Kazakhstan: Economic Policies Before and After the 1998 Russian Financial Crisis¹

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Abstract

The Russian Crisis of 1998 will remain a defining moment in the history of “economies in transition”. The aftermath of the crisis was more important than the crisis itself. It showed us how small transition economies can defend themselves against large external shocks. The Russian crisis erupted in August 1998 resulting in Russia defaulting on its debt and the ruble losing almost 70% of its value. This crisis had far reaching effects not only in Russia but also many other countries surrounding Russia. Though it is called the “Russian crisis”, it was the smaller countries surrounding Russia that bore the brunt. These fledgling economies that were small and extremely vulnerable to shocks showed a lot of character in policy formation. They not only overcame the crisis but emerged much stronger from it. In this paper, we take one such small country and analyze its economic policies before and after the crisis, comparing it with Russian economic policies, wherever applicable. We will talk about policy formation in Kazakhstan with special emphasis on its policy response to the 1998 Russian crisis.

Organization of the paper

The paper is divided into 8 sections. In the first section we discuss the nature of the crisis and some vantage points for Kazakhstan. The discussion on the common ruble zone in the second section is followed by the discussion on the issuance of tenge as the national currency of Kazakhstan in the third section. We then discuss a bit about the 1998 Russian Financial Crisis. The fifth section underlines the immediate policy response of Kazakhstan to the crisis. The next section discusses the free floating of the tenge in the April of 1999 as the final climax to the crisis response. We then look at some survey results on business environments in Russia and Kazakhstan and try to explain its significance. We conclude with a short comment on the National Bank of Kazakhstan.

¹ This is a research paper submitted in winter 2007 towards the partial fulfillment for the coursework in “Economies in Transition” at the Stern School of Business, New York University under the instruction of Professor Barbara Katz.
Introduction

The East Asian Crisis of 1997 and Russian Financial Crisis of 1998 along with falling commodity prices erupted at a time when a lot of small economies were trying to transition from a centrally planned model to market economy. Therefore, these crises exacerbated the already insurmountable task they were facing. The world has seen that their policy responses to these crises have dictated their successful transition to a market economy. Most of these countries have performed extremely well after that period, although rising commodity prices are partly responsible for this speedy recovery. One common feature is that none of these countries followed the standard IMF prescription. Their policy responses were quite different and reflected the varied political and economic situations in the republics. Russia followed the IMF prescription to a certain extent and did not achieve very fruitful results.

Though we will be discussing about Kazakhstan, most of the economies in the region shared some common characteristics. This further intensified the situation as all the countries faced similar situations and therefore were unable to help each other. They were all small economies and had faced large decline in output and productivity following the Soviet break up. They were hugely dependent on commodity exports, primarily oil and gas. They were still fighting with the legacy of the Communist era such as over-industrialization, de-nationalizing the state assets and a completely worthless banking sector. Corruption was rampant everywhere. The private sector was still very weak.

The Nature of the Crisis, its Effect and Kazakhstan’s Edge

These countries were still recuperating from the East Asian Crisis of 1997 when the Russian Crisis dealt an equally powerful blow. The East Asian Crisis had already weakened their exports. The Russian crisis crippled it further. Though these countries had a lot of common features, their policy responses to the Russian crisis were pretty different. All these countries had adopted a somewhat different path to transition from the on-set of the post Soviet era. These different paths had produced a lot of disparity in their economic and political situations. So we think that it was very prudent of these economies to construct a custom made policy structure rather than following the standard prescriptions for handling crisis situations.

2 In fact Joseph Stiglitz in his book “Globalization and its Discontents” argues that the standard IMF prescription that Russia followed after 1991 was partly responsible for the Financial Crisis
3 This is a slight digression but a point worth mentioning. There was a major difference between the East Asian and Russian Crisis. The East Asian countries had huge inflow of short term foreign funds. The crises lead to a complete capital reversal that left the East Asian economies clueless. However the Russian crisis was of a different nature where there was not a huge dependence on foreign capital. The economies had to implement prudent domestic policies and were not dependent on foreign powers.
4 We primarily refer to Kazakhstan, Uzbekistan, and Kyrgyzstan.
5 The East Asian economies implemented the standard prescriptions that did not produce very effective results. These policies were largely due to the insistence from IMF.
Kazakhstan is one of the largest from the former Soviet Union territory only after Russia. Like Russia, they have huge deposits of oil and gas. Metals and oil together account for anywhere from 50% to 70% of their export earnings. They also have substantial agricultural activities and it employs more than a third of Kazakhstan’s population. As is evident, the economy of Kazakhstan is heavily dependent on commodity prices. For Kazakhstan, at least one feature of the Soviet legacy proved advantageous. The hugely industrial Soviet era left Kazakhstan with a considerable skilled work force. This meant that they were self sufficient in developing their industrial infrastructure and exploring the resources. Russia was Kazakhstan’s major trading partner (almost 50%) and was therefore severely affected by the crisis.

There was a huge outflow of capital from Russia after the Soviet break – up. In fact this “capital flight” has plagued the nation for more than a decade after the break – up. Tens of billions of dollars of money that is badly needed for the impoverished Russian masses were either lying down in Swiss and Cypriot banks or used for buying large mansions in the French Riviera. This compounded the problems during a time when Russia was trying to build market forces. Kazakhstan however was able to attract foreign investments (Exhibit 1) and also stop the domestic capital flight. The Washington Times says, “One of the things that attracted these investors is that, even though Kazakhstan’s economy has contracted considerably in the years since independence, the government is recognized as having one of the most forward – looking economic policies in the Commonwealth of independent states. The focus has been first and foremost on macroeconomics – stabilizing the currency and inflation while building foreign currency reserves as means toward achieving economic strength and creating an environment where private sector can grow. While the latter goal is often thwarted by the bureaucracy, this policy has presented the opportunity for some of the republic’s citizens and businesses to build wealth and drive economic recovery that saw modest growth in 1996 and 1997”. Though the picture is not so ecstatic for Kazakhstan as portrayed in this Washington Times comment, but there is definitely some element of truth in it and we will see that when we start analyzing their economic policies.

The Common Ruble Zone (1991 – 1993)

Kazakhstan was one of the later states to gain independence from the Soviet Bloc. The Soviet republics prior to their dissolution, were all part of a common monetary union based on the Russian ruble though it was inconvertible both internally and externally. The monetary union also stayed after the dissolution and Kazakhstan was a part of it. A lot of people supported it for various reasons. The Soviet Era politicians were still running away from reality and were dreaming about an integrated Soviet Union. As they say, the

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7 A Special International Report Prepared by The Washington Times Advertising Department - Published on December 20, 1999
notion of the "near abroad" (*blizhnee zarubezhie*) reflects this philosophy in the best way. The Western authorities including the IMF had economic reasons primarily related to trade controls and monetary stability. In the hindsight, this seems to be a decision taken in utmost haste and without proper consideration of its economic effects.

A very well laid out discussion regarding the weaknesses of this model can be found in a paper by Dąbrowski [6]. The paper underlined three critical conditions for a common monetary union. They were a strong political consensus in terms of monetary and physical targets, a common institution responsible to achieve this targets and a set of common legislations across the union. As we can see, none of these conditions were into effect in the Soviet example. Inflation had soared to triple digits because of this kind of union. The central banks in various republics could issue non – cash credits in rubles. This meant that nations were boring the fiscal deficit of every other nation in the republic. Monetary and fiscal discipline was simply absent. Though the rubles were printed in Moscow, there was no single institution that was responsible for the monetary management. All these factors lead to very high inflation of the order of 1000% per year during the 1992 – 1993. The idea of a common monetary union had failed. This monetary union was disbanded in 1993 and that gave rise to the “Kazakh Tenge”, Kazakhstan’s own currency.

The Birth of Tenge (1993 - 1995)

The period from 1993 – 1995 was characterized by very high inflation in the Kazakh tenge (Exhibit 2). Initially, the government had pegged the currency against the dollar (Exhibit 3). But then with mounting pressure from the USA and other western authorities, the government made the tenge free floating. Although the tenge depreciated a lot against the dollar, it had somehow stabilized by mid 1995. It saved the currency from being overvalued and also encouraged the exporters. We think it was a very prudent decision in part of Kazakhstan to make the tenge free floating. This period was especially hard for Kazakhstan in terms of productivity. The Real GDP had come down and the country was in deep recession (Exhibit 4 & Exhibit 5). However the encouraging fact is that the recession was very short lived with the end result being, that Kazakhstan was independent and was conducting her own fiscal and monetary policies.

The tenge had stabilized by mid 1995 partly due to the fact that NBK (National Bank of Kazakhstan) had shifted its gear. The government was keener on macroeconomic stabilization and it gave NBK a free hand to conduct monetary policies. The NBK started targeting the exchange and the inflation rates. Inflation dropped sharply and prices

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9 Old habits die hard: fiscal imperatives, state regulation and the role of Russia's banks, Europe-Asia Studies, Nov, 1997 by William Tompson

stabilized. NBK had understood that keeping inflation in control was the key to maintain
growth. They stopped financing the state deficits and instead, the government started
issuing securities to financing their deficit. This gave a lot of free hand to NBK in terms
of controlling the money supply. They tightened further which started hurting the local
businesses. There was a credit crunch and it especially hit hard because of the East Asian
Crisis that took place in 1997. The tenge had appreciated because of NBK targeting that
further hit the exporters. We feel that the NBK acted well but could have maintained a
more balanced approach between stabilization and productivity.

The 1998 Financial Crisis

Let’s talk a bit about Russia and the 1998 financial crisis. Our primary source of
reference is Sutela [2]. In this paper\textsuperscript{11}, the author argues that Russia’s economic policies
were pretty different from the other republics in the Soviet Union (that includes
Kazakhstan) and we fully agree with that. In fact there were differences in all the three
dimensions of classical economic systems, namely property rights, the co–ordination
mechanism and the decision making system. The privatization policies in Russia had
given rise to huge insider ownerships. Though the reformers had thought that with time,
the insider’s stakes would be diluted in a functioning capital market, it did not happen.
The loan for shares program further exacerbated the situation.

Russia had a demonetized economy and most of the transactions were barter based. In
fact, the share of barter in industrial output had increased from 5\% in 1992 to almost 46\%
in 1998, and peaked at around 53\% in late 1998, to come back to 43\% in April 1999\textsuperscript{12}.
This approach as evident had a lot of problems. This system gave rise to paternalism, less
efficiency and difficulty in tax collection. Moreover it became very hard to measure
economic performance as there was no common measure. Savings and investment had no
meaning. On the good side, a barter based economy is very robust in financial crisis and
that was proven in the 1998 crisis. With no proper banks, there was no effect of a banking
危机 at least domestically.

Russia’s decision making system was still muddled with Soviet legacy. Economics was
still not seen as separate from politics. This perhaps is a very critical difference between
Russia and Kazakhstan. The NBK had become pretty independent in her policy formation
by 1995 but that was not the case with Russia. Economic policies were still dictated by
the whims and fancies of politicians. As evident, their decisions had a huge deleterious
effect on the overall Russian economy.

We feel that all the above factors were critical in bringing Russia to the financial crisis
and also for a decreasing trend in GDP/Capita until 1998 (Exhibit 6). The crisis was a
combination of a currency, debt and banking crisis. As we have argued before, it was not

\textsuperscript{11} Pekka Sutela,\textbf{ The financial crisis in Russia;} Bank of Finland, Institute for Economies in Transition,
BOFIT
\textsuperscript{12} pp 6. Sutela,\textbf{ The financial crisis in Russia;} Bank of Finland, Institute for Economies in Transition,
BOFIT
only a crisis for Russia for its neighboring economies too. This crisis also had a looming effect on the global capital markets as Russia was a huge borrower. Their default on the external debt had caught a lot of people by surprise. There was this raging debt whether the default was more due to the “willingness” aspect or the “ability” to pay aspect. The LTCM\textsuperscript{13} blow up was partly due to the Russian crisis. We will end up our discussion of the Russian crisis here, although it is a paper topic in itself. We found Sutela \cite{9} to be an excellent read on this topic.

**Immediate Response to the Crisis (September 1998 – March 1999)**

The Russian crisis was a hard hitting blow to the Kazakh economy. Kazakhstan lost its price competitiveness and its exports were in shambles. On the other hand, cheap Russian goods were flowing into the economy that was killing the domestic industries. There was huge downward pressure on the tenge and their balance of payments had worsened.

However the NBK was still holding on to the tenge. In fact, they had spent close to a billion dollars to maintain the level of tenge. Their foreign exchange reserves halved. The NBK was scared that floating tenge could result in its crash. The inflationary resurgence due to this crash would have been uncontrollable. NBK knew that a repeat of 1992 – 1994 (triple digits of inflation) would hit the economy really hard especially when it was already facing a deep crisis. However, it allowed a bit faster depreciation of the tenge to keep some future expectations of moderate inflation. We believe that they were preparing for the grounds of a floating tenge.

The government followed a balanced approach after the crisis. They were worried but not impatient and that was reflected in some of their policy decisions. As explained above, they allowed for a faster depreciation of the tenge. Fiscal and monetary discipline was enforced. We believe that this was a major difference between Kazakhstan and Russia. Fiscal discipline was almost absent in Russia, both after and before the crisis. Economic policies were considered ways to achieve political aims. Kazakhstan had also erected temporary trade barriers from its neighbors, primarily Russia, Uzbekistan and Kyrgyzstan. This was done in order to save the domestic industries that were getting ruined due to the cheap import of goods. Huge import duties in the order of 200% were imposed on these countries. The maximum amount of currency that could be taken out of the country without any documentation was lowered from $10,000 to $3,000\textsuperscript{14}. Exchange control was tightened through the issuance of “contract passports” which required cross – checking by exporters and importers, banks and custom officers.

The above policies were very helpful in mitigating the effects of the crisis. But the nature of the crisis was so deep that some damage had to be done. Kazakhstan had a first year of negative growth since they started their macro – stabilization program in 1995. The CPI rose and their balance of payments situation worsened. The NBK was spending too much

\textsuperscript{13} Roger Lowenstein, *When Genius Failed: The Rise and Fall of Long-Term Capital Management*, Publisher: Random House Trade Paperbacks (October 9, 2001)

\textsuperscript{14} Prudent fiscal policy spells economic recovery By John Mann, Trade and Investment, 1999
dollars in keeping up the tenge. Gold and currency reserves had stood at about $2 billion at the onset of the Russian crisis, but were just $1.6 billion by April 1999 even with some inflow of dollars from the IMF. In spite of the above negatives, we feel that this temporary\textsuperscript{15} active intervention helped to soften the blow. It gave time to the Kazakh economy and the people’s expectation to adjust to the reality. Kazakhstan followed the principal of “gradualism” as compared to “shock therapy” followed by the Russians. The economy was prepared for the final phase of crisis management i.e. loosening up the various controls imposed on the immediate onset of the crisis.

\textbf{The Climax: Free Floating of the Tenge in April 1999}

The moment for some tough decisions had come. It was no longer feasible or advisable to peg the tenge. The devaluation of tenge was inevitable and necessary. The pegging of tenge was hurting the exporters and the domestic industries.\textsuperscript{16} The decision came in the April of 1999 and as expected the tenge lost almost 40\% (Exhibit 7) of its value in the next month. The official statement said, “During the last months the Government and the National Bank carried out detailed analysis of all proposals on the tenge exchange rate policy for 1999 (continuing the policy of a managed float with a smooth and even depreciation, implementing a one-step devaluation, linking tenge to a hard currency basket, introduction of a fixed exchange rate, freely floating exchange rate). Advantages and disadvantages of each possible exchange regime were evaluated, taking into account the situation in the country and abroad. Based on the results of this analysis the Government and the National Bank made a decision to move to the regime of a free floating exchange rate of tenge as the most appropriate regime under the current conditions of Kazakhstan's open economy and unstable conditions in international financial and commodity markets”\textsuperscript{17}

The above statement shows that there was a lot of back door thinking behind this decision. The authorities were clearly starting to feel that expectations had stabilized and that it was a good time to revert to a floating currency. They knew that the tenge would crash and that is what they wanted. An article by Washington Times\textsuperscript{18} said, “In fact, the move was less a decision to let the market dictate the strength of the currency and more of a move toward weakening the tenge to make domestic goods more competitive. The reality was that the National Bank started from the first day of the “float” to purchase dollars, effectively pushing the tenge down from 88.3 KZT/US$ towards what insiders said was a target of 130 – 150 KZT/US$”. We too believe that this was a planned and calculated move by the NBK.

\textsuperscript{15} We call it “temporary” because 7 months after the crisis, NBK stopped intervening in the currency markets and they government also started lifting up the trade barriers it had put after the crisis.
\textsuperscript{16} Russia’s ruble had already devalued in August of 1998. As argued before, this had made the Kazakh exports uncompetitive and Russian imports cheap.
\textsuperscript{18} A Special International Report Prepared by The Washington Times Advertising Department - Published on December 20, 1999
However, besides the timing, the authorities also did a commendable job in placing temporary trade and capital controls. These controls were imposed to prevent the tenge from an irrational fall and to prevent speculators from doing so. According to some lecture notes from the National Graduate Institute of Policy Studies\textsuperscript{19}, the following measures were introduced as the tenge began to float:

1. Temporary requirement to sell 50\% of foreign exchange earnings to the market (not to the government)
2. Attractive forward currency contracts (offered by the central bank) for those who refrain from withdrawing tenge deposits
3. Regulatory rules on banks were eased to avoid credit crunch
4. Public utility tariffs were temporarily frozen and new poverty measures were announced

The note further says this approach was very different from the handling of the East Asian Crisis. The handling of the East Asian Crisis was characterized by aggressive macroeconomic tightening and structural reforms. Kazakhstan, on the other hand introduced temporary non-market measures to restore confidence among people and mitigate the effects of the crisis on the overall economy. This is exactly the debate we have heard from Stiglitz\textsuperscript{20} and Rogoff\textsuperscript{21}. Stiglitz, in his article had criticized the IMF for its handling of the East Asian Crisis. He said that aggressive macroeconomic tightening was a wrong policy and would further push these economies into deep recession. Stiglitz was against this kind of “shock therapy”. Kazakhstan implemented some very gradualist policies and was able to regain a firm footing. In fact, it had achieved a 0.3 percent growth in gross domestic product over the first three quarters of 1999 as compared to 1998.

\textbf{BEEPS\textsuperscript{22} Data Analysis}

Russia and Kazakhstan had adopted different paths to market reform. It is hard to compare them on a one to one basis because of many reasons, one of them being the difference in their sizes. Russia’s economy was almost ten times that of Kazakhstan. We

\textsuperscript{19} National Graduate Institute for Policy, Tokyo “Responding to Currency Crisis: The Case of Kazakhstan”


\textsuperscript{22} The Business Environment and Enterprise Performance Survey (BEEPS), developed jointly by the World Bank and the European Bank for Reconstruction and Development, is a survey of over 4000 firms in 22 transition countries conducted in 1999-2000 that examines a wide range of interactions between firms and the state. Based on face-to-face interviews with firm managers and owners, BEEPS is designed to generate comparative measurements in such areas as corruption, state capture, lobbying, and the quality of the business environment, which can then be related to specific firm characteristics and firm performance.
believe that the response to the crisis and its success were closely tied to the overall business atmosphere in the two countries. In this section we will see how supportive the authorities were in supporting businesses and markets. We will look at some results of the BEEPS Survey developed jointly by the World Bank and EBRD. This survey examines a wide range of interactions between the firm and the state.

63% (Table 1) of the firms surveyed in Russia agreed that “Policy Instability” was a major hindrance for the businesses. The number was 34.1% for Kazakhstan. We have argued before that there was this unholy matrimony between politics and economics in Russia. This was the main reason behind policy instability. Policy actions were often distorted to profit the government. There were no incentives for firms to do better because they were scared that the government would manipulate and snatch away their profits. On the other hand, Kazakhstan had a central bank that was conducting independent economic policies and encouraging new businesses. Policy Stability in Kazakhstan made things better in spite of equal levels of corruption in both the society.

**Question:** How problematic are obstacles in the business environment in the following areas? “Policy Instability”

<table>
<thead>
<tr>
<th>No obstacle</th>
<th>Minor obstacle</th>
<th>Moderate obstacle</th>
<th>Major obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kazakhstan</strong></td>
<td>18.8%</td>
<td>19.6%</td>
<td>27.5%</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>3.3%</td>
<td>11.9%</td>
<td>21.8%</td>
</tr>
</tbody>
</table>

**Table 1: Policy Instability**

This might come as a surprise, but it seems that Kazakhstan had a much more active underground economy as compared to Russia. 60.8% (Table 2) of the respondents said that they reported less that 10% of their sales to the government. The number was 42% in Russia. With the small size of the Kazakh economy, the underground economy seems to be a major contributing factor in industrial development. As is evident, they were not dependent on government help. So indirectly, these industries were more robust in facing financial crisis. In spite of some major external shocks, the Kazakh industries have never broken down. We believe that this active underground economy was a blessing in disguise for Kazakhstan.

**Question:** What percentage of sales of a typical firm in your business is reported to the tax authorities? “Continuous interpolation”

<table>
<thead>
<tr>
<th></th>
<th>0% - 10%</th>
<th>11% - 20%</th>
<th>21% - 30%</th>
<th>31% - 40%</th>
<th>41% - 50%</th>
<th>61% - 70%</th>
<th>81% - 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kazakhstan</strong></td>
<td>60.8%</td>
<td>11.2%</td>
<td>7.2%</td>
<td>3.2%</td>
<td>9.6%</td>
<td>5.6%</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>42%</td>
<td>13.2%</td>
<td>12.9%</td>
<td>6%</td>
<td>14.4%</td>
<td>8.6%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

**Table 2: Underground Economy**

23 In the BEEPS survey on corruption, around 30% of respondents in both the countries agreed that corruption was a major obstacle to businesses.
The BEEPS data survey has a varied set of questions, all of which we are unable to cover here. But we are convinced about the fact that business environment was definitely better in Kazakhstan as compared to Russia. Enforcement of property rights had a greater chance in Kazakhstan\textsuperscript{24} as compared to Russia. A much more friendly business atmosphere than Russia helped Kazakhstan to instill more confidence among the people during the time of crisis. Confidence and Credibility are two of the most important virtues needed to tackle any financial crisis and Kazakhstan did very well in this regard.

**The National Bank of Kazakhstan (NBK)**

We will end our discussion with a short comment on NBK. We believe that NBK has been instrumental in the speedy recovery of the Kazakh economy from the 1998 crisis. This was also one of the main differences between Russia and Kazakhstan. The Russian central bank had no command over its resources and was more of a proxy for the politicians. Though the NBK also reported to the president, it had some independence in policy formation. Even the IMF that was not very convinced with the crisis management of NBK has applauded its macroeconomic management later.

NBK was formally established in 1993 when the Kazakh banking system was divided into two tiers. The first tier composed of the NBK and the second tier constituted all the private and state owned commercial banks. NBK acts as regulator of monetary and credit policy. NBK managed the advent and the journey of the tenge through some very tough times.

One of the many achievements of NBK was its regulation over the commercial banks. There were almost 200 commercial banks at the start of 1994. Many of them were responsible for running ponzi schemes and looting the public. NBK was responsible for regulating these banks which was especially important after the introduction of tenge. NBK strengthened banking and capital requirements for these commercial banks. In 1993, the NBK withdrew 15 banking licenses for non – compliance to these requirements\textsuperscript{25}. The number of commercial banks has reduced from 200 in 1993 to 71 at the end of 1998 and 48 at the start of 2001 (Exhibit 8). The banking sector in Kazakhstan has benefited greatly from the active interest of NBK in regulating commercial banking activities.

\textsuperscript{24} In the BEEPS survey in property rights, around 5.6% of respondents in Kazakhstan agreed that the legal system would uphold the property and contractual rights. The number was 0.7% in case of Russia.

\textsuperscript{25} Doing Business in Kazakhstan, Ministry of Commerce of the People’s Republic in China, 2001
Conclusion

The Russian Crisis of 1998 will remain a defining moment in the history of “economies in transition”. Kazakhstan’s growth record after 1998 is a witness to this fact. We believe that the 1998 crisis management took Kazakhstan one step closer to their dream of a successful market economy. This experience has also proved the importance of independent financial and legal institutions. The NBK acted in a very mature manner and maintained a balanced approach to crisis management. Kazakhstan’s policy responses have opened discussion to a host of other issues. The debate between Shock Therapy Vs Gradualism that relates to macroeconomic management during crisis has come to the forefront. Some people attribute Kazakhstan’s recovery after 1998 more to the rising oil prices rather than prudent policy management. Though oil prices have helped Kazakhstan, the overall recovery wouldn’t have been possible without effective macro management. Kazakhstan has showed maturity and has been actively working towards the prevention of any type of “Dutch Disease”\(^\text{26}\). We have also seen the unique characters of Russia and Kazakhstan though both were a single entity for more than half a century.

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\(^{26}\) According to IMF Finance and Development magazine, March 2003, Volume 40, Number 1, Dutch Disease is too much wealth (obviously from high oil prices) managed unwisely.
11. **John Mann**, *Prudent fiscal policy spells economic recovery*, Trade and Investment, 1999

12. **National Graduate Institute for Policy**, Tokyo “*Responding to Currency Crisis: The Case of Kazakhstan*”, Lecture Notes


16. **Christine Ebrahim-zadeh**, *Back to Basics*, Finance and Development magazine, March 2003, Volume 40, Number 1, IMF
**Exhibit 1**: Net Foreign Fund Flows in Kazakhstan

*Source: Bloomberg*
Exhibit 2: Inflation in the Kazakh Tenge
*Source:* National Graduate Institute for Policy Studies, Tokyo

Exhibit 3: The life of the Tenge until 1999
*Source:* National Graduate Institute for Policy Studies, Tokyo
Exhibit 4: Real GDP of Kazakhstan

Source: Bloomberg

The Real GDP has maintained an upward trend but with high fluctuations. It has been constantly rising since 1998.
Exhibit 5: Real GDP/ Capita for Kazakhstan

Source: Bloomberg
**Exhibit 6:** Russia’s GDP/ Capita

*Source:* Bloomberg
**Exhibit 7:** The freefall of the Tenge in April, 1999  
*Source:* Bloomberg  
The Exhibit shows a drop of close to 40% on the free floating of the tenge

**Number of Commercial Banks in Kazakhstan**

![Graph showing the number of commercial banks in Kazakhstan from 1994 to 2000.](image)

**Exhibit 8:** Commercial Banks in Kazakhstan  
*Source:* Ministry of Commerce of the People’s Republic in China