



**Sosyal Bilimler
Enstitüsü**

REPUBLIC OF TURKEY
MARMARA UNIVERSITY INSTITUTE
OF SOCIAL SCIENCES

**THE IMPACT OF FINANCIAL CRISIS ON KAZAKHSTAN
AND
POSSIBLE SOLUTIONS**

MASTER OF SCIENCE THESIS

ZHIBEK TOKTAMYS

İSTANBUL, 2021

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SUPERVISOR
PROF. DR.NURAY TERZI

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The Impact of Financial Crisis on Kazakhstan and Possible Solutions

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ABSTRACT

In the thesis, were presented all chronological periods of most valuable crisis in the world and in Kazakhstan since independence 1991 and the impact of the current Covid crisis on the Republic of Kazakhstan economy. Crisis events took place in the both items: global economy and individual countries' development at all stages. Economic crises causes cannot be predicted once for all situations. It changes meaningfully and enriches to understand economic crises deeply in the transformation period, it is necessary to identify which factors, required to determine crisis phenomena, it is also necessary to arbitrate the theoretical and methodological foundations of these processes. This is impossible to do without a retrospective review of the theory of economic financial crises.

The crisis shows the real state of things, reveals the shortcomings of the modern world's economic system and generates impulses for its modernization. In terms of it, modernization should be related to the positive impact of the crisis on further historical development and to the entire world economy and country. The relevance of the topic is determined by the fact that the study of crisis phenomenon in countries with transforming economies is a great importance. Identification of the causes, features of the manifestation of the modern economic crisis and the development of crisis management concept are becoming very important. Therefore, this thesis describes the effects of previous crises and possible solutions which minimized the risks of a future crisis.

Keywords: Financial Crisis, Crisis Theories, Economic Growth

ÖZET

Bu tez finansal krizleri açıklayarak Kazakistan ekonomisi üzerindeki etkilerini inceleyecektir. Finansal krizler hem ülke bazında hem de küresel çapta meydana gelebilmektedir. Finans krizi ekonomide durgunluk, üretim sürecinin daralması ve yaşam standardının bir bozulma anlamına gelmektedir. Her bir ülkede krizlerin niteliği, etkisi aşamalarına göre farklılık gösterir. Bu bağlamda finansal krizlerin etkisine yönelik tek bir açıklama getirilmez. Finansal krizleri derinlemesine anlayabilmek için krizleri hangi faktörlerin, ön koşulların krizlerin belirlediğini ortaya koymak, bu süreçlerin teorik ve metodolojik temellerini belirlemek gerekir. Finansal krizlerin geriye yönelik incelemesi olmadan da bu gerçekleştirilmez. Bu açıdan tez finansal krizleri teorik olarak ortaya koyarak Kazakistan ekonomisi üzerindeki etkilerini ortaya koyacak ve finansal krizlerini bu ekonomi üzerindeki etkilerini azaltmak için öneriler sunacaktır.

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Abbreviations

ADB	Asian Development Bank
AFK	Association of Financiers of Kazakhstan
AIFC	Astana International Financial Center
AIG	American International Group
BNP	Banque Nationale De Paris
BP	British Petroleum
BRIC	Brazil, Russia, India, China
OCACO	Organization for Central Asian Cooperation
CIS	Commonwealth Independent States
EEU	Eurasian Economic Union
EDB	Economic Development Board
EU	European Union
EURASEC	Eurasian Economic Community
FDI	Foreign Direct Investment
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
KMG	KazMunayGas
NBRK	National Bank of Republic Kazakhstan
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PCA	Principal Component Analysis
PPP	Purchasing Power Parity
QAA	Quality Asset Audit
SME	Small and Medium-Size Enterprises
SOE	State-Owned Enterprise

TNB	Time New Nank
UBS	United Bank of Switzerland
UK	United Kingdom
US	United States

1. INTRODUCTION

In the history of the development of the world economy, there have been a large number of economic crises of various scales and nature. In modern conditions of globalization, the strengthening of the interconnection of the economies of different states, the activation of international corporations, the likelihood increases that the world financial and economic crises will repeat themselves with greater frequency. Economic and financial crises exist in conjunction with external objective conditions and reproduce the financial situation in which they develop. The main trends in the development of the world economy in modern conditions, namely the excessively exaggerated role of the financial sector and the inappropriateness of it to the real sector of the economy, change the economic nature of crises. The increase in the negative and destructive consequences of the modern world economic crisis makes it relevant to research devoted to studying the relationship between national and global crises, highlighting the main indicators and channels of their distribution, as well as developing and evaluating the main anti-crisis measures in modern conditions.

In the past II centuries, world economy was affected by several crisis and current Covid crisis have clearly demonstrated the new realities of the emerging global economy based on the primacy of financial markets. These realities include the growing volatility of the global financial system and all organized markets increased impact of financial imbalances on the real sector of the world economy, as well as the growing vulnerability to global crises of an increasing number of countries, unable to isolate their national economies from the negative impact of global financial turbulence. In these conditions, the issues of increasing the competitiveness of national economies, ensuring their resilience to accelerate external shocks, build new models of economic development, adapted to the realities of a highly dynamic global environment. Adaptability to external shocks should presuppose the existence at the national level, at least two "levels of protection": passive and active, where passive means the presence of a system for monitoring, analyzing and forecasting the external economic environment, and underactive - the adequacy of the regulatory toolkit, which makes it possible to neutralize the negative impact of global crises. All these aspects of the functioning of national economies in the changed external conditions are relevant for Kazakhstan country. The domestic economy was affected by the global economic crisis, losing several percentage points of growth and experiencing a significant recession in a number of key areas as finance,

construction. The experience of overcoming the impact of the global crisis has shown that in today's conditions there are channels for broadcasting global shocks to the national level, which very quickly transmit Kazakhstan problems to the world economy, primarily through the banking system and lower prices for goods exported from the country. Consequently, in order to organize the effective and sustainable functioning system for the economy of Kazakhstan in the new realities, it is required to apply modernization and increased competitiveness of the national economic system.

This study attempts to outline the main directions of crisis and applied measures based on the analysis of the current government actions and the economical situations of Kazakhstan. Furthermore, studying the global world economic system in the stage of the dominance of financial markets, could also examine the competitiveness of the Kazakhstan economy and impact of all previous crisis on it. Analyze the causes and consequences of crisis, as well as it is affected the main economic centers of the world. Based on the reasons for the emergence of previous crises, an attempt is made to identify the directions of prevention and neutralization of crisis phenomenon in the world economy, as well as to propose indicators of their forecasting in order to increase the stability of the national economy. It also highlights and analyzes the most problematic areas in the Kazakhstan economy, which can become significant factors of destabilizations and substantiates priorities of the post-crisis development in the national economy in the near future.

This dissertation consists of four main parts. The unity of the four main links determines the content of the financial policy of Kazakhstan as a whole. Subdivided according to the length of the period and nature. The second chapter includes the basics of the theory of the origin of the financial crisis. Thus, under the second paragraph, we can determine what types of financial crisis are and what classifications they are divided into. Moreover, the second chapter includes two main models of the financial crisis. Pointing to the origin of the most influential world crises, such as the *ERM*, *The crisis of the Latin American countries*, *The Asian crisis*, *Russian crisis and Turkey crisis*, as well as the *Global Financial crisis* that left its mark on the world economy.

Financial tactics are aimed at solving the problems of a specific stage in the development of society by timely changing the ways of organizing financial ties, regrouping

financial resources. The strategy and tactics of financial policy are interconnected. The strategy creates favorable conditions for solving tactical problems. Tactics, identifying the decisive areas and key problems of the development of the economy and the social sphere, by timely changing the methods and forms of organizing financial ties, allows in a shorter time with the least losses and costs to solve the tasks outlined by the financial strategy. (Andrushkiv, Vovk, Pohaydak and Fedyshyn, 2011)

When developing financial policy, one should proceed from specific historical conditions. The country should take into account the specifics of each stage in the development of society, the specifics of both the internal and the international situation, the real economic and financial capabilities of the state. The goal of financial policy is the most complete mobilization of financial resources necessary to meet the urgent needs of the development of society. In accordance with this, the financial policy is designed to create favorable conditions for the revitalization of entrepreneurial activity. Much attention is paid to the determination of rational forms of withdrawal of income of enterprises in favor of the state, as well as the share of participation of the population in the formation of financial resources. Great importance is attached to increasing the efficiency of the use of financial resources through their distribution between the spheres of social production, as well as their concentration on the main directions of economic and social development. The third chapter includes an economic overview of Kazakhstan. And also the history of the country is described in detail with its main economic indicators in the country, which make up the volume of investments, which have an important role in the development of the country's economy.

The history of the development of the state has examples of opposite approaches to solving the problems of society with the use of finance, financial policy and the mechanism of its implementation. So, during the time of the Soviet Union, rigid, overly centralized policy measures. Some of these emergency measures were caused by the tense situation, the need to overcome situations in which the fate of the state was being decided. In a number of cases, tough measures, including financial ones, were determined by incorrect approaches to economic life, strong-willed, ill-considered decisions, incompetent management of economics and finance. During such periods, there were observed, according to the principle of feedback,

a slowdown in the growth rate of social production, disproportions in the economy and finance, a drop in the living standards of the people, shortages of goods and services, and an increase in negative social manifestations in public life. History shows that the policy and the mechanism for its implementation, focused on the economic interests of people, to stimulate their activity using the maximum set of commodity-money relations, initiative and creativity of each employee, bring high results. The development of the state is associated with a change in financial policy. The use of one or another type of financial policy is associated with the peculiarities of the current stage of development of the economy and social sphere, the interests of the ruling parties and social groups and the dominant theoretical concepts that affect the economic and political course of the state. All this ensures the preservation and development the system of social relations existing in the given state. In the fourth chapter, we examine the stages of the crisis in Kazakhstan from 1991 to 2020. For twenty-nine years, the state has felt the impact of the post-Soviet crisis, the fall of the Asian market, The Global Financial Crisis, economic sanctions of neighboring countries. Furthermore, chapter four includes policy which helped to stabilize the economic situation under the influence of waves of various crises. The final chapter presents new recommendations in the case of a new crisis, as well as presents new ideas to reduce the impact of the current crisis in the country.

CHAPTER 2

FINANCIAL CRISIS AND COUNTRY CASES

1.1 Financial Crisis and Theories

The crisis is explained on the basis of the characteristics of the distribution of income according to the theory of J. Sh. Sismondi. It occurs when there is insufficient consumption, which is associated with the poverty of the masses. In terms of the productive capacity of modern industry, the current market for industrial products is too narrow. K. Marx believed that the cause of crises is a lack of planning and anarchy in commodity production. The main contradiction of capitalism, private form of appropriation of the social product which consisting contradiction between production and nature of society, also may lead to a crisis. Private capitalist appropriation is inevitably followed by the proletarian position of society, which Karl Marx has repeatedly called the main cause of "genuine crises." ("Economic Ideas of Sismondi", 2021)

As claimed by J. Keynes, the main reason for the crisis is the reduction in aggregate demand, which is caused by low-income levels and an increase rate of unemployment. Keynes introduced the concept of psychological moments in the theory of crises. Steep changes in the economic system appear due to unexpected changes in the structure of demand, which is caused by the "herd sentiment of investors". The onset of the crisis occurs due to doubts about the expected profitability. The adherents of the liberal and neoclassical schools associate the causes of the crises with capitalism. Many of them believe that the cause of the crisis lies in the underconsumption by the population, due to overproduction, leading to a crisis situation. For example, D. Robinson believed that crisis management is closely related to stimulating consumption. F. Hayek, L. Mises, who are supporters of the theory of excessive consumption, on the contrary, believed that the cause of the crisis lies in the absence of the correct proportions of industries, in the spontaneous actions of entrepreneurs that arise due to ineffective management. (Tily, 2010)

According to the theory of regulation, which was investigated by M. Aglietta, R. Boyer, A. Bertrand 1979, crises can be explained in different reasons:

- A crisis is the result of external influence.
- A crisis is a situation in which economic development stops due to a lack of resources, which is caused by economic or natural disasters;
- A cyclical crisis is a phase of elimination of imbalances and tensions that have accumulated in the economy and social processes during the recovery;
- A structural crisis is any case in which economic or social dynamics contradict the way of development, which is a constant impulse;
- The crisis of the regulation system, in which the mechanisms related to the existing regulatory system are not able to change unfavourable processes of a conjunctural nature, while the accumulation mode is quite viable;
- The crisis in the methods of production. This crisis is characterized by an exacerbation of contradictions that develop in the most important institutional forms that determine the modes of accumulation.

2.1.1 Definition of Financial Crisis

Financial crisis - the financial crisis is an economic phenomenon that is expressed in the imbalance between various area of the economy. It can be caused by external and internal factors and always has consequences. The financial crisis has a medium level and long-term negative impact on economic activity in the country and influence the dynamics of the well-being population.

Impact on the financial sector and financial markets can sharply increase an interest, an ever-increasing share of bank problems and non-bank financial institutions, debts problem. Additionally, it enlarges important reduction in loans to the economy and households, chain bankruptcies, a transition to a loss-making model of banking and other financial activities, the prevalence of speculative over-investment financial activities, a large-scale drop in securities prices. It delays in settlements with the growing collapse of the payment system, the emergence of massive losses in the market derivatives, the cessation of liquidity in financial markets and financial institutions with a domino effect, banking panic (Razin, 2021).

2.1.2 Types/classification of Financial Crisis

The international finance crisis leads to an uncontrolled fall in the national currency rate, a massive outflow of capital from the country, an uncontrollable increase in external debt and overdue payments by the state and commercial organizations, the transfer of systemic risk to the international market and financial markets of other countries.

A local financial crisis is a deep breakdown of the state financial system, a sharp decrease in the value of any financial assets. Restrictions influence the world economy and global finance as short-term turbulence, risks and losses that do not break the main course of the movement in the world economy. Local crises permeate the life of developing economies like Russia, Kazakhstan with a frequency of 1 - 2 times in 10 - 15 years.

A sectoral crisis encompasses one of the sectors of the national economy and is caused by a change in the structure of production, disruption of normal economic ties, etc. Sectoral crises are characterized by declines in production and curtailment of activities in one of the industries (for example, in the coal, steel, textile industry). It should be noted that this classification of crises is rather arbitrary. In reality, it is difficult to separate one type of crisis from another, to draw a clear line. One crisis can combine several types at once. And it is impossible to separate them from one another, because in the economy, everything is interconnected.

Crises in the banking sector, can be triggered by a massive withdrawal of deposits as a result of a drop in confidence in banking institutions or the national currency. This leads to closure, takeover or nationalization financial organizations. Or it could be caused by internal banking financial problems resulting in license revocation or large-scale financial support to an important financial institution. What affects the entire banking system and leads to its restructuring. (Khorana & Perlman, 2010)

Liquidity crises is a lack of liquid cash which making it difficult to fulfillment by banks, enterprises of their obligations. The reasons for the crisis can be different: capital flight; reduction in investment; massive loan defaults, outflow of deposits from banks. (Ramskogler, 2015)

Currency crises causes by banking crises. A currency crisis is a sharp drop in the value of the national monetary unit as a result of loss of confidence in it and the reduction of gold and foreign exchange reserves. A sharp drop in the exchange rate is the main symptom of the crisis. A 15-25% fall in the exchange rate of the national currency against the US dollar or other significant currency is considered a crisis. When investors become confident in the inevitability of a banking crisis, this forces them to revise their portfolios, replacing local currency assets with foreign assets. When central banks transfer liquidity to the banking system to keep troubled banks afloat, the excess money created can initiate currency speculation and put pressure on foreign exchange reserves. (Vaidya, 2021)

2.1.3 First Generation Crisis Models

The first developments on the topic of monetary and financial crises started to appear in the 1970s. They are called first-generation research, this work was a response to currency crises in developing countries such as Mexico (1973-1982) and Argentina (1978-1981), typical for the currency crises of the 1970s and 1980s. They were preceded by an overly expansive domestic economic policy. First-generation models show how a fixed exchange rate policy, coupled with excessive budget expansion, is pushing an economy into crisis (Agénor, Bhandari & Flood, n.d. 1991).

There are many versions of the first generation model, all of them are based on the work of P. Krugman. In his model, a currency crisis is triggered by a high government budget deficit financed by domestic credit. Permanent attempts by the authorities to cover the deficit with domestic credit lead to the loss of gold and foreign exchange reserves, which ultimately makes it impossible to maintain a fixed exchange rate. Since all models of the first generation are based on the premise that a currency crisis is caused by a negative change in fundamental macroeconomic factors, only one direct conclusion can be drawn from them. The authorities will be able to avoid a currency crisis if they adhere to economic policies that strictly correspond to the chosen exchange rate regime. (Agénor, Bhandari & Flood, n.d. 1991).

In the first-generation models, the deterioration of fundamental macroeconomic factors and the approach of a crisis can be predicted based on several indicators:

- High or constantly increasing budget deficit

- Extensive monetary expansion
- High inflation
- Revaluation of the real exchange rate
- Large current account deficit of the balance of payments
- A sharp decline in foreign reserves
- A significant increase in the domestic interest rate.

If we abandon from the idea that the government is only aimed to increase the budget deficit, and the central bank is selling reserves, and introduce several options for the authorities' actions into the model, then the picture changes noticeably. The country is faced with the problem of choosing from several alternative macroeconomic goals, making a decision to achieve which takes the form of a search for an optimal economic policy. This concept also formed the basis of the "Second generation models". To achieve this goal, the authorities need to analyze the balance of benefits and costs and then choose the appropriate instrument - to maintain a fixed exchange rate or not. For example, monetary authorities stop sticking to a fixed rate if they believe that economic policies aimed at maintaining fixation could negatively affect other macroeconomic variables. In the model of F. Ozkan and A. Sutherland, if the unemployment rate in the economy is already high, the authorities are unlikely to defend a fixed exchange rate, since this will require an increase in interest rates, which will exacerbate the problem of unemployment. In the models of M. Obstfeld, B. Bansed and O. Jane, the growth of unemployment or the state share also increases the costs of the state to protect a fixed exchange rate, since, together with unemployment and public debt, the likelihood of a speculative attack increases. The government may refuse to support a fixed rate if it believes that such a policy increases the likelihood of a banking crisis and the associated budgetary costs of restructuring the banking system and paying off its debts. In addition, second-generation models assume that the random nature of macroeconomic policy can lead to a multiplicity of equilibrium in the system, in which a speculative attack becomes a self-fulfilling phenomenon. In the face of uncertainty about the behavior of the authorities, if the costs of defending a fixed exchange rate are likely to increase, and speculators expect

the onset of a currency crisis, self-fulfilling expectations will prevail in the market. If speculators believe that, despite good macroeconomic indicators, the authorities will abandon the fixed exchange rate in the presence of a serious speculative attack, then such an attack will undoubtedly be undertaken. For example, a group of investors may feel that a country has a healthy macroeconomic environment and there is no cause for concern. However, if a large number of investors withdraw their capital and thereby increase the likelihood of the authorities refusing to protect the fixed rate, then the remaining investors may also withdraw their funds. This, in turn, will accelerate the onset of the currency crisis, which will occur due to the accumulation of a critical mass of speculative investors. The main conclusion from these models is that the currency crisis cannot be explained solely by changes in fundamental macroeconomic factors. At the same time, the change in investor sentiment is based on their expectations and forecasts of the future behavior of macroeconomic variables. (Agénor, Bhandari & Flood, n.d. 1991).

2.1.4 Second Generation Crisis Models

The second-generation models that followed the first models were developed taking into account the specifics of speculative attacks in Europe and Mexico in the 1990s. (Salant & Henderson, 1976)

There are two features that distinguish these attacks from those investigated by the first generation:

1. In post-attack countries, the state of the business cycle and banking system, along with dependence on the monetary policy of the creditor countries, constrained the actions of the authorities and prevented the use of traditional methods of maintaining exchange rate parities.
2. Speculative attacks in developed capital markets, especially those seen in Europe, turned out to be unrelated to the fundamental economic factors underlying the first generation models.

Key factor in second generation models focuses on three interrelated elements. *First* of all they try to explain the government's desire to move away from fixing the exchange rate.

Secondly, they seek to find out what is the reason for the government to maintain a fixed exchange rate. *Thirdly*, in the course of creating a concept of crisis that combines the first two of these elements, second-generation models study the increase in the costs of protecting a fixed exchange rate when people expect or at least suspect that the exchange rate could change. (Agénor, Bhandari & Flood, n.d. 1991).

What motives can push the authorities to devalue the local currency? Or, in other words, which factors can impact on state to fix the exchange rate? *One of these reasons* is the large volume of debt denomination in domestic currency. To reduce the debt burden, the government benefits from the depreciation of its debt, which can be done through devaluation. And the private sector is certainly well aware of this motive for refusing to fix the exchange rate. For example, attacks on the French franc during the 1920s. were prompted by suspicions that the government would want to try to devalue the national debt accumulated during the First World War.

Another motive for abandoning a fixed rate is pressure from the labor market. As a consequence of the rigidity of wages, the economy experiences high unemployment, then a soft monetary policy is needed to solve this problem, which contradicts the concept of a fixed exchange rate. The unemployment problem lead to the UK to abandon in gold standard in 1931 and the breakdown of the European Exchange Rate Mechanism in 1992.(Palm, 1996)

What's on the opposite side of the scale? What makes the authorities defend a fixed exchange rate? *A possible answer* is that the government believes that a fixed exchange rate is important for encouraging international trade and investment. *Another answer* is that the economy is subject to chronic inflation and a fixed exchange rate acts as a guarantor of price stability.

Finally, the exchange rate can play the role of a national symbol of patriotism, pride, sovereignty, culture, or commitment in international cooperation arrangements, as in the case of the European Monetary System.

Why does the lack of private sector confidence in a fixed exchange rate make it more difficult to defend? There are two options for explaining this problem, which have a

very subtle difference between themselves. Some modelers believe that protecting a fixed exchange rate becomes too expensive when people in the past expected the currency to depreciate in the present. (Obstfeld, 2019)

For example, holders of government debt in anticipation of a fall in the exchange rate raised interest rates, which increased the current debt burden and made devaluation inevitable. Or professional associations and unions, in anticipation of currency depreciation, have achieved such high wages that they undermine the competitiveness of the export industry at a given level of exchange rate fixation.

Paul Krugman, a professor at the Massachusetts Institute of Technology, adheres to an alternative explanation. In his opinion, the cost of maintaining a fixed exchange rate increases if people in the present expect future depreciation. The traditional mechanism for protecting a fixed exchange rate is based on maneuvering interest rates. To stop negative expectations about the exchange rate, the authorities are raising short-term interest rates. However, high rates can either deplete the cash flow to sustain the debt pyramid of the government or debtor enterprises in the future, or reduce employment and output. (Diebold, Krugman & Krugman, 1990)

The main financial analysts who predict currency crises look back at fundamental macroeconomic factors. They understand that the crisis is "triggered" by expectations of devaluation, but at the same time, highly expectations are formed due to the conflict of internal goals of the authorities' economic policy. Financial markets, on the other hand, simply announce bad news before the whole country wants to hear about it. Nevertheless, the claims of many politicians and public figures that their currencies were "unfairly" or "arbitrarily" attacked by speculators have some basis.

The characteristics of "unfair" attacks in the context of second-generation models:

Self-fulfilling crises

The self-fulfilling crisis model is based on two assumptions. First, the collapse of the exchange rate regime is not predetermined. Secondly, there is no deterioration in fundamental macroeconomic indicators or the government is able to prevent negative trends in the

economy. It would seem that there is no real reason for the emergence of a currency crisis. However, if the authorities face serious pressure from speculators, they will have to abandon the maintenance of a fixed exchange rate.

Such crisis is called a self-fulfilling crisis. Its origin can be explained, when an individual investor will not move capital abroad if he believes that the exchange rate regime is not dangerous. Capital flight occurs when investors sense a crisis approaching. Thus, the result of the existence of a fixed exchange rate will be the self-realization of optimistic or pessimistic sentiments of market players. A crisis sets in the market when it's dominated by pessimists (Madon, Willard, Guyll & Scherr, 2011)

The key argument against self-fulfilling currency crisis models is that the crisis is not "confirmed" by macroeconomic indicators. In practice, self-realization of expectations occurs only when indicators such as foreign exchange reserves, the state budget, and the government's international obligations are so weak that the country becomes potentially vulnerable to speculative attacks. The work of Michael Bordeaux and Anna Schwartz can be considered a decisive argument against the models of a self-fulfilling currency crisis. They examined the historical episodes of currency crises over the past two centuries. According to the findings, the main reason for currency crises were the incompatibility between internal and external economic conditions under a given exchange rate regime. According to M. Bordeaux and A. Schwartz, the theory of a self-fulfilling speculative attack can serve as a good intellectual model, but no more, since it does not find a single confirmation in the form of an event in the real world. ("Self-fulfilling Prophecies, Self-defeating Strategies and Change", 1984)

Both the canonical model of the currency crisis and the second-generation models are based on the assumption that the foreign exchange market is an efficient market, economic agents make the best use of all available information. If capital markets are efficient, then selling or buying a financial asset at the prevailing market price will never be a positive net present value transaction.

There is very little evidence that the foreign exchange market, like the financial market in general, is an efficient market. On the contrary, the market exhibits persistent anomalies that

are odds with the concept of an efficient market. How can inefficiency affect the currency crisis? First of all, it manifests itself through "herd behavior".

In its most general form, herd behavior was discovered by R. Shiller in 1989 in a study of the stock crash of 1985. Schiller found that the only reason for the avalanche-like selling of blocks of shares was the beginning of the downward movement of quotations. In the context of a currency crisis, this behavior could mean that regardless of the initial cause of the selling wave, it will ultimately result in a panic flight from the national currency. Besides the natural distortion and limitation of human knowledge, what else could explain herd behavior? Theorists offer two answers to this question, both based on the premise of the individual rationality of investors. (Cooper & Shiller, 2000)

The first explanation, which is rather specific and of little interest to us, is based on the fact that much of the money invested in crisis-prone countries is not managed by principals but by agents. Imagine a manager of a pension fund. The results of his actions are relentlessly compared with those of other financial managers. For this reason, they are collectively interested in obtaining relatively similar results. In other words, most managers have strong incentives to carry out the same operations, even if some of them are aware that the general sentiment of managers will lead to losses.

The second explanation is more interesting, it revolves around the bandwagon effect in which investors have segmented and proprietary information. The bandwagon effect is that when the price of a product changes and the demand for it by individuals or groups of people adjusts, other individuals or groups in the population react and also change their demand. The bandwagon means that the market demand curve cannot simply be the sum of individual demand curves.

Instead, demand is expanding more than predicted by additional economic agents joining the craze, which gives the market demand curve a shallower slope than it would have without the described effect.

Latin American economists Guillermo Calvo and Enrique Mendoza departed from the concept of sequential decision making by A. Benelgi and instead considered a global market with many identical investors making decisions at the same time. They showed that with

information disagreements, herd behavior can become more prevalent as the global capital market grows steadily. Globalization makes it necessary to collect information about a particular country, which increases the likelihood that fund managers operating in the same market will choose the same portfolios. Consequently, “small” rumors can stimulate herd behavior and move the economy from the “no attack” equilibrium to the “there is an attack” equilibrium.(Willett, Chiu & Walter, 2013)

International infection crisis

Currency crises of the 1990s consisted of three regional waves: the crisis of the Exchange Rate Mechanism in Europe in 1992-1993, the Latin American crisis in 1994-1995 and the Asian crisis in 1997-1998. Regional waves "covered" many different countries, which, in the opinion of a common man in the street, are in no way connected with each other. This spread of the currency crisis is called "infection".(Willett, Chiu & Walter, 2013)

The infection is explained by economic ties between countries: a currency crisis in one country worsens the fundamental macroeconomic characteristics of another. The theoretical literature identifies two channels for the spread of the international crisis. *The first channel* is trade links. If there is a fall in the exchange rate of a trading partner country, then the domestic government is forced to devalue the national currency in order to avoid loss of export competitiveness. *The second channel* is the information effect and the hypothesis that the currency crisis in one country sends a signal to speculators that the fixed exchange rate regime in countries with similar macroeconomic policies has become unstable.

Most international crises spread through the first channel. For example, the countries of Southeast Asia sell products with similar characteristics to the global export market.

The devaluation in Thailand resulted in the loss of competitiveness of Malaysian exports, and thus, stimulated the currency crisis in Malaysia. During the European crisis of 1992-1993, there was also an element of competitive devaluation. The depreciation of the pound sterling negatively affected trade and employment in France or, at least, it seemed so at that point in time, which put the strongest pressure on the French government and France could, following the UK, exit the Exchange Rate Mechanism.(Willett, Chiu & Walter, 2013)

Many researchers believe that the Latin American crisis, which began in December 1994 in Mexico, is a typical example of an international crisis infection. As evidence, they point to the fact that the crisis has negatively impacted the economies of Argentina and Brazil. However, other economists deny the contagious nature of the Latin American crisis, citing the fact that it did not actually affect Chile and Colombia, although these countries have extensive trade ties with Mexico. Moreover, Mexico is neither a major exporter nor an importer for Argentina. (Peria, 2000)

Market manipulation

In scenarios of currency crises arising from self-fulfilling rational expectations or irrational herd behavior, there is the possibility of profitable market manipulation by large speculators. The manipulation mechanism is quite simple. Let's assume that the exchange rate regime is weakly protected from speculative attack. Investors believe that in the event of an attack, the authorities will inevitably abandon the fixed exchange rate, or they simply imitate each other's behavior, which ultimately will result in capital flight from the national currency. In such a situation, a large speculator has every chance to get the maximum possible profit.

A classic example of market manipulation was demonstrated by George Soros during the attack on the pound sterling in 1992. In principle, the UK would have withdrawn from the Exchange Rate Mechanism anyway, but

George Soros launched the currency crisis earlier than it would have occurred in the natural course of events. Soros' attack on the pound is the only well-known example of market manipulation in the entire 1990s. Anyway, it is difficult to find such a striking example. (Soros, 1998)

To manipulate the market, it is necessary for a large speculator to get ahead of everyone else in terms of predicting the timing of an attack and analyzing fundamental macroeconomic indicators, which is extremely difficult to do.

In addition, the very presence of a leading speculator such as J. Soros allows other investors to determine the time of the attack. If investors are aware of the presence of large speculators

in the market, they will start selling the national currency in advance, expecting that one or another leading player will undermine the stability of the exchange rate regime.

2.1.5 Third Generation Models -Asian Crisis Models

Models of the first and second generation in that or to some other extent explain the crises of the 1990s. So, the crisis in Russia in 1998, obviously, was cited in action by the elements considered in the canonical model, as well as in the 1992 sterling crisis, the ideas of the “second generation” models played a role.

At the same time, in most Asian countries, suffered from the 1997-1998 crisis, none of these theories have less importance. Thus, there is a need “**third generation**” models of currency crises, both to explain past crises and to help prevent future ones.

In most recent attempts to create such a model, the banking system, or more precisely, excessive lending, is at the center of the problem. In an alternative line of work, an attempt is made to explain the currency crisis as a by-product of banking panic, a situation when many bank customers simultaneously try to withdraw their deposits, while bank reserves are not enough for this - a self-fulfilling loss of confidence. There are also other directions.

McKinon's model addresses to **the problem of over-lending**. In countries where credit institutions are not well regulated and bankruptcies occur in the financial system, capital inflows enable banks to expand lending for speculative purposes, which increases systemic financial risk in the country's economy and creates macroeconomic instability. The experience of financial crises shows that certain types of lending, such as mortgages, consumer loans, loans to insiders or associates, and loans to finance speculation in securities, are the most problematic. Bank deposits are usually guaranteed by the central bank. But this guarantee can lead to bankruptcy, as it creates a moral hazard in the behavior of the banking system. With an effective banking supervisor ensure the inability of banks to create the potential for moral hazard. Thus, credit terms will accurately reflect information on macroeconomic development. However, if inspectors are unable to control moral hazard, implicit signals in lending conditions will lead to over-borrowing and exacerbate financial and macroeconomic instability. (Burnside, Eichenbaum & Rebelo, 2021). In other words, lending in the face of moral hazard can create an

ulterior motive for investment, which will collapse only when, after significant losses, the government is forced to withdraw its guarantees.

A similar line of reasoning is also carried out in works by Corsetti, Pesenti and Rubini. Banking and currency crises are often closely related, with the former preceding the latter. Banking sector information can serve as an important signal of the likelihood of a broader macroeconomic crisis. Chang and Velasco's model considers **international illiquidity**. A country's financial system is considered illiquid if its potential short-term foreign currency liabilities exceed the amount of foreign currency the when country has access in short time period. (Chang & Velasco, 2001)

International illiquidity is always associated with financial liberalization. Capital flows from abroad caused by the opening of capital accounts and the fall in world interest rates exacerbate the problem by providing access to, a huge volume of resources passing through domestic banks. If additional foreign short-term loans can dramatically increase the vulnerability of domestic banks, creditors' panic could make a self-fulfilling bank panic likely. Combining an illiquid financial system with a fixed exchange rate can be fatal. If the central bank refuses to act as the last lender in a crisis, banking panic will ensue. If he acts as the last creditor in the national currency, it will stop the banking, but provoke a currency panic. Consequently, fixed exchange rates and a lack of reserves make a crisis inevitable given negative investor expectation. The only choice the authorities will have is which crisis to deal with. The collapse of the fixed exchange rate occurs because stabilizing banks and maintaining an exchange rate peg are incompatible goals. To support the banks, the central bank must pursue an expansionary policy, keep the interest rate from growth, or provide funds to the last creditor. But in all cases, private agents use the additional national currency to buy reserves, which will ultimately lead to the collapse of the fixed exchange rate.

2.2 FINANCIAL CRISIS: COUNTRY CASES

2.2.1 ERM CRISIS

After the reunification of Germany in October 1990, the German central bank, Bundesbank, faced with increased inflationary processes, and by 1992 the inflation rate had grown from below 3% to almost 5%. In order to control the growth of the money supply and suppress inflation, the Bundesbank increased the interest rate on the domestic market to almost double digits. Market speculators expected the quick devaluation of the British pound. The British Central Bank is forced to carry out much larger transactions of buying the pound sterling in order to raise the interest rate and keep the exchange rate at a specific price.

Coordinated speculative attacks led to a significant correction of the European mechanism for the formation of the exchange rate in 1992-1993. At the same time, the financial crisis happened according to a non-classical scenario. It is started with the fall of the Berlin Wall and the unification of Germany in 1989-1991. Huge investment flows from West Germany to the annexed Eastern Lands triggered the expansionary fiscal policy of the German government. Faced with a budget deficit during this period, the Bundesbank, anticipating the threat of high inflation, adopted a restrictive monetary policy. However, other countries of Western Europe carried out a rigid peg in the exchange rates of their currencies to the German mark. As a result, the consequences of restrictive monetary policy were fully felt by Great Britain, France, Spain and Italy: they began a deep recession. The rates of economic growth in these countries have fallen, unemployment has risen sharply. To struggle with unemployment and recession, it was necessary to expand the money supply and government spending. However, this was hampered by the rigid pegging of the European currencies to the mark. The increased devaluation of the pound sterling prompted attempts by major players in the financial markets - primarily to accelerate the fall of the pound and capitalize on the crisis.

In general, the crisis of the European exchange rate mechanism in 1992-1993. developed but as the second model of the currency crisis. There was no need for European governments to monetize budget deficits and devalue their currencies as a result of depleting foreign exchange reserves. The reason was rooted in the fundamental factors of unemployment and recession. (Burnside, Eichenbaum & Rebelo, 2021)

2.2.2 Latin America Crisis I and II (Mexico, Brazil, Argentina)

In the period of the financial crises in Latin American countries, some fundamental indicators of the balance of payments deficit, high unemployment and low economic growth have predicted the vulnerability of their governments fixed exchange rate policies.

In 1994, there was some political deterioration in **Mexico** with the assassination of a leading presidential candidate, a peasant uprising. To finance the elections, the government somewhat weakened their fiscal and monetary policies. All this caused a decrease in the inflow of foreign capital in country and the depletion of foreign exchange reserves. The tipping point approached when the government defaulted on the dollar-denominated short-term debt instruments market. (Burnside, Eichenbaum & Rebelo, 2021)

After the elections, yielding to outside pressure, the government made a slight devaluation of the Mexican peso. At the same time, the macroeconomic cost of this step turned out to be surprisingly high: foreign and domestic investors finally lost faith in the government's ability to maintain the stability of the national currency. The ensuing speculative attack caused a rapid drop in the peso exchange rate: up to 100% devaluation caused a jump in the prices of imported goods and, as a result, high inflation. To reduce inflation and stabilize the peso exchange rate, the government was forced to raise base interest rates to 80% per annum, which caused a sharp contraction in domestic demand and a 7% drop in GDP in 1995. A large international foreign exchange loan provided to Mexico helped overcome the negative consequences of the crisis in 1996.

In Argentina, 1994-1995 crisis developed according to a slightly different scenario. Initially, Argentina followed to a strict regime when 1 peso is exchanged for 1 dollar of their currency against the dollar. This allowed it to avoid the Mexican scenario of a sharp devaluation, but the speculative attack on the Argentine peso still took place due to investors' expectations that the government would lift the tight peg to ease monetary policy and reduce high unemployment rate. The massive outflow of speculative capital from Argentina led to a sharp decrease in the monetary base and the ensuing banking crisis. It took international foreign exchange loans to revive the frozen banking system. However, unlike Mexico, Argentina did not devalue the national currency and retained a fixed exchange rate regime.

With all the differences between these stories, it is easy to see their common theoretical basis it was a huge role of mutual expectations of economic agents in the evolution of crisis according to a critical scenario. This feature that predetermines the emergence of *speculative attacks* and *financial bubbles* in the context of the globalization of capital flows.

In the early 1980s. the sudden and significant rise in interest rates in the global economy has spurred the debt crisis in Latin America. **Brazil** was forced to take tough economic measures, which negatively affected on their growth indicators. The sharp interruption in the flow of foreign capital into the country reduced investment opportunities. External debt pressure the financial system and increased inflation. In the second half of the 1980s tough measures were taken to stabilize the money. These measures assumed the abolition of the indexation of the policy of adjusting wages depending on the growth of inflation and the freezing of prices. In 1987, the government suspended the payment of interest on external debt pending an agreement with creditors to renegotiate the timing. Although these measures did not bring the desired results, economic growth continued until the late 1980s, providing the surplus in the balance of trade and obligated to pay interest. The crisis of the 1980s presented clear that the Brazilian model of restricting imports, a policy that aimed to strengthen Brazilian industry by banning the import of certain goods from abroad, has exhausted itself, thereby facilitating the process of opening up the Brazilian economy. In the early 1990s. the Brazilian government has adopted a number of economic measures, including strict financial policies; tax reform; trade liberalization; cancellation of regulation; privatization and the adoption of a clear plan to attract and increase foreign investment "plan of the real".(Burnside, Eichenbaum & Rebelo, 2021)

However, the weakness of the Brazilian economy remained evident to the global financial community. The Russian shock of August 17, 1998 affected Latin America most of all, primarily in Brazil. This happened not at all because of the country's has close economic relations with Russia, but because the distrust and suspicion of the financiers who control the world capital flows focused on Brazil. In the fall of 1998, when up to a dozen middle-level countries were drawn into the crisis funnel and, in addition, the banking crisis in Japan was developing, it seemed that this series of regional crises could well develop into a global economic crisis. Occasions in Brazil confirmed these fears.

In the 1990s, the Brazilian authorities chose the exchange rate of the national currency as an “anchor of stability”, maintaining it within the established sloping corridor, that is, allowing a slow decline. The real rate was gradually creeping down, but, as it turned out, remained overvalued as usual, this hampered exports, stimulated imports and created a sense of imminent devaluation in the markets. In the summer of 1998, especially after August 17, all these weaknesses in the Brazilian economy and finance burst out. The first signal was the drop in the stock exchange indicators in July and August, the indices fell by about half. Foreign capital, in the form of Brazilian bonds, bank deposits and foreign bank loans to Brazilian borrowers, took to flight from Brazil. As usual, national capital followed. To support the real exchange rate, which everyone was eager to get rid of as soon as possible, the central bank dumped in three months almost half of its foreign exchange reserves, which at the beginning of the crisis amounted to a very impressive amount of about \$ 70 billion. Trying to stop capital flight, the central bank raised the refinancing rate above 30 % per annum. Bank market rates jumped to 40-50%, making bank loans virtually unaffordable for most businesses. A situation typical for many developing countries arose protecting the stability of the currency at the cost of an economic downturn. A strong echo of the Brazilian crisis swept across Latin America in the form of a fall in stock indices, an outflow of foreign capital, and currency devaluations. (Alvarez & de Gregorio, 2014)

2.2.3 Asian Financial Crisis

The most dramatic event in the second half of 1997 and throughout the entire 1998 was the financial and economic crisis in East Asia. Initially, it touched mainly Thailand and Malaysia, but then spread to Hong Kong, Singapore, Indonesia, South Korea and partly to Japan. According to this, the Western press started talking about the "infection from the East", which threatens to spread to the entire industrialized world.

Until now, these states have developed at an unusually high rate, for which they were nicknamed "tigers". The Asian model was presented as an example, which supposedly should be followed by other countries, in particular, and former socialist countries.

Indeed, in 1990-1996, the average annual GDP growth rate was 7.2% in South Korea, 8.7% in Malaysia and Singapore, 8.4% in Thailand, and 7.6% in Indonesia, although it should be

noted that China, which did not accept this model, developed even faster.(Chang, Palma and Whittaker, 2001)

But in the fall of 1997, there was panic which has confidently gripped the stock and currency markets of East Asia. The currencies of the aforementioned countries, which had held before this constant exchange rate against the US dollar, began to fall catastrophically. The South Korean won fell 47% by the end of the year, the Thai baht fell 45%, the Indonesian rupee fell 56%, and so on. One after another, local banks began to "burst", enterprises closed, and production began to decline. Some local concerns have declared bankruptcy. In South Korea, of the 30 largest concerns, eight went bankrupt. Tens of thousands of people have lost their jobs. In Malaysia, they started talking about the need to expel from the country up to 1 million immigrants who came to work and have now become "superfluous."(Chang, Palma and Whittaker, 2001)

In Asian countries - such as Indonesia, Korea, Singapore, Thailand - before the crisis, there was a fairly high share of trade within the Asian region. The share of Asian countries, including Japan, averaged over 40% of these countries' exports and imports in 1992 and 1996. During the crisis in 1997, exports and imports only in Indonesia fell below 30%, while the rest of the countries retained a high level of regional trade. Asian countries had a fairly high volume of foreign capital inflows into the economy. In Korea, capital inflows averaged from 1990 to 1998. 3% of GDP, in Thailand - 2.4% of GDP and in Indonesia - 0.8% of GDP.(Chang, Palma and Whittaker, 2001)

In Thailand, the main capital inflow was in the early 1990s. At the same time, a feature of this period was the growth of portfolio investments, which were approximately 2 times higher than direct investments. The country attachment of direct investment also played a role. The intensity of the inflow of all investments was approximately the same: in the early 1990s. They were quite high. But in 1994-1997 the inflow began to decline: the bulk of direct investment in Asia was made up of Japanese investments; the deterioration of the financial situation in Japan led to a reduction in investment inflows in 1994-95. In Thailand, which affected the slowdown in economic growth and the growth of short-term debt. (Lee, 1999)

From 1990 to 1997 short-term external debt in Indonesia increased from \$ 11.1 to \$ 32.2 billion, in Korea from \$ 22.8 to \$ 100 billion, in Thailand from \$ 8.3 to \$ 34.8 billion. The peak of growth of short-term debt in Thailand \$ 41.1 billion was in 1995, the period of decline in direct and portfolio investments. Debt pressure rose amid a worsening trade balance. Thailand's short-term debt-to-export ratio has grown from 1992-1997. from 43 to 60%, in Korea from 32 to 50%, in Indonesia from 52 to 108%. The rise in short-term debt has created a threat of deposit flight from the banking sector in the absence of deposit insurance. Domestic investors also sought to get rid of long-term assets under the influence of the growing concentration of short-term foreign debt. (Lee, 1999)

What exactly caused the so-called the world Asian crisis?

Some observers, pointing to the impressive growth records of the East Asian economies, argued that there was no fundamental economic reason for the crisis itself. Moreover, they argued, the unjustified loss of confidence of international financial investors became a "self-fulfilling prophecy" when the panicky sale of Asian assets by some financial investors so frightened other investors that they began to sell like others. When the panic began, it affected all countries without exception, including non-Asian countries such as Russia and Brazil, which have also faced speculative attacks.

However, most economists today would agree that the fundamental problems of the East Asian economies did significantly contribute to the emergence of this crisis. The most serious questions revolve around the banking systems of the Asian region. Throughout the early 1990s, Asian banks received large inflows of foreign investment, reflecting the international excitement generated by strong economic growth in Asia. Large financial inflows and associated current account deficits would not necessarily be a problem if the funds raised were invested productively. Unfortunately, many local bankers made loans based on friendship, family relations, or political ties instead of rigorous economic justifications a phenomenon that became known as crony capitalism. As a result, there have been low investment returns and a growing number of defaults among borrowers. The understanding by financial investors that their income from Asian loans and investments will be significantly lower than expected, provoked the sale of Asian assets and triggered a currency crisis.(Lee, 1999)

The three countries hit hardest by the crisis — Indonesia, Korea and Thailand — have asked the IMF for financial assistance. The crisis management strategy in these countries consisted of three main components.

Financing For the implementation of the programs of stabilization and reforms in Indonesia, Korea and Thailand were allocated approximately \$ 35 billion, while in 1998-1999. aid to Indonesia has been further increased. Other multilateral and bilateral sources have pledged approximately \$ 85 billion in funding, although not all of these funds actually materialized. In addition, concerted actions were taken at different stages after these programs, in different countries in order to stop the outflow of private capital.(Lee, 1999)

Macroeconomic policy Monetary policy was tightened by different stages in different countries. This tightening was of a temporary nature in accordance with the circumstances: as soon as confidence began to recover and market conditions stabilized, interest rates fell. In the case of Indonesia and Korea, fiscal policy was generally expected to remain firm, while in Thailand it was planned to halt the increase in deficit by tightening the budget in the year before the crisis.

Structural reforms Measures have been taken to overcome gaps in the financial and corporate sectors. Other reforms were outlined to mitigate the social impact of the crisis and prepare the ground for a resumption of economic growth.

The consequences of the Asian crisis for the United States and Western Europe were less tangible. The decline in the share price on the stock exchanges of these countries was halted both by the temporary closure of the stock exchanges and by the repurchase of securities by those companies and corporations whose securities prices fell in October - November 1997. This process was especially intense in the United States on the New York Stock Exchange. The growth of stock indices in the United States was also facilitated by an increase in stock prices of high-tech companies, as well as economic growth with low inflation, an increase in labor productivity, a reduction in government spending, a surplus of the federal budget and a steady inflow of capital into the economy. (Dittmer, 1999)

In Western Europe, stock indices also fluctuated from fall to growth in the fall of 1997, but in early 1998 there was an upward trend. This was due to stable economic and financial

development. Although Western Europe is characterized by a fairly high level of unemployment.

But at the same time, the United States and Western Europe for quite a long time continued to feel the consequences of the global Asian crisis and expressed some concern for the future, because the countries of Southeast Asia accounted for 1/3 of world GDP and more than 40% of exports to the USA and Western Europe. Therefore, the depreciation of the currencies of Southeast Asia, in principle, poses a certain threat to the leading Western countries, because an increase in the inflow of Asian cheap goods can lead to a deficit of trade and balance of payments, destabilization of the economy, especially unemployment, which is very dangerous for France, England, Germany. For example, for the United States, changes in the supply of Asian consumer goods, according to experts, may result in a trade deficit of \$ 250 billion. developed countries have also faced a decline in their exports due to the Asian financial crisis. (Dittmer, 1999)

The chain reaction of the Asian financial crisis had a more negative impact on the countries of Latin America and Russia, where there was no economic and financial stability in those years.

So the Asian crisis of 1998 led to negative consequences in the economic development of a number of countries and instability of modern international economic relations. In particular, in the countries of South-East Asia in 1998-1999, there was a reduction in production, unemployment grew, bankruptcies of enterprises and credit and financial institutions continued. The decline in business activity led to a drop in world oil prices, which in turn had a negative impact on the financial position of its exporters, including Russia. In addition, the devaluation of many currencies of the countries of Asia, Russia and Brazil caused a certain tension in the balance of payments of both industrialized countries and a number of others due to the inflow of cheaper imports in the future.(Dittmer, 1999)

2.2.4 Russia Crisis

In 1994, Russia adopted a stabilization program to lower inflation. The ruble was allowed to fluctuate in a narrow band of about 5 rubles to one US dollar. In addition, the program aimed to reduce Russia's financial deficit to less than 3% of GDP by 1998. As a

result of the stabilization plan, inflation fell from 197% in 1995 to 47.7% in 1996 and 14% in 1997. Russia's financial deficit also fell significantly from 11% of GDP in 1994 to less than 5% of GDP in 1995. Along with the stabilization program, several other factors also contributed to the growth: In 1993, a market for ruble-denominated government bonds was established. This gave the government additional, non-inflationary funds to finance the budget deficit.

The World Bank and the International Monetary Fund (IMF) have supported the Russian economy with financial assistance that has shown improving relations with the West. In addition, the government's willingness to negotiate a payment rescheduling of the former Soviet Union debt in April 1996 had a positive impact on investor confidence. The international price of oil, Russia's main export product, began to rise, and as a result of the positive economic development, the market sentiment became positive. This coincided with the easing of restrictions on foreign portfolio investment. In early 1997, foreign representatives gained access to the government bond market. Foreign investors reacted with enthusiasm, and in the first quarter of 1997, the inflow of foreign portfolios increased sharply. In addition, Russia's credit rating was raised, which allowed the country to borrow less funds (Buzgalin, 1994).

However, in the fourth quarter of 1997, market sentiment deteriorated sharply as a result of the Asian crisis, which began with the collapse of the Thai Baht in July 1997 and soon spread to several Asian countries. In November, shortly after the start of the Asian crisis, the Russian ruble came under a speculative attack. The Central Bank of Russia defended the value of the currency and lost nearly \$ 6 billion in foreign exchange reserves, which fell from \$ 23.1 billion in the third quarter of 1997 to \$ 17.8 billion in the fourth quarter of that year. World commodity prices began to fall as a result of the unrest. Along with weaker demand for non-ferrous metals, the fall in oil prices had a serious impact on Russia's budget deficit, as well as on its current account balance, which turned out to be in deficit in the second quarter of 1997.

Problems in the banking system began in December 1997, already a few months before the economic collapse, and even the State Savings Bank, which accounted for 85% of all household deposits, was among the many affected banks (Buzgalin, 1994).

By mid-1998, international liquidity was low and Russia's current account surplus narrowed further to 3.4% as international oil prices continued to fall. In an attempt to bolster the ruble and curb capital flight, the central bank raised interest rates to 150%. In July 1998, monthly interest payments on Russian debt rose 40% compared to the country's monthly tax collection. Thus, the debt could only be financed by issuing more debt. Subsequent parliamentary disapproval of the anti-crisis plan completely undermined investor confidence, creating strong pressure on the currency. Between October 1997 and August 1998, the government allegedly spent \$ 7 billion of its reserves in order to maintain the exchange rate regime. However, this could not prevent the outbreak of the crisis in August 1998. (Buzgalin, 1994)

When investor confidence in emerging markets lost due to the Asian crisis, Russia's weak domestic economic policies became increasingly evident. Ultimately, currency overvaluation, low tax collection, weak institutions, growing dependence on short-term foreign capital, and the costly first war in Chechnya sparked a serious currency, banking and sovereign debt crisis.

On August 17, 1998, the ruble collapsed against major world currencies. The crisis led to a default - the refusal of the Russian state to pay off a number of its international and domestic obligations and, as a consequence, the resumption of a strong downturn in the economy, and also influenced investor confidence in emerging markets around the world.

Internal and external debt of Russia; budget deficit; low world prices for oil, which was the main export in Russia; the outflow of foreign capital as a result of the crisis in Southeast Asia; frequent changes of leaders and members of the government, which made it difficult to develop a single concept of financial policy; huge scale of capital export, dollarization of the economy. In addition: artificial containment of the ruble exchange rate, errors in its forecasting; lack of Russian theory in the field of financial regulation following the recommendations of the IMF without taking into account the specifics of the development of the Russian economy; a decline in production volumes, a decrease in the budget revenue base and high competition in the foreign and domestic markets due to the globalization of the economy and the later entry of domestic enterprises into the markets. As a result of the default, the entire Russian banking system was on the verge of collapse. Some of the big banks have gone bust. At the same time, the losses of the banking system amounted to about 100-150 billion rubles, the volume of GDP decreased by 10%, the volume of investments - by

15%. Household deposits in some commercial banks fell by 15% in ruble terms, and in real terms - by 52%. The depositors could not get their money from the banks (Merrick Jr, 2001)

The consequences of the onset of the financial crisis are mostly negative. There was a collapse in the banking system, and personal real incomes of the population fell by a quarter over the year. There was also a decrease in consumer spending by the population by 10-20%, a drop in living standards and a significant shift in the structure of consumption towards cheaper domestic goods. The country has observed that the share of savings after the crisis is approaching zero and undermining public confidence in the authorities. The depreciation of the ruble against the dollar is almost three times. The prices of consumer goods rose sharply. Many firms were ruined, and as a result, a huge number of people were losing jobs. Meanwhile, the economy was moving away from the raw material model, other industries were developing, which were replaced by imports before the financial crisis. According to experts, a positive consequence of the 1998 crisis was an increase in the competitiveness of the Russian economy. As a result of the devaluation of the ruble, the prices of imported goods inside the country rose, while the prices of domestic goods abroad fell, which allowed these goods to occupy markets that they could not occupy before. The 1998 crisis also gave the domestic industry a chance to develop more rapidly, fenced off imports and increased export opportunities.

Government policy has also improved, as the financial crisis has forced officials to take a more responsible attitude to budget planning in the future. Small business realized its strength, large enterprises began to develop.

The state in 1998 had three possible ways to get out of the crisis. Firstly, the printing of money and the payment of T-bills. Secondly, the announcement of a default on external debt. And thirdly, the announcement of a default on domestic debt. (Merrick Jr, 2001)

In connection with the experience of hyperinflation in the 90s, the launch of a new inflationary spiral was considered unacceptable, and non-payment of external debt was considered unacceptable for Russia, the third option was chosen. In this situation, certain measures were taken to get out of the crisis. First of all, the devaluation of the ruble; freezing of ruble-denominated government short-term bonds, introduction of a moratorium on

payments on external obligations cuts in budget expenditures, as well as the creation of a stabilization fund and bank restructuring at the expense of the Agency for Restructuring of Credit Institutions, payments to depositors, stabilization loans and national currency. In the case of Russia, a default was declared on T-bills, the yield on which immediately before the crisis reached 140% per annum. (Merrick Jr, 2001)

2.2.5 Turkey Crisis

In the 1990s, the Turkish economy developed at a very volatile pace. The most surprising and fundamentally contrary to the "classical" economic postulates defended by the IMF was the almost complete absence of a relationship between the rates of inflation and economic growth. In particular, in 1992-93, Turkey's economy grew at an average rate of about 7% per year, while inflation did not fall below 66%. In 1994, over 85% of Turkish exports were already made up of the processing industry, which indicates a significant increase in the stability of the economy. Even more active growth was observed in 1995-97 with inflation reaching 88%. Perhaps the main reason for such an unusual combination was precisely the lack of a purposeful and consistent anti-inflationary policy, which, as you know, does not stimulate economic activity within the country at all (Parnell, Koseoglu and Spillan, 2010).

Turkey's economic development in the 1990s was interrupted by two crises. In 1994, a deep currency and financial crisis was associated with an excessive inflow of short-term capital due to the overvalued Turkish lira. These factors caused the growth of interest rates and stagnation of the credit market. In response, another program of stabilization was adopted structural adjustment.

The next crisis developed in 1999, the Stabilization Program in 1999, after the arrival of the coalition government, was based on a tight monetary and fiscal policy. A number of structural reforms were also outlined in the banking sector, agriculture, and the social security system. An active stratum was given to the privatization processes. For 10 months of 2000, 5.2 billion was received, 2.5 times more than in the previous 15 years from the privatization of two oil refineries and mobile communication companies. It was planned to reduce the rate of

devaluation of the lira to the level of inflation. Increased fiscal discipline resulted in a significant improvement in tax revenues in 2000, budget surpluses and lower interest rates.

It is noted that during the crisis years there was a noticeable decrease in the volume of imports, while exports showed a practically steady growth. This indicates that the fragmentation of the economy, characteristic of most newly industrialized countries, persists with the allocation of a relatively autonomous, oriented foreign markets export sector, little dependent on the domestic conjuncture, and an unstable domestic market, which can be largely filled by imported goods. On the whole, in the 1990s, the export growth rate was almost double the GDP growth rate, indicating an increasing orientation of national production towards foreign markets (Parnell, Koseoglu and Spillan, 2010).

The intensification of actions to "bring Turkey closer" to the economic parameters of developed countries - to reduce inflation, liberalize trade, develop the stock market - unfortunately, did not help to successfully overcome the consequences of the crisis of the late 1990s. The continuing acute shortage of financial and fuel and energy resources, the disproportionate regional development, the weak scientific and technical base of the production sector, as well as the imbalance of foreign trade, the lack of proper government control over the use of budgetary funds and credit resources, and, finally, a high level of corruption have led to the instability of newly created market institutions, have recently shaken the still stable positions of a number of state and commercial banks, worsened the investment climate. The liberalization of the banking system, as a result of which banks got rid of the obligation to provide funds to not quite solvent enterprises, sharply exacerbated the crisis of liquid resources in the country, the level of monetization in which, due to years of inflation, remained rather low.

On November 22, 2000, the growing volatility turned into a financial crisis. Banks rushed to buy dollars, but the Central Bank was firm in the implementation of the planned program of stabilization of tight monetary policy. This quickly led to a severe liquidity crisis hitting the banking sector as well. On February 21, 2001, overnight rates rose to 3000%. There was another crash in the Istanbul Stock Exchange, and on February 22, the government announced a transition to a free-floating exchange rate policy. At the very first auction, the lira "fell" immediately by 27% against the dollar, and in March-December 2001 the Turkish lira

devalued by more than 100% from 685 thousand to 1,480 thousand rounds. lire / \$. Fuel prices have increased significantly, which has caused a rise in prices for all goods and service (Parnell, Koseoglu and Spillan, 2010).

In general, according to the results of 2001, the decline in industrial production was 8.9%, and in the manufacturing industry - 9.9%. At the same time, the rate of decline accelerated during the year. The deepest decline was found in the production of office computers by 60% in 9 months of the year, automobiles 42%, medical equipment 29%, and other machinery and equipment 22%. About 125 thousand small and medium-sized enterprises, as well as 19 banks ceased to exist, approximately 1.5 million people lost their jobs. According to the Turkish State Institute of Statistics, during the crisis, the unemployment rate in the country increased by 4.3% and is now 10.6%, and in cities this figure is 13.2%. It should be noted that one of the reasons for the 2001 crisis, albeit unwittingly, was the liberalization measures taken after the 1999 crisis that were not typical of the Turkish economy. In particular, in 2000, the resumption of active economic growth occurred against the background of an increase in the share of both private consumption and investment in GDP, while the share of government consumption slightly decreased. The increased consumption was compensated by an increase in imports, which grew to 30.8% of GDP, while exports increased at a much slower pace. According to experts, it was domestic demand that became the main reason for economic growth in 2000 (Parnell, Koseoglu and Spillan, 2010).

However, the growth in imports led to a noticeable deterioration in the balance of payments. Its deficit as of August 2000 reached \$ 6.8 billion. According to experts, the effect of growing private consumption was exacerbated by the rise in the cost of energy resources and the massive replenishment of raw materials and unfinished goods in other words, the slowdown in economic activity as a result of stabilization measures. At the same time, contrary to expectations, the implementation of the stabilization program did not lead to a massive inflow of capital into the country, which made it necessary to compensate for the balance of payments deficit by directly increasing the country's external debt, which jumped to \$ 89.2 billion by mid-2001. Since the beginning of 2001, Turkey has seen a decline in the share of GDP directed to investment and government consumption. The growth of private

consumption also slowed down. At the same time, export growth accelerated sharply, reaching 31.6% of GDP by the third quarter. (Ozar and Irfanoglu,2008)

The loss of popular confidence in the government's ability to bring the country out of the crisis, as well as, importantly, a significant increase in the need for loans from the IMF and the World Bank, necessary to cover the balance of payments deficit, led in 2001 to the post of Minister of State for Economic Affairs, a well-known economist, vice President of the World Bank Kemal Dervish. Observers also noted the significant role that the US administration played in the appointment of Dervish. Dervish, who was initially assigned the role of "knockout force" in the government in ensuring the flow of IMF loans to Turkey, later took up issues related to the implementation of the course of economic liberalization in Turkey and Ankara's fulfillment of its obligations to the IMF. The new Minister of Economy presented his program on May 15. Its main priorities were banking reform, restoration of currency and monetary stability, and privatization. It was supposed to stop further devaluation of the lira and reduce the rate of inflation, to reduce government spending. (Ozar and Irfanoglu, 2008)

Structural reforms outlined by Dervish's team include restructuring state-owned banks and accelerating their privatization.

On February 4, 2002, a regular meeting of the IMF Board of Directors dedicated to Turkey was held in Washington. In a letter of intent sent by the IMF on the eve of the council meeting, the Turkish government pledged to ensure GNP growth by 3% in 2002, to keep inflation at 35%, to continue the practice of floating the Turkish Lira against major freely convertible currencies, to pursue a clear fiscal and monetary policy, reform the tax system. At the meeting, it was decided to provide the country with a stand-by loan in the amount of \$ 16.3 billion for the period 2002-2004. Of this amount, \$ 10 billion is a new loan, \$ 4.3 billion is unused funds under previous stand-by loans, and \$ 2 billion is additional funds to overcome the consequences of the financial and economic crisis. Almost a week after the IMF's decision, Turkey received \$ 9 billion, by the end of this year it will receive another \$ 5 billion, \$ 1 billion will come in 2003, another \$ 1 billion - in 2004. Thus, after the IMF made the above decision the total amount of loans provided by the IMF to the Republic of Turkey over the past several years amounted to \$ 31 billion, and including loans from the World Bank -

almost \$ 37 billion, which is one of the highest indicators in the world (Elekdag and Alp, 2011)

Thus, at the turn of the millennium, Turkey has become a kind of “victim of globalization”, having tasted in full measure both the positive and negative consequences of being included in the system of world economic ties. The structure of the economy, unadopted to openness, is rather painful about the liberalization of commodity and capital markets, the introduction of world standards of economic policy tools and criteria for economic stability. This also led to the lack of unity within the country's political establishment.

2.2.6 Global Financial Crisis

Global crisis 2008-2009 and the following, up to 2014, a sluggish recession, primarily in the EU, differentiated the superficial causes and deep nature of the crisis, put the world before the need for solidarity actions, solving civilizational problems and an early transition to a new technological order (Arup, 2010)

The global economy has lost its former sources of growth, the middle class of the population of the West and emerging markets. A slowdown in economic growth is a conflict of 20th and 21st century technologies. The transition to a new economy is difficult, it is accompanied by structural changes, capital outflows. Stock indices are a subtle indicator of changes.

The mortgage crisis in the United States, which provoked a crisis in the financial, construction and industrial markets in the United States, then the EU, Japan, developing countries, became the direct cause of the global crisis. It tragically coincided in time and space, the US economy is most advanced to the completion of the transition to a new technological order with the crisis processes of the conflict between the old and the new economy.

The US mortgage market is the cradle of the crisis; 32% of the bad debt of the leading first-class mortgage institutions, led by Freddie Mac founded in 1970, Fannie Mae in 1938 from 5.2 trillion dollars of the total value of the mortgage portfolio, which makes up 70% of the US mortgage market, brought down the country's financial system, and after a while time and the whole world. Asset securitization caused a liquidity crisis for 30% of FF & FM bondholders: central banks and finance ministries of the world's leading countries, TNB Citibank, Bank of

America, BNP, UBS, investment banks Merrill Lynch, CSFB, Lehman Brothers, Goldman Sachs, Morgan Stanley, Nomura Int, conservative investors Pension Funds, insurance companies AIG. There was a decrease in the capacity of the loan portfolio of banks of bondholders FF & FM by 25-30%. (Arup, 2010)

The drop in the capacity of the US mortgage market by 30% caused: a decline in the construction sector of the US economy; decrease in household income; decrease in consumer spending; reduction in sales, revenue, profits in the manufacturing industry; rising unemployment; falling stock indices, lower consumer expectations and investment attractiveness, which triggered recessions in the national economy; drop in world oil prices from \$ 145 per barrel of Brent to \$ 40-50; the fall of the US dollar against the main currencies of the world; an increase in gold prices over \$ 1,000 per troy ounce.(Davies, 2010)

The recession of the US economy provoked a crisis in the financial, construction and industrial markets in the EU, Japan and developing countries. In the global economy, national economies are a segment of it. Financial institutions of the EU, Japan, emerging markets, having lost liquidity in the US market, faced difficulties in financing national markets. Market capacity has shrunk, and unemployment has begun to rise in some countries to 17% of the civilian labor force. Exporters from the EU, Japan, and developing countries faced a 30% contraction in world commodity markets. A global investor, in the face of a reduction in the capacity and profitability of national markets and its own losses, began to close positions, withdraw assets from the US markets and the financial periphery. In the EU zone, Japan, in emerging markets, there was a reduction in national commodity markets, capital markets and labor markets by an average of 25-30% (Davies, 2010).

Banks, industrial and trading companies entered the recession phase. The recession has affected large and small businesses. The crisis has become global, financial and economic.

Crisis response of the global economy the globalized world economy instantly reacted to the crisis processes in the US economy. The BRIC countries' exports to the EU and the USA have declined. The exports of the EU and Japan to the USA decreased. The export of investment goods to China and India decreased. There was a loss of liquidity of the leading financial institutions of the EU zone, Great Britain, Switzerland, Japan, BRIC by an average of 10-

30%, a drop in world industrial production by 10-35% and a decrease in GDP by 1-10%. All countries saw an increase in unemployment by 6-15% on average 10%. Stock indices reacted with a fall of 10-40%. There was an increase in the state internal and external debt to GDP from 60% in the USA, Germany, Canada to 170% in Japan. Most countries have not avoided the growth of the state budget deficit to 10% of GDP. TNK and TNB started withdrawing assets from investment markets. There was a flight of the Central Bank, business and markets to the “dollar” haven and a fall in the rates of the euro, pound sterling, yen, Swiss franc, yuan, ruble, rupee, real against the US dollar. And finally, a dangerous deflationary trend has formed in developed markets, and inflation in developing ones. (Davies, 2010)

2.3 Summary

Financial crises accompany to the development of civilization over the course of a century, developing and changing along with economic systems. Despite the fact that they represent a significant imbalance in the economic system, they disrupt normal production relations and destabilize the economic system as a whole, they still carry important functions and cannot be considered as an unambiguously negative phenomenon. As a rule, there are cyclical and structural crises that have a different nature of origin, implementation mechanisms and functions.

Cyclical crises are based on the contradiction between production, which is striving for expansion, and the growth of effective demand that does not keep pace with it. The material basis of such crises is the massive renewal of fixed capital, from which it follows that cyclical crisis reveal not only the limit of extensive development, but also an impulse for intensive economic development. Structural crises have a more complex nature of origin, expressed in a deep disproportion in the development of individual spheres and sectors of the economy, therefore, the function of systemic crises is to identify and push to resolve contradictions in the development of various spheres of the economic system. With the development of financial systems and an increase in the importance of financial processes in the system of expanded reproduction, financial crises, which are part of the concept of systemic crises, are of particular importance, since they cover financial markets and financial sector institutions, money circulation and credit, international, state and corporate finance.

With the development of international interaction, and later globalization, financial crises have become increasingly dangerous for the normal functioning of the world economy. The process of globalization entails not only the expansion of opportunities, but also the emergence of additional threats to the stability of world finance, since the financial markets of various countries are closely interconnected, which conceals the threat of infection with a "financial epidemic", which usually spreads through trade, credit and financial channels. This is reflected in the current financial crisis, which found its way out in the United States and then spread to almost all countries.

Nevertheless, it is wrong to think that the global crisis started in the United States, since overheating in the US economy was only a trigger for its implementation. The fundamental reasons for the emergence of the modern financial crisis lie in the imbalances of the world financial system, which include, first of all, insufficiently effective regulation of financial markets and the global financial system as a whole. The lack of a regulatory system, in turn, was the basis for the imbalance in international monetary relations, the irrationality of demand and the virtualization of the modern economy, which are the reasons for the modern financial crisis. The current crisis goes beyond the traditional development of international financial crises due to the scale of the impact on the world economy - it is the first truly global financial crisis in history. In addition, the study of various studies on the crisis under consideration allows us to conclude that this crisis is a new type of economic crisis - a systemic crisis. Despite on the fact that the consequences of the current crisis in different countries manifested themselves in a similar way, its origins there are of a specific nature.

For example, in the economies of developed countries, the financial crisis manifested itself as a liquidity crisis and a crisis of trust between financial institutions, which were interconnected and interdependent. In developing countries, it is characterized, rather, as a debt crisis in the segment of external borrowing and a crisis of solvency in the domestic market. In Russia, there was a mixture of these manifestations of the crisis, which, on the one hand, was expressed as a liquidity crisis as a result of limited external financing channels for the Russian economy, on the other hand, there was a crisis of financial institutions' confidence in the corporate sector in need of lending. The specificity of the consequences of the modern crisis lies in the very mechanism of its impact on economic growth: the decline in GDP was due to

a decrease in the inflow of resources through the financial market - the practical cessation of bank lending, the fall of the stock market and a fundamental change in its structure towards a plan of more orientation towards short-term speculative transactions with financial derivative tools.

As in other countries, the crisis in Russia had its own characteristics of origin and development. Crisis caused a heavy reaction from the Russian economy. Among the countries affected by the current financial crisis, Russia, perhaps, showed the highest indicators in terms of such parameters as a drop in the level of GDP, a decrease in the capitalization of the stock market, and a decline in production. Such a reaction was caused by structural imbalances in the Russian economy, which were the result of an unbalanced macroeconomic policy, insufficiently effective regulation of the activities of financial institutions and the corporate sector, despite a high level of control by state bodies, incomplete institutional reforms announced in the early 2000s, insufficient the depth of structural reforms in the national industrial sector and the economy as a whole. The main external factors for the emergence of the financial crisis in Russia were the low monetization of the economy and the narrowness of the domestic resource base, the undiversified structure of the economy and exports, as well as the high dependence of the national financial market on the behavior of foreign investors.

The peculiarities of the manifestation of the financial crisis on the economies of various countries have given rise to some specificity in the anti-crisis programs of states. However, the anti-crisis measures had a common core, consisting in replenishing the liquidity of the financial sector, tax breaks and incentives for enterprises and the population, public investment in national infrastructure, and the development of scientific research and innovation. At the same time, an increase in the degree of state influence on the economy took a significant place in the anti-crisis programs of the states of the world. At the same time, such measures are declared as necessary at the stage of overcoming the crisis phenomena, but subject to gradual cancellation when the economic situation stabilizes. The anti-crisis program of Russia as a whole was in the context of the measures announced by the governments of other states. However, it should be noted that the anti-crisis plan was adopted with some delay in comparison with the terms of other countries, which is mainly due to the spontaneity of the

initial approach to minimizing the consequences of the crisis and a high degree of bureaucracy.

The **global financial crisis** has provided a chance to reform the world system, as well as the elimination of imbalances in national economies. Having outlined the starting points for the development of the current crisis and coming to a common denominator, the leaders of the world community recognized the need and the possibility of systemic reforms in world relations, and they see the elimination of these imbalances in the formation of a new architecture of the world financial system.

Thus, the reform of the financial system should affect two main areas: reforming the world monetary system and reforming the system of regulation of world finance. The main instruments of influence in these areas should be such measures as the revision of quotas in the IMF, the creation of supranational regulatory organizations in order to control the global financial market in general, and the activities of cross-border participants in particular, the widespread implementation of international standards and rules of financial reporting for participants in financial markets, , tightening of international cooperation in the field of financial markets regulation and other measures. However, among the world community there is still no unity and firm will to carry out such reforms, since these reforms imply a redistribution of the existing world order and the loss of a significant part of the influence of today's recognized leaders - the United States and Western European countries. Nevertheless, changes in the existing system seem inevitable, since the strengthening of the modern financial system and an increase in its ability to resist evolving crises is possible only when it transitions to a different quality that meets modern challenges.

This is equally true for national systems, such as the system of the Russian Federation, since eliminating the consequences of the impact of the crisis, easing the situation for a certain period, will not eliminate such threats in the future, but will increase the degree of destruction of national systems. The current crisis has set new directions for development for all members of the world community and outlined further prospects for the participation of various countries in the world arena. In fact, it was one of global financial crises that are characterized as historical, since they cause systemic changes in economic formats and, ultimately, change the usual picture of the world.

CHAPTER 3

KAZAKHSTAN ECONOMY: AN OVERVIEW

3.1 General Information

3.1.1 Geographical Location

Kazakhstan, with an area of 2,724,900 km², is the ninth largest country in the world in terms of area and the second largest country among the countries of the former Soviet Union. About 3.5 times bigger than the size of Turkey.

The country is located in the northwest of China, in the west of the Ural River in Central Asia. The country's border neighbors are China (1.533 km), Kyrgyzstan (1.051 km), Russia (6.846 km), Turkmenistan (379 km) and Uzbekistan (2.203 km). The border of Kazakhstan is 1070 km to the Aral Sea and 1894 km to the Caspian Sea.

Altai mountains in the east, Tien Shan mountains in the southeast - and its extensions Djongar Alatu and Saur-Tarbagatai is the country's largest mountains. Irtysh, Esil, Zhaiyk, Ili, Syrdariya, Tobyl and Sarysu are the largest rivers in the country. There are over 7,000 streams, large and small, most of which dry up during the summer months. The Irtysh, Esil and Tobyl rivers enter the Ob and the Arctic Ocean, others pour into lakes inland rivers. (Pavan, 2021)

Shipping is carried out in Irtysh, Esil and Dzhaiyk. The country has 48 thousand lakes of various sizes. Lakes Caspian, Aral, Balkash, Alagol, Zaisan, Tengiz and Sylety are the main lakes of the country. Lake Aral, located in the southwest of the country, narrows due to water intake. Most of the lakes are salty. Balkash and Zaisan are important freshwater lakes. There are four large dams in the country, two on the Irtysh, one on the Ili and the Syrdarya.

The country is literally dominated by the earthly climate. For this reason, it has very cold winters and very hot summers. Drought times and temperature drops are large. Natural vegetation in Kazakhstan is gradually differentiating from north to south. The wilderness territory, covered with small forests and woodlands in the north, turns into a desert when descending to the south. The lengths of the rivers are covered with forest. The Altai and Tanra mountains are covered with pine trees. The highest point of the country is Khan Tengri peak

in the Tanri mountains with a height of 6.994 meters. The lowest point is Karakiya in Western Kazakhstan 132 meters. 7% of the territory of Kazakhstan is occupied by forests, 4% mountains, 26% arable land, 23% steppes and 40% desert soils. (Pavan, 2021)

3.1.2 History

Kazakhs, who entered in the historical arena with a combination of Turkic and Mongol tribes, and migrated to the region where today's Kazakhstan is located in the 13th century. It took Kazakhs a long time to unite as a state. The history of modern Kazakhstan is connected with the history of Russia. In 1730, one of the three Kazakh tribes request help from Russia for protection from foreign attacks. Thus began the process of being ruled by the Russian Empire. The territory of modern Kazakhstan was conquered by the Russians in a century, and Kazakhstan became a Soviet republic in 1936.

Communism caused very serious damage to the nomadic Cossacks. During the Soviet period, the Kazakh people were forced to lead a sedentary lifestyle. During the 1930s, the Kazakh population declined from 4 million to 3 million due to liquidation. During the Stalinist period, the territory of Kazakhstan was a place of exile for undesirable ethnic groups. During this period, Russian immigration to the territory of Kazakhstan also increased significantly. Throughout the 1950s, the country remained under Russian rule, both politically and quantitatively. However, the Kazakhs remained loyal to the Russians, they began to increase their weight in local politics. The first secretary of the Communist Party of Kazakhstan, Dinmukhamed Kunayev, played an especially important role in this. The Kunayev administration was terminated by Soviet leader Mikhail Gorbachev in December 1986. In the fight against corruption, Russian Gennady Kolbin was appointed instead of Kunaev. With Kolbin's appointment, thousands of Kazakh youths, fearing to return under Russian control, they are provided several democracy meetings for independence on the streets of Almaty and faced with serious obstacles from the Soviet authorities.

Nursultan Nazarbayev of Kazakh origin was appointed to replace Kolbin in 1989. Given the reaction of the country's sizable Russian minority and the country's economic dependence on Russia, Nazarbayev objected to the conclusion that in a controversial referendum which is

held in March 1991, that the vast majority of people preferred to remain as a part of the Soviet Union.

However, on December 8, 1991, the separation from the USSR with the formation of its community pushed Kazakhstan towards to independence. Kazakhstan declared its independence from the Soviet Union on December 16, 1991 which was the last country. Kazakhstan is also the last CIS country in which the native language became the official one. Nazarbayev was the only candidate in the first presidential elections in December 1991 and was elected as a president with 95% of the vote. (Pavan, 2021)

3.1.3 Political and Administrative Structure

The Republic of Kazakhstan, a parliamentary republic, has been regulated by Nursultan Nazarbayev since gaining independence from the Soviet Union on December 16, 1991. After Nazarbayev took authority in 1991, he was re-elected as a president for seven years in January 1999. Nazarbayev was re-elected as a president of the republic in the presidential elections which held in December 2005. The regulations issued by the President in the administrative areas are carried out by decrees of the President and updates of ministries. Nur-Sultan Nazarbayev is the main element of today's political stability in the country. Especially since 1995, Nazarbayev's influence on the political structure of Kazakhstan has gradually increased. At the same time, in two referendums in 1995.

As a result of these referendums, on 30 August 1995, the country's second Constitution after the country's independence was adopted, which expanded the powers of the president. According to this Constitution, the Republic of Kazakhstan is a democratic, secular rule of law. In November 1998, parliament passed a series of decisions that increased the power of the president. According to this, the maximum age and the two-term limit for the presidency have been abolished. The term of the presidency has been increased from five to seven years. The President was granted immunity on October 27, 2000. The decision to move the capital of the country from Almaty to Nur-Sultan was made by Nur-Sultan Nazarbayev in 1994, and the move was completed on December 10, 1997.

The move of all institutions from Almaty to Nur-Sultan was completed in 1998. Relocation decision - T.C. Department of Commerce, 2021 continues to influence 4 state budgets. With

the amendments made to the 1995 Constitution in 2005, all restrictions on the term of office of Nur Sultan Nazarbayev were lifted. Following the resignation of Nazarbayev in March 2019, Kasym-Jomart Tokayev won the presidential elections which held on June 9, 2019, and was sworn on June 12, 2019 and proceeded to his duty. After the elections new President Tokayev changed the name of the capital of Astana to Nur-Sultan. (Pavan, 2021)

Country legislature - consists of Parliament and Senate. The thirty-two members of the 47-member Senate are elected for a term of six years. The remaining fifteen members are appointed by the President. Parliament consists of one hundred and seven members, of whom ninety-eight are elected. The remaining nine seats are reserved for the Assembly of the People of Kazakhstan, which represents the country's ethnic minorities. The country is divided into 14 administrative regions (oblasts) with separate administrative structures for some selected cities, including Almaty. The local government budget is approved by the local council. The term of office of regional representatives is five years. Governors who are heads of the regional administration (akimat-governor) are appointed by the President. Regional governments are granted limited autonomy. However, Almaty has exceptionally all-encompassing power.

3.1.4 Population

The population of the country is about 18 million people. In terms of area, it is the 9th largest country in the world and 2nd among the territory of the former Soviet Union. The majority of the population lives in the north and southeast of the country. The population in the central and western parts of the country is small. The main reason for the significantly low population density in the country is immigration from the country.

Natural population growth does not keep pace with the outward migration. Between 1989 and 1999, 1.5 million people migrated from Kazakhstan. Most of them are ethnic Russians who immigrated to Russia, half of its population moved to Germany. Strong economic growth since 2000 has reversed the trend of immigration from the country, and in 2004 net immigration turned positive for the first time.

As a result of the relatively high birth rate and migration of minorities, for the first time since the 1920s, the Kazakh population gained a majority. In addition, there is a slowdown in migration from the country to Russia.

Despite on migration, the country still has a sizable Russian minority. After gaining independence, Russians were dismissed from important government positions. This practice within the framework of the Kazakh Program led to the loss of skilled labor in the public sector. Today this practice has softened. The ratio of the population over 60 to the total population is small. Only about 8.43% of the population is over 65 years old. Poverty in the country has dropped significantly thanks to the rapid growth of GDP in recent years. (Pavan, 2021)

3.1.5 Natural Resources and Environment

Kazakhstan is rich in oil and natural gas reserves. The country's oil reserves are more than natural gas reserves. Kazakhstan is the second largest oil producer after Russia among the former Soviet Republics. The country's economy is largely based on oil export revenues.

According to the estimates of the periodical named Statistical Review of World Energy published by British Petroleum (BP), the total oil reserve of the country is around 39.8 billion barrels. This figure constitutes 2.9% of the total world reserves. The reserve level of the country increases gradually with the newly found reserves in the Caspian Sea.

Kazakhstan's natural gas reserves, on the other hand, constitute 1.0% of the world's total reserve, corresponding to a total of 1.8 trillion cubic meters. In addition, the country has 3.9% (33.6 billion tons) of the world coal reserves. Kazakhstan is also a country rich in gold reserves. There are about 370 tons of gold reserves in the country's Vasilkovskoye mine. There are also rich iron ore, copper, chrome, lead, wolfram, tungsten and zinc deposits.

Kazakhstan is faced with two serious environmental problems from the Soviet Union era: One of these is the radioactivity problem arising from the fact that the Semipalatinsk region near the eastern border was a nuclear test area during the Soviet Union era. Although the cancer detection rate in the region is not above average, the long-term effects of radioactivity on human health and the environment are still uncertain. A second problem is that the Aral Lake,

which Kazakhstan is the coast of, is drying up due to the excessive use of the Syrdarya and Amudarya rivers due to the cotton production in Central Asia. Since the remaining water is contaminated with pesticides and fertilizer wastes, serious problems arise in terms of the population of the region and agricultural use. These problems has led to the end of fishing and water supply difficulties in the country. The drying of the Aral Sea caused the island of Vozrozhdensky to become a half-island. However, when the island, which was a biological test area in the Soviet period, became to be half island, there was a danger of spreading various epidemic diseases. (Pavan, 2021)

3.1.6 International Relations

Kazakhstan is a member of United Nations, Organization for Security and Cooperation in Europe, Turkic Council, Euro-Atlantic Cooperation, Organizations of Islamic Cooperation. Kazakhstan is also included in the regional integration movements. Moreover, country is a member of the Eurasian Economic Community (EURASEC) and the Organization for Central Asian Cooperation (CACO).

Kazakhstan took over the chairmanship of the Organization for Security and Cooperation in Europe (OSCE) in 2010. It is the first former Soviet republic who took this task. To provide this event Kazakhstan made important changes in the law elections, legislations in political parties and the press. Also in 2010 Kazakhstan was included in the Customs Union with Russia and Belarus. In 2015, this formation grew into an economic union.

Russia and China are the most important strategic partners of Kazakhstan. It is believed that activities aimed at developing and deepening relations with these countries will continue in the future. In recent years, China has become the most important partner, especially in the energy sector. Behind this is China's goal is a reaching hydrocarbon resources in Central Asia and strengthening their negotiating position on transit prices with Russia by diversifying Kazakhstan's export markets. (Pavan, 2021)

The relationship that Kazakhstan has forged with China in recent years is a reflection of the country's multifaceted foreign policy. The country's economic ties with Russia and other regions continue their strong protection relationship.

3.2 General Economic Situation

3.2.1 Kazakhstan: Basic Economic Indicators

After the 1998 financial crisis, Kazakhstan's GDP began to grow steadily. The 2014 GDP was affected by the global financial crisis that reached Kazakhstan. In general, there was an increase of 23.5% over the year. By 2015, GDP grew from 430.7 billion dollar to 440 billion dollar. Analyzing Table 1, show us that GDP is growing steadily from 2014 to 2020. Due to a several factors. firstly, the flow of capital investments from abroad has grown. Lending conditions have improved, borrowed capital has become cheaper, and banks' investments have increased significantly. In addition, global construction projects provided by the largest oil and gas companies, and government capital investments have also increased. All these factors led to a 530.6-billion-dollar growth in GDP in 2020. The forecast for the IMF for 2018 also showed positive dynamics.

However, the rate of unemployed to total workforce continued to increase. Observing the dynamics since 2014, from 5%, unemployment increased by 40% by 2020 and will amount to 7.78%. As for government debt payments, it significantly decrease in compare to the last year, amounting to -2.68% for 2021. (Malelova, 2019)

Ratio of current payments balance to GDP have the same situation as net debt. The ratio continued to decrease since 2014 from 2.76% to -5.49% in 2021. However, according to table 1 below, in 2018 ratio was stabilized up to -0.13. Despite on this ratio of current payments, has decreasing again. (Malelova, 2019)

Table 1.
Basic Economic Indicator

	2014	2015	2016	2017	2018	2019	2020	2021
GDP (Current Prices - SAGP-billion \$)	430,7	440,4	449,8	477,1	508,8	540,9	530,6	563,3
GDP Growth (Fixed Prices %)	4,2	1,2	1,1	4,1	4,1	4,5	-2,53	4,13
Rate of Change in GDP Per Capita (Current Prices-PPP,%)	2,68	-0,26	0,3	2,73	2,75	3,17	-3,77	2,81
Consumer Price Inflation (avg,%)	6,72	6,65	14,56	7,43	6,03	5,24	6,9	6,77
Ratio of Unemployment to Total Workforce (%)	5,04	5,11	4,95	4,9	4,85	4,78	7,78	5,78
Government's General Net Debt to GDP Rate (%)	2,48	-6,26	4,5	4,27	2,58	-0,58	-5,26	-2,68
Ratio of Current Payments Balance to GDP(%)	2,76	-3,26	-5,92	-3,06	-0,13	-3,62	-6,79	-5,49

Source: (Moody's, 2021. Kazakhstan - Economic Indicators)

3.2.2 Foreign Trade

Although the country's foreign trade surplus has increased due to the high exchange rate of world oil prices in recent years, Kazakhstan may face a temporary foreign trade deficit due to imbalances in the structure of its foreign trade. Oil makes up a significant portion of its exports. The export earnings of a country producing base metals are significantly influenced by changes in world prices for these products. The Kazakhstan economy is an economy based on a high level of imports. The vast majority of production in the country is concentrated in the oil and gas sector, as well as in capital and consumption. The production of goods does not correspond to the level of domestic consumption. Most manufacturers of capital and consumer goods are not competitive with imported goods in terms of price and quality. Many cheap illegal goods are brought into the country across wide and open borders. Increased investment and production in the oil sector is another important reason for increased imports of capital goods. The large volume of unregistered trade makes it difficult to monitor imports. Kazakhstan's wide and easy-to-cross borders with Russia, Kyrgyzstan and Uzbekistan allow

unregistered border trade, but the volume of border trade cannot be captured in foreign trade data. Most of the imports that cannot be registered are non-food commodities and used cars. Imports of building materials and imports of capital goods as a result of foreign direct investment are important imports. While energy imports - mainly coal and electricity from Russia - are falling, gas imports from Uzbekistan are increasing. (Lee, Fariza and Sharipova, 2015)

The biggest problem limiting the development of trade is that Kazakhstan is a landlocked country with no coastline. For this reason, the costs of exports and imports rise too much. Another problem is that important oil and gas export routes pass through Russia and Iran, the country's two most important competitors in the global energy market.

The country's closest ports to the sea are ports off the coast of Russia and Georgia on the Black Sea. Kazakh barges can enter the Black Sea through the Volga-Don Canal, which is dominated by Russian waterways.

Until 1997, persistent problems with oil transit through Russia forced Kazakhstan to consider alternative routes with higher costs, such as Azerbaijan and Turkey, China, Turkmenistan and Iran. Rather than discouraging Kazakh oil exports in this way, it is trying to increase its presence in the Kazakh oil sector by encouraging Russian companies to enter the Kazakh market and facilitating the transit of Kazakh oil. Today, there are still some minor transit problems between Turkey.

Kazakhstan is a country that is mainly an exporter of raw materials and semi-finished products due to its production structure. Oil and oil products, ferrous metals, chemicals, machinery, grain, wool, meat, coal are the main export goods of the country. More than half of exports is petroleum products. Exports of consumer goods are at a very limited level. The fact that the export of oil, gas and minerals, which are the main export products of the country, constitute a significant part, makes the balance of Kazakhstan's foreign trade against changes in world prices for raw materials.

After a dramatic decline in trade turnover in Kazakhstan in 2015 and 2016, since 2018, the volume of imports and exports of goods began to grow. In 2018, the trade turnover almost reached \$ 100 billion, amounting to 61 billion \$ for exports 93 billion \$ in volume. In 2019,

trade turnover has changed slightly in compare to the previous year. For 10 months of 2020, the trade turnover amounted to 71 billion \$, which is 10 billion \$ less compared to the same period in 2019. According to Figure 1, exports in 2020 decreased by 47 billion \$, volumes by 85 billion \$. (Zhanakova, 2021)

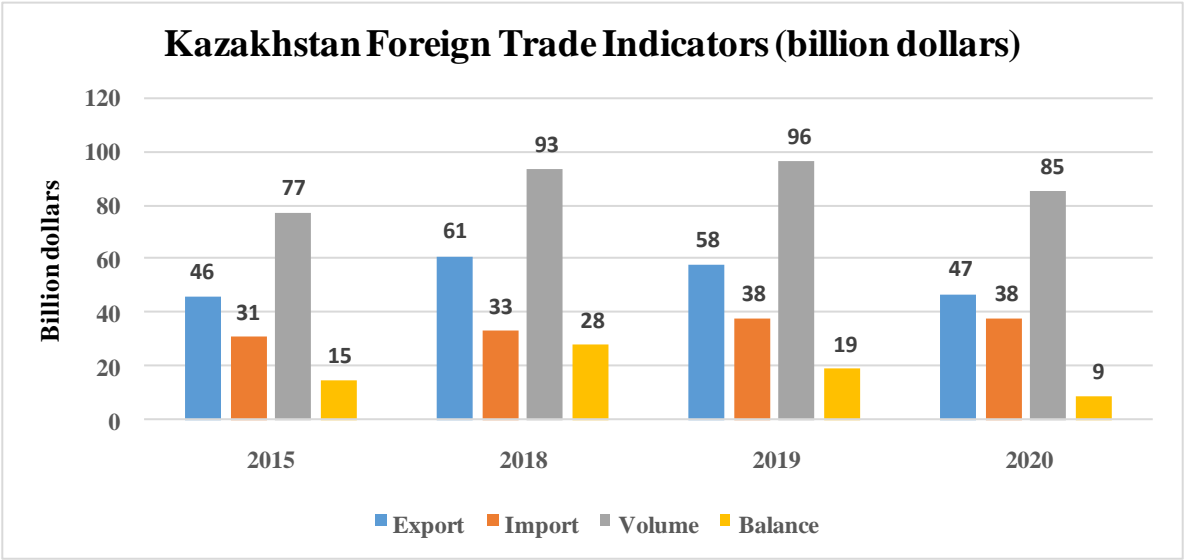


Figure 1. Foreign Trade

Source:(Trademap, 2020)

The direction of Kazakhstan foreign trade turned towards countries other than the countries of the former Soviet Union. An important role in this is played by Kazakhstan's high income from oil exports to the leading countries of the world. In June 2002, Kazakhstan signed an agreement with Russia allowing the export of 15 million tons of oil per year via the Atrau-Samara pipeline and 2.5 million tons of oil via the Makhachkala-Novorossiysk pipeline. Caspian pipeline in autumn 2002. The consortium (Caspian Pipeline Consortium - CPC) announced that it plans to increase its annual capacity from 28 million tons to 67 million tons. Also in 2002, Kazakhstan and Russia agreed to jointly develop three disputed oil fields in the North Caspian (Kurmangazy, Khavalinskoe and Central).

In May 2004, an agreement was signed between Kazakhstan and China on the construction of an oil pipeline to China. The 962 km pipeline, commissioned in July 2006, begins in the Atasu region in Kazakhstan and ends in the Alashankou region in China. This pipeline project

is one of the few pipeline projects developed by Kazakhstan that significantly increases the country's export potential and contributes significantly economic growth.

Mineral fuels and oils, iron and steel, metal ores, slag and ash, copper and copper products and inorganic chemicals are important product groups in the country's export. Kazakhstan is one of the most important grain exporters in the region. Wheat is of great importance for the export of the country. The majority of grain exports are made to Russia, Iran, China and other Central Asian countries.

According to the Figure 2, we can see that the highly rate of export in 2020 have oil and mineral fuel which made 27.3 billion \$. Metal was sold over 3.1 billion \$, inorganic chemicals by 2.3 billion \$. Therefore, it represents us that oil has a highly demand in export. If country push an effort to improve metal, chemicals and aluminum materials, they will increase export turnover, to make more competitive other products.

The main export goods from Kazakhstan are: crude oil - \$ 18.7 billion (with a share of 53%), copper and copper cathodes - 2 billion US dollar , (5.6%), natural gas - 1.9 billion US dollars (5.5%), uranium - 1.3 billion. USD (3.6%), ferroalloys - 1.3 billion USD (3.6%), copper ores and concentrates - 1.1 billion USD (3%), wheat - 730.7 million USD (2.1%), ores and concentrates of precious metals - USD 545.4 million (1.5%), petroleum products - USD 464.3 million (1.3%), ores and iron concentrates - 452.1 million. (Zhanakova, 2021)

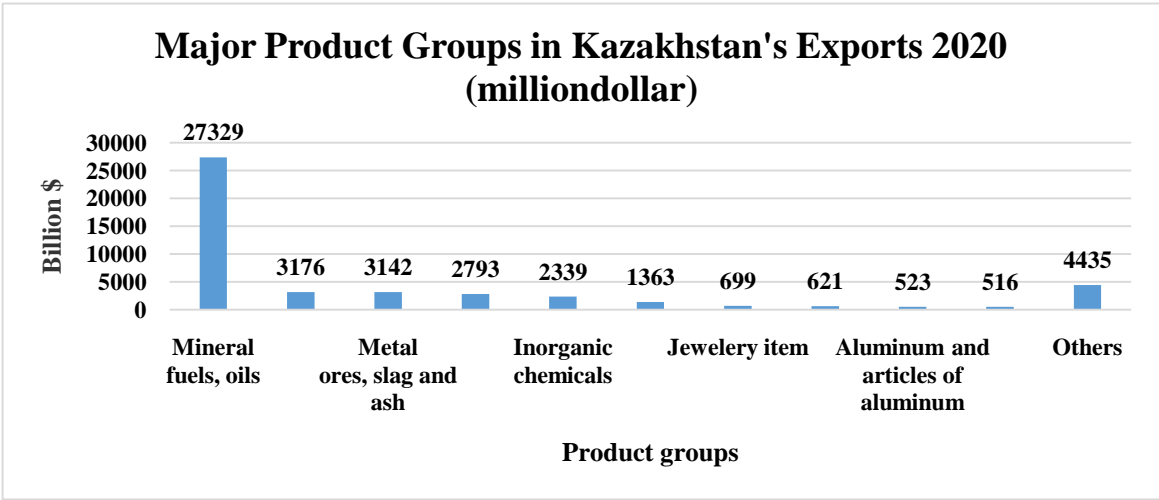


Figure 2. Major Product Groups in Kazakhstan’s Export,2020
Source:(Trademap, 2020)

Investment and consumption goods have an important place in the country's imports. Machinery, mechanical devices and tools, electrical machinery and devices, motor vehicles, articles of iron or steel, metal products, pharmaceutical products, mineral fuels and oils, plastics and their products, optics-materials are the product groups that are important in the import of the country.

Figure 3 show us, that the highly rate of import in 2020 has machinery and mechanical products which made 9.3 billion \$. Electrical machinery made 3.3 billion \$, other products imported by 13.7 billion \$.



Figure 3. Major Product Groups in Kazakhstan’s Import, 2020

Source:(Trademap, 2020)

According to Figure 4 below, the PRC is the country with the highest share in Kazakhstan's with amount of exports and 9 billion \$ import. China is followed by Italy, Russia, Netherlands, Uzbekistan and Turkey. Turkey gets a 5% share from Kazakhstan's export with its 2 billion \$ import. Trade and economic relations between Kazakhstan and China in compared to other countries are dynamic and intense. In 2020, trade with China increased by 4% and amounted to 15.4 billion \$, while exports to China amounted 9 billion \$.

In 2020, the trade turnover between Kazakhstan and the Netherlands amounted to \$ 3 billion Compared to the previous year, trade between the countries fell by \$ 1.27 billion, or more than 27%. The basis of trade is export, In 2020, the Netherlands purchased goods for 3 billion 148.6 million dollars. And this is the minimum value for the last at least 7 years. But this is not surprising, given that the basis is the sale of oil - a commodity, prices for which were at a fairly low level for most of the year. Aircraft are another major export item, with sales of \$ 150 million. In terms of trade dynamics, Italy is similar to the Netherlands. Compared to 2019, trade with Kazakhstan has dropped significantly (-25%), reaching a minimum for at least 7 years. But, even despite this, the country's contribution to the foreign trade of the Republic of Kazakhstan remains extremely high - 8.9% of the total trade turnover with all countries of the world. Key trading partner of Kazakhstan is a Russia accounted for 21.4% of the total foreign trade turnover of the republic. (Lee, Fariza and Sharipova, 2015)

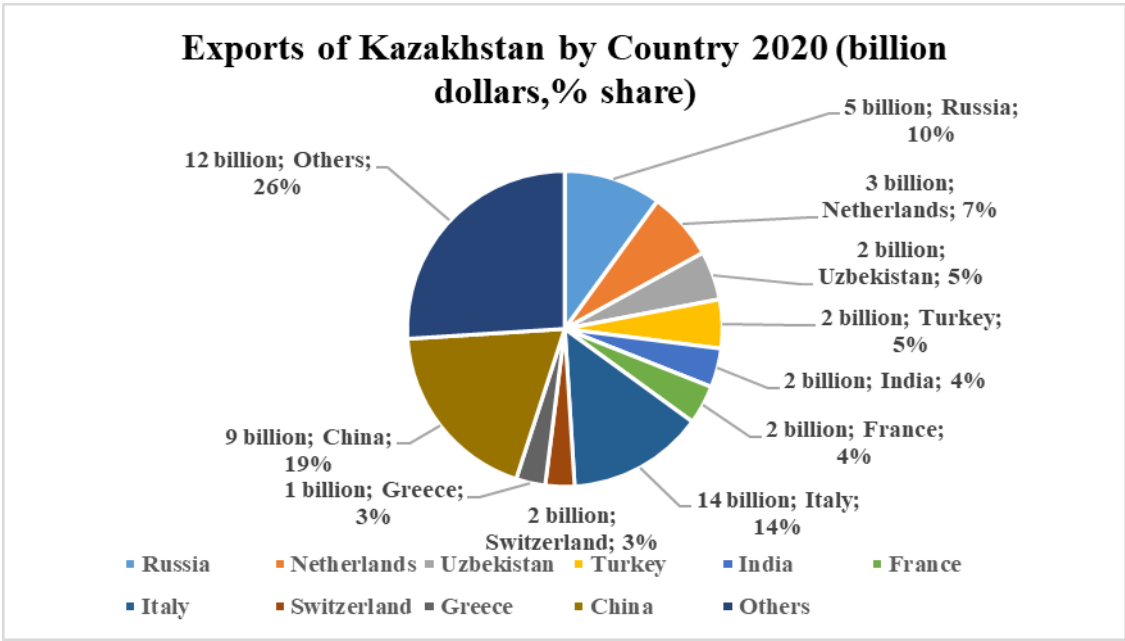


Figure 4. Exports of Kazakhstan by Country, 2020

Source:(Trademap, 2020)

Figure 5 shows that Russia is the country with the highest share from Kazakhstan's imports. Practices and agreements facilitating trade between the two countries play a role in this. The commercial and political ties between the two countries from the past are still preserved today. Russia, China, S. Korea, Germany, Italy, USA and Turkey follow it. Turkey gets a 2% share from Kazakhstan's imports with an export of 927 million dollars.

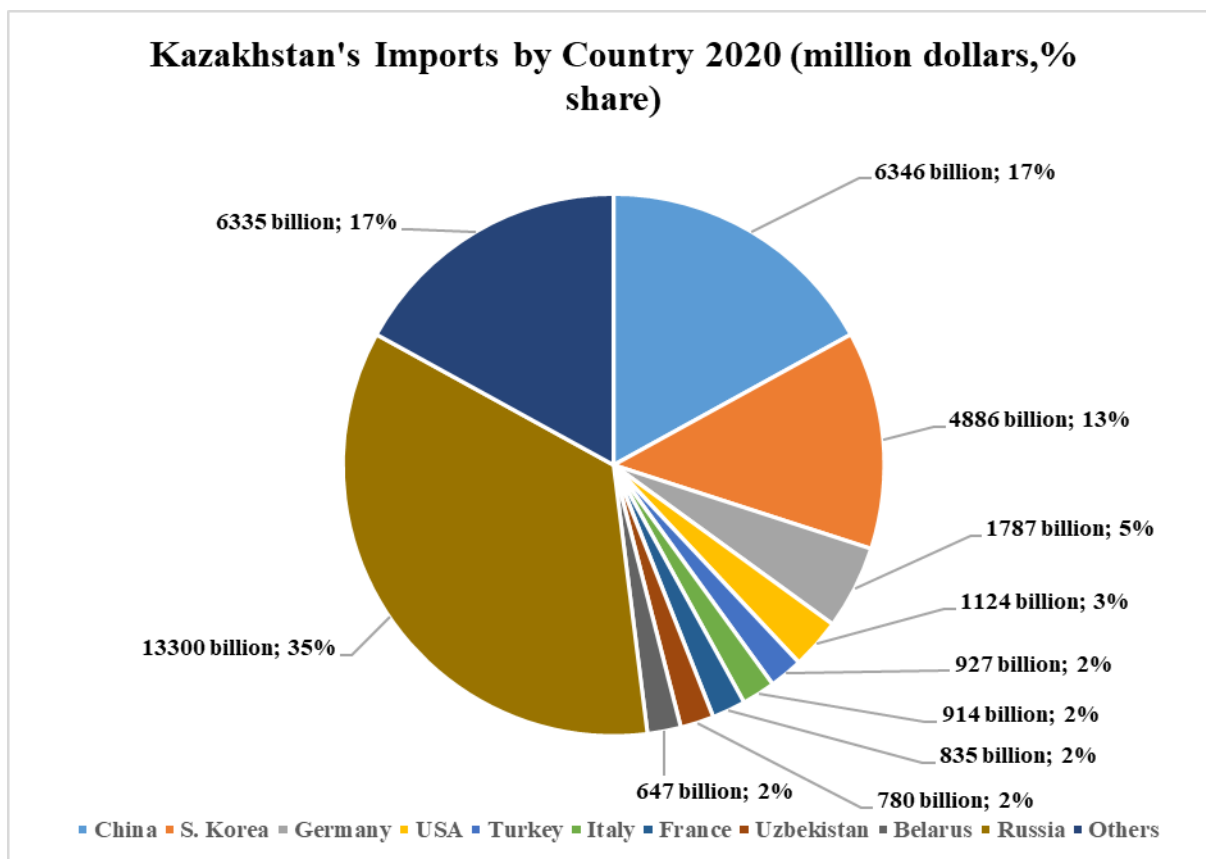


Figure 5. Kazakhstan Imports by Country

Source:(Trademap, 2020)

The largest share in the import of goods from the EAEU countries is occupied by machinery, equipment, vehicles, instruments and apparatus: 23%, or 484.2 million US dollars. Also, the top three imported commodity groups included mineral products (18.1%, or USD 381.1 million) and products of animal and vegetable, as well as food products (17.2%, or USD 362.6 million). Kazakhstan purchased goods for \$ 4.9 billion. For comparison: the total trade turnover with Uzbekistan, Kyrgyzstan and Tajikistan in 2020 amounted to \$ 45 billion. The key goods are refrigeration and freezing equipment, as well as air pumps - largely due to supplies from Korea, they became one of the main imported goods of the republic. The basis of transactions is imports, which account for 73% of trade between countries. The range of imported products is extremely wide, but the main ones are oil and gas. In the opposite direction, more preferable raw materials, in 2020, Russians paid the most for ores and concentrates of iron and precious metals, as well as for inorganic chemical products.

3.2.3 Foreign Direct Investments

Kazakhstan has been successful in attracting foreign direct investment since their independence. The country has attracted more than 80% of the total foreign direct investments in Central Asia. The increase in foreign direct investment has been due to developments in hydrocarbon fields, particularly in Kaşagan deposits.

For 15 years, the Netherlands has become the leader in foreign investments in Kazakhstan, which has invested about \$ 7 billion (2019) in the country and took first place in the rating of foreign investors (Table 2). Their share in the total amount of foreign investments amounted to 27.4%. Exactly ten years ago, the Netherlands invested about \$ 2 billion in Kazakhstan. In 2018, one of the actively discussed investment initiatives of the Netherlands in Kazakhstan was the project of the foreign Farm Frites in agriculture, which plans to build a potato processing plant. (Lee, Fariza and Sharipova, 2015)

During the last year, work was carried out on testing the potato variety, the region for the project was selected, and further negotiations on the project are underway. The project itself was originally planned in three phases from 2017 to 2020.

In a second-place investments with the amount of \$ 5.5 billion in 2019 and a share of 22.8% are investors from the United States. In the same period in 2005, investments from the United States were much less - \$ 1.18 billion. An interesting US investment project in Kazakhstan was the installation of farm weather stations. A cooperation agreement with DTN was signed by the Information and Accounting Center JSC. These settings are online services and reflect past, actual and forecast weather information. It is worth noting that stations in the States occupy 70% of the weather forecasting market. (Lee, Fariza and Sharipova, 2015)

The third place went proudly to Switzerland. According to the results of the three quarters of last year, this country spent \$ 2.2 billion in 2019, which amounted to 13% of the total amount of funds raised. One dozen years ago, the volume of investments was 6.8 times less.

About 40 Swiss enterprises are officially registered in the country, including the notorious Nestle, ABB, Novartis and others. But the largest investor is still the Glencore company, which is the main shareholder of the KazZinc company.

France in the same period took the sixth place in the ranking. Its investments in Kazakhstani projects amounted to almost \$ 1,068 million in 2019, although by the end of 2005, its investments in the country's economy amounted to \$ 774 million.

One of the memorable French projects of the last year was the project for the production of transformers for electric locomotives at the joint venture "Elektrovoz Krastyru Zauyty" (EKZ). The plant is a joint venture between Alstom and Transnmash. (Lee, Fariza and Sharipova, 2015)

The Belgian capital in the country is represented by several dozen companies, including Ahlers Bridge (logistics services), QWAY Energy Kazakhstan (renewable energy sources), Agfa Healthcare (software for hospitals), Manuchar (logistics, distribution services), "Gosselin" (logistics services) and others.

The seventh place is occupied by the United Kingdom, which has noticeably lower such investments and turned out to be at the level of \$ 591 million, a decrease in comparison with the results of 2005. So, according to the results of 2005, the amount of investments was \$ 603 billion.

More than 650 companies with British capital operate in Kazakhstan, including Rio Tinto, Michael Wilson & Partners, BAE Systems, GlaxoSmithKline, PwC, KPMG, Wood Group, Dentons, Dechert, Morgan Lewis.

To sum up 14 years, according to the table 2 below, the highest investment comes in 2018 which amounted 24263 million \$. In compare with 2019 it is decreased by 24115 million \$. The lowest mean was in 2005 counted by 7916 million \$. After 2015, we can see positive results, foreign direct investments has growing till nowadays. (Lee, Fariza and Sharipova, 2015)

Table 2.
Foreign Direct Investments by Countries (Million Dollar)

Billion \$	2005	2010	2015	2016	2017	2018	2019
Netherlands	1,944.10	7,310.30	5,744.40	7,968.60	5,935.20	7,350.00	7,272.40
USA	1,181.10	1,810.90	2,770.30	3,417.60	3,693.20	5,342.80	5.548
Switzerland	112.2	547.3	1,907.40	2,702.20	2,964.50	2,540.80	2,245.90
Cyprus	51.4	310.8	46.6	70.5	98.3	117.8	1,677.50
Moldova	0.4	-2.4	1.9	0.9	0.2	0.1	1.387
France	774.9	1,561.40	968.9	1,147.30	802.8	916.1	1068.90
Belgium	-5.2	422.1	693	710.6	1,068.90	1,049	860
UK	603.7	1,098	394.3	707.1	533.8	593.1	591.6
Japan	335	619.3	394.2	477.8	357.3	402.9	401.1
Germany	86.5	201.9	238.7	238.6	391.3	400.5	364.1
Turkey	79.1	95.3	144.5	338.4	294	300.3	358
Luxembourg	12.8	4.5	166.4	89.6	272.4	470.1	231.5
Spain	6.1	29.7	5.9	10.7	6.3	7.5	204.1
Panama	105.2	88.7	-17.1	-2.4	37.8	110.8	182.8
Total	7916	12066	15368	21367	20960	24263	24115

Source: (National Bank of Kazakhstan,2019)

In general, a decrease in the volume of inflow of foreign direct investment in 2020 is possible, due to the several factors. However, taking into account the work already carried out and the agreements reached, trends in the global economy and programs and measures taken by the Government, such as the “Economy of Simple Things”, support for SMEs, experts of JSC “NC “Kazakh Invest” expect that in 2020, attractiveness for investors will retain the manufacturing industry, including food production, light industry, pharmaceuticals, ICT, domestic tourism, as well as logistics and warehousing.

3.3 Summary

Since the second half of 2007, the economy of Kazakhstan has been negatively affected by the global economic crisis. The first wave of instability in the global financial market in August 2007, which was a consequence of the crisis in the US mortgage market, led to the closure of external debt capital markets. A sharp reduction in external borrowing and a shortage of liquidity limited the volume of lending by banks to sectors of the economy,

primarily, this affected the construction market and trade. In turn of this, the relatively high dependence of economic growth on these sectors contributed to a slowdown in economic growth as a whole. In 2007, real GDP growth was 8.9% against 4.2% in 2014.

In 2008, for the economy of Kazakhstan, as well as for the economy of most countries, the main characteristic feature was the intensification of problems associated with attracting external loans, rising prices for goods and raw materials, a decrease in the output of goods as a result of reduced demand, a slowdown in income growth and a reduction in credit activity of banks. In general, the deterioration of external conditions was one of the main reasons for the slowdown in GDP growth rates at the end of the year to 3.3%.

In 2009, the economy of Kazakhstan began its development in the context of the growing negative impact of the global economic crisis, the low level of world prices for resources, which led to a noticeable decrease in business activity and a decline in production in the country. Due to the implementation of anti-crisis measures, which were approved in the Joint Action Plan of the Government, the National Bank of the Republic of Kazakhstan and the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organizations to Stabilize the Economy and the Financial System for 2009-2010 (Plan), it was possible to prevent a recession Kazakhstan economy, and according to estimates in 2009 in GDP growth of 1.2%, the effect of anti-crisis measures provided additional economic growth by 3%. (Assylbekov and Assylbekova, 2021)

Over the years of reforms, there have been changes in the structure of the economy. Now the main share in it is occupied by the sector of production of services, where over the past ten years have dynamically developed: transport and communications sector, financial sector, hotel and tourism business, trade and areas serving the real estate market. In the production of goods, the dominant role was played by industry, primarily mining and metallurgy. Construction developed at a high rate, including the housing construction market and related industries. (Assylbekov and Assylbekova, 2021)

Since the beginning of market reforms, regulation of the labor market and employment in the Republic of Kazakhstan has been carried out mainly in the format of special employment programs for the population. In particular, the Program for Combating Poverty and

Unemployment for 2000-2002, the Program for Reducing Poverty in the Republic of Kazakhstan for 2003-2005, and the Program for Employment of the Population of the Republic of Kazakhstan for 2005-2007 have been implemented. In 2008, taking into account the negative impact of the global financial and economic crisis, the Strategy for Employment and Retraining of Personnel (Roadmap) was approved, aimed at ensuring employment, preventing a significant increase in unemployment, maintaining and creating new jobs. 191.5 billion tenge was allocated for its financing in 2009 and 150.6 billion - in 2010.

The dynamic development of the economy of Kazakhstan over the years of independence has made it possible to qualitatively improve the standard of living of the population. GDP per capita in Kazakhstan since 1993 has a steady upward trend, if in 1993 this figure was 696.2 US dollars, then in 2003 it reached 2068.1 US dollars. During the period from 2004 to 2009, GDP per capita more than doubled and amounted to 7257.1 US dollars in 2009. Although, in 2009, as a result of the negative impact of the global crisis on the country's economy, GDP per capita was lower than in 2008, in 2010 its size still exceeded its pre-crisis level and amounted to 8957.2 US dollars. In 2014 it is increased up to 12.807 US dollars. However, in 2019 declined by 9.812. (Assylbekov and Assylbekova, 2021)

In 2020, during the COVID-19 pandemic and the slowdown in the global economy, the volume of exports of goods from Kazakhstan also decreased. According to figure 1 the overall decline in exports amounted to 20% in value terms or -11 477 264.8 thousand US dollars in compare with 2019. The main reason was the decline in energy prices - the country's main export commodity.

At the same time, some sectors of the economy were able to save export volumes under these conditions. The largest increase in exports was demonstrated by: products of the chemical and related industries; precious and semi-precious stones; textiles and textile products; ground vehicles, aircraft

The total volume of imports for the year increased by 3.7% or by 1,397,488.1 thousand US dollars. In compare to 2018 which was less for 11%. The greatest growth was demonstrated

by: machinery and equipment; electrical equipment and parts thereof products of the chemical and related industries, prepared food products;

The indicator of foreign trade turnover is also positive. The volume of exports of Kazakhstan exceeded the volume of imports by 7 443 919.7 thousand US dollars. The largest decrease in export volumes occurred to European countries, which are the main consumers of Kazakhstan energy resources. This decline was partially offset by increased exports to China and Asia. (Assylbekov and Assylbekova, 2021)

Over the years of independence, Kazakhstan has attracted 320 billion dollars of foreign direct investment (FDI). At the same time, over the past 10 years, the national economy received \$ 250.2 billion. This trend reflects the effectiveness of investment policy. The largest volume of FDI was received in 2018 (\$ 24.3 billion). At the end of the first quarter of 2019, the gross inflow of FDI to Kazakhstan amounted to \$ 6 billion (a year earlier - \$ 6.7 billion). Overall, FDI reached \$ 24.3 billion in 2018, which is 15.8% more than in 2017 (\$ 21 billion). The share of FDI inflows from GDP also increased: from 12.9% in 2017 to 14% in 2018. At the same time, the Government of Kazakhstan plans to bring the ratio of gross FDI to GDP to 19% by 2022. (Lee, Fariza and Sharipova, 2015)

The largest volume of FDI in 2018 was directed to the mining industry and quarrying - \$ 13.6 billion. Investments in the manufacturing industry, as well as wholesale and retail trade amounted to \$ 3.4 billion and \$ 3.3 billion, respectively. At the same time, the top 5 industries included financial and insurance (\$ 1.3 billion), transport and warehousing (\$ 786 million). The Government of Kazakhstan is working to diversify the economy aimed at reducing dependence on raw materials. The country's policy had a positive effect on investment flows: in 2018, the share of investments in financial and insurance activities (from 1.9% to 5.4%), in the professional, scientific and technical area increased from 0.9% to 2.8%, construction from 1.6% to 2.4%. In 2018, with the participation of foreign capital, 27 projects were put into operation for the amount of \$ 3.1 billion, which made it possible to create 6 thousand new jobs. Most of the projects were implemented in the Almaty region 27 projects worth \$ 4.1 billion, Karaganda region 15 projects worth \$ 2.1 billion and Nur-Sultan 12 projects worth \$

4.1 billion. In 2019, it is planned to additionally commission 27 projects and attract about 100 new investors. (Lee, Fariza and Sharipova, 2015)

Kazakhstan has quite a few trading partners, but mostly about 20 countries are of importance. Above it was specifically analyzed the key countries for export in 2012 and 2018 - they are really key, in the first case their share in exports was 92.7%, and in the second 88.7%. The top five importers of Kazakhstani goods remain unchanged, their share averaging 55%. These are Italy, China, the Netherlands, Russia, France. Netherlands is here due to the activities of the vitol trader and various other traders, as, incidentally, Switzerland owes much of this import to the Glencore trader.

CHAPTER 4

THE IMPACT OF CRISIS ON KAZAKHSTAN ECONOMY

4.1 The Effect of Crisis on Kazakhstan

4.1.1 Post-Soviet Crisis In 1991-1996 Years

In the first half of the 90s Kazakhstan, like all new countries, has experienced a deep economic crisis. Country GDP 1992-1995 decreased in comparison with 1991 by an average of 18.7%. The drop in production covered all sectors of the economy. The output of agricultural products in Kazakhstan decreased by 28.8%, the decline in industry was 32% 6. The reasons for this catastrophic decline were associated with the collapse of the country and the breakdown of most of the economic ties between the republics. In the 1990s, the production of coal and electricity has dropped significantly, largely due to the economic downturn in Russia and the transition in mutual settlements to hard currency, which countries were sorely lacking. In the early 90s intensified, which began in the late 80s the outflow of the Russian-speaking population to Russia and other republics. (Assylbekov and Assylbekova, 2021)

In 1989-1996 net migration from the country amounted to 7.9% of the population. This was another reason for the collapse of industry in the first half of the 1990s. In 2000, the country had 1.5 million people. The population is less than in 1991. At the same time, the share of the poor has increased sharply. In 1998, 39% of the population had incomes below the subsistence level. In 1991-1995 there was a collapse in the investment sector. The volume of capital investments in 1995 was less than 1/5 of the 1990 level. Investments in fixed assets, despite some revival in the second half of the 90s, in 2000, respectively, amounted to only 29% of the 1990 level. gross fixed capital formation in 1995-1999 averaged 18.8%, with a maximum value of 22.3% in 1995. At the same time, foreign capital played a leading role in investments. In 1996, the first positive shifts were outlined positive, GDP growth, increased industrial production.

In 1997-2000, capital expenditures increased by more than 30% annually, due primarily to the extremely low starting base. Fixed capital investments only partially offset the decline in productive assets and were insufficient to create a basis for maintaining sustainable positive growth rates in the medium and long term. Thus, since the middle of the decade, the Kazakh economy (with a break for 1998) has demonstrated stable positive GDP growth rates and a recovery in industrial production. However, by 2000, the level of production, fixed in 1990, was not restored. An acute problem of the 1990s, there was a situation with non-payments: overdue accounts payable in 1995-1998 did not fall below 35% of GDP. In 1998, the volume of overdue accounts payable was more than 4 times higher than the money supply. By the beginning of 1999, wage arrears reached 69% of the amount of cash circulating in the national economy. In the second half of the 1990s more than half of the country's enterprises and organizations were unprofitable, and 30% of industrial enterprises produced the so-called "negative added value". (Assylbekov and Assylbekova, 2021)

In the electric power industry, the share of such enterprises reached 40% of their total number, in the food industry 37%, mechanical engineering -35%, metallurgy 30%, and the fuel industry 22%. Since 1998, the volume of non-payments began to decrease. This was due to two reasons. On the one hand, the deep devaluation of the national currency, while maintaining administrative control over energy prices, helped to reduce production costs. Domestic prices for primary energy carriers and electricity have ceased to catch up with world prices. On the other hand, the growth in revenues from the export of energy resources led to an increase in revenues to the state budget, which, in turn, made it possible to somewhat increase spending on the industries serving the domestic one. A feature of the 90s was the growth of the shadow economy. According to Western estimates, in the mid-90s the shadow sector contributed from 27.5% to 34.3% of GDP.

The owners were not interested in establishing and enforcing open rules of the game; non-payments and general tax evasion exacerbated the situation. The leadership of Kazakhstan has been fighting the recession in several ways. The priority was the creation of market institutions, among which privatization occupied the most important place.

Key anti-crisis program: In April 1992, the President of Kazakhstan N. Nazarbayev put forward the Strategy of political and economic development of the country until 2005. In the economy, a course towards denationalization and privatization was proclaimed. It was carried out in three stages and was basically completed by 1998. This opened the way for foreign investment in the extractive industries, which made it possible to significantly expand the export base at the expense of oil, gas, and metal ores. At the same time, a modern banking system was created and market reforms of housing and communal services, railway transport and energy, and the pension system were carried out. In this respect, Kazakhstan is noticeably ahead of other CIS countries in the 1990s.

Kazakhstan actively stood up for collective opposition to centrifugal tendencies and the development of regional cooperation with new independent states, which contributed to the development of mutual trade and the revitalization of production. A very radical step that significantly revived domestic demand was the transfer of the capital city from Almaty to Astana in December 1997. Following table explains post-Soviet Crisis term with basic indicators.

GDP- at purchase prices is the sum of the gross value added created by all resident producers in the economy plus any taxes on products and minus any subsidies not included in the cost of products. It is calculated without deducting depreciation of produced assets or without reducing depleted natural resources. According to the Table 3 we can see that GDP was in a low degree in 1991. In 1991, the country's GDP fell by 11%. The most significant decrease was in 1994. Then in 1996 it rose by 0.5%.

Table 3.
Basic Indicators in Post-Soviet Crisis

	1991	1992	1993	1994	1995	1996
GDP	-11%	-5.3%	-9.2%	-12.6%	-8.2%	0.5%
Inflation	147.12%	2962.81%	2169.80%	1877.37%	176%	39.18%
Exchange Rate	1,75 RUB	125RUB	4,75 KZT	35.64KZT	60.95KZT	67.30KZT
Unemployment Rate	0.90%	1%	1.11%	7.54%	10.98%	12.96%
Budget Deficit	7,7 billion RUB	7,3	10,3	20.6	40	43,9

Source: (World Bank,1996.)

Inflation rate is a steady rise in the general level of prices for goods and services. At the same time, some goods may appreciably rise in price, others may become cheaper, and still others may not change in price at all. According to the Table 3, during the period from 1991 to 1996, inflation rate remained at a relatively high level. The highest rate 2962.81% was amounted in 1992. The period of the beginning of the formation of Kazakhstan was the most difficult. At the time of the collapse, the economic indicators of the USSR were in a deplorable state. As a result, after independence, inflation in Kazakhstan amounted to 147.12% in 1991. Monthly price increases and reached 57-58%. In 1994, inflation was halved to 1877.37%, and in 1995 it was finally reduced to a double-digit rate of 176%. In 1996 this figure was already 39.18%, and 17.4% in 1997. The last year was a small respite before the 1998-1999 crisis.

Exchange Rate- the price of a unit of the currency of one country, expressed in units of the currency of another country. Base on Table 3, it is represent that the dollar exchange rate from 1993 to 1996 increased from 4.75 tenge to 67.30 tenge. Kazakhstan after independence 1991 has appeared tenge in 1993. (Pomfret, 2006).

The unemployment rate is the main indicator of the labor market, which shows the ratio of the unemployed population to the total working-age population. The unemployment rate characterizes the current state of the country's economy. As we can see in Table 3 the unemployment rate at the time of the collapse in 1994 was 7.54% and 10.98% in 1995. The main growth occurred in the next crisis. This is due to the massive outflow of the population. From 1992 to 1994, 1.1 million people left the country. Of these, 73% to other CIS countries. Over the years, only 343 thousand people arrived in Kazakhstan, including 91% from the CIS countries. Since 1995, this indicator has begun to decline in Kazakhstan. In 1999, the number of emigrants decreased by 2.9 times compared to 1994, and the negative balance of migration by more than three times. (Pomfret, 2006).

Budget Deficit- is the level of the government budget, in which its expenditure side is not covered by revenues. This creates a negative balance. This rate of the budget is typical for most countries with developed economies and is associated with inflation. The budget deficit reflects the precarious economic and financial situation. It is covered by internal and external funding sources and leads to an increase in public debt. As mentioned in Table 3, the budget

deficit in 1991 reached 7.7 billion rubles, 20.6 billion tenge in 1994, 43.9 billion tenge in 1996. Meanwhile, for the formation of the economy in the country, was put forward the "Strategy for the political and economic development of the country until 2005" and was implemented system for denationalization and privatization. For this, the State Soviet Economy was reformed into a market economy with various forms of property. From 1991 to 2000, 34.5 thousand objects of state ownership were sold to new private owners for 215.4 billion tenge. As a result, private and free entrepreneurs appeared in the country. A market mechanism was also formed. As a result, production was stopped due to decline. In 1997, GDP growth was recorded by 1.7%, and industrial production by 4%, 79% of industrial production was produced in private enterprises (Pomfret, 2006)

4.1.2 Fall of the Asian Market in 1997-1998 Years

The economic crisis in Southeast Asia, which erupted in July 1997, was the most severe shock to the global economy. The underlying reason was the extremely rapid growth of the economies of the "Four Asian Tigers" (the unofficial name of the economies of South Korea, Singapore, Hong Kong and Taiwan, which demonstrated very high rates of economic development from the early 60s to the financial crisis of the 90s of the XX century), which contributed to a massive capital to these countries, the growth of public and corporate debt, the overheating of the economy (a situation in which the rate of economic growth becomes explosive and uncontrollable and, having absorbed all the resources of the private and public sector, ends with a recession) and a boom in the real estate market. The crisis phenomena in the economies of Southeast and East Asia have been growing for a long time. Thailand became the first candidate for bankruptcy in May-June 1997 in terms of the ratio of GDP and volume of external borrowings. Then the crisis spread to the economies of Indonesia, Malaysia and South Korea. Japan, Hong Kong, Laos, the Philippines, China, India and Vietnam were less affected by the crisis. Among the "Asian tigers", Singapore and Taiwan were least affected by the crisis. For all named economies during 1997-1998 characterized by a fall in the exchange rate of the national currency, an increase in inflation, an increase in the volume of corporate debt, high-profile bankruptcies of corporations. The crisis consequences quickly spread throughout the world. American, European and Japanese multinationals have lost billions of dollars. (Pomfret, 2006).

Capital outflows and falling commodity prices contributed to the 1998 Russian economic crisis. The repeated fall in the ruble exchange rate against the US dollar, while maintaining the current ruble prices, naturally led to a sharp decrease in the cost of Russian goods in the Kazakhstan market. In order to support Kazakhstan commodity producers, the country first tried to restrict imports, and then decided to devalue the tenge. At this time in all over the world there is a drop in oil prices to 9 dollars per barrel. The decline in world prices for the main export goods of Kazakhstan led to a drop in the country's GDP by 2.5%, and the inflation rate began to grow again and reached 117%. (Pomfret, 2006).

Key anti-crisis program: Based on the analysis of the current situation in the Asian markets, President Nazarbayev already in early 1997 put forward a progressive Strategy for the Development of Kazakhstan until 2030. In addition to general political tasks, the program carried practical anti-crisis measures, which were concentrated in instructions to the government for 1998.

According to the applied measures, it was possible to secure the functioning of the banking system. The exchange rate stabilized, production growth resumed, and the competitive positions of Kazakhstani exports were restored. By the end of 1998, inflation was reduced to 7.3%. In 1998, the export level was \$ 6.012 billion. The economy has undergone positive changes. If in 1998 the economic recession was 1.9%, then in 1999 experts stated economic growth of 2.7%. In 2000, compared to 1999, Kazakhstan's GDP increased by 8%, and in the next year - by 13.8%. Entrepreneurship has provided jobs for over 6.2 million people. The incomes of the population have grown. Astana became the new economic center of the country. The 1998 crisis contributed to an increase in Kazakhstan's foreign economic partners. At the beginning of the 2000s, a radical revolution took place in the conduct of social policy, which began to be carried out in conditions of stabilization and development of the economy. In 2001, the law "On State Social Assistance" was adopted, a Program to Combat Unemployment was developed, and the National Fund was created. At the same time, the pension system was changed. Only for the period from 1994 to 2004, on average, the monetary incomes of Kazakhstanis increased fivefold; The average monthly salary increased almost six times, the minimum wage increased 25 times, the average monthly pension

increased 4.6 times, deposits of individuals in banks and the volume of deposits per resident increased 35 and 37 times, respectively. (Pomfret, 2006).

Thus, Kazakhstan successfully overcame the systemic crisis of the 1990s and confidently embarked on the path of progressive development. The anti-crisis measures taken by the state - a competent investment policy, preparation and implementation of a freely floating exchange rate of the tenge with the provision of measures to provide timely assistance to the population, measures in the oil industry - ultimately contributed to the process of stabilizing the economy of Kazakhstan.

When we look at the **GDP** in Table 4 in 1997 showed an increase by 1.7%, and in 1998 it grew by 0.1%. It is due to strategy that in 1997 the first president, Nursultan Nazarbayev, put forward for the development of Kazakhstan until 2030. The government was instructed to ensure timely payment of social benefits and salaries in budgetary organizations. Microcredits were also allocated to create jobs. \$ 40 million was allocated for the implementation of the housing construction program. (Pomfret, 2006) As a result, in 2000, GDP growth was 9.8%, and 10.7% in 1996. More than 6.2 million people worked in the field of entrepreneurship. Over the next seven years, the economic indicators of Kazakhstan will grow, and the endless crisis of the 90s is over. (Ishekenova, 2021)

Table 4.
Basic Indicators in Asian Financial Crisis

	1997	1998	2000	2002	2004	2006
GDP	1.7%	1.8%	9.8%	9.8%	9.6%	10.7
Inflation	17.4%	7.14%	13.18%	5.83%	6.88%	8.7%
Exchange Rate	75,44	78,30	119,52	153,28	136,04	126,09
Unemployment Rate	13.01%	13.13%	12.75%	9.33%	8.40%	7.79%
Budget Deficit(%GDP)	-30.8	-40.2	-0.1	-0.3	-0.3	0.8

Source: (World Bank,2006.)

Rate of inflation described in Table 4, fell down from 17.4% in 1997 to 7.14% in 1998, however in 2000 this rate extremely increased up to 13.8%. The following years show us that government stabilized inflation rate, during 6 years, rate fell down by 8.7%. The overly rapid

growth of the Asian Tiger economies, massive capital inflows, increased public and corporate debt, the economy overheated and a real estate bubble. This led to a crisis in East and Southeast Asia, which spread to the whole world, including Kazakhstan. American, European and Japanese multinationals have lost billions of dollars. (Ishekenova, 2021)

Between capital outflows and falling commodity prices have led to economic destabilization in Russia. Because of this, goods from a neighboring country fell sharply in price in Kazakhstan. Kazakhstani commodity producers were put under attack.

Exchange rate- In this situation, the government first tried to restrict imports, then devalued the currency to 119.52 tenge for \$ 1 in 2000. Then in 1997 and 1998 the exchange rate was 75.44-78.3 tenge per \$ 1. According to Table 4, exchange rate during 9 years increased up to 126 tenge per 1\$, which is amount 68%. At the same time, in addition to sending tenge to float freely, the National Bank carried out compensatory measures. Including depositors of banks that do not withdraw their deposits in tenge, within nine months after the introduction of a freely floating tenge exchange rate, they were allowed to fully convert funds into US dollars at the rate that was in effect before the devaluation. The Ministry of Finance also issued special foreign currency bonds with a par value of \$ 100 with a maturity of five years to protect the pension assets of accumulative pension funds. (Ishekenova, 2021)

Unemployment Rate in 1997 exceeded 13.01%, and in 1998 it reached 13.3%. Since 1999, there has been a steady increase in the employed population and a decrease in the unemployment rate. In 2004, the economy employed 1,766 thousand people, which is more than in 1999 by 1,060 thousand people (or 17.3%). Unemployment rate if we see table above in 1997, the level was 13.1%, 12.8% in 2000 and 8.4% in 2004. The economic consequences of unemployment can be estimated using Okun's Law. This law expresses the relationship between the unemployment rate and the lagging behind the volume of GNP: if the actual unemployment rate exceeds the natural unemployment rate is 1%, the lag in the volume of GNP is 2.5%. If we take the natural unemployment rate in the range of 5-6%, and take into account that the current unemployment rate in Kazakhstan is 8.4%, then we can talk about the fact that Kazakhstan has a limit for accelerating GDP growth at 5-6%. Kazakhstan plans to increase its GDP at a rate of 7.5% per year. Even taking into account the fact that the basis of

GDP growth is oil production and the corresponding super profits, we can say that in the next two to three years there will be an acute shortage of personnel. (Ishekenova, 2021)

Budget Deficit in 1998 amounted to 110.6 billion tenge or 40.2% of GDP, in 2000 it decreased to 0.1%. Then the following 6 years, government declined deficit in budget up to 0.8% percent of GDP. (Ishekenova, 2021)

4.1.3 Global Financial Crisis in 2007-2009 Years

Global financial crisis 2007– 2009 - the heaviest crisis in history, according to the theory, the market economy is based on the principle of “demand creates a proposal.” However, in the twentieth century, a paradoxical phenomenon was discovered - during mass production, an abundance of supply which can generate its own demand. In this process was repeated over and over again, thus ensuring endless economic growth. But an “ever-growing” economy needs a continuous consumer boom. Therefore, banks lent money to the "ideal consumer" over and over again, constantly lowering the bar and, finally began to issue loans to knowingly insolvent borrowers. This crisis can rightly be called not a crisis of overproduction, but a crisis of overconsumption. Excessive consumption not related to economic realities has become common for the United States and a number of European countries the means by which they tried to delay the systemic transformation impending on them. Everyone was involved in the massive overconsumption: the population, companies, banks, the state. It should be emphasized that the American economy occupies 20% of global GDP, many countries sell their goods to America and buy related goods. The cyclical nature of the world economy is mainly coinciding with the cyclical nature of the US economy. In particular, there have been ten such cycles since 1945, and the last cycle began in 2002 as the US economy was at a low level, and growth was less than 1%. At this time, the US Federal Reserve cut refinancing rates, people began to offer "Cheap money", and it was given without collateral. People have become take them, build housing, improve life, buy cars. Real estate increased in value, banks were expensive real estate, under this real estate issues of valuable papers that were bought all over the world. In such conditions the overheated US mortgage market turned out to be the weakest link. It is only at first glance that the mortgage system is

best protected from defaulters. Of course, the bank still has a guarantee in the form pledged real estate object, but in case of massive non-payments, this guarantee becomes "paper".

The third crisis in the history of the Republic of Kazakhstan, was the global crisis which began on September 15, 2008, after the large investment bank Lehman Brothers (USA) filed a bankruptcy petition in court and asked to protect it from creditors. The financial crisis that began in the United States is comparable in scale and consequences only to the Great Depression of the 1930s. In 2009, world GDP for the first time since World War II showed a negative trend. (Ishekenova, 2021)

The consequences of the global financial crisis were felt in Kazakhstan as well. Long-term loans ran out all over the world, the global economy went berserk, banks and businesses could not get funds for further turnover. For Kazakhstan, the onset of the crisis has become as untimely as possible. The country entered the new year 2008 on the crest of economic success. The growth rate of the economy in 2007 was 8.5% - an impressive figure for the whole world. The country's gold and foreign exchange reserves have also grown, amounting to \$ 40 billion. As a result of high oil prices, which in 2008 reached an all-time high of \$ 140 per barrel of oil, the tenge began to put pressure on the dollar. The rate was stable at the level of 119 tenge per dollar. And therefore, the crisis, although it did not take the state by surprise, left a very unpleasant aftertaste precisely from the point of view of preventing Kazakhstan from reaching the peak of its heyday in record time.

Following table gives us basic indicators of Kazakhstan in Global Financial Crisis term.

GDP: The difficult economic situation around the world and Kazakhstan was caused by the fact that on September 15, 2008, a large US investment bank Lehman Brothers filed a bankruptcy petition in court. The financial crisis in the United States was comparable in scale and impact to the Great Depression of the 1930s. In 2009, for the first time since World War II, global GDP showed a decline. Note that the preconditions were the US subprime crisis in 2007-2008. Base on Table 5 GDP decreased by 1.2% in 2009. Then after 2010 we can see slightly increase till 2011. In 2013 again declined up to 6%.

Table 5.
Basic Indicators in Global Financial Crisis

	2007	2008	2009	2010	2011	2012	2013
GDP	8.9%	3.3%	1.2%	7.3%	7.4%	4.8%	6%
Inflation	18.8%	9.5%	6.2%	7.8%	7,4%	6,1%	4,9%
Exchange Rate	122,5	120,30	147,5	147,35	146,62	149,11	152,13
Unemployment Rate	7.26%	6.63%	6.55%	5.77%	5.39%	5.29%	5.20%
Budget Deficit (%GDP)	5.37	1.6	-1.5	2.1	11.1	9.2	11.7

Source: (World Bank, 2013.)

Inflation rate- In 2007, the inflation rate in Kazakhstan rose sharply to 18.8%. The sharp rise in prices was facilitated by a significant increase in 2006 in the monetary base by 2.2 times and the money supply by 1.7 times in the context of the emerging global financial crisis. To limit the rise in prices, the National Bank in 2007 reduced the monetary base (Ishekenova, 2021). As a result, the inflation rate began to decline over the next seven years. In table above inflation rate was 4.9% in 2013.

Exchange Rate in Kazakhstan, 2008 turned out to be successful the economy grew by 8.5%. Gold and foreign exchange reserves rose to \$ 40 billion against the backdrop of a Brent price of \$ 140 per barrel. The rate was kept at the level of 120.3 tenge for 1\$. *The second devaluation* of the national currency happened in 2009. Over the next seven years exchange rate sharply rose from the level 147.5 tenge in 2009 up to 152.13 tenge for 1\$. The dollar rate then jumped to 147.50 tenge per \$ 1. But then it stabilized and consolidated in the corridor of 146-152 tenge for \$ 1. (Ishekenova, 2021)

The **unemployment rate** in 2007 reached 7.3%. In 2008-2009, this indicator decreased to 6.6%. According to the Table 5 we can see that unemployment rate decreased every year. Since 2009 from 6.55% to 5.20% in 2013. Furthermore, government in Kazakhstan, to support the economy, was developed a Plan for Stabilizing the Economy and the Financial Sector for 2009-2010. To implement the measures, it was planned to additionally allocate country support in the amount of 2.2 trillion tenge. As a result, the inflation rate was planned to be kept within 7-9%, the unemployment rate was up to 8%. The aimed indicators have been achieved. (Pomfret, 2019).

Budget deficit in 2007 was equal to 229.6 billion tenge or 5.37% of GDP. In 2009, this figure reached 573.6 billion tenge or -1.5% of GDP. It is significantly rose from 2.1% in 2010 to 11.7% in 2013. (Ishekenova, 2021)

4.1.4 Sanction Crisis in 2014-2015 Years

The reason of Sanction crisis, according to many experts, the current economic turmoil is just another round of the 2008-2009 crisis. And all the leading states of the world are now obliged to go through the painful last stage - the devaluation of currencies, a change in monetary (monetary) policy, and the implementation of large-scale reforms. The reason for the next international instability is the slowdown in the developing economies of China, Russia, Brazil, South Africa and others. This entails a fall in prices for basic energy resources and an increase in general panic on world exchanges. Markets are in a standby mode, all leading investors are afraid to invest in new projects and are withdrawing their assets from developing countries, preferring to invest in less profitable but more stable projects in the West. The situation is aggravated by the unleashed war in Syria, in which almost all leading countries are already involved, as well as the sanctions confrontation between Russia, the United States and Europe.

In mid of March 2014, sanctions were imposed on Russia, which had a negative impact not only on the economy of the partner country, but also affected the economy of the Republic of Kazakhstan. In June 2014, the European Council extended the EU's economic sanctions on Russia for another six months, while Russia extended its food import ban on Western countries for a year. (Pomfret,2019).

Russia is one of the major trading partners of Kazakhstan, which, accordingly, affects our economy. So, the IMF in 2015 predicted a decrease in the growth rate of real GDP in Kazakhstan to 2%. Weakening demand from Russia and China, declining oil prices, confidence effects and continuing delays in the Kashagan oil field are the main factors driving the projected slowdown in growth. (Pomfret,2019).

There is also a slowdown in economic growth in Kazakhstan. Thus, the country's GDP for January-March 2015 amounted to 8,248.0 billion tenge, which is 9.0% more than in the same period last year. When, in the same period of 2014, GDP grew by 11.0% to 7,565.9 billion tenge compared to the same period in 2013.

Average per capita nominal money income in May 2015 increased by only 2.8% to 63,204 tenge compared to 2014. At the same time, in May 2014, this indicator increased by 10.8% to 61,480 tenge compared to the previous year, which indicates a significant slowdown in income growth and, accordingly, a decrease in the purchasing power of the population.

The volume of industrial production in January-June 2015 decreased in nominal terms by 25.9% to 6,816.5 billion tenge. When in the first half of 2014 it showed an increase of 5.3%, amounting to 9 203.8 billion tenge, compared to the first half of the previous year. The volume of investments in fixed assets in the first half of 2015 increased by 8.0% to 2,687.5 billion tenge compared to the same period in 2014. In the first half of 2014, this indicator showed an increase of 9.0% to KZT 2,487.6 billion compared to the previous year.

The volume of retail trade in the first half of this year increased by 6.5% to 2,790.5 billion tenge compared to the first half of 2014. While in 2014 this indicator showed an increase of 17.2% to 2 620.2 billion tenge compared to the previous year. The volume of gross output of agricultural products (services) for the first half of 2015 increased by 9.5%, amounting to 611.7 billion tenge compared to the same period last year. At the same time, the same growth was observed in the first half of 2014 relative to the same period in 2013. (Pomfret,2019).

According to the data presented, a significant decrease is observed in the external trade turnover. At the same time, the share of Russia in the total volume of Kazakhstan's trade turnover at the end of 2014 amounted to 15.8%. In particular, the share of Russia in the total volume of exports is 6.6%, and of imports - 33.3%. Thus, Russia ranks fourth among the countries where Kazakhstan exports and first among the importing countries.

In June 2015, commodities such as crude oil and crude oil products obtained from bituminous minerals prevail in the structure of Kazakhstan's exports to Russia, their share of the total

volume amounted to 32.41% or 147.77 million US dollars. A significant share fell on radioactive chemical elements and radioactive isotopes and their compounds (mixtures and residues containing these products) - 8.65% or 39.45 million US dollars. Also in the top three exports is artificial corundum of certain or undefined chemical composition - 6.23% or 28.42 million US dollars.

Kazakhstan is most dependent on Russian products such as oil and oil products derived from bituminous minerals, with the exception of crude. In the structure of Russian imports to Kazakhstan, their share was 6.86% or 69.08 billion US dollars. Russia actively imports vehicles to Kazakhstan, the share of the total value of Russia's imports amounted to 6.49% or 65.30 billion US dollars. Ores and concentrates of precious metals were also significantly imported from Russia to Kazakhstan - 3.61% or 36.32 billion US dollars. It should be noted that in the trade turnover of Kazakhstan with the EAEU countries, Russia's share in exports is 98.09%, and in imports - 96.10%.(Pomfret,2019).

Due to this **GDP** growth in 2014 slowed down to 4.2% (6% in 2013. Table 5.), and in 2015 fell to 1.2%. But in 2017 stabilized rate and reached 4.1%. (Table 6)

Table 6.
Basic Indicators in Sanction Crisis

	2014	2015	2016	2017	2018
GDP	4.2%	1.2%	1.1%	4.1%	4.1%
Inflation	7,54%	13,53%	8,29%	7,22%	5,43%
Exchange Rate	179,19	187,45	353,70	335,21	349,68
Unemployment Rate	5.06%	4.93%	4.96%	4.90%	4.83%
Budget Deficit (% , GDP)	5.4	-11.5	-6.1	-7.1	-4.6

Source: (World Bank, 2018.)

Inflation rate rose from 4.9% in 2013 to 13.5% in 2015. Prices for food products increased by 10.9%, non-food prices - by 22.6%, paid services - by 8.1% (Ishekenova, 2021). In 2014, inflation was 7.54%. Then in 2016 inflation started to decline from 8.29% till 5.43% in 2018.

Exchange rate -Putting tenge on free float became significant in this period. In February 2014, the National Bank, headed by Kairat Kelimbetov, decided to refuse to support the tenge. This caused *the third devaluation* in Kazakhstan. Then the exchange rate in Table 6 rose to 179.19 tenge per \$ 1. In 2015, former Prime Minister of Kazakhstan Karim Massimov announced that the National Bank and the government of Kazakhstan had decided to cancel the currency corridor and move to a *free-floating* exchange rate. On August 20, 2015, the tenge on the Kazakhstan Stock Exchange fell from 188 tenge to 255.26 tenge per \$ 1. From the involving of the tenge into circulation in Kazakhstan, there have been several devaluations and a transition to a free-floating exchange rate. In December 2015, the head of the National Bank, Daniyar Akishev, spoke about the regulation of the country's banking sector. He also said that stress testing of financial institutions will show the players' resilience to changes in the economy. From the involving of the tenge into circulation in Kazakhstan, there have been several devaluations and a transition to a free-floating exchange rate. According to the National Bank, the largest volume of net sales of dollars in the foreign exchange market fell on 2014-2015. In 2014, to support the exchange rate, the regulator "burned" \$ 22.41 billion. Later in 2015, \$ 12.70 billion was sold on the exchange. Over the next few years, the dollar continued to strengthen its position and at the end of 2017 its value was 335.21 tenge. In October 2018, the price of the national currency was fixed at around 349.68 per \$ 1. (Ishekenova, 2021)

The unemployment rate in Kazakhstan in 2014 increased to 5.6% (5.2% in 2013, Table 5) and in 2015 decreased up to 4.9%. In subsequent years, until recently, this indicator has been decreasing.

Budget deficit the budget deficit was 5.4% of GDP in 2014. It increased in 2015 by reaching 11.5 % of GDP and decreased in 2018, becoming 4.6% of GDP.

Thus, in 2014, Kazakhstan adopted two *anti-crisis programs* "Nurly Zhol" and Five Institutional Reforms with 100 specific scales. Within the framework of the Nurly Zhol program, 1 trillion tenge was allocated from the National Fund to support economic growth and employment of the population. 100 billion tenge was allocated for preferential lending to enterprises. The Problem Loans Fund received another 250 billion tenge to rehabilitate the banking sector and buy out bad loans. Also, funds were allocated for the construction and

reconstruction of roads, SEZs, industrial technology parks, the construction of EXPO-2017, the construction of social housing, and the modernization of energy infrastructure. The total investment portfolio of Nurly Zhol amounted to 6 trillion tenge. (Ishekenova, 2021)

4.1.5 Corona-Crisis in 2020 Year

From March 16 to May 11, 2020, a state of emergency was introduced in the republic, after this measure the country went into quarantine. The cause was the COVID-19 virus. According to the Ministry of Finance, as a result of the pandemic, the budget deficit increased from 1.9% of GDP in 2019 to 3.1% of GDP (2.2 trillion tenge). In 2021, this figure is expected to be 3.4% of GDP, or 2.6 trillion tenge.

During the period of independence of Kazakhstan since the 2000s, the GDP of Kazakhstan will go into negative territory for the first time (-2.5%). For comparison, during the 2008 crisis, Kazakhstan's GDP fell to 1.2%, the indicator has not dropped below zero since 1998. At that time, the economy of Kazakhstan was influenced by the consequences of the crisis of the "Asian Tigers" and the Russian crisis (GDP -1.9%). During the pandemic, the greatest damage was done to the fitness industry (-100%), air travel (-72%) and the restaurant business (-80%). (Ishekenova, 2021)

The COVID crisis is unlike previous crises. Of course, crises are rarely alike at all. Recently we hear more and more often about the crisis of overproduction, so to speak, the "bubble crisis". The world has already faced a financial crisis, some countries are experiencing a debt crisis. All these crises, as a rule, begin in one sector of the economy, and then spread to all other sectors. But the coronavirus crisis is not like that. It began almost instantly across the planet and locked people in their homes. The movement of people between continents and countries during other crises has never been limited, and today people do not fly, do not cross borders, sit at home and keep their distance.

In general, about 6 trillion tenge, or about 8% of the country's GDP, have been allocated to fight the coronavirus crisis. These are huge resources. They were aimed at social protection of the population, strengthening the infrastructure of the healthcare system, material incentives

for medical workers directly involved in the treatment of patients infected with a dangerous disease, and a significant part - at supporting the vigorous activity of business entities in order to prevent an explosive increase in unemployment.

In the economy, everything is interconnected. Because of the coronavirus, people stopped leaving their homes unnecessarily, and the movement of people around the world has sharply decreased. As a result, the consumption of petroleum products has decreased. The transport sector is the main consumer of oil. Half of the oil produced is used as fuel for vehicles. In April, daily oil consumption fell by more than 20% (about 20 million barrels per day). In just a few days, all oil storage facilities were overflowing. The world's oil sector was on the verge of collapse, so to save the industry, oil producers signed the OPEC + agreement, which was joined by 10 OPEC countries and 13 other countries, including Kazakhstan, which are not OPEC members. As part of the agreement, the countries agreed to reduce the daily oil production in the world to 9.7 million barrels from May 1 to August 1. Kazakhstan has pledged to reduce daily production by 390 thousand barrels per day. In this regard, the country's oil companies are faced with a new challenge associated with a reduction in production over the next two years. A drop in oil demand, a sharp decline in prices, and the absence of the need to increase production volumes pushed companies to revise all investment and non-core costs. As a result, orders for the services of oilfield service companies fell sharply, for geological exploration, engineering, drilling and seismic services, and so on. Workers in these industries were at risk of being fired. Thus, the crisis in the oil industry in the coming years will not only restrain the development of the economy, but also need some support from the state. (Ishekenova, 2021)

But there are also good trends in the economy. The crisis has a benefit impact for enterprises as telecommunications, pharmaceutical industries, and businessmen who involved in providing remote work of companies and organizations today. This year, has sharply increased government investments for financing the medical industry, so this industry will be in an advantageous position.

As a result of the COVID-19 pandemic, the international community was forced to close the borders. Thus lead to the decline in GDP in Kazakhstan in 2020 predicted by EDB as an

amount 3%. At the end of the 3rd quarter of 2021 GDP decreased by 1.6%. Which is less than in 2020 by 2.8%. In 2022, experts forecast GDP growth at 3.5% due to increased investment, as well as the extraction and production of hydrocarbons (Table 7).

The economy of Kazakhstan is highly dependent on the export of raw materials. Therefore, external factors have a significant impact on GDP growth. For example, after the big crisis of 2008-2009 and the decline in oil prices, the economy of the Republic of Kazakhstan returned to its former shape, but further growth was rather “viscous”.

Table 7
Basic Indicators in Corona Crisis

	2019	2020	2021 3rd q	2022*
GDP	4.5%	2.8%	1,6%	3.5%
Inflation	5,43%	6,37%	7,4%	6%
Exchange Rate	385,76	433	427,63	430.1
Unemployment Rate	4.59%	4.55%	4,8%	4,7%
Budget Deficit	-1.03 %	-12 %	3,5%	-1%

Source: (World Bank, 2021.)

Inflation rate- Kazakhstan was in an emergency regime, from March 16 to May 11, 2020. As a result, above in Table 7, inflation rate rose from 5.43 in 2019 up to 6.37% 2020. Food products for the year increased in price by 10.8%, non-food products - by 5.7%, paid services - by 4.1%. If we consider the rise in prices since the beginning of the year, then in November it reached 6.5% against 5.5% in October. Food prices went up by 9.6%, non-food products - by 5.1%, services - by 3.8%. (Ishekenova, 2021) Also, experts expect the national currency will strengthen. This will stimulate inflation to slow down to 6 % in 2022. According to the National Bank of the Republic of Kazakhstan, inflation in Kazakhstan is now 7,4%.

Exchange Rate dramatically increased in compare with previous years. If in 2019 it was 385.76 tenge per 1\$, then after impact of covid crisis it is reached 433 tenge per 1\$ in 2020. In the end of 3rd quarter 2020 tenge strengthened by 427.63 per 1\$. The tenge will weaken against the dollar in February 2022 to 430.1. This is stated in the message of the Analytical Center of the Association of Financiers of Kazakhstan (AFK). The study examined the opinion of professional participants in the financial market, representatives of banking,

insurance, brokerage organizations, employees of analytical and treasury departments. (Ishekenova, 2021)

The unemployment rate- According to the Bureau of National Statistics, in the third quarter of 2020, the number of people without official earnings amounted to 454.8 thousand people. The unemployment rate rose to 4.55% in 2020. The last time a similar indicator was observed in the III quarter of 2014 - 458.1 thousand people (5%). At the same time, last year the number of unemployed was 442.1 thousand people, which is more than in 2018-2017. Due to the active population, the rate was stabilized. Therefore, 10 years ago, with 8.7 million people who is able to work, the number of unemployed exceeded the current figure by 5.6% the unemployment rate was 5.6%. In 2002, the level of people without official earnings exceeded 8%. (Voloshin, 2021). In Figure 7 we can see the dynamics of unemployment rate since 2002 to nowadays. Due to the project of the ministry, the unemployment rate was forecasted as 4.8% in 2021. The unemployment rate is estimated at 4.7% by 2022. The number of hired or employed workers by 2022 will reach 11 thousand people, the most hired or employed will be the category of unskilled workers common to all industries - 1.3 thousand people, or 11.6%.

Budget deficit- In 2019, it was 1.03 % of GDP. It reached 12% of GDP in 2020. It is expected that it will decrease in 2021 and 2022.

4.2 Kazakhstan Economy Policy in Crisis Term

4.2.1 Economy Policies in Post Soviet Crisis Term

Under the leadership of Nursultan Nazarbayev, Kazakhstan has become a leader in the implementation of the most successful and large-scale market reforms in the post-Soviet area. They were carried out in a deep economic crisis, production decline and hyperinflation that followed the collapse of the Soviet economic model. However, according to the consistent policy of the First President, it was possible not only to overcome these difficulties, but also to implement the most important thing - to create the necessary conditions for the free development of entrepreneurship and business. Mass privatization, the introduction of the

institution of private property ensured effective management of enterprises and contributed to the creation of full-fledged mechanisms of a market economy in Kazakhstan.

Through denationalization and privatization, to reform the state Soviet economy into a modern market economy with various forms of ownership. As a result of four stages of privatization (small, mass, individual) in 1991-2000, 34.5 thousand objects of state property for a total amount of 215.4 billion were sold to new private owners through commercial, investment, open tenders for coupons, rubles and tenge. The very process of privatization led to the emergence of a class of private owners and free entrepreneurs in the country. This process of privatization was very painful, as it took place in conditions of tight monetary policy, and inefficient enterprises were deprived of financial subsidies. (Voloshin, 2021).

Kazakhstan, which left the ruble zone in November 1993, urgently, in absolute secrecy, introduced the national currency tenge, and this moment was the starting point on the path of independent and independent economic development. The most important area was attracting foreign investment. One of the most important steps in strengthening the country's financial sovereignty was the introduction in 1993 of the national currency, the tenge. This made it possible to stabilize the financial system and launch an independent monetary policy.

As a result in 1996, Kazakhstan has taken a leading position in the CIS in attracting foreign direct investment, the volume of which today exceeded \$ 320 billion. This is a clear evidence of a favorable investment climate and the faith of foreign partners in our country and its leader. (Voloshin, 2021).

Kazakhstan declared itself to the whole world as a state oriented towards peaceful development, and itself renounced the fourth most powerful nuclear arsenal inherited from the USSR. The young state established diplomatic relations with most countries of the world, became a member of the world community and achieved international recognition.

During that period, Kazakhstan made an unexpected move, developing a strategy for the long-term development of the state. In 1997, Nursultan Nazarbayev presented to the public the Development Strategy until 2030 with a detailed action plan for all spheres of life. While the post-Soviet countries were immersed in solving urgent socio-economic and domestic political

issues, the first president of Kazakhstan directed his country to look further, beyond the horizon of several decades ahead.

Results achieved: In four years, due to anti-crisis measures, a critical decline in production was stopped. The inflation rate fell from 10% in December 1994 to 1.6% in December 1995, the average monthly inflation rate decreased over the year from 23.5% to 4%. The sharp drop in inflation made it possible not only to halt the decline in real wages in the national economy, but also to achieve its growth by 3-5% against the level of the previous year. For the first time in 1997, GDP growth was recorded by 2%, and the volume of industrial production - by 4%. At the same time, 79% of the industrial output was produced in private enterprises.

Kazakhstan pays special attention to investment policy. This is evidenced by the repeated statements of the president, the government of the country, the adoption of a whole package of laws and regulations by the parliament and the government of the republic. A special State Committee for attracting foreign investment was created. In addition, certain benefits are provided for investors who make significant investments in the economy of Kazakhstan. In 1993 - 1996, about 7 million dollars of foreign funds were invested in the economy of Kazakhstan.

The USA ranks first among the countries providing technical assistance to Kazakhstan. The assistance is aimed at the development of small business, the implementation of the reform. The main part of the investment was made in the development of oil and gas fields, reconstruction and development of the metallurgical industry. Investors include South Korea, Turkey, Germany, England, France, Japan, Italy, Canada, Norway, Bulgaria and the Czech Republic.

Thus, in 1994-1997, a unique market mechanism was formed with simultaneous direct state support for the main social sectors and indicators. It was at this time that the government, under the direct control of the president, promptly resolved the problems of timely payment of wages, pensions and benefits. In the state budget, expenditures on the maintenance of social

sectors have increased. At the end of 1996, an opportunity arose to create a nationwide fund to support low-income citizens. (Voloshin, 2021).

4.2.2 Economy Policies in Asian Financial Crisis Term

The government was instructed to ensure the full and timely payment of pensions, benefits and wages in budgetary organizations;

- ✓ To issue microloans during the year in an amount equivalent to \$ 400 for a period of 3 years at least 30 thousand to the poorest citizens to create jobs, primarily in the countryside;
- ✓ To ensure the issuance of loans for the development of small and medium-sized businesses, farms, the creation of jobs in the amount of at least 100 million US dollars;
- ✓ Ensure a reduction in the cost of loans for peasants and farms by at least 2.5 billion tenge;
- ✓ Initiate the implementation of the housing construction program, allocating at least US \$ 40 million for this purpose.

At the same time, the third wave of privatization was underway, and an active search for investors continued. In February 1997, the Law on State Support for Direct Investments was adopted. To support direct investment in Kazakhstan, a Direct Investment Support Committee was established. The law provided investors with special benefits and preferences: government grants; exemption from payment of land tax and property tax for up to five years from the date of the contract; exemption from the payment of income tax for a period of up to five years from the date of receipt of taxable income; full or partial exemption from customs duties on the import of equipment, raw materials and materials necessary for the implementation of the investment project. Also in 1998, the Council of Foreign Investors

under the President of the Republic of Kazakhstan was established in Kazakhstan. (Voloshin, 2021).

In 1999, when the wave of the Asian crisis hit Kazakhstan, the National Bank temporarily released the tenge to float freely. Along with this, a number of compensatory measures were implemented:

- ✓ Depositors of banks who did not withdraw their tenge deposits within nine months after the introduction of a freely floating tenge exchange rate were given the opportunity to fully convert them into US dollars at the rate in effect before the devaluation;
- ✓ The Ministry of Finance issued special foreign currency bonds with a par value of USD 100 with a maturity of five years to protect the pension assets of accumulative pension funds.

Achieved results: It was possible to secure the functioning of the banking system. The exchange rate stabilized, production growth resumed, and the competitive positions of Kazakhstan exports were restored. By the end of 1998, inflation was reduced to 7.3%. In 1998, the export level was \$ 6.012 billion. There have been positive changes in the economy. If in 1998 the economic recession was 1.9%, then in 1999 experts stated economic growth of 2.7%. In 2000, compared to 1999, Kazakhstan's GDP increased by 8%, and in the next year - by 13.1%. Entrepreneurship has provided jobs for over 6.2 million people. The incomes of the population have grown. Astana became the new economic center of the country. The 1998 crisis contributed to an increase in Kazakhstan's foreign economic partners. (Voloshin, 2021).

At the beginning of the 2000s, a radical revolution took place in the conduct of social policy, which began to be carried out in conditions of stabilization and development of the economy. In 2001, the law "On State Social Assistance" was adopted, a Program to Combat Unemployment was developed, and the National Fund was created. At the same time, the pension system was changed. In the period from 1994 to 2004 alone, the average income of Kazakhstanis increased fivefold; The average monthly salary increased almost six times, the

minimum wage increased 25 times, the average monthly pension increased 4.6 times, deposits of individuals in banks and the volume of deposits per resident increased 35 and 37 times, respectively. (Voloshin, 2021).

Thus, Kazakhstan successfully overcame the systemic crisis of the 1990s and confidently embarked on the path of progressive development. The anti-crisis measures taken by the state - a competent investment policy, preparation and implementation of a freely floating exchange rate of the tenge with the provision of measures to provide timely assistance to the population, measures in the oil industry - ultimately contributed to the process of stabilizing the economy of Kazakhstan.

4.2.3 Economy Policies in Global Financial Crisis Term

Kazakhstan response to the challenges of the global financial crisis was several large-scale programs at once, the largest were the Five Big Cases (worth 14 billion tenge, or more than 16% of the country's GDP) and the Road Map. They were tied as much as possible to solving social problems and therefore gained nationwide support.

Funds were allocated for the purchase of 25% of voting shares from systemically important banks. Thus, the state shared the risks with the country's financial sector. In February 2009, 78% of shares in BTA Bank and 76% of shares in Alliance Bank were repurchased, which could not independently return money to their depositors.

It was decided to support other sectors of the economy: the agricultural sector, small and medium-sized businesses, construction and modernization of infrastructure, as well as measures to stabilize the real estate market.

Concentration of assets; In 2008, the Samruk-Kazyna National Welfare Fund appeared. Its task was to assist in the modernization and diversification of the economy, as well as its stabilization. Thus, the fund, along with the government, acted as an operator of anti-crisis programs. (Voloshin, 2021).

The "Road Map" program was launched, according to which, against the background of the growing crisis in the world, 400 thousand Kazakhstanis got jobs at once.

For the first time, the assets of the National Fund, which is formed from the income of raw material companies, were used to solve social problems. In the first quarter of 2009, its assets decreased by almost 20%. This allowed the population to survive the consequences of the crisis almost painlessly.

Results achieved: Prompt intervention by the country's leadership made it possible to end 2009 positively. GDP growth, despite the general decline in the world, amounted to 1.1%. The effectiveness of government measures instilled optimism in investors, and already in 2010 Kazakhstan launched an even more full-scale program of accelerated industrial and innovative development. By the end of 2008, the size of GDP per capita had grown almost sevenfold in comparison with 2000. Real GDP has doubled. For the period 2006-2009, the total amount of budget revenues amounted to 12.8 trillion tenge, including tax revenues - by 9.6 trillion. (Assylbekov and Assylbekova, 2021)

In terms of attracting foreign direct investment per capita, by 2009 Kazakhstan entered the top three countries in the world. Moreover, this status, along with Qatar and China, our country has maintained over the past years. It was during this period that the social principle of building the state was again manifested. For example, the implementation of the program "100 schools, 100 hospitals" has begun, according to which more than 1000 educational and about 1000 medical institutions have already been built.

The second modernization of Kazakhstan started in the third quarter of the 1990s and ended in the mid-2010s. During this period, the organizationally renewed Kazakhstan began to reap the good fruits of its difficult reforms and efforts, and continued to move forward within the framework of the national development strategy. Under the leadership of Nursultan Nazarbayev, the economy entered the trajectory of sustainable growth, a modern system of state institutions and a middle class were formed in the country. The well-being of society has increased, if in the early 1990s GDP per capita was 1,7%, then by 2013 this figure had already reached 13.7%. The quality of life has noticeably improved, as a result of which the World Bank included Kazakhstan among the countries with middle income ... Independent Kazakhstan passed through two world economic crises in 1998 and 2008-2009 without tangible losses, which confirmed the strength of the young state, proving its viability.

Kazakhstan has successfully integrated into the global trade and production system. Since 1995, foreign trade turnover has grown more than 9 times - from 9 to 85 billion dollars. (Assylbekov and Assylbekova, 2021)

Another major successful achievement of Kazakhstan at that time was the transfer and construction of a new capital of the state, which today bears the name of the first president - Nur-Sultan. The new capital has solved a whole range of strategic tasks of state development and has become a symbol of the new historical era of our country. In 2012, Kazakhstan became one of the 50 most competitive countries in the world. In the same years, in the Strategy "Kazakhstan-2050" Nursultan Nazarbayev presented a new ambitious development goal - in a few decades to take a place among the 30 leading countries of the world.

4.2.4 Economy Policies in Sanction Crisis Term

President N. Nazarbayev put forward two large-scale anti-crisis programs at once. In November 2014, a new economic policy, Nurly Zhol, was proposed, based on infrastructure initiatives. Then the Nation's Plan of Five Institutional Reforms and "100 Concrete Steps" for their implementation are presented. Nevertheless, it is already clear that the country is in control of the situation, stabilized markets, modernized the social sphere and is transforming to meet the challenges of global changes. However, in contrast to the previous anti-crisis programs, in this case, in the coming decades, one can expect not just stabilization, but a qualitatively new leap forward in Kazakhstan in economic terms. It is not without reason that President N. Nazarbayev has set a large-scale task of becoming one of the 30 most developed countries in the world. And since all crises are cyclical, and the country has never let its people down even in the most difficult situations, confidence in the future is the main trend of Kazakhstan society in the 21st century.

Within the framework of the Nurly Zhol program, 1 trillion tenge was allocated from the National Fund to support economic growth and employment of the population. 100 billion tenge was received by the sphere of concessional lending to small and medium-sized businesses, as well as large entrepreneurship. This ensured the implementation of projects in the food and chemical industry, mechanical engineering, as well as in the service sector.

To improve the banking sector and buy out bad loans, the Problem Loans Fund was additionally capitalized by 250 billion tenge. Also, significant funds were spent on the construction and reconstruction of new roads, special economic zones "Korgos - Eastern Gate" and industrial petrochemical technology parks in Atyrau and Taraz, construction of the EXPO-2017 complex, modernization of energy infrastructure, construction of social housing. The total investment portfolio of Nurly Zhol projects amounted to 6 trillion tenge. (Klemenkova, 2021)

In the Plan of the Nation "100 Concrete Steps", the main anti-crisis economic folder is laid down in the third reform - "Industrialization and Economic Growth".

According to this plan the principle of "one-stop shop" was introduced in the passage of customs procedures by exporters and importers.

- An electronic declaration system has been developed
- Simplified procedures for legalizing property and funds
- Optimized processes for obtaining permits
- A phased abandonment of the state monopoly for the examination of pre-design and design estimates
- Organization for Economic Co-operation and Development (OECD) standards have been implemented everywhere
- The government has strengthened the institution of the business ombudsman to protect the interests of entrepreneurs
- The Astana International Financial Center (AIFC) was created on the basis of the infrastructure of EXPO-2017 and other measures.

Results achieved: The results in the process of implementing of the program showed that the government controls the situation, stabilized markets, modernized the social sphere and is transforming to meet the challenges of global changes. However, in contrast to the previous anti-crisis programs, in this case, in the coming decades, one can expect not just stabilization,

but a qualitatively new leap forward in economic terms. It is not without reason that former President N. Nazarbayev set a large-scale task of becoming one of the 30 most developed countries in the world. And since all crises are cyclical, and the government has never let down its people even in the most difficult situations, confidence in the future is the main trend of Kazakhstan society in the 21st century.

Kazakhstan's towards this goal is ensured by the current Third Modernization, which the first president announced in 2017. Over the years, the republic has already shown its growth potential. Thanks to the policies of Nursultan Nazarbayev, Kazakhstan's GDP grew from \$ 22 billion to \$ 184 billion. Efforts to develop conditions for business activity led the country to rise from 86th place in 2005 to 25th in the Doing Business rating of the World Bank. positions in 2019.

Achievement of the new development goal will be facilitated by the continuation of reforms to create a professional state accountable to society. Among the priorities of this modern period are the effective development of the economy, attracting investment, innovative industrialization, further social modernization and the preservation of the unity of the people. The future development is based on human capital and spiritual modernization within the framework of the special program "Rukhani Zhagyru".

These three stages of modernization, the goals of which do not overlap, form an integral process of renewal and development. A stable state system and a strong presidential power made it possible to carry out deep reforms in the country. On the whole, the main result is that modern Kazakhstan long ago left the acute stage of survival of the 1990s and entered the stage of global competition for a place among the most developed countries.

Separately, it is necessary to note the position of Kazakhstan in the world arena. Kazakhstan's security has been ensured through a balanced policy, defined as "multi-vector," and the country has become a respected member of the international community. Over the years, many ideas and initiatives of the first president have been implemented and are consistently developing today. Kazakhstan has become one of the key activists in the field of global nuclear security, has achieved a number of results in peacekeeping policy and the resolution of conflicts around Nagorno-Karabakh, Ukraine, Syria, the Iranian nuclear crisis, etc.

Kazakhstan's peaceful policy contributed to the country's election as chairman of the OSCE, SCO, OIC, a non-permanent member of the UN Security Council in 2017-2019 and other international organizations. The Eurasian idea of Nursultan Nazarbayev was implemented in the created Eurasian Economic Union. Kazakhstan became a member of the WTO, and thanks to the implementation of large infrastructure projects, it became an operator of growing trade flows between the East and West of Eurasia, going along land corridors through the territory of our country.

As a result of three stages of thoughtful modernization under the leadership of Nazarbayev, the country was able to make a "leap in time", i.e. very quickly, without hesitation, move from one political-historical era to a new one, from one economic structure to another. This model is an example for our entire region. Therefore, these days, when we celebrate the 80th anniversary of Nursultan Nazarbayev, the architect of the Kazakhstani path of development, not only the people of Kazakhstan, but the entire Turkic world wish him good health and longevity.

4.2.5 Economy Policies in Corona Crisis Term

The economy has been hit by the Covid pandemic and the oil price shock. Production fell by about 2.8 percent in the first nine months of 2020, driven by lower service activity and a cut in oil production. However, agriculture, manufacturing and construction maintained positive growth with support from government programs. At 7 percent in October, inflation exceeded the National Bank's (NBRK's) target band of 4–6 percent, reflecting the recent spike in food prices and the depreciation of the tenge. External current account deficit is developed in the third quarter, mainly due to weak oil exports. However, gold and foreign exchange reserves increased mainly due to the rise in gold prices. The mission predicted that economic activity will contract overall by 2.7 percent in 2020 and will return to positive levels next year, although significant risks remain in terms of a pandemic, oil price volatility and trade tensions involving major trading partners. (Klemenkova, 2021)

In order to neutralize the effects of the pandemic on anti-crisis measures in Kazakhstan, a total of about 6 trillion tenge was allocated, which is 9% of GDP. Basically, the support was aimed at the development of health care, the restoration of SMEs, preventing the shutdown of

enterprises, curbing unemployment, paying the minimum wage in the amount of 42.5 thousand tenge.(Voloshin, 2021)

Moreover, measures have been taken in Kazakhstan to defer payments on loans from the population and entrepreneurs. The country has launched the state programs "The Economy of Simple Things" on concessional lending to businesses, "Employment Roadmap - 2025". Mortgage and housing programs were also supported. Measures were taken to restrain utility tariffs and prices for socially significant goods for the period of the state of emergency. In addition, the country has made a decision to subsidize loans to SMEs in the sectors of the economy affected by the crisis. After assessing the measures taken by the government, the EDB predicts that Kazakhstan will reach pre-crisis levels by the end of 2021. In turn of it, experts in the field of finance also predicted how the country's economy will face the next year. For example, in 2021, AERC predicts inflation at 6.1%, taking into account expectations of a gradual recovery in economic activity in the country and a gradual tightening of monetary conditions by the National Bank. The deficit of the republican budget in Kazakhstan in 2021 was determined at the level of 3.5% of GDP, in 2022 - 1% of GDP. This is stated in the explanatory note to the draft law "The republican budget for 2021-2022", according to Interfax-Kazakhstan".

Monetary and exchange rate policy

A sharp drop in oil prices in March, the NBRK raised its policy rate to 12 percent (from 9.25 percent), expanded the interest rate band, intervened in the foreign exchange market and amended regulations on foreign exchange purchases to limit short-term volatility exchange rate. As foreign exchange market pressures eased and concerns about economic activity heightened, the NBRK cut its base rate to 9 percent by summer, expanded existing lending programs at preferential rates, and launched a new program for small and medium-sized enterprises (SMEs). These measures have been successful in bolstering private sector lending.

While the monetary and financial policy response to the crisis was decisive and timely, it further strengthened the government's already significant role in financing the economy. Given the uncertainty about a possible second wave of the pandemic, anti-crisis measures may need to be scaled up, but it is important to phase them out in order to reduce government

intervention and lay the foundations for a market-based economic recovery. More broadly, the medium-term monetary strategy currently under discussion will be key to identifying and removing barriers to effective implementation of monetary policy. The NBRK's adherence to inflation targeting policy is commendable. This includes maintaining a flexible exchange rate that acts as a shock absorber, as events have shown this spring, while promoting policies to reduce dollarization and reforms to gradually reduce the impact of exchange rate volatility on inflation. In this regard, increased confidence in public policy would benefit from strengthening the independence of the NBRK, setting robust inflation targets, and strengthening monetary policy transmission mechanisms to better contain inflationary expectations.

Financial Sector Policy

Most banks entered the Covid crisis with relatively large capital reserves, as evidenced by a quality asset audit (QAA) carried out in early 2020, with this resilience being maintained in the future. During the pandemic, a number of temporary regulatory relaxations were introduced, including lower capital and liquidity requirements, lower risk weights and a freeze on the classification of loans by specific exposure. These measures helped to mitigate the impact of the crisis, but they should be phased out as the economy recovers to limit risks to the soundness of the financial sector. Where appropriate, banks should develop robust medium-term plans to rebuild their capital and liquidity camps and respond to recapitalization needs identified by the PCA.

The recently created Agency for the Regulation and Development of the Financial Market has already made significant progress in countering the Covid crisis by strengthening financial supervision in cooperation with the NBRK. Going forward, it will play an important role in bringing the financial regulation and supervision system in Kazakhstan in line with the best international standards, as well as in helping to strengthen business models and risk management systems in banks. To this end, it will be essential to continue to implement the strategy to strengthen the institutional capacity and independence of the Agency.

The government of Kazakhstan and the National Bank of the Republic of Kazakhstan (NBRK) have adopted a set of measures to support the country's economy and population. In

total, the anti-crisis package is estimated at about 5.9 trillion tenge 1,6% of GDP projected for 2021 and includes both measures to exempt SMEs and the most affected industries from taxes, as well as direct payments to the population. The additional part of budget expenditures will amount to 2.1 trillion tenge or 2.9% of GDP, while all budget expenditures on the anti-crisis package will exceed this figure by one and a half times. This package will be financed by the transfer of the NFRK, debt financing and, in part, by the redistribution of budget expenditure items. (Klemenkova, 2021)

The size of Kazakhstan's fiscal package for 2020 is unprecedentedly large and exceeds the potential decline in economic growth rates of about 6%. This allows counting on a softening of the crisis trends in the economy this year and on stimulating a faster recovery in 2021.

Taking into account the shortfall in budget revenues associated with the external shock and quarantine restrictions, as well as an increase in the transfer from the NFRK and an increase in the budget deficit, fiscal losses in 2020 total about 12% of GDP. The state allocates a total of 8% of GDP to support the economy, including 3.4 trillion tenge⁷ from the republican budget and 2.5 trillion tenge from off-budget funds. The pressure on the tenge in the foreign exchange market was reduced thanks to measures taken by the government and the NBRK to maintain the exchange rate and reduce its volatility. In the first case, we are talking about the obligatory sale of foreign exchange earnings by enterprises of the quasi-public sector and the introduction of a number of restrictions on currency exchange operations, in the second - about measures to change the base rate and limit the speculative impulse in the market.

The IMF staff mission commended the authorities on the public policy response to the pandemic and strongly supports their commitment to more sustainable and inclusive growth in the post-crisis period. The 2020 budget revision and ongoing crisis response provide critical assistance to vulnerable households and businesses. Looking ahead, further efforts will also be required to remove the underlying structural constraints holding back a thriving private sector, economic growth and job creation. Their implementation will strengthen the measures taken to maintain macroeconomic stability to strengthen government policies and institutions.

4.3 Summary

Kazakhstan emerged as an independent state and embarked on the path of post-communist transformations under extremely difficult circumstances. The Soviet economy inherited by him was in a state of "free fall" - in 1991, the decline in the real GDP of the Soviet Union by various estimates ranged from 8 to 17%¹ - and the young independent republic faced a serious task of carrying out economic reform and building a new state in a broader sense. The chronic shortage of national capital, the destruction of the existing trade network and the difficulty of adapting Soviet enterprises and structures to market conditions led to a deep recession in the economy of Kazakhstan and neighboring countries.

The resulting crisis indicated the urgency of deep and long-term economic reforms, but at the same time created additional difficulties; indeed, the transformation of the economic system in such conditions was more like trying to upgrade a ship in the midst of raging waves.

Moreover, Kazakhstan gained independence at the time when the world economy as a whole was undergoing dramatic changes. After 1991, globalization began to gain momentum rapidly, which was reflected in the strengthening of processes financial and economic integration; and the unprecedented development of global value chains. The Internet and other technological innovations have changed the idea of business, and the creation of the World Trade Organization, the emergence of the problem of global climate change and the lightning-fast rise of China and other emerging markets led to changes in the functioning of the global economic system. Thus, Kazakhstan and neighboring states were forced to fight their way in the face of rapid change. Of course, many of the changes that took place were beneficial to Kazakhstan. Global growth has accelerated, particularly in developing countries, pushing hundreds of millions of people out of poverty, significant improvements in health care, and life expectancy. For Kazakhstan, this acceleration meant the rise in demand for major export commodities since the late 1990s laid the foundation for the dynamic growth that has been observed for over a decade.

In particular, the rise of China offered - and continues to offer - tremendous opportunities. Nevertheless, in a quarter of a century, the world has experienced a number of profound

financial crises and still has not recovered from the effects of the 2008-2009 recession. Thus, one should not forget that integration into the global economy is always fraught with risks.

Since the late 1990s, Kazakhstan has shown an impressive economic growth. Like other post-Soviet countries, Kazakhstan experienced a strong decline in economic activity in the early stages of its transition to a market economy. Between 1992 and 1995, real GDP fell by about 31%, inflation reached three- and four-digit levels (annual consumer price inflation did not fall below 100% until 1996), in the labor market 1.6 million jobs were eliminated. A slight recovery was noted in 1996-1997, but influenced by the 1997 Asian financial crisis and the Russian crisis that followed, the economy returned to a recession. Growth resumed in 1999 and picked up momentum in 2000 as oil prices rose. Growth has accelerated strongly since 2000, with an average growth rate of 9.4% between 2000 and 2008. The growth rate slowed down sharply in 2009, then went on for a while up to a sharp drop in commodity prices in 2014-15, which led to a slowdown and a drop in the growth rate to 1% in 2016. In the first half of 2017, there were signs of a rebound in growth, with growth accelerating over the year to 4.2% on the back of increased oil exports and a rise in oil prices from \$ 38.25 in January-June 2016 to \$ 50.41 USA in the first half of 2017.

There is an increase in living standards and well-being due to economic growth, the position of households in Kazakhstan has improved significantly since the late 1990s. Between 1999 and 2014, unemployment declined steadily and real wages doubled.

The national poverty line fell from slightly less than 50% at the beginning of the century to 2.7% in 2015. Unsurprisingly, growth has led to a relatively rapid convergence with developed countries, but there is still room to strive for: GDP per capita in purchasing power parity (PPP) in the late 1990s was less than 29% of OECD level and exceeded 60% in 2013-2016. With growth slowing in 2015-2016, the process of convergence suspended, but there is every reason to expect its resumption, albeit at a more modest pace. (Klemenkova, 2021)

The government has made public administration reform one of its priorities, giving it a prominent place in the 100 Steps plan. The recognition of the importance of the task, as well as the resulting initiatives, are encouraging. However, despite advances in a number of areas, including program budgeting and the expansion of e-government, much remains to be done.

Government administration of Kazakhstan till these days has reflects from the structures and processes of the Soviet system. It is still dominated by bureaucratic institutions with a high level of formalism, organized on a territorial basis and with a hierarchical system of accountability. Government decisions and events are carried out mainly "from the top", that is, according to the principle of top-down initiative, based on rigid traditional approaches of command-and-control nature.

Kazakhstan managed to limit the decline in the country's economy to 2.6% in 2021. While according to the International Monetary Fund, the world economy decreased by 3.5% "during the pandemic," the ministry explained. According to the ministry, three packages of anti-crisis measures were implemented in 2020: urgent measures to support the population and business, operational measures to preserve socio-economic stability, and a Comprehensive Plan to Restore Economic Growth. The total amount of funding amounted to 6.3 trillion tenge.

As a result, 700 thousand entrepreneurs received tax breaks, 80% of borrowers from affected industries took advantage of loan deferrals. About 40 thousand projects of entrepreneurs have been financed.

The rate of employment reached about 1.4 million people. Due to this, the unemployment rate remained within 5%. A new system of state planning is now being developed. It will focus on restarting the package of systemic reforms, changing the role of the state and realigning key government policies.

The national development plan of Kazakhstan until 2025 has also been developed, which will become a new socio-economic course for the country's development. Also, in the near future, a package of measures will be adopted to support the business activity of small and medium-sized businesses in the new conditions financing of the budget deficit is planned to be carried out at the expense of the domestic stock market by issuing government securities. Due to this, it is expected to attract international investors to the domestic market. (Kazistaev, 2021)

In general, timely and full-fledged financing of the republican budget deficit should be provided on acceptable terms, taking into account the balance of the debt structure in terms of terms, without allowing peaks in payments, with minimizing currency risks and acceptable rates.

5.CONCLUSION

The main goal of this thesis is to evaluate impact of different financial crises on the economy of Kazakhstan republic. To achieve this goal, in this thesis was identified causes and effect of several tremendous crisis. Thesis divided on three vital sections.

First section is about theories of financial crisis, which include also 1st and 2nd generation crisis and Asian type financial crisis model. Furthermore, this is applied on case of a countries such as: Latin America, Russia and Turkey.

Second section is about general economic review of Kazakhstan, it gives us clear information about past and current economic situation. According to this section we can identify the dynamics of export, import and foreign direct investment to the country which influence on trading turnover, as a part of macroeconomic factors.

In 3rd section, presented basic economic indicators during all crisis period. Since country being independent, till nowadays with forecast for 2 years. This section also includes applied government measures, which aimed on stabilization the economy of this country.

To sum up all the priorities and tasks contained in provided case and measures for different levels, then the following key groups of strategic objectives of economic policy should occur:

- diversification of the economy structure, aimed to reduce the raw material component and increase the technological level of industry;
- investment in human capital in order to increase the competitiveness of the economy;
- development of infrastructure projects aimed both to support domestic economic growth and to realize the transit potential of Kazakhstan;
- activation of integration processes;
- development of certain sectors that are key for the national economy agribusiness, oil refining, chemical industry, metallurgy, energy.

These priorities certainly reflect needs of strategic development of the Republic of Kazakhstan, however, in my opinion, they can be supplemented by other tasks of a more systemic nature.

Such tasks are determined by the changing nature of the global economy model, the conditions of globalization, which sharply increase competition not only in foreign market, but also in domestic markets due to the ever-growing openness of all national economies. In addition, development priorities should take into account the experience of successful countries and, in order to increase the competitiveness of “catching up” economies, if it is possible, assume its borrowing. Currently, the most successful countries in terms of economic potential, as well as indicators of social development possesses a number of distinctive features that make it possible to highlight the characteristic features of an efficient economy.

These features are, firstly, a highly developed innovative system that is able to quickly develop and implement advanced technological solutions that give competitive advantages to manufacturers of goods and services; secondly, the presence in the country of a large and, as a rule, even transnational business capable of effectively defending both its own and national economic interests; thirdly, the presence of powerful financial groups whose potential allows you to finance large-scale economic projects that can be crucial in the global competition. These features inherent in the most successful economies in the world, in our opinion, they should be cultivated in Kazakhstan. Because they will allow the domestic economy to participate in relatively equal competition at the global level and at the same time defend its position in the domestic market, which is also becoming an increasingly fierce competition between Kazakhstani firms and foreign companies as integration processes deepen. In addition, as the analysis of the latest global economic development trends carried out in the previous sections of this thesis, turbulence is growing in global financial and commodity markets, as complex financial instruments develop, they will only intensify, also this trend should be taken into account, when priorities are being drawn up for the development of the Kazakhstan’s economy.

Therefore, the priorities of the macroeconomic policy of Kazakhstan on a systematic and ongoing basis, regardless of fluctuations in the current situation, should have measures aimed at:

- ✓ Creation of an economic model that is resistant to fluctuations in world markets and capable of damping at the national level the negative impact of global crises.

- ✓ Formation of a powerful national financial system.
- ✓ Strengthening and increasing the scale of activity of large-scale Kazakhstan-based business.
- ✓ Creation of a developed and flexible innovation system, capable of competing in the domestic market with foreign competitors, if it is not in terms of developing new products, then at least in terms of their effective development.
- ✓ Activization of state development institutions and public-private partnerships as the main tool for financing and development of priority sectors in the context of the virtual absence of large private capital that is currently capable of solving large-scale breakthrough tasks.

Modernization of the Kazakhstan economy requires a radical increase in technological level, which, in turn, requires the availability of powerful financial institutions capable of financing such projects. This determines the priority development of the financial sector, since without money there will be nothing to carry out, no modernization and breakthrough projects.

Currently, the Kazakhstan financial sector is not sufficiently developed to solve such problems and, as a result, state development institutions should take on this function, which will entail their further development and capitalization. The presence of large-scale national business and its full support is due to increased competition, and in both areas - both on foreign and domestic markets. Losing positions in this fight will mean the absorption of large national business by foreign competitors, the loss of Kazakhstan's control of the national economy and the reduction of the country to the level of the object of economic interests of foreign transnational business.

These five priorities are strategic in nature, however, in order to develop operational economic policies, the allocation of industry priorities is also required. In the process of identifying priority areas and sectors of the Kazakhstan economy, it is more advisable to be guided by objective criteria related to the specific needs of the economy. The objectivity of the criteria for prioritization should be determined by the extent to which this or that industry,

related to the priorities, provides an increase in the country's GDP, promotes employment and income growth, replenishes the state budget, etc.

The key task for the financial managers in Kazakhstan should be an in-depth risk analysis and full disclosure of monitoring risks, their management and reporting on them, following a comprehensive integrated approach with the aim of preparing detailed reports on financial risks in accordance with the best international practice.

In world, there are two types of economy: one real, related to the creation of real goods and services, and the second type is speculative or virtual, where they trade in exchange goods, securities, which reflect the approximate cost of economic entities in real life. There is a need to improve the financial system, gradually, abandoning the speculative economy. The finance system in Kazakhstan should be secondary and aimed at serving the economy, rather than exacerbating it.

Government support in lending is also very important. Developed production will receive the possibility of commercial lending. Commodity exports in the country should develop, and not wait for the influx of foreign investment, so at this stage, it is pointless to build capital-intensive production oriented to the domestic market.

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