Transition to a market economy

ECONOMIC TRANSITION AND REFORM HAS PRODUCED A SOUND MACRO-ECONOMIC ENVIRONMENT

The country owes much of its resilience and ability to sustain growth to the reforms implemented in the early 1990s

As Kazakhstan approaches the twentieth anniversary of its independence, it is worth assessing some of the measures taken over the last two decades that have contributed to the transition from the former Soviet command system to create a successful market economy. Kazakhstan enjoyed double digit growth between 2000-07 and, despite a fall in 2009, the country will likely report above 7 per cent growth for 2010. This extraordinary achievement can be explained to a large extent by the surge in export of natural resources, but has been facilitated by measures taken in the early days of the transition.

The Kazakh reform programme got off to a radical and rapid start. Immediately after independence in 1991, President Nursultan Nazarbayev began ushering in comprehensive reforms that included price liberalisation, privatisation, labour market reforms, financial sector reform, and tax system reform. The state monopoly on trade was abolished; import tariffs were reduced; and export towards new markets was promoted. The new independent currency, the tenge, was introduced as Kazakhstan left the rouble area, facilitating an independent monetary policy.

Sound monetary and fiscal policy was established relatively early in comparison with other former Soviet states. The tax system, as well as banking and investment laws quickly fell into line with international standards. Kazakhstan also started the process of privatising state-owned companies (SOEs) immediately after independence. Initially it mainly concerned small companies, but further reforms accelerated the privatisation process in 1993 and a second wave occurred after another law extension in 1995. In 2000 the private share of GDP stabilised around 60 per cent of GDP, reflecting the success of the privatisation process.

That said, in the wake of the breakup of the Soviet Union, Kazakhstan also experienced a decline in output, GDP, real wages and investment. This unexpected decline in output can be explained by several factors: political and institutional change, deflation of consumer demand, and radical price liberalisation and currency convertibility, among others. Some analysts have suggested it might have been better to leave the rouble zone directly at independence, making it possible to decrease inflation at an earlier stage through an independent monetary policy.

The consequences of the initial economic recession and hyperinflation have been reversed following the strong growth of the 2000s which helped improve the overall social conditions in Kazakhstan. With a stable political situation and an economy that has shown itself to be relatively shock-proof, the analysts say that investors will return to Kazakhstan post-crisis with the same enthusiasm that they piled back into Russia after the 1998 crisis.

The economic reforms in Kazakhstan indicate considerable progress toward establishing a well-working market economy. The country has achieved a sound macro-economic environment and Kazakhstan's economic transition has been the smoothest among the Central Asian states. This can be explained by relatively good initial conditions, an ambitious transition programme with rapid and comprehensive reforms, and vast natural resources.

Predictions that Kazakhstan would be first in, first out of the current crisis have proved to be true. The rise in commodity prices over the last year has boosted the natural resources sector, which has in turn dragged the rest of the economy along with it. With growth above 7 per cent likely for 2010, Kazakhstan is still outperforming most Western economies. As a result, optimism has returned to the economy as a whole. Healthy commodity prices are having a trickle-down effect to other parts of the economy, starting with companies connected to the natural resources sector. The country owes much of its resilience and ability to sustain growth to the reforms implemented in the early 1990s. F

Economic indicators

- Budget revenues US$18.98 billion
- Stock of narrow money US$16.55 billion
- Stock of broad money US$50.43 billion
- Oil production 1.54 million bbl/day
- Proved oil revenues 30 billion bbl