regions as independent economic entities, carriers of economic interests both within the country and in the construction of relations of international cooperation. The economic security of the region directly depends on the regional economy and the economic potential of a particular region.

Economic security in the budgetary sphere at the regional level is a combination of the current state of the conditions and factors that characterize the stability, stability of the development of the economic territory, a certain independence and integration with the economy of the country, which is expressed in such manifestations: the ability to pursue its own budgetary policy within the country, opportunities to address socially unsafe situations in areas associated with local economic threats, possibility to stably maintain compliance with existing public services in the territory in accordance with the prudential international practices that would preserve or renew a decent standard of living.

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Economic risks in Kazakhstan

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Abstract

The paper analyses the impact of high credit risk in Kazakhstan.

Standard & Poor's Ratings Services classifies the banking sector of Kazakhstan group '8' under its Banking Industry Country Risk Assessment (BICRA). Economic risks in Kazakhstan remain very high in a global context.

S&P views of extremely high credit risk in Kazakhstan takes into account the banks' history of aggressive underwriting standards and the country's weak payment culture and rule of law.

During the 2004-2007 real estate boom, banks' loan portfolios expanded by more than 50% annually. The global economic crisis put an abrupt end to years of aggressive lending that was largely financed by wholesale borrowing. The burst of the property and credit-fuelled bubble severely affected banks, leading to some defaults and bailouts. Economic restructuring since 2009 has borne some fruit, but the economy can remain vulnerable to further losses while banks work through their substantial backlog of problem assets.

The aim of this paper – is showed economic risks in Kazakhstan. The author also aim at identifying current banking industry issues.

Keywords: Bank, credit risk, Kazakhstan, credit, economy

Introduction

Kazakhstan's banking sector should remain generally stable this year, in Standard & Poor's Ratings Services' view. The country's economic fundamentals still appear strong, although GDP growth has slowed somewhat since 2011. Banks' loan and deposit portfolios are therefore likely to keep growing. But for the next 12 months at least, the level of nonperforming loans (NPLs) will remain stubbornly high, and the sector will continue to feel the effects of a pronounced boom and bust cycle over the past decade. NPLs (loans more than 90 days overdue) stood at about 30% of system loans at year-end 2012, having risen steadily since 2008. Despite a slight improvement last year, S&P doesn't anticipate a significant reduction in 2013, despite several regulatory initiatives and banks' efforts at working out problem loans. Rather, S&P thinks loan growth will likely pick up slightly, owing to an increase in consumer loans and deposits on the back of good economic growth prospects. S&P also expects to see several mergers or acquisitions among the larger banks and rapid growth of a few midsize players, which might radically change the competitive environment.

Agency maintains stable outlooks on all except two of the Kazakh banks S&P rate. Overall, this reflects view that most banks' stand-alone credit profiles will remain steady until the end of the year. Still, S&P average rating is 'B+', which in some instances includes an uplift for potential support from the government or a parent company. This shows that S&P considers Kazakh banks' credit quality to be weaker than that of Russian banks and lower than international peers'.

Rating actions in the sector would likely depend on the direction of banks' business strategies. If agency saw prudent growth, increasing business diversity, and solid risk management frameworks, resulting in lower NPLs or stronger capitalization, agency might take positive ratings actions. On the other hand, agency would consider rapid asset growth that depleted capital, worsening asset quality, or tighter liquidity to be signs of deteriorating creditworthiness.

Major factors. Strengths:

- Good economic growth prospects and rising GDP per capita.
- Strong fiscal and external balance sheets.
- Strengthened funding profile of domestic banks.

Weaknesses:

- High credit risk in the economy, given aggressive lending and weak underwriting standards.
- Inability of regulators to clean up the banking system of very high levels of problem loans post-crisis.
- Low risk-adjusted returns of the banking system, significantly affected by low profitability of larger players.

Economic structure and stability

Experts expect Kazakhstan's GDP per capita to increase by 6% annually on average in 2013-2015 (see chart 1). This is assuming that oil output doubles and average net foreign direct investment is about 4% of GDP. Supporting factors will likely be rising commodity exports, moderate single-digit inflation rates, and currency stability due to a de facto peg of the tenge to the U.S. dollar. Kazakhstan's GDP per capita was about \$13,500 in 2013, the second highest in the Commonwealth of Independent States (CIS), after Russia. It also compares well with those in other Eastern European countries.

Kazakhstan's economy depends heavily on commodity production, owing to its relatively small size and considerable natural resources. The oil sector accounts for 60% of exports and over 50% of revenues, exposing the economy to external shocks. Strong economic growth over the past decade has stemmed from rising oil production and prices and

consistently high foreign direct investment, mainly in the oil and gas sector. Experts expect GDP growth to average 5.7% in 2013-2016.

Macroeconomic policy flexibility

Kazakhstan's fiscal and external flexibility remains strong thanks to its fiscal and current account surpluses and prudent fiscal policies. Experts expect the general government debt burden in Kazakhstan to remain low, at less than 14% of GDP in 2014.

Monetary policy flexibility is limited due to the government's de facto exchange rate peg and lack of a functioning local market.

In my opinion, the central bank is unlikely to shift to a free float in the immediate future.

Experts anticipate that inflation will remain within the government's 4%-7% target until 2015.

Credit risk in Kazakhstan

Economic imbalances: Economy in a correction phase with high credit losses and depressed credit growth

Correction phase. I believe the Kazakh economy has been in a correction phase since the credit and real estate bubble burst in 2008 and that the correction will likely have a high impact on the banking sector over the next two to three years.

During the 2004-2007 real estate boom, banks' loan portfolios expanded by more than 50% annually. The global economic crisis put an abrupt end to years of aggressive lending that was largely financed by wholesale borrowing. The burst of the property and credit-fuelled bubble severely affected banks, leading to some defaults and bailouts. Economic restructuring since 2009 has borne some fruit, but I believe the economy remains vulnerable to further losses while banks work through their substantial backlog of problem assets.

Contrary to experts' previous expectations, credit losses have been trending up in 2011–first half 2013, but experts expect a stabilization for the rest of 2013 and at best a slight decline in 2014. I consider that a large part of problem loans has been recognized, although it took the Kazakh banking system a few years to do so. Therefore credit losses are unlikely to increase further.

The housing market has not yet fully recovered following the crisis. Despite an estimated 25% increase in nominal house prices over 2010-2012, real estate prices adjusted for inflation showed only a small increase in 2012-2013. Experts expect real estate prices adjusted for inflation at year-end 2013 to remain at about 30% below the peak level of 2007.

Credit growth in real terms adjusted for inflation resumed in 2011, but has been sluggish at under 10% per year. Experts forecast it to remain at similar levels in 2013-2014.

Credit risk in the economy: High risk, reflecting aggressive underwriting standards and a weak payment culture and rule of law

Private-sector debt capacity and leverage. Kazakhstan has comparatively low corporate and personal debt; domestic credit to the private sector reduced to 40% of GDP at year-end 2012 from 59% at year-end 2007, and is now about in the middle for the peer group. The ratio of household debt to GDP was only 10% at year-end 2012, and mortgage loans were even lower at 4% of GDP. Nevertheless, the number of households with adequate payment capacity is low, due to the significant income disparity between the very rich and the rest of the population. The corporate sector shows the same overwhelming credit gap between large government-owned corporations and other large companies in energy and commodities, which dominate the economy, and the small and midsize enterprises. The ratio of corporate debt to GDP had reduced to 24% at year-end 2012 from 36% in 2007 and I expect the deleveraging process in the corporate sector to continue.

Lending and underwriting standards. In my view, lending practices and underwriting standards in Kazakhstan are "aggressive". This is demonstrated by the still high, although decreasing, 38% share of foreign currency-denominated loans in banks' portfolios; high concentrations in lending to single borrowers (the top 20 loans measure 2x-4x rated banks'

capital); and undiminishing material concentrations in lending to the risky and volatile construction and real estate sectors, 24% as of year-end 2012.

Rapid credit expansion in the mid-2000s set the stage for the significant accumulation of problem loans after the real estate market crashed in 2008. Kazakh banks' problem loans remain the highest among peers (see chart 5). Contrary to experts' expectations, we have not seen any meaningful reduction of systemwide problem loans in 2012 and the first half of 2013. Systemwide nonperforming loans (NPLs, loans more than 90 days overdue) under local regulatory standards reduced slightly to 30.0% of total loans at mid-2013 from the peak of 31.9% at March 31, 2012, according to regulatory data.

Competitive dynamics: High risk reflecting aggressive risk appetites

Risk appetite. I consider Kazakhstan's banks to have an "aggressive" risk appetite. While the industry as a whole, and the largest banks in particular, have been deleveraging post-crisis, we observed rapid loan growth at some small and midsize banks in 2010-2013.

We also see resumed interest from some Kazakh banks to finance real estate and construction. At the same time, unsecured consumer lending has been the fastest growing segment in Kazakhstan over the past three years (see chart 3).

The banking industry's performance and stability have been weak over the past few years. In principle, the Kazakh banking system has been loss-making in the past four years (2009-2012) if significant restructuring income of 2010 and 2012 is excluded. However, financial performance differs materially among banks. While a vast majority of Kazakh banks are profit-making, large losses posted by the top players largely influence the system's profitability. Five banks in the top 10 (accounting for 47% of assets) were loss-making or breaking even in 2013 if restructuring gain of BTA is excluded (see chart 2).

As a whole, the Kazakh banking system struggles to generate a risk-adjusted return on core banking products that is adequate to meet banks' cost of capital.

A significant problem in Kazakhstan, as in other CIS countries, in experts' opinion, is a significant portion of accrued interest income, not paid in cash.

Industry stability. In my opinion, Kazakhstan's banking system still remains "at least moderately stable". The top 10 banks control about 80% of the system's assets (see chart 2), indicating that smaller banks have little influence on the sector's performance and risk profile.

Although the balance of power in the Kazakh banking system has been steadily changing since the onset of the financial crisis, in my view this poses no threat to the system's stability. The first trend is rapid growth, significantly above the system average, of a few midsize banks, especially subsidiaries of Russian banks. As a result, a share of top 3 banks by assets reduced to 44% as of June 1, 2013 from 62% at year-end 2008.

Many small and midsize banks show better asset quality than the system average, allowing them to focus on new lending, unlike the larger players with sizable problem loan portfolios. Experts expect the mid-size players to keep augmenting their market share further, narrowing the gap with two market leaders Halyk Bank and KKB and subsidiaries of Russian banks to achieve a more prominent position in Kazakhstan.

Market distortions. In my view, there is an "absence of market distortions" in Kazakhstan's banking industry. The government's influence over banks' operations is mainly through its distribution of deposits of public-sector entities among commercial banks.

Experts anticipate that in a few years the government will sell its majority stake in three restructured banks and its 21% stake in KKB.

Systemwide funding: High risk, but banks' funding profiles are much healthier than pre-crisis

Core customer deposits. Core customer deposits (defined as 100% of household deposits and 50% of corporate deposits) have been stable at 60% of systemwide loans for the past three years. Experts expect a stable trend for the next two years in view of sluggish loan growth and continued growth in deposits due to lack of alternative savings and investment vehicles.

External funding. The Kazakh banking system remained a net external creditor as of 2013. Banks' aggregate cross-border debt reduced to under \$14 billion in the first half 2013 from \$46 billion in 2007. The improvement was largely due to the writeoff of the majority of foreign debts of BTA, Alliance, and Temirbank in 2010-2012, the repayment of foreign debts by other banks, and banks' sharp reduction of new crossborder debt issues since 2008. Kazakh banks borrowings in international capital markets in the past three years have been limited to trade finance debt. Experts expect local banks access to international debt markets to remain very limited in 2013-2014 and external debt to continue to decrease in proportion of total funding.

Domestic debt-capital markets. I view Kazakhstan's domestic debt capitalmarkets as "narrow and shallow", although private-sector debt issued in domestic capitalmarkets has been increasing, representing about 19% of GDP at year-end 2012. Many commercial banks issue domestic senior unsecured and subordinated debt, bought mainly by local banks, pension funds, and insurance companies.

Government role. The Kazakh government's adequate support of its banking system was demonstrated by its provision of liquidity during periods of market turmoil. The government remains banks' main source of funding, and government and state enterprise deposits accounted for about one-quarter of systemwide deposits at year-end 2013.

Chart 1. Kazakhstan – GDP per capita growth, 2005-2013 f-Forecast. Source: National Bank of the Republic of Kazakhstan. Chart 2. Top 10 banks by assets as year-end 2013. Source: Standard & Poor's Financial Services Ratings.

Chart 3. Nonperforming loans and provisions, 2008-2012. *Loans more than 90 days overdue. KZT--Kazakhstani tenge. Chart 4. Growth of loans and deposits, 2008-2012. Source: National Bank of the Republic of Kazakhstan. Source: National Bank of the Republic of Kazakhstan.

Conclusion

In my view, Kazakhstan's structural weakness remains its heavy dependence on commodity production. It is a relatively small country, but has a considerable amount of

natural resources. The oil sector accounts for 60% of exports and 25% of GDP, exposing the economy to external shocks.

However, with continuing demand for oil globally, the country has sound economic prospects and wealth levels are increasing. This should provide favourable operating conditions for Kazakh banks. But I still believe that large cash-rich corporates, notably in the commodities sector, have limited need for bank financing. Traditionally, Kazakh banks have financed weaker and more volatile sectors, such as real estate, construction, small and midsize enterprises, and agriculture.

I think that's the main reason why the level of nonperforming loans remains high, despite continuously strong economic growth.

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Демографические процессы в Узбекистане: вызовы и перспективы

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Аннотация

В данной статье раскрываются демографические процессы происходящие в Узбекистане, с акцентом на главный фактор воспроизводства республики – рождаемость. Анализ демографических трендов, которые непосредственно отразились на социальной сфере, в частности на пенсионном обеспечении. Также, дается экспертная оценка на перспективу развития демографических процессов в стране. В заключении даются предложения по улучшению демографической ситуации в стране.

Ключевые слова: демография, темпы роста, рождаемость, смертность, демографические процессы, пенсионное обеспечение, продолжительность жизни.

Annotation

This article reveals the demographic processes taking place in Uzbekistan, with an emphasis on the main factor of the reproduction of the republic - birth rate. Analysis of demographic trends, which directly affected the social sphere, in particular, on pension provision. Also, an expert assessment is given on the prospects for the development of demographic processes in the country. In conclusion, suggestions are made to improve the demographic situation in the country.

Key words: demography, growth rates, birth rate, mortality, demographic processes, pensions, life expectancy.

В условиях глобализации демографические вызовы приобретают первостепенное значение. Демографические вызовы связаны, прежде всего, с ростом населения, который идет нарастающими темпами. Так, например, если в начале 60-х годов прошлого столетия на Земле проживало около 3 млрд. человек, то на