

Kazakhstan: Projected Slowdown Could Sow Instability

Author: [IWPR Central Asia](#)

If growth rates drop in 2008, some analysts say social tensions will increase, posing a test for the political elite.

Analysts are warning that Kazakhstan's over-dependence on crude oil exports is creating economic distortions that could lead to social tensions in 2008.

They predict that unrest could arise as a consequence of the current economic imbalances that are spurring inflation and inhibiting the growth of manufacturing and other forms of production outside the energy sector.

They suggest the recent crisis in the Kazak banking system and sharp rises in the price of bread and other foodstuffs point to bigger dangers lying ahead.

The warnings about Kazakhstan – the economic giant of the region – were contained in an annual forecast released in December by the international consultancy Control Risks.

Among many worrying developments in the Kazak economy, the report notes worsening inflation, soaring real estate prices and significant rises in the cost of basic consumer goods.

While the official projection for economic growth has dropped from 8.7 per cent to five per cent this year, Prime Minister Karim Masimov has blamed the slowdown on instability on world financial markets.

But local experts attribute the growing crisis in part to weaknesses in Kazakhstan's banks, which have become seriously indebted in recent years.

The banks now owe up to 70 billion US dollars to foreign lenders. This stems largely from them accessing loans at advantageous rates in Europe and using the capital to fund mortgage loans.

However, the repayment of many of these mortgages now looks uncertain, as the borrowers are struggling with real estate prices that have soared to western levels as a result of the oil boom.

A single square metre of prime residential property in Kazakhstan's bigger cities now routinely sells for more than 3,500 US dollars.

That still leaves Almaty, the biggest city and commercial centre, cheaper than Manhattan, but puts it almost on a level with Paris.

Surging property prices have contributed to inflation, the exact rate of which is hotly disputed.

Vladislav Yuritsyn of the internet publication Zona.kz, says the official figure of 12 per cent year on year is not convincing. From his own monitoring of increases in prices of staple products, he says annual inflation in this area is probably closer to 30 per cent.

Yuritsyn says a cluster of unfavourable economic indices are converging in Kazakhstan. "The volume of trade has dropped, and while prices are rising, average salaries are not."

"Many sectors are suffering, such as the construction industry," he said. "We can already see a growth in social tensions. It's obvious that the consequences can only be negative. People can't trust the government when the electricity supply fails regularly and prices are rising."

Although Kazakhstan enjoyed a record grain harvest in 2007, this was not reflected in bread prices, which actually doubled last autumn from 35 tenge (30 US cents) to 60 or 70 tenge.

Economist Petr Svoik says inflation is hitting low-income groups the hardest, as they depend most on the products whose prices have risen fastest.

Svoik also says if the government is unable to get its own finances into better order, there will be "serious difficulties in the budget with the social payments and pensions".

Like many experts, he blames the current distortions on an economy that has become excessively dependent on oil.

Kazakhstan today exports about 55 million tons of oil a year, and plans to double both production and exports by 2015, when the giant Kashagan oilfield on the Caspian shelf is due to come on stream.

Svoik says inflows of money from oil exports into the economy have led to the "structural crisis of a one-sided economy - an export-oriented raw-material economy that does not encourage the development of domestic production".

Political observers maintain this will pose a severe test for the leadership skills of Nur Otan, the presidential party that won all seats in the lower house of parliament in the August 2007 election.

As Nur Otan monopolises political power in the country, it will not be able to place the political blame on others for a likely economic slowdown.

Political scientist Eduard Poletaev, editor of the magazine Mir Yevrazii, told IWPR that if oil prices continued to climb, it would only spur further inflation.

"Critics of the current regime will have far more opportunities in 2008 [than before]," he predicted. "There will be tensions as economic tensions spill over into the sphere of politics."

“My forecast is the activation first of opposition and marginalised groups that suffered worst in the autumn crisis, and then of the rural migrants who have come to the cities in search of work and have now lost their jobs.”

Economists close to the government disagree, and remain confident that Kazakhstan will ride out any turbulence.

Gulnur Rahmatullina, of the Institute for Strategic Studies, which is attached to the presidency, admits 2008 may be a tough year as unemployment grows and average incomes grind to a halt in real terms.

But she says the government has the strategies and resources to prevent a real social crisis from developing.

“The government is not sitting back doing nothing,” she said. “It is solving these problems today, in all likelihood successfully.”

Rahmatullina continued, “The country has 22 billion dollars in the national fund [where oil revenues are deposited], and there are the budget resources. I believe we can minimise the consequences of the financial crisis quite well with the help of our own national resources.”

Irina Stupakova is an IWPR contributor in Almaty. Elina Karakulova is an IWPR editor in Bishkek.

Focus: Central Asia

Source URL: <https://iwpr.net/global-voices/kazakhstan-projected-slowdown-could-sow>