also need to upgrade the banking system's regulatory and supervisory frameworks, it said.

According to the IMF, the oil sector dominates the Kazakhstan economy, accounting for one-fourth of GDP, 60 percent of total exports, and 40 percent of total budget revenues.

At the same time the economy was experiencing rapid growth, Kazakhstani banks borrowed heavily from abroad, amassing external debt amounting to roughly 44 percent of GDP to fund a rapid expansion of credit, largely concentrated in construction and real estate.

When the global financial crisis hit and capital stopped flowing into the country, credit growth ground to a halt, and property prices slumped. With oil prices plummeting, Kazakhstan faced a drop in the value of its exports from \$76.4 billion in 2008 to \$48.2 billion in 2009.

The combination of weak economic growth, currency-induced credit exposure, and increased uncertainty led to significant difficulties in the banking system. Due to the government's ample resources and low public debt, the authorities were able to respond swiftly to the crisis and helped stabilize banks with a large-scale policy package, the IMF said.

IMF said the restoration of banking system health should take precedence to sustain the country's recovery. Withdrawal of government support for Kazakhstan's troubled banks and the winding down of stimulus spending should be gradual.

Over the medium term, Kazakhstan needs to strengthen domestic deposits to finance productive activities with lower external funding and increased savings of oil resources, the IMF said.

This should be supported by efforts to deepen domestic money markets, promote long-term liquidity in the domestic currency, and foster good risk management practices.

Over the longer term, the Kazakhstan authorities plan to reduce their dependency on oil and advance diversification of their economy by improving the business environment, creating new high value-added export-oriented sectors, and providing support to telecommunications and transport sectors.

Success of the government's development strategy for the next decade hinges on the support of a well-capitalized and well-regulated financial system, IMF economists concluded.

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