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## THE WORLD FINANCIAL CRISIS AS THE FACTOR OF THE SUBSEQUENT DEVELOPMENT OF ECONOMY

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*Summary. The article dwells on the essence of financial crisis, its causes and consequences as well as an impact of anti-crisis measures on the financial system of the country.*

**Key words:** *financial crisis, gold and exchange reserves, cash deficit, anti-crisis measures.*

The major feature of the phenomenon of the global financial crisis has confirmed it as a truly global, with established quite strong economic ties. The new international division of labor, specialization of regions, crystallized in a continuous and fierce competition, have become a reality. The emergence of problems which were not observed since Great depression, has got universal character, and aggravated long recession is perceived as the first global crisis.

All countries were tightly bound by one chain, the economic interdependence in terms of unprecedented openness of national markets has sharply increased. Modern Kazakhstan is already so integrated into the global economy, any of its changes – positive and negative, concerning our economy.

We already know that the global financial crisis was caused by imbalances in the financial market. In the artificial manipulation of runaway money in the world market created by the so-called «bubbles» that would soon burst. And the money, so highly valued at all times, proved to be a mirage. The main components of the current financial crisis have enormous amounts of lending, careless investing and the widespread failure of risk management according to experts [1].

After a decade of rapid growth, especially in mining and export of hydrocarbon resources, in 2007–2009, Kazakhstan has experienced the impact of the global financial crisis. On the eve of the crisis the country's economy showed very good macro-economic indicators: considerable proficiency of the consolidated budget, the rapid growth of

international reserves and resources in the National Fund, accumulating earnings from the oil sector. But despite the good performance, have already become apparent negative signs: rising inflation, reduced unemployment, as well as the rapid growth of wages in low productivity.

The second growth after the oil and gas has been the banking sector. Banks' access to affordable credit resources in international capital markets led to an increased lending to the economy (from October 1, 1999 to January 1, 2009) is more than 50 times, which clearly overheated economy. The poor risk assessment and inadequate assessment of the quality of loan portfolio led to an increase in bank loans in real estate and services, contributing to systemic imbalances in the economy. All these processes made Kazakhstan's economy vulnerable to the effects of the global crisis.

Stability of the financial sphere is actual which is the main element of the economy as can be seen from the situation at present for our country. Frequently the finance compares to blood system of economy, and any failure in work of this system is negatively reflected in activity of all economic complex.

Research of essence of global financial crisis, its reasons and consequences, influence of anti-recessionary actions on a financial system of the state can form a basis of the further program of development of our state, and also prevent the crisis of financial system in the future. Kazakhstan, solving problems of counteraction to a world economic crisis, gains corresponding experience. In conditions when external sources of financing are closed,

strategic approaches are developed and the decisions which are based on own possibilities and resources are made. And it gives confidence in the further development of our country.

Arising first as the liquidity crisis, it has captured credit sector and has gradually extended to the financial system [2].

Crisis was showed as permanent shortage of the money resources, required to market subjects of managing, and credit institutions could not satisfy their requirement, economic entities have «money hungry», banks – deficiency of liquidity.

The motive power of financial crisis operates from the world financial market. The migration of the financial capital exacerbates a situation. Outflow of the capital from the markets, unstable from the point of view of investors, limits possibilities of the internal financial market to finance requirement of economy, increases the cost of the financial capital. The monetary capital of investors is put in more reliable both less risky tools and objects: the state securities, exchequer bills (and at the international level – in economy of the countries with a high rating).

In this matter must be allocated its two components: external – from the part of the global monetary system and internal – from the national one. In addition, we must distinguish between the external manifestation of the crisis and domestic, the essential mechanisms of action.

From the action of external causes of the crisis must take into account the deployment of a broad integration of the monetary system of Kazakhstan in the international monetary system, the dependence of the national monetary system from similar systems, the world's leading economic centers – the U.S., Europe and China. Terms of international trade, the formation of the exchange rate, the entering of Kazakhstan companies and banks to the global financial markets have led not only to the benefits of using inter-country exchange factors, but also harbored the risk of loss due to market uncertainty, natural course of events, defaults in certain sections of the market mechanism. In fact, such circumstances and the impetus, a «spark» of the crisis – imbalances in the U.S. mortgage system [3].

Among external factors is the enormity of the using of the financial tools especially derivative, in debt and speculative operations: the monetary weight has lost with the mass of commodities, that is a violation of the basic economic law – the law of money circulation. Debt obligations of some countries are many times greater than the gross national product and reserves. Thus, in the U.S. exceeded obligations against the GNP in 2007 was 3.3 times. This gave rise to anxiety of participants' expectations of economic processes, their desire to get immediate benefit from

the speculative with the available money, rather than investing in real production. Common practice – the money (in many ways – virtual) produces new money, instead of – goods made money. In such circumstances, non-payment of debt in some sectors of the economy leads to a chain reaction of defaults in the system, there is a panic among investors and owners of money capital. Hence, the arisen financial crisis should be considered as a debt crisis [4].

The essence of the crisis consisted in that the sphere of circulation has been opposed to manufacturing, create a path where you can make money from money, which led to an increase in «paper pyramid». The world GNP in 2008 made 65 trillion dollars, and cost of various financial tools, including cash 500 trillion dollars, that is, the excess was 7,7 times. The pyramid does not provide a financial commitment, it is based on virtual economy, that's the point of crisis.

The action of external factors has extended to internal state of monetary system of Kazakhstan. It is considered that the crisis reason in Kazakhstan was the arisen necessity of payments of banks under obligations to external creditors without possibility of refinancing of debts in connection with access restriction to the former cheap credits and sharp increase of cost funding. It has limited crediting of domestic borrowers and money began to lack for normal economic activities.

Without denying the effect of this factor, though we should note the following. Payment of external debt of banks, of course, reduces their ability to credit the domestic economy, but should consider other aspects of the problem. And so the first reason was the difficulty with the ability to refinance the debt of banks in connection with the greatly increased cost of capital in international markets, which triggered the mortgage crisis in the U.S.

But it is necessary to mean also that substantially the liquidity problem concerns non-cash money. The basic dependence of functioning of banks submits to a parity:

$$OCB = A - O,$$

Where: CB – own capital of bank;

A – bank actives;

O – obligations.

In this expression of the equilibrium all three components have started to decrease gradually.

The decrease was caused by deterioration of their quality, the growth of substandard and hopeless depreciation of mortgaging weight (falling of the prices for habitation, real estate). It has led to necessity of provisions increase – means participating in work of bank.

The condition of actives has affected the equity capital of banks, including the profit which was gradually reduced.

Action of the given factors has raised the doubts on financial stability of banks and as a consequence is falling of cost of their actions that depreciated equity capital and promoted its reduction. Doubts about the ability of banks to operate normally under such conditions did not lead to an increase in deposits, which affect the size of the third element of the above relation. The resource base of banks began to be reduced [5].

As a result, ability of banks to create additional money was essentially limited also money for normal crediting to all customers began to lack. The banks reduce crediting, demand for money grows then rates of compensation. The credit money became less. Failures of the whole economic chain have begun, non-payments in one link broke normal work in the several adjacent. The principle of falling «dominoes» was activated.

The global financial crisis has demonstrated the significant shortcomings of existing models of financial relations, both global and national level. The weaknesses revealed in the structure of state regulation and the activities of financial institutions. Problems emerged in recent issues of the imperfections and inconsistencies of risk management systems and current trends in the level of exposure (both in extent and quality of risk), a relatively low level of corporate governance, lack of transparency and, consequently, appeared to be the extremely sensitive to negative to tendencies.

Anti-recessionary measures of the government of Kazakhstan are similar to the measures realized in the developed countries. The distinctions are shown in structure. Thus, in the countries of the big twenty decrease of tax rates has made the third of anti-recessionary measures, in Kazakhstan is only 11 %. The main difference of the measures which were accepted in Kazakhstan, its monetary character: it has been spent 16,3 milliard dollars from National fund in the form of transfers in 2008–2009. Kazakhstan anti-crisis measures largely focused on the financial and construction sectors and to a lesser extent on the household. Whereas, Canada, Great Britain, the U.S. announced increase in unemployment benefits, Canada, Korea, Japan – cash transfers to households, Australia, Germany – cash benefits for child support, Australia, Canada – cash benefits for pensioners. In Canada, Germany, Indonesia, Italy, Great Britain, the United States the income tax rates for physical persons have been reduced along with a reduction in corporate tax rates.

Kazakhstan has decreased corporate income tax rate tax from 30 % to 20 %, eliminated the need to pay upfront fees for small and medium-sized business, reduced VAT from 13 % to 12 %, twice the minimum amount of increased traffic, not subject to

VAT, the uniform rate of the social tax is 11 % instead of a descending scale [6].

Anti-crisis measures to support the banking sector include:

- the additional capitalization of the four systemically important banks totaling 4 billion dollars;

- the creation of stressed Assets Fund (SAF) with the authorized capital of 1 billion dollars. It was expected that the Fund will be directed on improvement of quality of credit portfolios of banks of the second level through the purchase of questionable assets, including loans that are provided under a pledge of real estate and land;

- the stabilization of resource base of banks of the second level by placing on deposits of available assets of the national companies and joint-stock companies, the state enterprises and the organizations;

- improvement of state regulation in the banking sector.

In the post-crisis period it is necessary to eliminate the revealed lacks of the financial sector, the committed errors and to direct its developments to a channel of stable growth. It has been continued the work on creation of a modern, steady and competitive financial system of Kazakhstan proceeds.

It is held a five-year plan of accelerated industrial and innovative development since 2010. In this regard before the financial sector task is to fully mobilize the financial resources to implement projects that will be provided by the plan. The financial sector has become a bridge between national savings and requirements of innovation-based growth, which involves the restoration of confidence in it.

The state's efforts to mobilize financial resources should primarily be targeted at domestic investors, since it is necessary to ensure their participation in post-crisis economic growth. An important factor in the industrialization of the program is an active involvement in its implementation of foreign investors, therefore it is necessary to pursue a policy of a stable investment climate, a mode of preference for foreign investments.

Innovation is not simply one of the phenomena defining economic growth, development, structural shifts etc. Innovations became now an essence of modern development in all spheres of economy, including in banking. Innovations are introduced in the manufacturing or in services innovations in the form of facilities, technologies, products resulting from scientific research, inventions and discoveries, and qualitatively different from their counterparts (or analogues).

Economic development has always been built on the basis of new technologies, but over time this

process was extremely slow. In modern scientific and technological revolution and especially most recently, when the developed countries enter into post-industrial period, the economic development has acquired a qualitatively new character.

In developed countries the share of engineering products ranges from 35 to 50 % of the general industrial production which gives them the ability to update production equipment in most branches every 7–10 years, performing with the next leap in its technological development.

Unfortunately, this indicator in Kazakhstan, even in the relative values are 1,5–2 times lower, which is the main cause of the lag phase of the domestic industry on the technical level of developed countries. Overcoming of backlog will help the advanced development of innovative engineering with a growth rate of not less than 10 % per year, which is only possible to solve several problems. One of the major challenges facing the engineering industry is the unsatisfactory condition of the active part of fixed capital that is part of technological equipment, much of which is physically and morally obsolete. In sphere of investment maintenance weak interaction of the financially-credit organizations with real sector of economy is marked.

Should be increased the effectiveness of government regulation and oversight that promote the formation of a sustainable, competitive and most efficient operation of financial institutions in Kazakhstan, based on the priority of national economic interests, by increasing the stability of the financial sector, strengthening confidence in the financial system and stimulate investment activity [7].

The global financial crisis is a challenge not only for our country, but also for the whole world. It is difficult to determine the consequences of the crisis, much less give it a definite prediction. Especially now, in the context of global instability, when the global crisis is firmly entrenched in all the spheres of economic activity. The economic crisis will be definitely over, but it is difficult to pinpoint.

The financial crisis has seen not simply as a chronological process, and as an economic phenomenon, it is possible to prevent and if it is offensive to overcome it with minimal losses.

The reasons for the crisis should be sought not only in economics but also in moral psychology, the general view of life, the highest levels of political power, in disregard of such a basic factor in economic life, as the people's trust to his state and government. Eventually the overall economic climate in the country, rejection or success of the reforms, the stability of the monetary and financial systems, budget and tax revenues, production, investment process, social stability have a significant influence

on the occurrence of financial crises and the ability to adapt their national economies to external shocks.

It is not necessary to dismiss the trust of citizens established around them, living conditions, their expectations of a new attack from the authorities: the confiscation of savings, or a sharp fall in non-payment of wages, flash uncompensated inflation etc. First among the prerequisites, which are integral to maintaining a balanced growth of world supply and demand is steadily growing level of global minimum wage.

It is of great necessity to encourage long-term savings, creation of conditions for the emergence of new debt and structured financial instruments, the development of private pension funds.

The monitoring system organization over the activities of parastatal bodies, which they start to function in interests of management that can not coincide with interests of the state. The careful attention should be paid to infrastructure development, which leads to the development of domestic investment demand. Government anti-crisis program should be supplemented with larger, sighting and coordinated set of measures and tools in three ways.

First, maintaining demand for the highest possible level by further growth in the volume and quality of the allocation of public procurement. Increased possibilities consist in revision of investment programs of the national companies in favor of articles of short-term expenses and increase of efficiency of the state purchases which are carried out from the budget, at the expense of centralization and strict observance of the Kazakhstan maintenance in contracts.

Second, with the support of real sector to focus efforts to reduce the outgoing flows of enterprises by reducing the debt load, as well as tax breaks. The main tool to reduce the debt burden of enterprises is to subsidize interest rates on loans, which will cover 5–8 times more businesses. At this point, based on the volume of loans by banks, crisis management support to small and medium-sized businesses through the provision of credit can cover 12,5 % of economic entities in this category.

The third area – the stabilization of the banking sector by solving the three issues: the loan portfolio quality, external debt and additional liquidity. Otherwise, banks will pull the financial resources of the economy, experts say. In the banking sector is considered a key measure of redemption by the state for a period of several years of «bad debt» from banks in exchange for the receipts of the Fund Distressed Assets.

Speaking of this economic phenomenon, it is possible to note one more feature «of Kazakhstan's way» – the State's responsibility for the situation in the economy, which is expressed primarily in its participation in the output directly to banks,

companies, firms from the crisis. In terms of volume allocated to fight the crisis of resources Kazakhstan is located among the first ten countries in the world. But how effectively are these billions of dollars spent – time will tell. However, these cash flows are brought under strict control. Even expressed fears that after such a strengthening of state control in the various sectors of the country will not be able to return to a market economy.

The crisis period has revealed shortcomings in the first relationship of regulators and banks, as well as different views of business and the role of banks in the state. If during the credit boom of the state was not to interfere with the market, the crisis forced the state is compelled to help business and the banks, which not in a condition to overcome the arisen problems.

Thus, the last decade of XX century is the years of economic challenges for Kazakhstan, where the global financial crisis pushed the economy and social development of nations back, exerting thus a negative impact on the effectiveness of the economic reforms of the country. Economic crises, and including taking place today, are an immanent part of market production. That is, in other words, a crisis is normal and according to certain parameters, even necessary and useful, although, of course, and not very pleasant (especially because of unemployment), public process.

The situation in Kazakhstan's economy in 2010 and subsequent years because of its openness and the impact of the export of raw materials that make up the lion's share of the revenues of the country, will continue to depend on the situation on international markets.

The word «crisis» has become a totally different meaning, it is a new «opportunity», «chance». It is important to learn the lessons of the crisis, which made everyone look at the structure of the economy from a different point of view.

Post-crisis phase, or what is now the country can be associated with entry into the Customs Union. As part of the unification of the country will receive a huge opportunity for further economic development,

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because we work in the market with 170 million people.

The «people's IPO» also contributes to the economy and will give an impetus to further development of the domestic stock market. The population has an opportunity to participate in the management of state assets, while receiving income from their activities. In addition, it provides great benefits to the company, increasing its financial stability and credibility on the part of investors, improving corporate governance. In general, through the strengthening of the corporate sector increases the entire economy of the country.

Kazakhstan has successfully overcome the global financial crisis. In 2009, the GDP growth was only 1,2 %, while in 2010 it amounted to almost 7 % and 7 % planned to maintaining growth in 2011 and subsequent years.

In addition, a lot of work that not only achieve the high GDP growth, but also to make such growth sustainable. The given work becomes complicated raw structure of economy of Kazakhstan and high dependence on a conjuncture of the world markets of raw materials, first of all, oil. Therefore, the issue of economic diversification remains a key issue of government economic policy (SPFIID). It should be understood that the rapid diversification of the economy is not feasible – for restructuring of the economy will take years. Kazakhstan can not continue to be a commodity economy. In this regard, for the modernization of the industrial sector and infrastructure, the state launched a program of forced industrial-innovative development has been developed in Strategic Plan – 2020. Plans for the current decade designed to meet the strengths and weaknesses of the economy identified during the crisis.

Despite the difficulties in the process of restructuring, the Republic of Kazakhstan is in the process of adaptation of the new order of economic life in a totally different conditions, and gradually accumulates strength to overcome the economic crisis, and creates a basis for real economic growth.

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