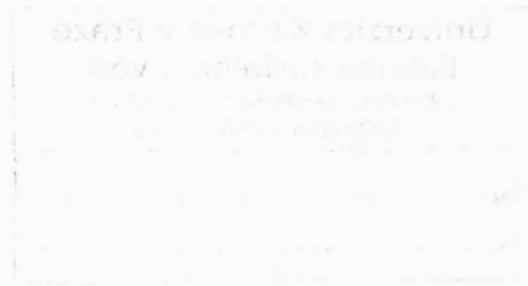


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BACHELOR THESIS

The Economic Development of Kazakhstan Since Year 1991



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Academic year: 2006/2007

Declaration

By this I declare that this thesis I have written by myself. All the segments of the work and results which have been obtained from other sources are fully referenced.

Date

Signature

TEZE BAKALÁŘSKÉ PRÁCE

STRUČNÁ CHARAKTERISTIKA

Práce shrnuje a analyzuje základní rysy hospodářského vývoje Kazachstánu po dosažení samostatnosti od roku 1991, tj. od rozpadu Sovětského svazu. Jádrem textu je zachycení rozvoje tržní ekonomiky v zemi bez vlastní kapitalistické zkušenosti, bývalé socialistické plánované ekonomiky.

OSNOVA

- Profil Kazachstánu
- Postavení Kazachstánu v ekonomice SSSR v okamžiku jejího rozpadu
- Institucionální změny s důrazem na proces privatizace
- Vývoj HDP
- Měnový vývoj, inflace
- Trh práce a nezaměstnanost
- Vývoj životní úrovně, sociální problémy a jejich řešení
- Vnější obchodní vztahy
- Postavení Kazachstánu ve Společenství nezávislých států

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- *Privatization of the Power and Natural Gas Industries in Hungary and Kazakhstan*, World Bank Technical Paper, Washington D.C., 1999
- *Labor Market Policy in Kazakhstan*, Sziraczki, Gyorgy, 1st edition, ILO, Geneva, 1995
- *Kriticheskoe desyatiletie*, Nursultan Nazarbayev, Atamura, Almaty, 2003

V Praze, 30.10.2006

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ABSTRACT

The thesis investigates and studies the process of transformation of Kazakhstan economy since 1991, when the republic achieved its independence. Through the whole paper I'll trace the development of the separate sectors of the economy.

The Soviet period has accompanied and primarily influenced the formation of the Kazakhstan's State system and the economic features. In this respect, in the first chapters, I would introduce a brief description of development of the country before 1991. Specification of the privatization process I will present in the third chapter. However, the transformation process would be analyzed at the same time in further chapters, concerning development of the main macroeconomic indicators, such as growth of GDP, inflation rate, unemployment, and the level of living. In the last chapters I would depicture the foreign politic and economic relations of the Republic of Kazakhstan, as within the Commonwealth of the Independent States, so in terms of the foreign business relations.

ABSTRAKT

Předkládaná bakalářská práce zkoumá proces transformace ekonomiky Kazachstánu po roku 1991, t.j. po dosažení Kazachstánem samostatnosti. Během celé práce budu sledovat vývoj jednotlivých sektorů ekonomiky.

Sovětské období doprovázelo a mělo prvořadý vliv na stanovení státnosti a ekonomických charakteristik Kazachstánu. V této souvislosti, v prvních kapitolách uvádím krátký popis vývoje státu před rokem 1991. Zvláštní popis privatizačního procesu představím ve třetí kapitole. Nicméně, proces ekonomické transformace bude souběžně analyzován v dalších kapitolách, které se týkají vývoje základních makroekonomických ukazatelů, jako růst HDP, míra inflace, nezaměstnanost a životní úroveň. V posledních kapitolách popíšu zahraniční politické a ekonomické vztahy Kazachstánu, jak v rámci Společenství nezávislých států, tak i v souvislosti se zahraničními obchodními vztahy.

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1. INTRODUCTION – KAZAKHSTAN PROFILE

For the 15 years of independence Kazakhstan has went through a difficult path of transition from the planned administrative economy to a new democratic market development in conditions of the universal globalization. The formation of new state organization, the development of market relations were carried out against a background of deep crisis in the economy, and in the social sphere. In the beginning of the 1990s the republic has observed the greatest economic recession for the whole modern history of development, accompanied with unexampled growth of the level of inflation, the destruction of the cumulative economic potential, the mass unemployment, and growth of the level of poverty. Suffice it to say that the gross domestic product as a result of the yearly cutting down (right up to 1999), in 1998 made only 61.6% of the level of the year 1990, the gross national product per capita made 66.7%, the level of unemployment made 13.1%, and the share of population with incomes lower than the cost of living was 39%.¹ The inflation reached its peak in years 1992-1993 and was 3061% and 2265%, respectively. Taking restrictive measures of money-and-credit policy, directed to the suppression of inflation, introduction of a national currency, conduction of a number arrangements for improvement of stability of tenge² and the prevention of growth of prices have allowed to significantly decrease the level of inflation within the next years: in 1995 the inflation was 60.3% and after 10 years, in 2006 it made 8.6%.

In 1990s of the last century all the market reforms were held: the process of privatization came to the end, and the entrepreneurs sector of the economy was created, an effective system of the state administration was established, the banking system was formed, the reforms in the budgetary system and in the social sphere were made, the systems of education, health protection, provision of pensions, social protection were reformed, the legislative base for functioning of the market type economy was created.

The further solution of social economic problems depended on the correctness of choice of strategic aims and priorities of development. And such a choice was made, when the President of the country in his message to people of Kazakhstan on October 17, 1997 proclaimed the Strategy of development of Kazakhstan until the year 2030. Such a program document was worked out first on the former Soviet space and became the major guiding line for development of economy and the society of the republic.

¹ SABDEN O., Razvitije ekonomiki Kazakhstana za 15 let nezavisimosti, Almaty, 2006

² Tenge – the national currency of Kazakhstan introduced in November 1993 to replace the Russian ruble at a rate of 1 tenge = 500 rubles. Tenge is in regime of floating exchange rate since 1999, the exchange rate of tenge per dollar on June 27, 2007 was 121.62 KZT/USD.

The result of the conducted social-economic transformations was that Kazakhstan was the first among the states of CIS who obtained a status of a country with open market economy, and its banking system is recognized by the international experts as best one on the former Soviet space. Already in 1999 the macroeconomic stabilization was reached, and then the upsurge of the economy was ensured. And that entailed positive shifts in social processes. So, beginning from the year 2000 the annual rates of increase in GDP made from 9.5 up to 13.5%, and as the result of it the volume of the year 2004 for the first time in years of independence reached the level of 1990, and in 2005 it constituted 113.4% of the pre-reform level. In 2006 the GDP growth accounted to 110.6% comparing to the previous year.

Last years the Kazakhstan economy is characterized by positive dynamics of macroeconomic indices. However, the economic upsurge still can not be said to be all-sufficient, and the growth of the economy stable and long-term, because it was significantly provided by favorable situation on world's raw materials markets. The increase in GDP was reached by extensive, cost-based resources way and was secured basically at expense of development of branches of extractive sectors and hypertrophied raw material constituent of export, what evidences a very low quality of the economic growth; that is not able to provide stable social economic development of the country and the increase in the level of welfare of its residents.

1.1. Brief history of Kazakhstan development within the Soviet period

The joining of Kazakhstan to Russia has begun in the first half of the 16th century. And by 1840 major territories of Northeast and Central Kazakhstan were under the Russian Empire. Kazakhs struggled to preserve their language and identity. The national movements and uprisings against the colonial rule began in 1800, and the most serious occurred in 1916. The present day Kazakhstan territory became an autonomous republic within Russia in 1920, and in 1936 it became the Soviet republic, the Kazakh SSR.

The Soviet regime brought collectivization, during which the nomadic Kazakhs were forced to sedentarize in late 1920s-1930s, and which entailed a mass hunger. Between 1929 and 1934 the number of sheep and goats in Kazakhstan fell from 27.2 million to 2.3 million. In late 1930s most of Kazakh elite lost their lives in Stalin's terror. As the consequence the Kazakh population declined by 22% within the period of 1926-1939.

Millions of people were resettled in Kazakhstan from all over the USSR in 1930s and 1940s, resulting in diversification of Kazakhstan population and making Kazakhstan a truly

multinational republic. At present share of Kazakh population is 59%. Russian – 25%, and the left 16% are taken by Ukrainians, Germans, Uzbeks, Uigurs, Byelorussians, Tatars, Koreans, etc.

In the period of World War II Kazakhstan observed a development of industrialization and mineral extraction, so to support the war effort.³

In the 1950s and 1960s the Virgin Lands in northern Kazakhstan were opened to agriculture, a part of Khrushchev's effort to increase agricultural production. In five years, 1953-1958, Kazakhstan grain production increased from 5.4 million to 22 million tons.

In years of the socialist construction Kazakhstan has become industrially agricultural republic. In the USSR economy it is notable for the extraction of iron ore, ores of many non-ferrous and scarce metals, production of superphosphates, salt and others, and for the many agricultural products also.

In 1975 the volume of industry had exceeded a level of the 1940 twenty seven times, and the level of 1913 – two hundred eight times.⁴

The critical role was played by a railway. The used length of railway roads in 1975 made 14.12 thousands of kilometers. The length of roads was 96.7 thousands of kilometers, including those with a hard surface made 58.4 thousands of kilometers. The length of the inner water channels was 4.8 thousands of kilometers. The air transport had been developed. The oil pipelines were created: Guryev – Orsk, Uzen – Shevchenko and Uzen – Kuybishev, Tuymazi – Angarsk; the distant gas pipelines: Central Asia – Center, Central Asia – Ural, Bukhara – Tashkent – Shymkent – Jambul – Frunze – Alma-Ata.

The standard of living of the population permanently increased. The national income in 1966-1975 has doubled. The real income per capita in 1975 in comparison to 1965 has increased 1.7 times. The retail circulation of goods has increased. At the end of 1975 municipal housing resources made 80.7 millions of squared meters of the total usable area.

The network of cultural institutions has recorded a considerable growth. By the data of the year 1975 the republic had following functioning devices: 28 theatres, including Kazakh Theater of opera and ballet; 9.9 thousands of projection devices; 8 thousands of club institutions. The largest library, National Library of Kazakh SSR in the name of A. Pushkin was established in 1931, its fund contained 2.7 millions of copies of books and magazines; 9.1

³ Wikipedia, the Free Encyclopedia, <http://www.wikipedia.org>

⁴ Great Soviet Encyclopedia, <http://www.referatu.ru>

thousands of public libraries existed, which contained 82.9 millions of copies of books and magazines; the country had 37 museums.

The Soviet power brought great improvements to Kazakhstan in the form of the better health care, mass literacy, higher education, and industrialization. Although the standard of living dramatically improved, the cost, measured in human lives, massive cultural changes, and lost freedom, was also great.

1.2. Geography

Kazakhstan is situated in the center of Eurasia, between Russia on the north, and China on the east. It is landlocked with Caspian Sea on the west and on south by a tier of former Soviet Central Asian states. Kazakhstan is a steppe country, which diversifies from grassland to sparse desert. This steppe has always been infertile for sedentary agriculture, but over the ages pastoral nomads have eked out a living. Until the 15th century this location made the Central Asia the key transportation route and provided it with prosperity. The situation has changed with the shift of the international trade to the seas.

Sparse rainfall makes water the key commodity in Kazakhstan. There are on-going disputes with the neighbor countries, especially China, Kyrgyzstan and Uzbekistan, about the use of waters of major rivers. The other geographic features are of less importance than water. The south-east quarter of the country is separated from China and Kyrgyzstan by series of high mountains. The highest peak in the country, Mount Khan-Tengri, lies at 6995 meters. The center and the south of the country is dominated by the parched Qizil Qum (Red Sands) and Betpaq Dala (Hungry Steppe) deserts, while the western part of the country declines into the Caspian depression.

1.3. Economic development

The management of the economy by the Government occurred to be successive the last years. In April 1999 Kazakhstan went through the economic crisis, because the Government responded to the outflow of its reserves of a hard currency by floating tenge against US dollar. However, since 1999 the Government conducted a number of key economic reforms, such as the pension system reform modeled on the Chilean model. GDP grew at the phenomenal rate of 8-14% annually for the next 4 years; while inflation has hovered at about 6% annually. Purchasing power parity of GDP was about 7560 US dollars per capita during 2002. The economy is relatively open, imports and exports in 2002 accounted for slightly over half of

GDP in 2002. The Government has fallen into the budget surplus since 1999, so it is gradually reducing tax rates. The Government has established a National Fund for cushion the economy against macroeconomic shocks that resulted from commodity prices' swings. In 2003 it contributed 3% of GDP to this fund. From a macroeconomic point of view the Kazakhstan economy is managed quite well.⁵

Though, number of problems still remains in the economy. Corruption is a most serious problem and inflects all levels of society. Foreign and domestic observers complain that it is difficult to do business in Kazakhstan a not to be involved into corruption. The legislative norms in the republic are weak. The lack of transparency in decision making and making of offers is also a serious problem. Poverty, especially in rural and agricultural areas, and unequal allocation of income also concern the republic – 28% of the population still lives under the official poverty line.

Kazakhstan economy is based on petroleum; the second important industry is a mining industry. Since independence, Kazakhstan's priority is to attract international capital for extraction and processing of the mineral wealth. The Tengiz oil field is managed by Chevron Corporation was the first major investment project signed in 1993 for 20 billion US dollars for the period of 40 years. Since then, a number of other major contracts have gone to Kazakhstan – the Karachaganak gas-condensate field, the Caspian pipeline, the East Kashagan oil field, and several others. At the end of 2002 Kazakhstan has shown reserves of 9 billion barrels of crude, ranking it 17th place in the world, with many unproven reserves and promising geological structures yet to be explored.⁶

Kazakhstan is also rich for hard-rock minerals, and reserves of many of them are ranked in the top five or ten worldwide. The major minerals that Kazakhstan possesses include coal, iron, copper, zinc, lead, chromium, manganese, phosphates, titanium, aluminum, gold, silver, and others. However, the Kazakhstan mining industry is dominated by domestic companies due to a number of scandals, that erupted in the mid-1990s and involved privatization purchases and mining licenses. One of the largest investments included a purchase of a large but factually bankrupt Karmet steel works by the Indo-British Ispat – the company now exports to about 75 countries around the world. Samsung (copper), Glencore (lead and zinc), AES (coal and power generation), and Access (coal) are also involved in major investment projects in the mineral industry.

⁵ Terterov M., *Global Market Briefings. Doing Business with Kazakhstan*, Kogan Page, London, 2004

⁶ Terterov M., *Global Market Briefings. Doing Business with Kazakhstan*, Kogan Page, London, 2004

Some shifts in the economy were done during the last ten years. At first, the economic activity of Kazakhstan has shifted geographically – that is, production centers as Shymkent and Karaganda became less important, and oil towns as Atyrau, Aktobe and Aktau became more important. A sectoral shift was observed from the Soviet direction on heavy industry to gas, food processing and professional services. At last, the shift from the state ownership to a private had a great meaning, and now about 2/3 of GDP is in private hands.

Agriculture is a large but a moribund sector of the economy. The most important crop is wheat – Kazakhstan is a major exporter of grain through the region. The key types of livestock are sheep and cattle. The agricultural sector operates on a low level of effectiveness due to significant need in capital investments, the lack of the rural education, due to a state ownership of all land until 2003, and the system of collective agriculture, which was shifted to a private ownership in name only.

Kazakhstan is a landlocked country, large, sparsely populated, infrastructure is especially critical for the republic. Transportation corridors are limited. Many imports from the USA or Asia come from Baltic seaports or Vladivostok, and then by rail to Kazakhstan. Despite the opening of the Caspian pipeline and transits through Iran, large volumes of crude oil are still shipped from the country by rail to the Black Sea and to China. Trucks are the main means of internal transportation for internal transportations. Although the number of mobile phone, use of internet, digitalization grow, the telephone network is still relatively sparse. Improvements of the infrastructure could be the key indicator of future economic growth of Kazakhstan.

2. POSITION OF KAZAKHSTAN IN THE ECONOMY OF THE USSR AT THE MOMENT OF ITS DISSOLUTION

2.1. The economy of the USSR as a single unit

USSR had been one of the strongest world-powers of the world. At its background it has had a developed industrial economy, in which each of the union states had its own economic status. Strong characteristics of this economy were proved at most critical time – at a time of the Second World War. High mobilization opportunities, ability to start within a short time a mass production of the armament and to provide an army with all necessary reserves had been evidenced. This all have showed the strength of the economy, even if it was at the expense of overloading of the rest sectors of the economy. However the war had also emphasized weaknesses of the soviet economy, such as a high specific weight of a manual work, a low quality of a non-military production.

We can put a question if a Soviet Union was an integrated country. The political answer would be – no, it was not. It had been a single totalitarian state, where its members, unit states, did not have even a minimal authority of the union state. But it is not so definite talking about economical integration.

The USSR economy had represented a single economic complex – the highest degree of integration. Nevertheless, this integration was not created by a natural regular and economically effective rapprochement, but it was forced by an administrative planning. The Soviet Union was a country with a highly integrated economic system; however the economic cooperation of the union states and regions had been built upon the same principles as a political system, they where totality, absolute power of the center, the exchange of the effective economical bindings by mandatory solutions from the center.

Despite its artificiality, the state planning bindings had kept economic life of the whole country and its territorial components. Obviously, after the breach of these bindings without creation of new, it had lead to a suspension of thousands of manufactories and to a large economic crisis in all new independent countries.

The USSR economy had constituted a single economic system that contained all elements of social production, allocation and exchange on the state's territory. In the economic system the critical role was played by industry and its branches that produce the most important productive instruments. The fundamental of the material production is as

follows: industry that for a year 1975 it gave an output of 511 milliards of rubles in prices for the July 1, 1967; agriculture, the volume of production of which in 1975 made 89.2 milliards of rubles; permanent construction with a volume of production that made 114.9 milliards of rubles.⁷

The economy of the USSR had associated economies of all the union republics and economical regions of the country. All the economies developed as a single unit in the interest of the whole USSR and each unit republic separately. The indivisible economic system of the USSR had been formed by a specialization of the unit republics' economies and their cooperation. Branches and production had been decomposed by the republics in accordance to mineral wealth, climate conditions for the cultivation of agriculture crops, existence of natural resources, minerals, and presence of the working resources, shortening of the distances for transportation of fuel and raw materials, and finished commodities. A gradual policy of socialist industrialization of former lagging peripheries of Russia had lead to the fact that the unit republics had mining and conversion branches of a heavy industry, transport systems and communication cables. All that provided a universal development and increase in economies of the unit republics.

At the purpose of increasing of the production effectiveness in a public sector in sixties and seventies a system of arrangements was applied for the strengthening of a concentration of production and an improvement management with the help of creation of industrial corporations on a basis of the management of the branches' systems. Great territorial industrial complexes in Siberia, Kazakhstan and Central Asia and other country regions were created.

2.2. Situation in the economy of Kazakhstan before reforms

However, to the half of the seventies it became obvious that the idea of the planned economy had fallen into decay. The accepted plans and the outcomes of work did not match. Plans were constantly remade that made it look more like "command economy" rather than "planned economy". The rate of growth of the economy declined. Thus, the growth of the real GDP in USSR in 1989 made +3%; in 1990 made +2.3%; in 1991 it made -17%. So the "command planned economy" became obsolete by itself.⁸

In the course of the tenth five-year plan (1976-1980) in Kazakhstan the annual increase in national income made 4.4%, in eleventh (1980-1985) – 0.3%. By the beginning of year

⁷ Isingarín N., *Transport – a Highway of the Economic Integration in CIS*, Almaty: Atamura, 1998, 256 pages

⁸ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

1991 almost every branch of the industry had registered a significant decrease in GDP, which had tendencies to a further decrease as Table 1 shows. It is worth of an attention that the volume of production funds, capital investments into the national economy were increasing, while their yield was on the contrary decreasing.

Table 1: Indices of production income in accordance to branches of the national economy (in % to previous year)

| | 1980 | 1985 | 1990 | 1991 | 1992 |
|---|-------|-------|-------|-------|-------|
| Produced national income (pure production) | 103,7 | 101,4 | 99,1 | 85,1 | 96,6 |
| including in branches: | | | | | |
| Industry | 104,7 | 100,4 | 79,1 | 95,9 | 83 |
| Agriculture | 96,2 | 110,8 | 112,3 | 75 | 130 |
| Construction | 100,6 | 98,3 | 91,9 | 75 | 33 |
| Transport and connection | 109,3 | 105,5 | 98,4 | 139,9 | 136,5 |
| Trade, material technical supply and preparation, other branches of a material production | 112 | 103,6 | 101,4 | 43,8 | 79,3 |

Source: National Statistics Committee of the Republic of Kazakhstan, Statistical Year, Almaty, 1992.

The recession of the production and stagnation features heightened a social tension. Republic had expected exception of extraordinary decisions in politics, economics and social life. In a short time that decisions have been made and the essence of applied arrangements went down in history as "perestrojka". For its realization a widely propagated system of economic mechanism was planned. However, time showed that those decisions did not touch the ground of the economy, which is a social ownership of the production instruments. Events that happened soon turned over the history process. In August 1991 the USSR did not exist any more, and on December 16, 1991 a new independent state came into existences – the Republic of Kazakhstan.

The reforms that were conducted during the reconstruction period affected both sector of the real economy and monetary income of the population and enterprises.

2.2.1. Sector of the real economy.

The recession in production that was observed at the end of the eighties has continued. Economists explain it by a fact that enterprises used for their benefit independency, which they have gained at a time of the reconstruction. The state accepted provided democracy as non-interference into enterprises' affairs; it supported a freedom of the enterprises for autonomy and a self-financing. The defect of the law "On a state enterprise" from July 30, 1987 has assisted the freedom of enterprises. The law constituted that enterprises could

operate on the self-financing principle. Their productive activities, salaries of employees were financed by means earned by the enterprise.⁹

So the law provided enterprises opportunity to gain at any price. Enterprises used the absence of a control and a right to self-management, and increased their profit by increasing prices. Table 2 shows that the profitability of enterprises and economic organizations in 1990 in comparison with 1985 has increased 2.5 times, in 1992 comparing to 1990 increased 39 times (in industry – 83 times). At the same time the production volumes have been reducing (see Table 1). As a result, during 1985-1990 retail prices have increased in average 10-20% annually.

Table 2: Profits of enterprises and economic organizations (in millions of rubles).

| Profits | 1985 | 1990 | 1992 |
|--------------|------|-------|--------|
| In total | 5605 | 13974 | 545244 |
| Industry | 2810 | 4036 | 334897 |
| Agriculture | 62 | 4501 | 92770 |
| Construction | 551 | 1217 | 30973 |

Source: Annual Statistics of Kazakhstan for 1994, Almaty, 1995

Beginning from the first years from providing enterprises with independency the monopolistic characteristics of market have revealed. State monopolistic enterprises abused their market situation and increased prices, and so gaining undeserved profit and increasing production profitability. That way Karmetkombinat in 1992 had 300% profitability, Shymkent leaden plant had 120% profitability, Almaty jewelers' factory – 92%, Ust-Kamenogorsk condensing factory – 55%, etc. So the profitability of mineral production had increased due to increase in products' prices and simultaneous decrease in production volume.

Later on the USSR government understood the falseness of the adoption of the profits as a generalizing index, and corrected the mistake only in June 1990 by adoption of new law "Of enterprises in the USSR". It contained another wording of the criterion of an evaluation of enterprises' activities: that the main tasks of enterprise were satisfaction of public demand by its products, works, and services. However further historical events did not give any chance to this law. After the dissolution of the USSR, Kazakhstan has adopted a law on enterprises in Kazakh SSR, where the same mistakes in wording took place. The same definition was left in a law "Of enterprises of the Republic of Kazakhstan" dated April 14, 1993.¹⁰

The change-over of enterprises on self-financing lead to increase in not covered goods' profits of branches of heavy industry, and hence lead to a deepening of the crisis. At the same

⁹ Kazakhstan juridical portal, <http://www.zakon.kz>

¹⁰ Kazakhstan juridical portal, <http://www.zakon.kz>

time, the production of many types of consumer goods had been cut, that is because of mistakes in planning, weakening of a planning discipline, etc. A deficit of consumer goods prevailed in a country. In reality the reason of the deficit of many goods was a significant decrease in the volume of their production.

In addition to all negative processes typical for all the post-soviet countries, the situation of the economy of Kazakhstan complicated because of its following peculiarities:

1. monopolization of the economy, as a consequence of which about 20% of enterprises produced more than 80% of the whole production;
2. dependence of the productive sector of the economy on delivery of raw materials outside the country;
3. a raw material specialization of the economy;
4. underdevelopment of the productive and financial infrastructures, transport and communications.

2.2.2. Monetary income of the population and enterprises.

In a former unit state, the policy of excessive money issuing was observed very well. For example, in separate regions on the north in some branches of the production the anticipated growth of wages over the productivity of work was tolerated. The state made it in order to retain the personnel and to attract additional working force. On the other hand a slow growth of branches producing consumer goods was observed, sometimes even a reduction in productivity. As a result a key balance in the economy was violated and the all the conditions for the development of a widespread inflation with a spreading of the deficit at all the consumer goods were created. The population saved all unspent money reserves. In a period of 1989-1990 the deposits of the population in savings banks exceeded 300 milliards of rubles. According to economists 50% of savings were explained by dissatisfaction of a demand.¹¹

Another strong channel of inflow of the useless money to the consumer market were huge money funds of self-financing enterprises, that were created by the enterprises saving their incomes. Between 1985-1988 enterprises' savings increased 8 times, from 16 milliards to 129,9 milliard of rubles¹², and without any other resources for their coverage. As a result money remainders on enterprises' current accounts had sharply increased, and with that the management of enterprises got a higher desire to convert those resources into cash. That led to

¹¹ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

¹² Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

an expansion of possible channels of converting cashless money into cash. Different fictitious firms for a realization of that money have occurred.

The other source of an excessive increase in money funds was a deteriorating unfavorable situation with a budget deficit. Government was still trying to fasten an economic development, increased huge production capital investments. In consequence an enormous state budget deficit has occurred, and it was significantly covered by the additional emission of money.

Economists pointed out that the state monopoly presented an inflation threat. The credits-money policy of the state bank of the USSR was irresponsible. Its absolute monopoly in the sphere of crediting of national economy till the end of 1980s, artificial reduction of the interest rate encouraged the demand on credits and investment goods. Credits were used in ordinary financial operations in economy; they became a basic source for a formation of enterprises' circulating means. Furthermore, a development of the so called payment credits had a negative impact on the circulation of money. Those credits were meant to be used for the coverage of differences in a payment circulation, and to shorten of non-payment between enterprises. The illimitability of credit sources allowed unreasonably saturating the circulation of money by payment resources at expense of over-crediting of the economy. In those conditions enterprises were struggling to accumulate wealth, and that led to a deepening of the deficit on a goods market, the increase in money savings by baseless material goods.

These negative effects in economy deteriorated social and political instability. Mass strikes of miners, students' disturbances have started. In 1990 the government increased 3 times whole sale and retail sale prices of food and consumer goods. That of course meant a further worsening of the situation in a social sphere.

In a structural economic policy none of the tasks set in 1985 were realized. A share of total capital investments that went on a production of consumer goods remained on the 5% level (to compare in the USA 10-15%), on the construction – 10-15% (in USA – 25-30%)¹³. Regardless the huge investments, the agriculture still remained in a hard situation.

The republic was slowly entering an economic crisis. In 1989 its first threatening features occurred – the mass strikes of miners, including miners from Karaganda. The republic has already accumulated a sufficient inflation potential ready to be shown within the baseless and indigested activities of the state government.

¹³ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

At a time of the Soviet Union dissolution Kazakhstan was the less prepared for an obtaining of the independency between all the unit states. During the whole existence of the USSR, the Kazakhstan economy was at 80% integrated into an economic system of the USSR¹⁴. The complete political independence would necessarily lead to an immediate disruption of all the economic communications. After the collapse of the USSR it was necessary to establish new trade connections. As Kazakhstan was mainly oriented on a raw material production, it was needed to look for new sales ways.

Dramatic consequences of the break up of a great state, its single national economical complex were well shaped by a head of Kazakhstan Nursultan Nazarbayev. Nazarbayev was a supporter of a preservation of the Soviet Union, as a single economic territory. His position was substantiated by such dispassionate factors as the composition of a Kazakhstan population and a unique level of integration of Kazakhstan and Russian economics.

Nazarbayev saw a market economy as a key to a real economic independence. At that time concurrently with the activities for a preservation of intra-unit communications, he begins to implement economic reforms in Kazakhstan. The rational escape from this situation he saw in maintenance of elements of economic community with other republics, and it was necessary to continue with formation of a national statehood.

¹⁴ Zhumagulov B., *In What I Believe*, Almaty, 2006

3. INSTITUTIONAL CHANGES EMPHASIZING THE PRIVATIZATION PROCESS

3.1. The development of the institutional bases of the market economy

The institutional bases of the market economy in Kazakhstan were established within the first seven-ten years after obtaining independence. One of the basic tasks in process of development of the market economy was the disestablishment of property. Mainly this task was solved in the course of the privatization held in three stages in years 1991-1996. The privatization exercised a significant influence on the institutional transformation in the republic's economy; that is the privatization has developed the most important institute of the market economy – a private sector of the entrepreneurship almost in all branches. The mass withdrawal of the majority of the economic objects from the state property has fundamentally reformed the principal elements of the economic relations – the system of horizontal and vertical economic relations, material and technical supply, sale of production, attraction and use of the investment resources, etc., and so thereby developed the corresponding institutes of the market type economy. The reforming of the organizational structure of the privatized enterprises to the forms corresponding to the market economy took place; that is concerns, holdings, corporation, and joint - stock companies. The privatization has developed many institutes of the market infrastructure – investment funds, stock exchanges, brokers' offices, which started to operate during the reforming of property relations.

At the same time in process of accomplishment of privatization, serious defects were committed, not all the tasks of disestablishment were performed. Thus, the program of mass (coupon) privatization has factually failed, because of the fact that almost all the investment privatization funds stopped their existence, and did not provide a handover of property to the country's population, what was assumed by the idea of the mass privatization. Really no class of effective proprietors on the privatized enterprises was formed; many of the enterprises went bankrupt without getting investments from the new shareholders. As the result of dealings within the scope of privatization under individual projects best domestic companies, the base of the economy of Kazakhstan, fell into hands of often unknown offshore firms that did not produce any investments, and only exhausted resources of enterprises up to their total exhausting. Consequences of the privatization under individual projects still affect the country's economy; this is exactly a reason of the non-transparent structure of properties of biggest companies of the raw material sector, the absence of an investment market, and offshore schemes of raw materials export.

3.2. Formation of the investments market

The basic institutes of stock market in Kazakhstan that secure the necessary level of its technical infrastructure are the JSC "Kazakhstan Stock Exchange", JSC "Central Securities Depository", and also professional market participants. For the beginning of the year 2006 the institutional infrastructure of the stock market in Kazakhstan was presented by 62 brokers-dealers, 18 organizations conducting management of register of security holders, 11 custodians, and 10 portfolio managers. The number of the active securities of shares investment funds as of September 1, 2006 made 74 (58 closed, 9 open, and 7 intervallic); that has increased for the period from January 1, 2006 by 29. Either for the same period seven shares investment funds were registered, thereby as for September 1, 2006 there were 11 shares investment funds functioning on the market.

As for September 1, 2006 there were 2311 issues of shares in circulation, an also 204 active issues of non-state obligations, and the total nominal value of which made 844.4 billions of tenge.

Despite the positive dynamics of development shown in growth of all its basic indicators, and in expansion of market instruments, occurrence of new types of participants, the domestic stock market still remains underdeveloped. Many problems retain, particularly problems of development of funds. There is still a low liquidity of stocks on the fund market. The structure of stocks does not reflect the structure the economy of Kazakhstan – shares of banks prevail, and the industrial sector is almost not presented. Thus, the development of the fund market remains one of the actual tasks of the economic development of Kazakhstan.

3.3. Market reforms

Economists distinguish three stages of market reforms.¹⁵

The first stage of market reforms encompasses period of 1992-1993 from the beginning of wide-ranging reforms in the economy till the introduction of the national currency - tenge. This has been the most difficult crisis period in the republic's economy. The macroeconomic policy of the country was determined by Russia and mainly depended decisions taken in Moscow. In result of the liberalization of prices, the country fell into a deep economic crisis, the inflation reached the highest level (3060%), with an average monthly rate of 39%.

¹⁵ Kenzheguzin M., Kuchukova N., Radostovets N., Reforming the Economy of Kazakhstan, Almaty, 1997

The second stage is accepted to be from the end of 1993 till 1996. The beginning of the stage is considered to be the introduction on November 15, 1993 of the national currency, and formation of the own macroeconomic policy. This period is characterized by the certain positive changes in reforming of the economy. As the result of the taken measures in conditions of a strict anti-inflation course, it was possible to achieve first significant successes in decreasing of inflation rates, to stabilize exchange rate of tenge, to decrease a budget deficit, and, what was the most important, to stop a slump in production. On this stage the important system transformations, the active liberalization of the economy were held and a basis for formation of positive macroeconomic tendencies of its development were founded.

The third stage – 1997-2000 is characterized by a gradual growth of GDP, volume of the industrial production, investments and other important macroeconomic characteristics. During this stage a significant deepening of reforms in the financial sphere, strengthening of the banking system took place, the fund for underwriting of deposits on deposit accounts of the second level banks were founded, the reforms on the insurance market were carried out. However, the positive dynamic of development of the economy was significantly slowed down by the world financial crises: the Asian crisis (South-East Asia) in 1997, the Russian crisis in 1998. As the consequence, the year 1998 was the only year on this stage, in which a decrease in GDP was observed.

3.4. Privatization reforms

During the first half of the 1990s programs of de-monopolization and privatization were held in Kazakhstan.¹⁶ In the period of 1991-1992, the program primarily specialized on a sale of trade and service facilities, transfer of the state property to labor collectives of the enterprises. A national program of 1993-1995 of de-monopolization and privatization included small and mass privatization, as well as case-by-case privatization projects. In the course of small privatization 11 thousands of objects were sold, that is 2/3 of all objects of small privatization. During the mass privatization more that 1600 enterprises sold their shares for privatization investment coupons at 22 auctions. In case-by-case privatization 5 objects were sold and 44 were transferred to a trust management, including 12 enterprises that were sold to external organizations. By 1996, 60% of Authorized Funds of privatized enterprises were transferred to a private ownership. One third of privatized enterprises was sold for privatization investment coupons. One third of them was sold for cash, the second third was

¹⁶ Kenzheguzin M., *Economy of Kazakhstan on the Path of Reforms*, Almaty, 1998

owned by collectives of the privatized enterprises. From the 43% of the privatized firms more than a half of voting shares was transferred to a private ownership.

The main goal of the privatization program of 1996-1998 was the restructuring of the state owned property so to increase the share of the private sector in the economy. The program included the following steps:

- completion of privatization of state blocks of shares of partially privatized enterprises;
- realization of individual projects of privatization of state owned objects;
- including into privatization process new objects previously not subject to privatization;
- branch privatization programs;
- expansion of partnership of foreign capital.

3.4.1. Trust management

Difficult financial situation of enterprises raised a need in a prompt privatization process in the form of trust management.¹⁷ The handing over of enterprises under the trust management began in 1995. For example, joint stock companies “Pavlodar Aluminum Plant”, “Turgai Mining Department”, “Krasnooktyabrsk Mining Department” were transferred to a management of “Whitesman Ltd.”, the joint stock company “Zhezkent Ore Processing Plant” – to “Nova Resources Ad.”, the joint stock company Transnational Corporation “Kazchrome” – to “Japan Chrome Corp.”, joint stock companies “Zhezkazgantsvetmet” and “Karaganda Home Appliances Plant” – to “Samsung” Corporation, phosphorous plants – to “IBE Trade Co.”, the Almaty airport – to subsidiary company “Lufthanza Air Lines”, sugar-refineries – to management of domestic companies.

Conclusion of the management agreement designates payment of debts, financing of investment programs, implementation of new methods of management, solution of social problems of the enterprise. Generally, the contract period lasted for 5-10 years. The manager organization has a right to a share of profit (2-10%).

Contract between Corporation Samsung and the State Property Committee of Kazakhstan about a Transfer of the joint stock company “Zhezkazgantsvetmet” contains the following conditions:

- period of management – 5 years;

¹⁷ Kenzheguzin M., Economy of Kazakhstan on the Path of Reforms, Almaty, 1998

- payment of wages, budget taxes, electric power costs, etc.;
- the further development of copper production;
- an obligation to maintain social sphere, to preserve existing job vacancies;
- to secure the further development of the raw material sources;
- to receive 2% of net profit by the management company.

As the result of activity of management companies the enterprises' debts were reduced, the circulating assets were replenished, management quality increased.

3.4.2. Small-scale privatization

From the very beginning of the reforms a small privatization was considered as an important direction of the transformation of the state owned property and the establishment of the private sector of the economy, development of small and medium business, and the sphere of services. That is connected with the fact that it allows to attract different groups of buyers to sales of the state owned objects, and to form a class of proprietors without significant expenses of state.

For the period of 1993-1995 on auctions and tenders there were sold 6088 objects from the 11625 offered for sale. The year 1995 became a year of the implementation of the national program of privatization; it was characterized by growth in number of objects put up to auctions and by the increase of sales. For instance, during the small privatization not only objects of state trade, public catering, consumer services were sold, but also transport, trucking companies, pharmacies, gas stations, bakeries, retail stores, construction in progress, etc. In average, the monthly quantity of objects offered for sale in that period accounted for 893 objects.

Results of small privatization during the period 1994-1995 proved the ineffectiveness of the British auction system, when, as a consequence, many of the objects for sale showed to be not demanded. In 1995 the Holland system of auctions with the decreasing initial price was set up. As the result of that the less prestige or remote objects were purchased at reduced prices.

The third stage included privatization of objects of the social sphere, the health care, education, culture, and sport institutes. In the course of the first half of year 1996 the State Privatization Committee and its territorial departments have offered for sale on auctions and tenders 5354 objects of small privatization. 1820 of them, that is 34.1%, were sold, what was

more than number of objects sold in the first half of 1995 by 60.7%. However, still 2/3 of objects left not purchased, because of their unattractiveness, territorial remoteness or because they were of no prestige.

Generally, it is possible to consider that the small privatization has achieved its goal. A significant number of private owners has occurred, which contributed to establishment and expansion of the private sector of the economy. As well as the competitive environment in the sphere of trade, public catering, consumer services, communal management, and other have expanded. The employment in the privatized enterprises has grown. The privatized enterprises have broadened a range of goods. Levels of services were much higher than in the state shops, but also shops owned by joint stock companies.

To conclude, the domestic demand on the capital market was still low, the investment climate was not favorable, and the production still declined. All that did not contribute to provision of conditions for successful functioning of the privatized companies, which situated in remote areas, and has broken their social infrastructure. The new proprietors often did not have enough capital assets, and most of the sold shops were closed, especially in villages and small towns. All of it did not condition development, and unfortunately the distressing consequences fell primarily on population.

3.5. Economic transition and incidence of poverty

The economic transformation of the republic caused a sharp decrease in volumes of production in real sector of economy, and what has reflected in a sharp decrease in the level of real incomes of the population. This entailed strengthening of processes of social differentiation on incomes, consumption, and availability of major material and social services, and that has led to increase of number of families that were found below the breadline. One-stage liberalization of prices that took place in January, 1992 cheapened population incomes. The share of the population under a subsistence level for the period of 1996-1999 was between 34% up to 39%.

Decrease in living standard of the majority population is reflected, first of all, in quality of nutrition. For years of market reforms there was a quantitative and qualitative deterioration of consumption of the basic food stuffs, which was caused by both recession of

agricultural production, and significant decrease in real incomes of the population. The actual consumption of meat per capita has decreased by 49.4%, milk – by 37.3%, eggs – by 51.6%.¹⁸

The increase of a share of population under the poverty line was also caused by the abolishment of lifelong guarantees of employment for the population.

3.6. Elimination of system of lifelong guaranteed employment

Market reforms of Kazakhstan economy were accompanied by market transformations in the social sector of the economy. The most radical changes were done in the sphere of employment of population. The Kazakhstan labor market was reformed on the basis of the market relations, what meant the elimination of guaranteed lifelong employment system.

Within the Soviet social protection system people were not only provided with the guaranteed employment, but also with housing, health services, maintenance with dining rooms, kinder gardens, and other social securities. Although the system guaranteed a full employment of the population, it had a negative impact on the economy. The consequences of the system were low labor productivity and low production efficiency of the whole economy. As the result, by the beginning of the market reforms the country has already had a hidden unemployment, which was not officially recorded.

The privatization of state property, the sharp decrease in production has deprived workers of state employment guarantees. The level of unemployment has dramatically grown. The unemployment has reached its peak in 1996-1997, and the next years it had tendencies to decrease.

¹⁸ Strengthening income and employment of vulnerable groups of population in Kazakhstan, edited by Kenzhugin M., Almaty: Institute Economics of Ministry Education and Science of Kazakhstan, 2004

4. GDP DEVELOPMENT

4.1. Macroeconomic dynamic

After obtaining its independence Kazakhstan faced a task to reform the whole economy; that is to orient the economy towards the open market. Thus many extensive reforms were to be done by the government. For this purpose a scaled privatization of state property was conducted. New institutions necessary for a proper functioning of the market economy were established. The republic has introduced its own currency – tenge, and the effective financial system was built. Also the provided legislative basis supported the economy and society development. Conditions to facilitate external economic activity of enterprises and organizations were liberalized. Investment capital that is necessary for development and support of economy was involved into the country. An entrepreneurial sector of economy has developed, and the other sectors of functioning of the economy were reformed.

In this way the necessary environment for development of market relations was created. Such a fundamental transformation of the economy could not proceed without consequences. As the result, in the beginning stage of economic changes volumes of production in the real sector of the economy was recorded. The overall decrease in GDP in 1995 made 38.6% in comparison to year 1990.¹⁹

The Government and the National Bank took a complex of measures to stabilize the macroeconomic situation, and already in 1996 it allowed to reach for the growth of the GDP by 0,5%. Inflation was also decreased and the economy gained a course to a progressive development. In 1997 the reached successes in economic development were strengthened, and the GDP grew by 1.7% (see Table 3).

The financial economic system showed its stability against external unfavorable impacts. The financial crisis in states of South-East Asia and Russia in 1998 was a reason of decrease in demand for export goods from Kazakhstan, and so decreased their competitiveness. The transfer to regime of floating exchange rate of tenge in April 1999, and the policy of substitution of imports helped to restore the competitiveness of domestic goods, and to strengthen on external and internal markets. In 1999 the increase in GDP made 2.7%.

¹⁹ The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

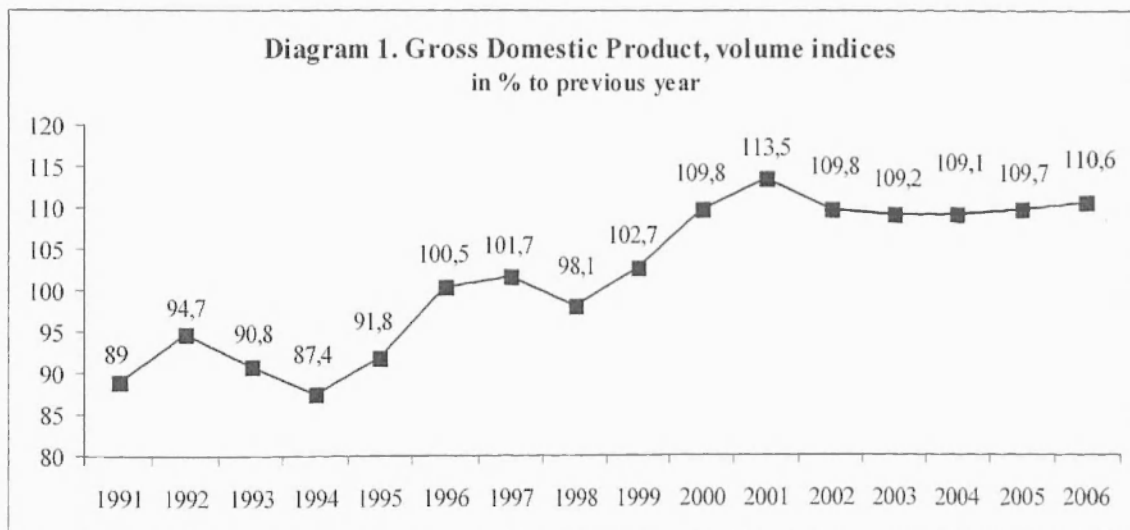
Table 3: Gross Domestic product of Kazakhstan, 1995-2000

| Gross Domestic product | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|--------|--------|-----------|-----------|-----------|-----------|
| GDP, mln.tenge | - | - | 1672142,5 | 1733263,5 | 2016456,3 | 2599901,6 |
| GDP, mln,USD | | | | | | |
| at official rate | - | - | 22172 | 22139 | 16854,4 | 18292,4 |
| at PPP | - | - | 75463,4 | 74891,6 | 77976,8 | 87607,5 |
| Volume index, in % to previous year | 91,8 | 100,5 | 101,7 | 98,1 | 102,7 | 109,8 |
| Deflator, in % to previous year | | | 116,1 | 105,7 | 113,3 | 117,4 |
| GDP per capita, tenge | 64117 | 90876 | 109045,2 | 114991,3 | 135088,8 | 174853,8 |
| GDP per capita, USD: | | | | | | |
| at official rate | 1052,4 | 1350,7 | 1445,9 | 1468,8 | 1129,1 | 1230,2 |
| at PPP | 4508 | 4682 | 4921 | 4969 | 5224 | 5892 |
| Volume index per capita, in % to previous year | - | - | 103,3 | 99,8 | 103,7 | 110,3 |
| Dollar exchange rate, tenge for 1 USD | 60,93 | 67,29 | 75,417 | 78,29 | 119,64 | 142,13 |
| PPP, tenge for 1 USD | - | - | 22,16 | 23,14 | 25,84 | 29,68 |

Source: The Agency of Statistics of Kazakhstan 1991-2002, Almaty, 2004; <http://www.stat.kz>

One of important factors of an economic development of the republic in last years was a favorable situation on the world markets of raw materials. The internal markets observed an increase in demand for the produced goods and services.

Activation of domestic producers, increase of external and internal demand for production of Kazakhstani producers of goods and services became a fundamental for economic growth in the period 1999-2001. Real GDP in 2000 has grown by 9.8%, in 2001 its rate of growth made 13.5% in comparison to the previous year. The next years the GDP growth remained stable and made 9.7% annually in average (see the Diagram 1). The economic growth in the mentioned period was accompanied with low inflation rates. The consumer price index in 2001 made 106.4%, and in 2000 it was 109.8%.



Source: The Agency of Statistics of Kazakhstan 1991-2002, Almaty, 2004; <http://www.stat.kz>

As the result of positive changes in real sector of economy the noticeable changes on the labor market have happened. Beginning from year 1999 a number of the economically active population has been increasing. So, in 2001 the economically active population has increased by 5.2% in comparison to 2000. Share of contract workers in the structure of employment of population grew from 54.9% in 1999 to 57.7% in 2001.²⁰

Along with the activation of business activity of enterprises and organizations the unemployment rate has decreased. In 1999 the level of unemployment made 13.5%, in 2000 it was 12.8%, and in 2001 the level of unemployment was 10.4%; that is number of unemployed population made 780.3 thousands of people. Thus, the unemployment indices have a tendency to decrease.

Basic directions of the state regulation of employment determined by a strategy of fight with poverty and unemployment include creation of new working places as the result of development of existing and new manufactures; formation of small business and entrepreneurship; assistance for employment and job placement of the citizens by distribution of social works; social protection of unemployed by introduction of system of social insurance against unemployment.

Government of Kazakhstan struggles for a maximal support of domestic producers, and the enlargement of internal and external markets for goods from Kazakhstan. That also gives grounds for expectation of favorable changes in the sphere of employment of population.

As the result of carrying out of a number of drastic reforms in development of market institutions and economic mechanisms Kazakhstan has left behind most of the states of the CIS with the rates of reforming of the economy. Kazakhstan was the first one among the republics of the CIS, who took such measures as a reform of pensions; establishing of system of underwriting of bank deposits; a long-term redemption of liabilities of IMF by the National Bank; the development of National Fund; the state compensations of exchange rate losses due to devaluation of the national currency for depositors of banks and pension funds; the refusal of obligatory selling of currency earnings by exporters; the compulsory insurance of responsibility of car owners.

²⁰ The Agency of Statistics of Kazakhstan 1991-2002, Almaty, 2004

The conducted strict but effective market reforms made it possible to give the economy a forward moving. The average rate of growth of the GDP of Kazakhstan for the period 2000-2004 amounted 10.3%, and 9.4% in 2005.²¹

According to the index of competitiveness in 2005 Kazakhstan took 61st place in the world, and left behind all the countries of the CIS. In 2006 Kazakhstan moved to a 56th place.²² In rating of an economic freedom, published in January 2006, Kazakhstan took 113th place, passing ahead of Russia that has revealed to be on the 122nd place.²³

Kazakhstan appears to be an absolute leader among the states of CIS by the rates of growth of investments into the capital stock, and the volumes of attraction of foreign investments per head. The state and the economic subjects actively use modern methods of optimization of the financial management.

The implemented reforms have positively influenced the social sphere of the country: population's incomes have grown, new working places are created, and the government spending for social needs has increased. The real GDP per capita in 2001 has grown by 29.8% in comparison to year 1997. The main result of the reforms was creation of the market type economy and the effective system of state administration.

Nevertheless, in the foreseeable future it is evident that Kazakhstan's economy would retain its dependence on work of fuel and energy sector. Thus, whereas in 2001 a share of fuel and energy complex in maintenance of growth of the GDP was 25.4%, in 2005 it has already exceeded 50%. The share of the added value of the processing industry branch is steadily decreasing. According to statistics of the Center for marketing and analytical investigations the share of the manufacturing sector in the GDP last year made 11.9% against the 17% in 2000. So the present day situation could be characterized as follows: the economy has got an impressive dynamic growth but it is short of the diversification.

4.2. Structure of GDP

In the second half of the 1990s the significant changes have happened in the structure of GDP. The weight of the industrial production in GDP has grown up to 30.7% in 2001, against 27.1% in 1991. And with it the share of the rural economy reduced for this period three times, the share of the construction has decreased more than twice. On the whole the role

²¹ <http://www.expert.ru>

²² National Daily Newspaper, <http://www.kazpravda.kz>

²³ Kazakhstan Juridical Portal, <http://www.zakon.kz>

of production of goods in the structure of the GDP for past ten years has declined from 65.9% to 44.9%.

At the same time the share of services in the structure of the GDP starting from the year 1990 has gradually risen, and reached its upper bound in 1997, that is 58.3%. In 2000 the share of services was 47.4%, and in 2001 it made 48.1%. The extension of share branches producing services in the GDP could be explained, primarily, by a fast development of the market infrastructure (Table 4). See the table of the production of the GDP in Appendix 1.

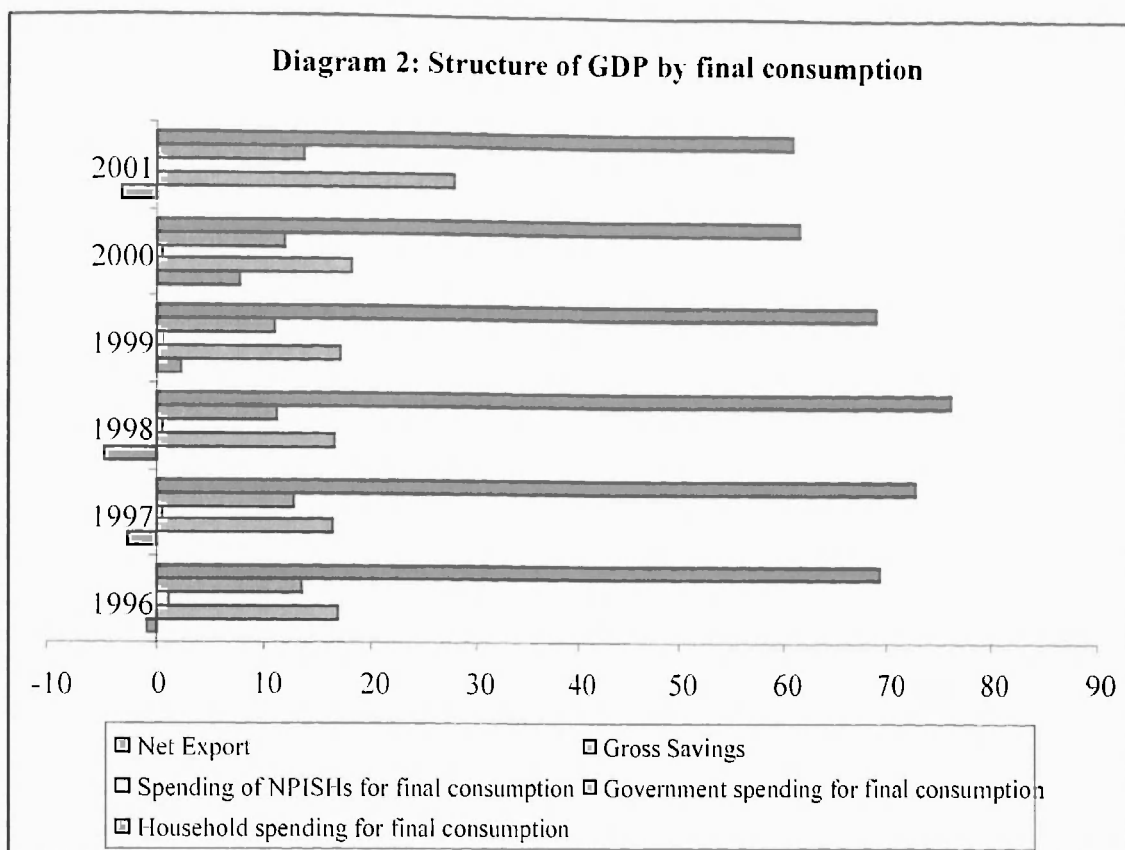
Table 4: Structure of the produced GDP (in current prices, in %)

| | 1991 | 1993 | 1996 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------------|------|------|------|------|------|------|------|------|------|
| GDP | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Production of goods | 65,9 | 53,5 | 37,7 | 46,5 | 44,9 | 43,8 | 43 | 44,9 | 46,3 |
| including: | | | | | | | | | |
| Industry | 27,1 | 28,7 | 21,2 | 33,2 | 30,7 | 29,5 | 29,5 | 32,9 | 32,6 |
| Agriculture | 29,5 | 16,4 | 12,1 | 8,1 | 8,7 | 8 | 7,3 | 7,4 | 7,1 |
| Construction | 9,2 | 8,3 | 4,4 | 5,2 | 5,5 | 6,3 | 6,2 | - | 8,1 |
| Production of services | 34,8 | 40,4 | 57,3 | 47,4 | 48,1 | 55,1 | 51,6 | 50,7 | 53,7 |
| including: | | | | | | | | | |
| Trade | 8,1 | 10,4 | 17,3 | 12,4 | 12,1 | 12,2 | 12,1 | - | - |
| Transport and communications | 7,5 | 10 | 11,3 | 11,5 | 11,2 | 11,6 | 12,1 | - | 12,8 |
| Other services | 19,2 | 20 | 28,7 | 23,5 | 24,8 | 31,4 | - | - | 25,8 |
| Net taxes | -0,7 | 6,1 | 5 | 6,1 | 7 | 7 | - | - | - |

Source: The Agency of Statistics of Kazakhstan 1991-2002, Almaty, 2004; <http://www.stat.kz>

Positive trends in the real sector of the economy are reflected on the volumes of use of the gross domestic product. One of the basic factors affecting the dynamics and structure of utilization of the GDP, are the rates of changes in the volumes of the gross savings and expenditures for the final consumption, where the basic share is taken by expenditures of housekeeping and the organizations of the state administration.

As long as the all components of GDP by the consumptive use have grown to a variable extent, the structural changes in the composition of GDP have occurred. Thus, while in 1997 the basic prevailing share was taken by the final consumption of households (72.8%), the last years the share of the gross savings, the government expenditures, and the net export in 1999-2000, has significantly increased (Diagram 2). Along with the expansion of the investments activity the share of the gross savings in the GDP has grown from 16.9% in 1996 up to 27.7% in 2001.



Source: The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

Table 5: Gross Domestic Product, 2000-2006

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-----------|-----------|-----------|-----------|----------|-----------|----------|
| GDP, mln,tenge | 2599901,6 | 3250593,3 | 3776277,3 | 4449795,7 | 5542500 | 7590593,5 | 9739000 |
| GDP, mln,USD | | | | | | | |
| at official rate | 18292,4 | 22153,6 | 24636,5 | 30852,1 | 42634,6 | 56654,7 | 76432,3 |
| at PPP | 87607,5 | 101674,1 | - | - | - | - | 143100 |
| Volume index, in % to previous year | | | | | | | |
| | 109,8 | 113,5 | 109,8 | 109,3 | 109,6 | 109,7 | 110,6 |
| Deflator, in % to previous year | | | | | | | |
| | 117,4 | 110,1 | 105,8 | 111,7 | 116,1 | 117,9 | - |
| GDP per capita, tenge | 174853,8 | 219169,7 | 252268,7 | 310309,5 | 368253,8 | 440211,6 | 505091,6 |
| GDP per capita, USD: | | | | | | | |
| at official rate | 1230,2 | 1493,7 | 1658,6 | 2074,6 | 2715,1 | 3620 | 5083 |
| at PPP | 5892 | 6855 | 7591 | 6500 | 7800 | 8500 | 9100 |
| Volume index per capita, in % to previous year | 110,3 | 113,7 | - | - | - | - | - |
| Dollar exchange rate, tenge for 1 USD | | | | | | | |
| | 142,13 | 146,73 | 153,28 | 144,23 | 130 | 133,98 | 127,42 |
| PPP, tenge for 1 USD | 29,68 | 31,91 | 33,49 | - | - | - | - |

Source: The Agency of Statistics of Kazakhstan 1991-2002, Almaty, 2004; <http://www.stat.kz>

In the last years there is a strong growing tendency in the economy. The GDP growth in 2005 was 9.7% (in comparison to 2004), and in 2006 GDP grew by 10.6% comparing to 2005 (see Table 3). The growth of the economy is primarily buoyed by the high world prices. It is also conditioned by a gradual development of the countries infrastructure, and the implementation of market reforms. Kazakhstan's Government has in plan to double GDP by 2008 and triple it by 2015 compared to the index of 2000.

5. MONETARY DEVELOPMENT, INFLATION

5.1. A Transfer to Market Relations, Development of Inflation Processes

In the beginning of 1990s it became evident that exactly socially-economic structure of the command economic has brought the Soviet Union into a crisis, and the way out of this crisis is in a development of a market economy solely. In December 1991 Kazakhstan declared its independence, and approached to large-scale market reforms. The course on de-nationalization and privatization was declared; constitution of the Republic of Kazakhstan for the first time defined a law of private property. Those were the first conditions for a beginning of the development of market relations in the economy.

The initiative period of the transfer to market relations is considered to be the mid-1991. In April a "Program for a de-nationalization and privatization of state property of the Kazakh SSR for a period of 1991-1992" was adopted. The program pursued an aim of creation of a class of private owners and entrepreneurs as social base of the formation of a market economy. Accomplishment of this program was a priority for a period 1991-1992, and the government strived for its fulfillment. However, in some time it became obvious that some modifications were needed to be done.

Since January 2, 1992 Russia approaches to a liberalization of prices. Because of the fact that Kazakhstan went together with Russia in one ruble zone, Kazakhstan had to do nothing but to review its privatization programs and to begin the liberalization of prices as well.

5.1.1. The Liberalization of Prices and the Effect on the Inflation Process.

Price setting reform in industry branches of the former USSR already began in the end of 1990. From the beginning it was assumed that the major part of the production of enterprises, about 60%, including basic raw materials, gasoline, energetic sources, mass types of production of metallurgic, machine-building complexes, would be sold at fixed prices. The rest of enterprises, as it was assumed, would be sold at agreed prices. Nevertheless, in a reality fixed prices did not have a chance to withstand. In industries and other branches the agreed prices got the largest development. The manufacturing enterprises were pleased with such realization of their production, because it yielded them higher revenue. Yet by the end of 1991 a volume of sales at the agreed prices in the following branches was: non-metallic mineral products – 62%, chemical industry – 41%, iron metallurgy – 32%, realization of goods of

everyday consumption – up to 90%. All that led to a gradual refusal of the fixed prices. Enterprises that were selling their production at the fixed prices were loss-making. Raw materials, equipment and other materials were bought at agreed prices, and then the production was sold at fixed prices. For the operation of such enterprises huge budget contributions were needed. The originated economic problems have led to a natural price setting based barely on factors of a demand and a supply. It was supposed that free prices would create a competitive environment, would appease the market with goods, and become a fundamental for a formation of a market economy. All of it predetermined a broad liberalization of prices, which began in January of 1992.

However, the liberalization of prices in Russia as well as in Kazakhstan began without any elementary preparation. Kazakhstan's suggestion to put forward the beginning of the liberalization at least until summer of 1992 in order to make adjustments was not heard. Kazakhstan was left nothing but to accept a policy proposed by a neighbor state. On January 4, 1992 prices in Kazakhstan were liberalized as well, a president's order of the "On measures for a liberalization of prices" came out. The president in his appeal to people expressed a regret that the government had to undergo such step, and that it was aware of the hard consequences. A keeping of previous prices under their liberalization could have led in Russia to a complete price diversion of Russian consumers, and as a consequence there would have been a take away of consumer goods from Kazakhstan.

In conditions of an absence of a single rational idea of a transfer to a market economy the policy of prices' liberalization was speeded. While in the Russian government overpowered new reformers, which came out from recommendations of the International Monetary Fund, enforced the liberalization of prices as a factor of speeding of a creation of market relations and a formation of the base for a market economy. In such a manner, the liberalization of prices was held in conditions of market infrastructures, while the production and allocation were under the state monopoly.

Kazakhstan at that time did not have an opportunity to hold an independent monetary policy. Absence of monetary jack significantly bounded opportunities for a macroeconomic stabilization in the republic. In addition the presence in a "ruble zone" of newly formed independent states created problems of an existence of weakly controlled emission centers in each republic, and that also encouraged inflation processes. Beyond all that a lack of opportunities to implement separate monetary-credit policies meant preservation of an economic dependence on Russia, which had deprived the USSR National Bank, and proclaimed ruble as its national currency.

Along with the realization of prices a deep economic crisis began, which fetched the economy into a hyperinflation, and then to a stagnation. Calculation to an automatic stabilization and elimination of disproportions in a sphere of the price setting did not prove competent. And the consequences of the prices' liberalization became the hardest for the economy and a society in a whole.

The prices' liberalization in Kazakhstan was held by stages. At the first stage prices in basic branches, particularly in energetic branches, were adjusted by a state with the help of so called marginal coefficients. Adjusted prices were periodically reviewed and were significantly increased. That allowed eliminating a non-check increase in prices of basic types of energy vectors. In spite of it in 1992 an increase in prices in comparison to 1991 was as follows: prices on coal went up to 8.5 times, on petroleum – 11.8 times, on gas – 7.6 times, on an electric energy – 6.7 times.²⁴ Nevertheless, a preservation of a state adjustment of prices of energy vectors appeared to be difficult for enterprises. A purchase of material sources at free prices did not allow enterprises to create their own financial sources. The difficulties occurred led to a transfer to free prices. From April 1994 prices of petroleum and gas were liberalized. Tariffs on electric and thermal energy grew three times during 1994. There was held a misleading practice of prices' indexation in accordance to an inflation rate. In the course of the following years prices of energy vectors were left under the regulation of monopolists by means of state. Likewise in 1994 the last restrictions of a free price setting in an agricultural sector were eliminated. The transfer to a free price setting in all other branches eliminated all the restrictions between consumers and producers, and priced went up sharply (see Table 6).

Table 6: Price indices by the economic sectors of the Republic of Kazakhstan
by the end of a period, in % to December of previous year

| Name of an index | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|------|------|--------|-------|-------|-------|------|-------|-------|
| Consumer price index | 3061 | 2265 | 1258 | 160,3 | 128,7 | 112,2 | 102 | 118 | 109,8 |
| Industrial prices index | 3917 | 1424 | 2024 | 140,2 | 118,5 | 112 | 94,5 | 157 | 119,4 |
| Agricultural production realization price index | - | 931 | 1677,5 | 216,5 | 123 | 106 | 94,6 | 125 | 124,9 |
| Index of tariffs of freight transportation | 2163 | 1363 | 2177 | 132 | 121 | 121,6 | 117 | 109,5 | 122,7 |

Source: Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002, Almaty, 2004

As we can see from the Table 5.1, prices of consumer goods in 1992 grew 30 times, prices of industrial goods grew 40 times, and tariffs of freight transportation grew more than 21 times against 1991. Monthly average accrues of prices in 1992 made 33%, in 1993 – 30.1%. Monthly average accrues of prices had its maximum in November 1993 – 55.5%, as Table 5.2 shows.

²⁴ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika. 2006

**Table 7: Monthly rate of accrual of consumer prices
of goods and services in 1993, in %.**

| Months | I | II | III | IV | V | VI | VII | VIII | IX | X | XI | XII |
|-------------------|------|------|-----|------|------|------|------|------|----|------|----|-----|
| Rate of increment | 32,9 | 31,9 | 33 | 21,4 | 16,1 | 17,9 | 21,8 | 29,1 | 29 | 38,2 | 56 | 34 |

Source: Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002, Almaty, 2004

There were many reasons for such fast overall increase in prices of goods and services. The main reasons were an impetuous increase of prices of energy vectors, drop in production, growth of tariffs for transport and communications services, the dependence of the republic on import of raw and other materials from the other CIS states. Kazakhstan's economy basically cooperated with Russia, which supplied Kazakhstan with oil, gas, electric energy. And with growth of prices of energy vectors caused the increase in internal prices in the republic for heat and electric energy, and municipal utilities.

The liberalization of prices induced disproportions in structure of the social production, lead to the further drop in production, hyperinflation, and stagflation in the economy. Growth of prices entailed growth of wages, and hence the cost price of production has increased, and that also lead to the next increase in prices and wages. All that resulted in development of a classic inflation spiral "price-wage". This permanent process of growth of prices and the nominal wage lasted for five years in the period 1992-1996²⁵.

The original sudden rise of inflation as the consequence of the liberalization of prices happened in conditions of excess of money supply, accumulated in the pre-reform period. As the result of the liberalization of prices the CPI has grown 30.6 times, and the increase in money supply grown 9.9 times. Such a large difference between the increase in prices and in money supply shows that there was other than accounted money. On the consumer market that money caused development of the demand inflation, and on the industrial market – the inflation of costs. Besides that the inflation of costs was supported by a heavy weight of material and energy capacity of production.

Thus, the hurriedly carried out policy of the liberalization of prices was the fundamental reason for a deep economic crisis in the republic, and the source of hyperinflation and stagflation. The inflation potential accrued during the years of the planned economy has converted to an open price-pushed inflation with cranking of the inflation spiral "price-wage". The inflation process in Kazakhstan has strengthened as a consequence of dependence of industry on imports of energy vectors, the raw material orientation of the economy, absence of the market infrastructure, etc.

²⁵ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

5.2. Stabilization of the inflation processes

The period 1997-2000 is characterized by a beginning of the stabilization in the economy and a gradual coming out of it from the crisis. In 1997 the real GDP growth accounted for 2%. The average monthly level of inflation has declined and made 0.9%, and the annual inflation was 111.2%. Share of industrial production and construction in the overall volume of GDP increased by 0.4% and 0.3%, respectively. That was conditioned by a growth of industry by 4% and a growth of construction by 10%. The increasing tendency in the sphere of services has outlined these years. Its share in GDP has grown up to 58% in 1997.²⁶ Investments into the economy totaled to 119 billion tenge, what exceeded the level of 1996 by 20.2%. Thus, enterprises obtained means for investments to production, and the state recognized a necessity in investments as a main factor for upsurge of the production.²⁷

Nevertheless, the negative factors still remained in the economy. For about 500 of enterprises stopped their activity. The average monthly unemployment rate was 4.1%, although the real value was much higher.

5.2.1. Money-and-credit policy

The money-and-credit policy was targeted to the further reduction of the inflation and provision of the stability of tenge. In order to achieve the stated aims the National Bank carried out a tough money-and-credit policy. At the same time the National Bank held policy of enlargement of crediting of the real sector of the economy. The obligatory reserves rate was decreased from 15% to 10%. Banks of the second level were given 7 billion tenge of credits.

The positive shifts that began in 1998 were held up by the world financial crises. The slump of GDP by 2.5% has taken place. The dependence of Kazakhstan economy on changes of world prices in raw material markets became apparent. The country's export has suffered from the world's decline of prices of the basic export commodities: oil, metal, grain.

As the consequence of a sharp devaluation of Russian ruble and currencies of other CIS states, the basic trade partners of Kazakhstan, tenge became more expensive in the real terms in August 1998. As the result the Kazakhstan market was filled with Russian, Uzbek,

²⁶ National Bank, Annual Return, 1997

²⁷ Zhanalinov B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

Kyrgyz goods. Tenge became such a "strong"²⁸ currency, that for support of its rate the significant means were spent.²⁹

However, the excessive exchange rate of tenge, relative to currencies of states of CIS, had a negative impact on pace of development of the economy. Domestic goods lost their positions on internal and foreign markets, the trade deficit has grown. This was the reason for the Government and the National Bank to accept a floating exchange rate regime for tenge, instead of the existing regulated exchange rate.

On November 5, 1999 Kazakhstan has went over to a regime of freely floating exchange rate. Implementation of the new regime and the following devaluation of tenge allowed eliminating the overestimation of tenge exchange rate in the real terms, also they made it possible to reach the competitiveness of Kazakhstan goods on internal and external markets. It positively influenced the trade balance, and the import of goods and services has decreased.

Change in regime of the currency policy entailed significant increase of the money supply by 83.4% and the money base by 53.7%. As the consequence, the level of monetization of the economy has grown from 8.6% in 1998 to 14.4% in 1999. By the end of 2000 the monetization level totaled to 15.4%.

5.3. Factors of the development of the inflation in modern conditions

Beginning from the period 1999-2000 the economy of Kazakhstan began a process of a stable economic growth. The annual increase in GDP in the period 2002-2004 amounted in average 10.5%. Inflation did not overstep the limits of 6.4-6.8%. In 2004 by volume of production Kazakhstan reached the level of the year 1990, the year when the crisis began. For 2001-2004 volume of GDP increased by 42%, including the industrial production with growth by 43%, and the agricultural production with 22.6%.

One of the economic transformations that allowed increasing an economic activity was the development of reforms in the financial sector. There are a successively functioning newly established banking system, and the dynamically developing credit market in the republic. At present the main stage of implementation of Program for transition of second level banks to international standards. Since 2000 the National Bank has set a three-year horizon for planning of the money and credit policy. That evidences the macroeconomic stabilization, and

²⁸ "Strength" of tenge in this case means its stable, excessive exchange rate with respect to dollar.

²⁹ According to some data the National Bank has spent hundreds of millions of US dollars to maintain a stable exchange rate of tenge. // Delovaya Nedelya, <http://www.dn.kz>

the adoption by the Central Bank of principals of the inflation targeting as the main instrument in the monetary policy. The reforms held in the budgetary and taxation spheres were also successful.

A market infrastructure including network of banks, investment and insurance companies, stock markets, auditing companies, and other subjects serving small and average businesses was established. But the share of small business in the GDP does not exceed 15%, what is significantly lower than in developed countries. The investment activity oriented to science and innovations has grown. In 2001 Kazakhstan was recognized as a country with a market economy by the European Union and the USA.

Nevertheless, with the overall improvement of the macroeconomic situation and the stable economic growth, the last years the economy observes a growth of the inflation factors. In modern conditions the inflation is caused by the raw material orientation of the economy, by problems in structure of production, and disability to satisfy the increasing demand by competitive production. According to the official statistics of the Statistical agency of the republic of Kazakhstan, the inflation in the first half-year of 2007 made 8.6%. In 2006 the inflation rate was 7.6%, and 6.9% in 2005. The development of prices is affected by factors of costs of production; that is increase in costs caused by growth of expenditures on wages, production resources, etc. Also the demand influences the prices dynamics; that is growth of incomes of economic subjects, the inflation expectations, and imports of the so called "imported" inflation along with the imported goods.⁵⁰ At present the growing inflation rate has an increasing trend, so creating a threat for the rate of the economic growth to decline.

Table 8: Inflation rate 2000-2006

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|--------|-------|-------|------|-------|-------|-------|
| Inflation rate | 13,20% | 8,40% | 6,60% | 6% | 6,60% | 6,90% | 7,60% |

Source: Agency of Statistics of RK, <http://www.stat.kz>

The presence of a huge natural resort potential in the republic has facilitated the carrying out the economic reforms. Exactly the presence of the rich natural mineral and raw material resources, specifically oil and ferrous concentrates, became the key factor for the economic growth of the country. The GDP now consists for 42% from oil revenues. Meanwhile, according to information of the Statistical agency of Kazakhstan, by volumes of production in some branches, such as industry, agriculture, processing industry branch, the country still did not achieve the level of the year 1990.

⁵⁰ ZHANALINOV B., *Inflation and Anti-inflation Policy in Kazakhstan*, Almaty: Ekonomika, 2006

At the same time the growth of volumes of the external trade operations, increase in external currency inflows from export of mineral resources are observed. The external currency inflow increases the money supply, and creates the surplus of money in circulation, puts pressure on prices, what leads to their growth.

Dependence of the internal prices on rates of development of the world economy is well seen from changes in price indices. So the decline in growth rates of the world economy by 2-4% in 2001 has reflected in decrease of the price index of the industrial production to 85.9%, and also in slow down of growth of other indices, including the CPI.

Thereby, the economy has got particular factors of growth of inflation. This is a strong not regulated inflow of the foreign capital that is provoking inflation; the raw material orientation of economy, and the connected with it low competitiveness and effectiveness of the national economy, and also its dependence on world prices.

6. LABOR MARKET, UNEMPLOYMENT

6.1. Situation and tendencies in the labor market 1991-2001

Market reforms in economy of independent Kazakhstan are accompanied with changes in the sphere of labor relations. The employment of population developed under the influence of demand and supply on the labor market. During the first years of a transition period the situation on the labor market was characterized by decrease in quantity of working population. The beginning of an upsurge of the economy gave a new impulse for the employment sphere. Beginning from the year 1996 stabilization on the labor market was observed, also a decrease in stoppages of production, more complete involvement into production of workers that were on non-voluntary holidays and were working not as fulltime workers. From 1999 a stable increase in quantity of employed population and a decrease in the unemployment level are recorded.

In 2001 the republic's economy employed 6.7 millions of people, what exceeded the previous year by 497.8 thousands of people; that is by 8%. Share of men was 52% of all the employed, and women – 48% (see Table 1).

Table 9: Economically active and not active population

at age of 15 years and older, thousands of people

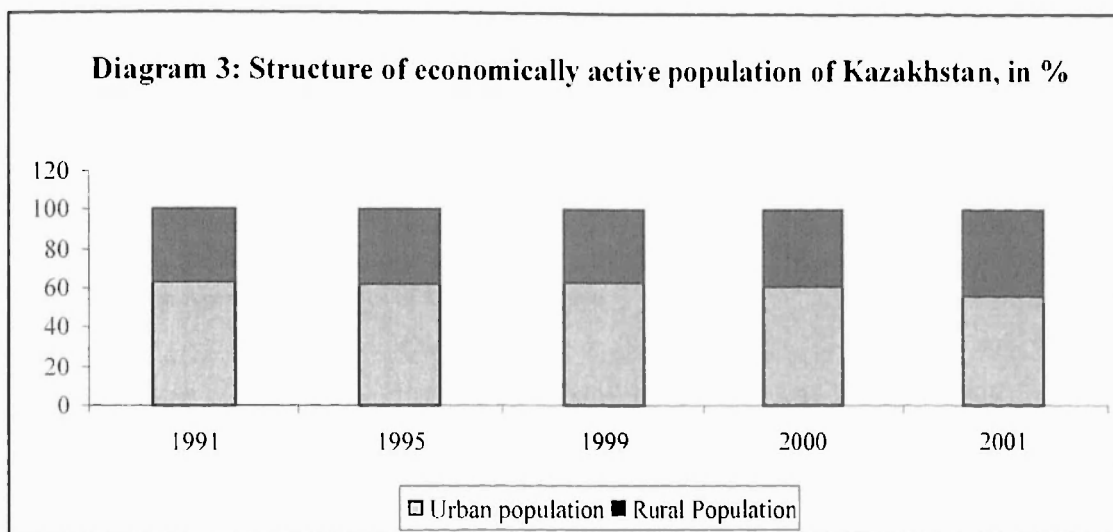
| | 1992 | 1995 | 2000 | 2005 |
|---|-----------|-------------|-------------|-------------|
| Economically active population, thsd. people | 7578 | 7360 | 7107 | 7902 |
| Population economic activity rate, % | 67 | 66,8 | 66 | 69,4 |
| Employed population, thsd. people | 7578 | 6552 | 6201 | 7261 |
| Employment rate, as % of: | | | | |
| population at the age 15 years and above | 67 | 59,5 | 57,6 | 63,8 |
| economically active population | 100 | 89 | 87,2 | 91,9 |
| Employees, thsd. people | 7210 | 5466 | 3504 | 4641 |
| Share in the total number of employed population, % | 95,1 | 83,4 | 56,5 | 64 |
| Self-employed population, thsd. people | 367,6 | 1085 | 2697 | 2621 |
| Share in the total number of employed population, % | 4,9 | 16,6 | 43,5 | 36 |
| Unemployed population, thsd. people | - | 808,3 | 906,4 | 640,7 |
| Unemployment rate, % | - | 11 | 12,8 | 8,1 |
| Economically non-active population, thsd. People | 3734 | 3658 | 3655 | 3477 |
| Population economic inactivity (passivity) rate, % | 33 | 33,2 | 34 | 30,6 |
| Number of persons registered at employment services as unemployed, thsd. People | - | 139,6 | 231,4 | 94 |
| Share of registered unemployed in total number of economically active population, % | - | 2,1 | 3,7 | 1,2 |

Source: Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002, Almaty, 2004

Transformations in agricultural sector, accompanied with disestablishment, development of farms, formed a new category of employed – a self-employed population, the

quantity of which exceeds 1.8 millions of people. The structure of the self-employed population is prevailed by workers employed on individual basis and family workers, what makes 94.1% of all self-employed, the other 4.5% are members of production co-operatives, and 1.4% are presented by employees.

The correlation of quantity of urban and rural economically active population has not significantly changed within the last years, and in 2001 it made 55.7% of urban and 44.3% of rural population (see Diagram 3).



Source: Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002, Almaty, 2004

In 1991 in the working population consisted of contract workers for 95.8%, and the self-employed workers made only 4.2%. Nevertheless the situation has noticeably changed by the year 2001: these categories made 57.7% and 42.3%, respectively. The reason for such dramatic change was in development of small business and expansion of the private sector. The major quantity of contract workers is employed in industry and in educational institutions.

The last years the labor market observed a significant increase in number of population employed in private sector of the economy. While in 1994 the state sector employed 57% of the employed population, in 2001 it was only 25% of the population working in state organizations.

The previous decade is characterized by a reallocation of employed people between the kinds of economic activities. The institutional changes and a freedom in choice of entrepreneurial activity facilitated inflow of engaged in trade, in hotel and restaurant business, financial and other spheres. In comparison to the 1991 as for 2001 number of employed in services of operations with real property has increased 1.7 times, in trade increased 1.5 times, in financial activities – by 9%; while in industry number of workers decreased by half, in

construction by third, in transport and communications – by 9.9%.³¹ The following table shows the population employed by employment status:

Table 10: Population employed by employment status, thousand people

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Total population employed | 6698.8 | 6708.9 | 6985.2 | 7181.8 | 7261 |
| Employees | 3863.3 | 4030.2 | 4229.6 | 4469.9 | 4640.5 |
| of which those employed: | | | | | |
| at public organization | 1682.5 | 1678.8 | 1715.7 | 1776.4 | 1779 |
| at non-public organization | 1445 | 1592.6 | 1722.2 | 1884.1 | 1977.6 |
| at non-public organization | 495 | 499.9 | 522.3 | 529.7 | 564.4 |
| at private (peasant) farm | 240.8 | 258.9 | 269.4 | 279.6 | 319.5 |
| Self-employed persons | 2835.5 | 2678.7 | 2755.6 | 2711.9 | 2620.5 |
| of which: | | | | | |
| employers | 59.1 | 59.4 | 65 | 82.3 | 89.6 |
| own-account workers | 2609.6 | 2487.2 | 2547.8 | 2487.4 | 2427 |
| members of producers' cooperative | 96.4 | 64 | 74.5 | 58.1 | 33.2 |
| unpaid family workers | 70.4 | 68.1 | 68.2 | 84 | 70.7 |

Source: Agency of Statistics of RK, Almaty, 2006

6.2. Unemployment and provision of employment

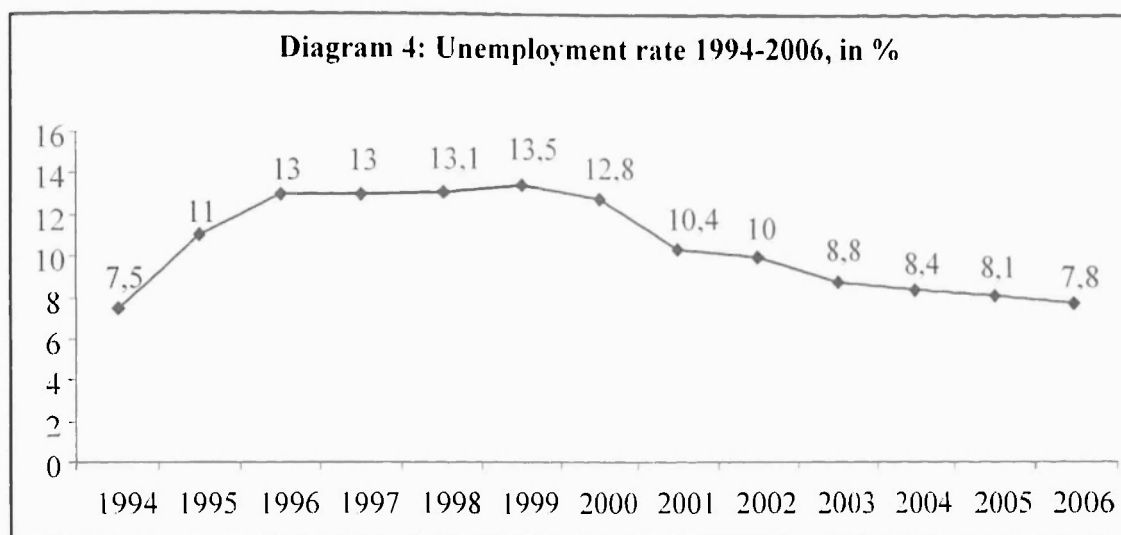
On the first stage of reforming the economy enterprises and organizations used different approaches for regulation of employment. There were shortened work schedules, temporary forms of unemployment, and decrease in number of workers. As a consequence the unemployment rate has grown. In 1994 the number of unemployed made 536.4 thousands of people, and by 1996 it grew up to 970.6 thousands. The next three years it stayed within the limits of 925-968 thousands of people, and the level of unemployment 13-13.5%.

Reviving the economic activity in the country, creation of new manufactures, development of the market infrastructure, and support for small businesses provided decrease in level of unemployment from 13.5% in 1999 to 10.4% in 2001, to 8.8% in 2003, and 7.8% in 2006.

The level of unemployment significantly differs by education. The lowest level of unemployment is among people with a university education. However a higher education is not a guarantee for finding a working place, thus in 2001 number of unemployed people with a university education made 100.4 thousands of people. At the same time a meaning of education factor is significantly lower than the factor of age. Most of the unemployed people are of age 25-54 years.

³¹ Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002, Almaty, 2004

Number of unemployed has reduced by 2.4% during the passed year, and the level of unemployment totaled to 7.8% against 8.1% in 2005. The following diagram expresses the unemployment rate, which shows a declining trend since 1999.



Source: Agency of Statistics of RK, 1991-2002, Almaty, 2004, <http://www.stat.kz>

6.3. Development of the labor market and solving problems of population employment 2000-2005

Analysis of tendencies on the labor market of the republic has shown that for the period 2000-2005 in conditions of high rates of economic growth the situation on the labor market has improved on the whole. Changes in employment rate happened due to interaction of many factors, and the main are: stable economic growth, favorable changes in age structure of the economically active population, the level of education, allocation of the employed population according to the status of employment, according to the types of economic activities, the speeded up development of separate branches of the economy. The positive tendencies are shown in dynamics of indices of the unemployed population of the republic and regions, its age structure, allocation under the level of education, decrease in long-term unemployment rate.

Disproportions in demand and supply of labor force on regional and local labor markets are overruled as the result of increase in economic activity and employment of population in many regions. For the period 2000-2005 the level of youth unemployment has decreased from 19.1% to 14.3%, women's unemployment – from 12% to 9.8%. A significant differentiation of unemployment indices on regional and local labor markets in 2000 and

excess of the average republican level have decreased by 2005. See the table of unemployment of population in Appendix 2.

Nevertheless, analysis of the situation with employment rate and on the labor market of the republic and regions showed³²:

- Increase in employment of population for the period 2000-2005 is characterized by instability, despite the annual increase of employment rate by 3.75%;
- High share of employment in agriculture – 33.5%, while insignificant increase in share of industry and construction from 16.3% to 17.4%, what entailed a comparatively low level of productivity of labor. To compare, the share of employed in agricultural sector in developed countries makes 5-8%;
- Modernization of economy and transition to industrially-innovational development of Kazakhstan needs specialists in the sphere of new technologies, computer science, biotechnology, space development of the atomic energy, where there is a developed science base in the republic.

In order to improve the current situation on Kazakhstan labor market it is necessary to make a further upgrading of the mechanism of regulation of the sphere of employment and labor market on the basis of the improvement of a legislative base. In this direction it is necessary to take measures to protect the internal market from the illegal migration and the well-ordered migration abroad. It is also necessary to settle equal remuneration of domestic and foreign workers, and to improve the labor conditions.

³² SABDEN O., Razvitije ekonomiki Kazakhstana za 15 let nezavisimosti, Almaty, 2006

7. DEVELOPMENT OF THE LEVEL OF LIVING, SOCIAL PROBLEMS AND THEIR SOLUTIONS

7.1. Basic Indicators of the Level of Living of the Population

Increase in level and quality of living of the population is the most important task of a social policy of a republic at the present-day stage of a social development. In the first half of the 1990s trends of a decrease of the level of living took place due to objective difficulties of a transition period. Last years a growth of a level of living of the Kazakhstan's population was mentioned. The increase in the level of living is one of the priority tasks of the Government of Kazakhstan that is held in the context of realization of long-term Strategy "Kazakhstan-2030". In purpose to improve a socially-economical situation a program of micro crediting of the population is held, a national fund for a support of citizens not sufficiently provided for means was created, a Program for a struggle against poverty and unemployment in the republic. Within the framework of this program from the beginning of 2002 a law "Of the state address social help" was implemented.

A project of a State program and a Plan of arrangements for a lowering of poverty for years 2003-2005 were worked out. The program envisaged a shortening of scale of the poverty in 2005 by one third comparing to 2002.

For a characteristic of the level of living of the population a number of socially economical indicators are implemented. Those indicators are formed on a basis of statistical data characterizing volume, content, use and an allocation of material benefits between separate groups of the population. The basic indicators of the level of living are: income of the population, size of wage, size of pension; the state secured size of a minimum wage; size of the living wage, average size of a stated pension, and also index of a human development that is considered by a world community as a complex estimation of the level of living and a use of a human potential. Separate indexes of the level of living for years 1995-2001 are presented in Appendix 3.

An economic instep that took place in 1996-1997, particularly in 1999-2001, has favorably reflected on indices of income and a level of living of the population. In the course of 1999-2001 a stable trend of the growth of real cash income of the population was noted, that made 24.1% for three years. In 2001 in comparison with the previous year, a real cash income of the population grew by 14.7%. The growth of a real wage in 2001 made 11.1%, and the growth of pensions was 4.2% (Table 11).

Table 11: Indices of the real wage and pensions, 1995-2001

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|--|-------|-------|-------|-------|-------|-------|-------|
| Real incomes of the population | 99.4 | 100.6 | 103 | 99 | 104.4 | 103.6 | 114.7 |
| Real wage of one worker | 100.4 | 102.6 | 106.4 | 105.9 | 113.1 | 107.1 | 111.1 |
| Real size of the stated pension (by the end of the year) | 117.3 | 136 | 97.4 | 116.3 | 86.1 | 95.2 | 104.2 |

Source: The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

As a result of a reviving of economic situation a share of a population, which has income per capita that is lower than the living wage including incomes and transfers has reduced, and made in 2001 28.4%, while in 1997-1998 that index made 38-39%. A **human development index** (HDI) is an average of the three components: a volume of a produced real GDP per capita, duration and a quality of living and an opportunity to get an education and to improve knowledge. In the period 1991-1995 the HDI has decreased from 0.768 to 0.726 points. In the last years a dynamical growth of the HDI is observed, that is in the consequence of the increase of a volume of a real GDP per capita, and also an increase of the duration of life from a birth. It made 63.5 years in 1995 and increased up to 65.5 years in 1999. A high index of the level of education (0.943 points), as one of the components of the HDI, is a consequence of the high level of literacy of the population, it is a result of the positive dynamics of figures of education system (Table 12).

Table 12: The dynamics of separate indices, deciding the level of human development in Kazakhstan in 1991-2000

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Expected life span, years | 67,6 | 67,4 | 65,4 | 64,9 | 63,5 | 63,6 | 64 | 64,5 | 65,5 | 65,4 |
| Level of literacy of agiug population, % | 97,8 | 98 | 98,3 | 98,5 | 98,7 | 98,9 | 99,1 | 99,3 | 99,5 | 99,6 |
| Aggregate share of students at age 6-24 years, % | 80 | 80 | 77 | 75 | 73 | 75 | 76 | 77 | 79 | 81 |
| GDP per head, in US dollars | 5756 | 5561 | 5204 | 4711 | 4508 | 4682 | 4921 | 4969 | 5224 | 5855 |
| Index of the expected life span | 0,71 | 0,707 | 0,673 | 0,655 | 0,642 | 0,643 | 0,65 | 0,658 | 0,675 | 0,673 |
| Index of the level of education | 0,919 | 0,92 | 0,912 | 0,907 | 0,901 | 0,909 | 0,914 | 0,919 | 0,927 | 0,943 |
| Index of income per head | 0,676 | 0,671 | 0,66 | 0,643 | 0,636 | 0,642 | 0,65 | 0,652 | 0,66 | 0,679 |
| Index of human development | 0,768 | 0,766 | 0,748 | 0,738 | 0,726 | 0,732 | 0,738 | 0,743 | 0,754 | 0,765 |

Source: The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

7.2. Cash Incomes and Expenditures of the Population.

Housekeeping³³: a short characteristic

Determining cash incomes and expenditures of the population, the inspection of housekeeping is carried out. Selective inspections of housekeeping is a method of the state statistical observation of the population's level of living. Data gained from these observations allow to make it possible to obtain a lot of important statistically-economic information. That is information on the level and the structure of incomes and expenditures, the information about the role of separate sources in formation of the population's incomes, about changes in consumer demand, about a content of the housekeeping, differentiation of the population in a level of cash incomes, etc.

Since the January 2001, the statistics on the housekeeping has proceeded to new methods of selective inspections with usage of corresponding international standards and recommendations of the World Bank. A new selective aggregate amounted in 12 thousands of housekeeping, which is represented either on the republican and the regional levels. Among the housekeeping in Kazakhstan the housekeeping consisting of four or more people prevail. Average size of housekeeping over the number of years in the republic made 3.4-3.7 people, 3-3.2 people in city, and 4.1-4.6 people in a country side.³⁴

7.2.1. Cash Incomes

The nominal cash incomes of the population have grown from 20646 tenge in 1995 up to 59015 tenge in 2001.³⁵ According to results of the selective inspections of the housekeeping in 2001 in a whole all over the republic average incomes per capita spent on consumption (in average for one month) totaled in 5729 tenge and has grown in comparison with the year 2000 by 13.8%. Incomes used on consumption represent a sum of cash assets spent by housekeeping on private consumption, and a value estimate of own production.

Cash incomes of the urban population were 2-2.4 times higher than that of the rural population. It is worth of noting that this gap over the last six years is gradually shortening.

³³ Housekeeping – is a small group of people, living together, completely or partially uniting their incomes and properties, and conjointly consumes certain types of products and services, which include mainly accommodation and food stuff.

³⁴ The statistical data used in this chapter is taken from: *Agency of Statistics of RK, Prices in Kazakhstan, 1991-2002*, Almaty, 2004

³⁵ The official exchange rate see in Table 3

The maximal value of income spent on consumption in 2001 was recorded in cities Almaty and Astana, which was correspondingly 1.6 and 2 times higher than the average overall republican level. Among the territories with low incomes used for consumption the most noted are Jambil and South-Kazakhstan regions, in which the correlation of incomes with average republican index totaled only 59.7% and 65.9% respectively.

The correlation between the maximal and the minimum value of incomes spent on consumption in 2001 was 3.3 times.

7.2.2. Cash Expenditures

The cash expenditures of the population in 2001 in comparison with 1995 have grown 2.9 times. The share of consumers' expenditures in their structure occupies 89%.

According to data of the selective inspection cash expenditures per capita in a whole all over the republic (in average for one month) in 2001 made 4918 tenge, that is by 24.3% higher than in 2000. The territorial differences in the level of cash expenditures took place. Their maximal value in 2001 was recorded in Astana – 10669 tenge (it is by 116.9% higher than the average over the republic), the minimum is 2882 tenge in Jambil region (lower by 41.4%).

The payment for the housing services made more than 50% of the all cash expenditures for services, one quarter was spent on transportation and communication services, and 1/10 was spent on the educational services.

More than a half of the consumer spending comes on purchase of food products, 24% – on purchase of non-food products, and 22% – on payments for services. Cash expenditures for a purchase of non-food goods were: spending on clothes and footwear made 43-49%, different goods for home – 11-12%, petrol, spare parts for transportation means – 8-11%, medicines – 6-8%.

The most often purchased goods remain clothes, footwear, and household goods, which made, respectively, 7.5% and 4.8% of the overall expenditures. Among pay services the services that prevailed were: spending for payment for housing services (11.2% of consumers' expenditure) and spending for transport and communication services (4.9%)

7.3. Remuneration of labor

The situation with the remuneration of labor during the last ten years is characterized by a stable growth of an average monthly nominal wage. At the same time growth of real wage has began since 1995. In years of high inflation a decrease of real wage was observed in republic. With improvement of the macroeconomic situation and with decrease of the inflationary processes, the growth of real wage was observed. In 1999-2001 rate of increase of real wages in average made 10.4% a year.

An increase in labor remuneration in all types of economic activities was recorded. This was promoted by gradual rising of the volume of production. In the industry, construction, transport and communication, and in the agriculture in 2001, as compared to 1998, the average monthly wage of one employer has increased 1.8-2 times. In the financial sphere at the same period the wage has increased 2.2 times, in the state administration – 1.5 times, in the education – 1.4 times, in the health protection – 1.3 times. The correlation of the maximal and minimum level of the labor remuneration between the types of the economic activities in 2001 made 6.2 times (in 1996 it was 5.6 times).

During the last years the sphere of a small business is getting its development and expansion. Small businesses in 2001 had increased the average wage against year 1998 1.6 times, against the previous year the average wage increased by 20.9%, and totaled in 11426 tenge.

The development of the market economy in the republic was accompanied by an increase in share of private entrepreneurship, along with the reduction of the state sector of the economy. New enterprises and organizations with different patterns of ownership have arisen, which significantly differentiated in levels of labor remuneration. The labor remuneration's growth rate in the state sector slightly yields to sphere of the private sector. In 2001 at the state enterprises and organizations an average wage was by 1/3 lower than the average republican level, and at private organizations and firms – by 1/4 higher.

There is still remaining a differentiation of the labor remuneration of men and women.

7.4. Social protection of the population

On January 1, 1998 the law "Of the provision of pensions in the Republic of Kazakhstan" was adopted, and the reformation of the pension system has started. The new law provides a person with a right to independently solve a question about the volume and the size

his own future pension. The pension allocations accumulate on his personal account in a voluntarily chosen pension fund.

The pre-term retirement on the pension is kept for citizens living at least 10 years in a zone of the extreme radiation risk in the Semipalatinsk region, and also for mothers having many children living in the rural area. Long service benefits for militaries, for officials of the organs for home affairs are kept. The pension storages would be inherited. It would be possible to make voluntary pension storages for the third persons.

The special institutions were established: the State center for the pension payments, the State accumulative pension fund.

According to the information of the Ministry of the labor and social protection, the number of the receivers of the pension payments from the State center for the pension payments made at the beginning of the year 2002 was 1749.1 thousands of people.

For disabled children the monthly benefit is provided. There are completely grant-maintained 18 thousands of disabled children living in 99 boarding schools for children with a shortage of mental or physical development. With a view to create an effective system of the help for disabled children a project of the law "On social and medically pedagogical correctional support of children with limited possibilities" is being worked out. Centers for social adaptation of persons of no fixed abode were created: in the East-Kazakhstan and the Jambil regions, and in Almaty. The opening of the same centers is planned in the Aktyubinsk, Atyrau, West-Kazakhstan, Karaganda, and Kostanai regions.

The purposeful arrangements on the social protection of the repatriates, "oralmans", are being held. In all in Kazakhstan there are living 170 thousands of immigrants that came to their historical motherland from close and remote foreign countries. In 9 regions and in Almaty and Astana cities the centers for adaptation of the repatriates were established.

7.5. The housing conditions of the population

The housing resources of the Republic of Kazakhstan as of the January 1, 2002 were 241 millions of squared meters of the total living area, including that in urban settlements – 140.3 millions of the squared meters, and 100.7 millions of the squared meters in the rural area. For the years of the reforms the weight of the housing resources of the rural area is growing: from 39.6% in 1991 to 41.8% in 2001. The structure of the housing reserves with the respect to the pattern of ownership has also changed. In 2001 a share of the state housing

reserves made 4.2%, and private – 95.8%, whereas in 1991 the given indices made 35.7% and 64.3%, respectively.

An average provision with the living space of one resident of the republic made 16.3 square meters, against the 14.4 square meters in 1991. The highest provision of the population with the habitation still remains in the Almaty city (in 2001 – 17.9 sq. meters for one person) and in the Karaganda region (17.8), and the lowest – in the Atyrau (14.0), Mangystau (14.4), the East-Kazakhstan (14.7) regions.

The results of investigations showed that 81% of the introduced into an exploitation habitation are equipped with a heating from the individual plant, 72% – with gas-stoves. The urban flats are equipped with water-supply for 77.4%, with the central heating – for 68.9%, with gas – for 99%, in the rural area – for 16.4%, 3%, 9.5% and 92.8%, respectively.

8. EXTERNAL BUSINESS RELATIONS

Kazakhstan disposes great natural resources. It is remarkable for its reservoirs of iron ores, ores of lots of non-ferrous and precious metals, and large reserves of oil, natural gas, coal. Most of ore deposits were found in time, when Kazakhstan was a part of the USSR. In times of the USSR Kazakhstan's economy was mainly directed to mining of raw materials, and not their processing. And with such a raw material heritage the present Kazakhstan economy's basic components are the extraction of oil, natural gas, metals, and metallurgy.

Development of oil, natural gas, and mineral extraction has attracted most of the foreign investment in Kazakhstan, and approximates to 13% of GDP. According to some estimates, Kazakhstan has the second largest uranium, chromium, lead, and zinc reserves, the third largest manganese reserves, the fifth largest copper reserves, and ranks in the top ten for coal, iron, and gold.

Energy is a leading sector of the economy. Kazakhstan holds about 4 billion tons of proven recoverable oil reserves and 2,000 cubic kilometers of gas. Production of oil and gas is steadily increasing year after year. Industry analysts believe that planned expansion of oil production, along with the development of new fields, will enable the country to produce 3 million barrels (477,000 m³) per day by 2015, lifting Kazakhstan into the ranks of the world's top 10 oil-producing nations. Major oil and gas fields are Tengiz with 7 billion barrels (1.1 km³); Karachaganak with 8 billion barrels (1.3 km³) and 1,350 km³ of natural gas; and Karashagan with 7 to 9 billion barrels (1.1 to 1.4 km³).

Despite the rich reserves of oil and natural, and huge investments into the sector, there are only three refineries in the country, that are situated in Atyrau, Pavlodar, and Shymkent. This is not enough for country to be capable of processing the crude output. Instead, much of it is exported to Russia.³⁶

8.1. Foreign trade

The foreign trade turnover as for the end of the year 2006 totaled to 56109.2 millions of US dollars (see Table 13). The exports accounted for 34820.1 millions of USD, and the imports made 21289.1 millions of USD. Most of goods are exported to countries other than CIS, and the main export goes to Italy and Switzerland, with shares of exports 18.3% and

³⁶ Wikipedia: The Free Encyclopedia, <http://www.wikipedia.org>

17.7%, respectively. The other three main importers from Kazakhstan are Russia, China, and France, with 9.8%, 9.2%, and 8.3%, respectively.

Table 13: Foreign trade turnover, January-November 2006

| | January-November 2006, mln, USD | In % to January- November 2005 | January-November 2005 in % to January-November 2004 |
|------------------------|--|---|--|
| Foreign trade turnover | 56109,2 | 136,8 | 138,9 |
| Export | 34820,1 | 138,2 | 140,1 |
| states of CIS | 5001,6 | 133,8 | 99,9 |
| other states | 29818,5 | 139 | 150,6 |
| Import | 21289,1 | 134,6 | 137 |
| states of CIS | 9888,9 | 133,5 | 134,7 |
| other states | 11400,2 | 133,5 | 139 |

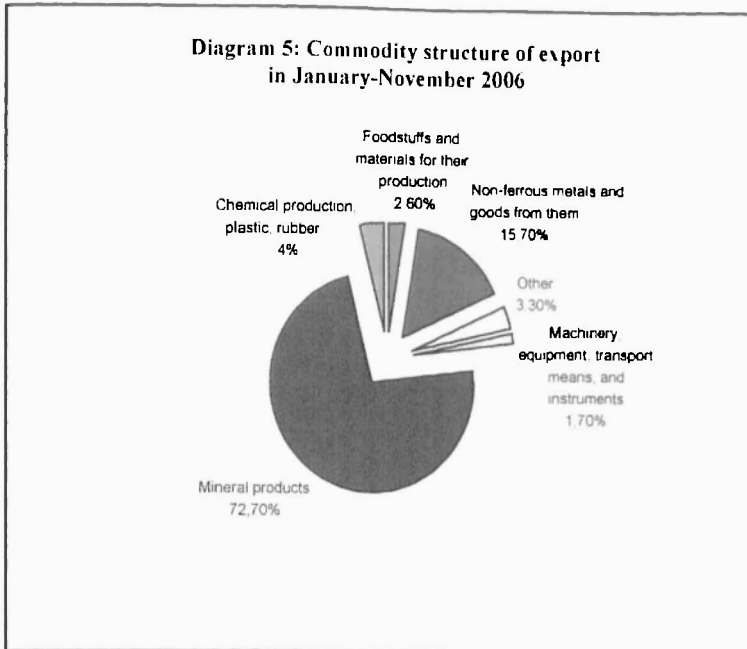
Source: The Agency of Statistics of the Republic of Kazakhstan, <http://www.stat.kz>

As it was previously discussed the Kazakhstan's economy is primarily oriented on production of mineral products, such as oil, natural gas. As the Diagram 5 shows as for the period from January to November 2006 they take 1/3 of all the Kazakhstan's exports. This indicates a direct dependence of the economy on energy, and hence the dependence on world prices of energy vectors. Export of non-ferrous metals totaled to 15.7%, and the left 11.6% of the total export are taken by machinery, foodstuffs, chemical production, and other.

By the end of 2006 Kazakhstan's import amounted to 21289.1 millions of USD. Most of import to Kazakhstan comes from Russia, what makes 37.9% of all Kazakhstan's import. The main imported goods are (Diagram 6): machinery, transport means, equipment (46.9%); non-ferrous metals (13.8%); mineral products (12.6%); chemical production (10.9%); foodstuffs (6.9%); and other goods (8.8%).

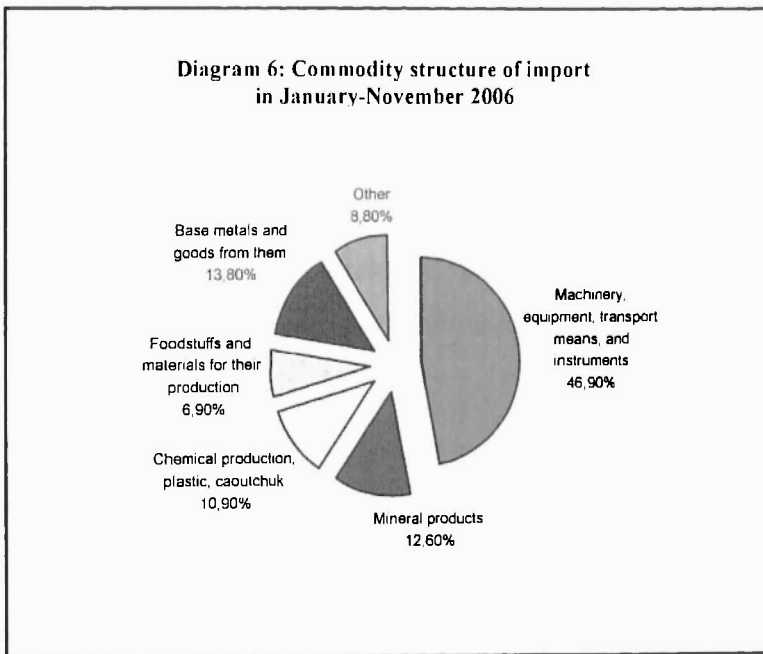
The structure of imports evidences the lack of the processing industry, and a weak development of the machinery industry in the country. This makes obstacles for a progressive development of the economy, and causes a low competitiveness of the country.

Diagram 5: Commodity structure of export in January-November 2006



Source: The Agency of Statistics of the Republic of Kazakhstan, <http://www.stat.kz>

Diagram 6: Commodity structure of import in January-November 2006



Source: The Agency of Statistics of the Republic of Kazakhstan, <http://www.stat.kz>

8.2. Oil and gas production³⁷

8.2.1. Oil production

Since 1995, the Republic of Kazakhstan has been continuously increasing oil production. In 2001, a record production of liquid hydrocarbons of 39,962.4 tons was achieved. Production reached a level of 41.97 million tons in 2002.

Every year, new fields are brought into production and the number of oil-producing companies grows. In 2001, for example, 27 companies were producing oil and by the middle of 2002 their number had grown to 32.

Seven companies, producing almost 86% of the Kazakhstan's oil, still play the key role in the Republic's oil production. TengizChevrOil JV is the undisputable leader. Its production is comparable with the aggregated production of its three nearest rivals -- Mangistaumunaigaz JSC, Uzenmunaigaz PC, and Karachaganak Petroleum Operating BV.

There are three biggest oil-producing regions in Kazakhstan: the Atyrau Oblast – the main oil-producing region, with 40 fields under development there; the Mangistau Oblast has the longest history in Kazakhstan's oil-production; the Aktyubinsk Oblast; and the Kyzylorda Oblast.

All major oil-producing companies in Kazakhstan have foreign equity. This reflects the desire of the Kazakhstan's Government to use foreign capital to the maximum possible extent for development of the industry, and to bring in the extensive expertise and technologies of the world's leading oil companies, to optimize the use of non-renewable oil resources.

Foreign companies have made huge investments in the oil and gas industry of Kazakhstan since 1991. Kazakhstan is the largest recipient of foreign investments not only in the CIS, but among all East European countries too.

The demand for the oil and gas exports grows at a faster pace than production. There are two reasons for this trend. On the one hand, it reflects the desire of the Kazakh authorities to strengthen the Republic's position in the world fuel and energy markets, and, on the other hand, because of friendly and constructive relations with Russia, Kazakhstan has significantly expanded technical capacities and options for exports of liquid hydrocarbons.

³⁷ The statistical data used in this chapter are taken from: TERTEROV, M., *Global Market Briefings: Doing Business with Kazakhstan*

8.2.2. Natural gas production

As dictated by the allocation of industrial reserves, gas is produced mainly in the western part of the country. Production in 2001 reached 8 bcm of gas, with almost 91% in the Atyrau, West-Kazakhstan, and Mangistau areas. The rest of it was recovered in the neighbouring Aktyubinsk and Kyzylorda Oblasts.

Gas is mainly recovered in association with oil. Due to the prevalence of accompanying gas in the recovery structure, one of the urgent problems consists in flaring of significant volumes of recovered gas. In 2001 free gas made 5 bcm, or 39% of total recovery. The rest of it was accompanying gas.

The remote location of current and forecasted gas recovery centers from major areas of potential consumption, and the absence of any linking gas transport structure, limits the development of the domestic market and gasification of the country, and impede stimulation of accompanying gas processing.

Another one unfavorable feature of the country's resource base is that almost 50% of developed oil and gas reserves are considered to be difficult to recover.

There are 14 currently operating gas producers. Three companies accounting for more than 90% of gas production are Karachaganak Petroleum (41.3% of total Kazakh gas recovery in 2001), TengizChevrOil (34.8%), and the Uzenmunaigaz Company (14%).

8.3. Oil and gas regulation

While the Kazakhstan's Government sees development of the oil and gas sector as being crucial to the growth of the economy, it also seeks to promote development of related domestic industries and is assertively adopting new policies in the petroleum sector to accomplish this goal.

The primary legislation for the oil and gas industry consists of the Edict of the President of the Republic of Kazakhstan having the force of law "On the Subsurface and Subsurface Use" dated 27 January 1996 and the Edict of the President of the republic of Kazakhstan having the force of law "On Petroleum" dated 28 June 1995. The Subsurface Law is a legislative act dealing with the right to engage in all underground activities and has a broad interface with the Petroleum Law.³⁸

³⁸ TERTEROV, M., *Global Market Briefings: Doing Business with Kazakhstan*, London: Kogan Page, 2004

A number of other legislative acts apply to specific petroleum activities. Rights to use the subsurface are obtained by conclusion of a contract with the authorized government agency (i.e. the Competent Authority), which is currently the Ministry of Energy and Mineral Resources. A subsurface contract can take the form of a production sharing agreement, a tax-royalty agreement or service contract.

9. POSITION OF KAZAKHSTAN IN THE COMMONWEALTH OF THE INDEPENDENT STATES

After the dissolution of the USSR in 1991 the Union Center has stopped its existence as a mechanism for planning of all incomes, donations, prices, taxes, etc. The whole mechanism had to be built by every state over again. It was necessary that the mechanism had reliably functioned, and provided the state budget for cash means. That is why the chiefs of the financial structures in order to replenish the budget began looking for sources, which could be used without the development of the production. Immediately the value added tax was imposed, customs dues for exports and imports, various receipts for previously free services were introduced. Right away as a result barriers for goods on the CIS frontiers have occurred. That was a strike for trade economic relationships within the states of the CIS.

At the same time the new independent states introduced their new national currencies. Particular countries did not accept even their own currencies while mutual trading. The priority currencies were the US dollar and the mark. Those negative impacts of the dissolution of the USSR were strengthened by a disruption of the money payment relations of the CIS countries, when Russia has withdrawn from the circulation means of payment of the State Bank of the USSR of years 1990-1992.

As a consequence of the collapse of the single economic complex of the USSR economy of the former Union states has occurred to be offcast for many years backward. For example, volume of the GDP of Kazakhstan was comparable to the GDP of the 1980s, GDP of Russia compared to the GDP of the 1970s. The volume of the industrial production in Kazakhstan responded to the volume of the production of the year 1975, and in Russia – to the year 1973. Even more convincing indicator of the economic crisis was a galloping inflation that sometimes became a hyperinflation. The consumer price index in Kazakhstan in 1992 made 3006%, in 1993 made 2266%. The monthly rate of inflation somehow exceeded 30%, in the December 1993 it reached even 55%.

In the former Union states the tendency to redirection of the external economic links towards the remote foreign countries. Those were significant export sources of fuel bought from the foreign producers that primarily moved to the world markets. A threat of a complete break up of the market of the mutual trade between the former USSR republics has occurred. That was a key reason for looking for ways of the mutual integration. The major motive for the integration was a need for preservation of a stable and open market of the CIS. As well besides the common market, in the relations of the republics of the former USSR there were

permanently present long-term factors, which were the reason for the integration between the states. The major factor is a proved high mutual interconnection of economies, which is based on the branched division of labor, close cooperation on the level of enterprises and scientific-technical institutions.

The necessity of the integration participation is based also on the existence of a strong mutually supplemented raw material base that contained all types of strategic raw materials. Finally, the integration priority is also conditioned by a geographic closeness, presence of a single infrastructure, especially transport and communications. After the interruption of the system's unity none of the states had a possibility to effectively use that system. And that is why it was reasonable for newly originated countries to try to renew the previous economic links.

One of the strategic objectives of the foreign policy of Kazakhstan is cooperation with member states of the Commonwealth of the Independent States. In conditions of the economic crisis that the all former soviet countries passed through their coordinated cooperation, looking for compromise settlements was of a very high importance. That was a base for preservation of the stability, provision of the safety, reformation of the economy, integration to the world community. That is why the creation of the CIS was a reflection of the objective and common regularities of the development of the independent states after the break up of the USSR.

All that together made the former Union republics to take appropriate measures for an economic rapprochement. The process of creation of an organizational base and legal relationships in CIS, which became intergovernmental relations, began. Shortly after the organizational structure of the Commonwealth was created; that is the Council of the heads of states and the Council of the heads of governments, Intergovernmental assembly of the CIS. The Executive Secretary of the Commonwealth began. The Council of Ministers for Foreign Affairs, the Council of the Ministers of Defense and leaders of border authorities of the CIS states, and also organs of cooperation by branches – the Council of leaders of foreign economic authorities, the Intergovernmental Council for oil and gas, intergovernmental committees of many other branches of economy.

9.1. Kazakhstan-Russian relations

After gaining independence Kazakhstan has made active efforts to fully enjoy the possibilities, which it has gained as an independent subject of the international law.

Kazakhstan has begun to work out foreign policy arrangements primarily in relations with “the former Soviet republics”; that is the member states of the CIS. It is natural that the priority attention was paid to mutual relations with Russia.

At that Kazakhstan was not going to begin its history from the very beginning. And its sovereignty the republic did not associated with a dissolution of the Soviet Union. Such position was determined partially by the political pragmatism of the President of Kazakhstan, which always was an opponent of any “total destructions”, and partially by the historical experience of Kazakhstan, which began to develop as a modern state in the framework of the USSR.³⁹

The Kazakhstan’s President stated the integration of the former Soviet space as one of the basic foreign political tasks of the country, and Russia – as one of the priorities of the Kazakh foreign policy.

In the stated approved by the Russian President the Strategic course of the Russian Federation with member states of the CIS it is stressed, that the region of the Commonwealth is a zone of Russian interests. Apparently, a question of preservation of its influence in Kazakhstan would always be urgent for Russia. Kazakhstan basically has nothing against the Russian influence, if it is going to be conditional on the growth of the economical, political and cultural integration. The economy of Kazakhstan is open for the capital inflows from Russia. Russian firms can take part in the most promising projects developed in Kazakhstan. However, the subordination of Kazakhstani economy to Russian interests and the unilateral orientation to Russia is for Kazakhstan inadmissible and impossible.

The programs of Russian television are broadcasted all over the whole Kazakhstan. Kazakhs have an ability to read Russian newspapers, for Kazakhs these are the most important channels of receiving of information and joining in the Russian culture.

Kasymzhomart Tokayev, the former Foreign Minister of the Republic of Kazakhstan, distinguishes the three stages of establishment and development of relations of Russia and Kazakhstan:

1. Development of the legislative basis for the international relations (August 1991 – May 1992);
2. Definition of basic directions and forms of the bilateral relations in the politic, economic, and military spheres (May 1992 – end of 1994);

³⁹ TOKAYEV, K. *Under the Banner of Independence: Essays on the Foreign Policy of Kazakhstan*, Almaty: Bilim, 1997

3. Extension and deepening the bilateral cooperation in integration processes in the framework of the CIS (1995-1996).

In the first period right after the dissolution of the USSR the current situation was characterized as a process of the "civilized divorce" of the former Soviet republics. The first steps of both heads of states were directed to prevention of a "Yugoslavian variant" of the dissolution of the USSR. This is evidenced by the documents signed in August 1991 on meeting of Presidents of Kazakhstan and Russia in Almaty, where it is necessary to mark out a mutual declaration "About a common economic space".⁴⁰

The next period in the relations of the two states is remarkable for a very important event – the break up of the single ruble zone. Many intensive negotiations could not help to maintain the single money system. The introduction of the Russian ruble in July 1993 has factually led to collapse of the ruble zone.

On May 25, 1995 the agreement "On procedures of using the Baikonur spaceport" was signed. And for the first time the Baikonur was rented to Russia for 113 millions of dollars a year. At present the lease of the cosmodrome is prolonged by 2050 and costs Russia 165 millions of dollars a year.

In 1995 Kazakhstan-Russian relations continued to develop in the line of ascent. The military interaction of two countries takes a special place in their relations. Kazakhstan and Russia according to the agreement would not participate in any unions or blocks directed against one of the states.

The measures for solution of problems with functioning of the Customs Union, to render the all possible assistance in expansion of activities of the mutual organs of administration of the integration were arranged.

In November 2001 Kazakhstan and Russia formed a 10-year agreement on cooperation in the gas industry. The agreement provides for coordinated activity between the two countries in the following areas:⁴¹

- supplies and transit of Russian and Kazakh gas;
- construction, reconstruction and exploitation of pipelines;
- construction of underground gas-storage facilities and other parts of the gas industry infrastructure as well as rendering services;

⁴⁰ TOKAYEV, K. *Under the Banner of Independence: Essays on the Foreign Policy of Kazakhstan*

⁴¹ TERTEROV, M., *Global Market Briefings: Doing Business with Kazakhstan*

- coordination of policy for the development of gas-transporting systems running through the territories of both countries;
- conclusion of gas swap deal in compliance with the laws of the Russian Federation and Kazakhstan and on the basis of long-term agreements between the corresponding authorized agencies;
- development of joint projects that require transportation of gas through the territories of Kazakhstan and Russia to the third markets;
- exploration and development of gas fields, in particular, on the basis of production sharing agreements;
- elaboration and implementation of uniform normative and technical documents, regulating the functioning of gas-transport systems.

Kazakhstan and Russia cooperate in many aspects of economic, politic, and social spheres. During the passed years the two countries signed many agreements to strengthen and support the mutual cooperation, which is prosperous for both. At present Russia is the biggest Kazakhstan's importer. Russian import makes 37.9% of all imports in Kazakhstan's economy.

At the same time it would be rather naïve to consider the mutual striving for cooperation and rapprochement makes Kazakh-Russian relations absolutely non-problematic. The interests of the two countries should not always coincide. One of such problems is concerned with the determination of the legal status of the Caspian Sea.

9.2. Policy of Kazakhstan in the Central Asia

The priority place of the Central Asian states in the foreign policy of Kazakhstan is conditioned by the number of factors of economical, political and cultural character. Together with common historical, cultural, and linguistic background of nations of Kazakhstan and states of the Central Asia, the essential element of the development of the independent integration within the framework of the CIS was an urgent necessity in coordination of steps in political and economical spheres.

A new character of the economic relations with the states of the Central Asia was determined in the Treaty on the creation of a Single economic zone, which was signed by the heads of states of Kazakhstan and Uzbekistan on January 10, 1994. The Kyrgyz Republic has joined this treaty on January 16, and on April 30 the separate trilateral treaty was signed. That

created favorable conditions for closer cooperation and the all-sided integration of the economies of the member states.⁴²

In the course of the meeting of the Presidents of Kazakhstan, Kyrgyzstan and Uzbekistan on July 8, 1994 in Almaty the decision to create an Intergovernmental council of three states, its working organ on continuing basis – an Executive committee, and also about establishment of Council of prime-ministers, ministers for foreign affairs and ministers of defense of three states.

With a view to organization and accomplishment on multilateral intergovernmental payments on trade, non-trade and other operations, and coming from the interests to retain trade and financial relations, and also development of common productions, member states with the Treaty on July 8, 1994 formed a common Central Asian bank for cooperation and development.

In the framework of the tripartite union a number of important documents were signed:

- The treaty on the security of member states with medicine, medical technical equipment.
- The treaty on the mechanism of closing in economical legislation.
- The treaty on cooperation and interaction in sphere of making earthquakes researches, and forecasting of seismic danger.

The other one of the important questions solved by the Executive Committee is a problem of an economical integration. It covers such significant fields of the national economies, as fuel-energy, chemical, metallurgic, machinery construction, mining, light industry, transport, communications, the production of the building materials.

The Central Asian economical integration in the fuel and energy complex will condition a full provision of all member states of the region with all types of fuel, and also reliable export and aggregate productive potential, that allows for production of competitive products on the basis of natural resources and mutual investments.

One of the most important problems for the three states is a solution of a problem of the Aral Sea, which in the near past was second biggest inland sea of the former USSR, and the fourth in the world. Today Aral is continuing to desiccate catastrophically: from 1961 its area has shrunk to well under half, the sea level is now only 39 meters, what is by 13 meters less than in 1961. It is ecologists' opinion that the basic reason of such a hard situation is an

⁴² TOKAYEV, K. *Under the Banner of Independence: Essays on the Foreign Policy of Kazakhstan*

excessive development of an irrigation system. According to some estimation, there are 110 cubic meters of water used yearly for irrigation of the region of Aral Sea. This problem is given a rapt consideration of the five near-Aral republics.

Kazakhstan together with its neighbors bears responsibility for the stability on the whole Central Asian region. That is why troubles about the instability in Tajikistan attract certain attention. Kazakhstan has taken efforts for a political regulating of the Tajik problem, and supported efforts of the UN in this region. In 1995 the IV round of the inter-Tajik negotiations on the national reconciliation took place in Almaty. The international experts say these negotiations were of a high importance in particular agreements: the agreement on the release of prisoners of war, and on the cancellation of death sentences in respect of the political prisoners.

The recent period of political instability in Kyrgyzstan, that immediately followed the revolution in March 2005 has also shaken the stability in the region. The number of Kyrgyz immigrants has grown significantly since then. The situation still remains unstable with periodic mass disorders in the country.

It is worth of saying that the integration of economies of the Central Asian states was predetermined by their historical development. As the result of the All-Union division of labor, in Kazakhstan, Uzbekistan, and Kyrgyzstan the material production developed, which is characterized with a high share of nature exploiting branches, particularly extractive industry and agriculture. At the same time the manufacturing industry, branches producing finished commodities did not get the proper development.

Kyrgyzstan has joined the Customs Union of Russian Federation, Republic of Belarus, and the Republic of Kazakhstan, what became a one more evidence for attempts of the Central Asian states for the broadening the integration ties.

Speaking about the integration in the Central Asia, it is necessary to note, that the region has all the prerequisites for cooperation of the industrial production, the creation of the common enterprises, and the interaction of the agro industrial complex. The integration is a vital necessity for all the states of the region themselves. The economic cooperation of states of the Central Asia opens broad possibilities for salvation of a complex of economic, politic, social, and ecologic problems. Such an interaction, beneficial for all the Central Asian states, could lead to a speeding-up of the social economic development of these countries.

CONCLUSION

Thus, Kazakhstan's successes for the passed 15 years in the social economic development are incontestable. However, behind the favorable macroeconomic indices there still is a low quality of its growth, which could negatively influence the growth of the competitiveness of the country. A lot is to be done to secure a new quality and structure of the economic growth, developed by reducing of dependence of the economy on energy and raw material sector and imports of finished commodities, strengthening the role of the processing industry, high technological branches and the consumer sector.

From the standpoint of the Strategy of Kazakhstan to enter the 50 of the most competitive countries of the world the republic faces new tasks of transfer to the model of a high quality economic growth.

The transition from a model of the rough development to a model of the innovational development of the economy of Kazakhstan is a basic guiding line in Strategy of the industrial innovational development of Kazakhstan until 2015. The main goal to be achieved is a provision of a stable development of the country and promotion of its competitiveness. This goal is to be achieved on the basis of the diversification and modernization of the economy, creation of conditions for production of competitive products and increase of export.

Opportunities for the rapid economic growth, and hence for the increase of the level of living of the population are concerned with the diversification of the economic structure, that assumes the anticipatory development of the processing industry sectors, human services, degree of the processing of raw materials under the relative decrease of the share of mining branches in the economic structure, and particularly in the structure of export.

The important instrument to provide the structural changes and to increase the competitiveness should be the innovations. The republic has got the scientific beginnings, which in the near future allow laying the foundation for the core of the science intensive productions with the help of development of the small business. The industrial realization should be given to existing scientific beginnings in spheres of the cosmic, radiation, laser, and catalytic technologies, and biotechnologies. The available scientific and educational potential allows counting on certain successes in this direction.

Solution of the problem of development of the competitive economy is dependent in many respects on the territorial development, the choice of the correct reference points in the

regional policy, priorities in this field and the mechanisms for their realization. From this point of view the most important directions are as follows:

- The maximum use of the favorable factors and the internal resources to evening-out the deep regional differentiations;
- The modernization and diversification of the economy of the regions, development of the optimal specialization of the regional systems;
- The provision of the stable social, ecologic and economic development of the regions;
- The effective integration of the economic space of Kazakhstan into the world economic system.

For the solution of the listed problems at present the Strategy for the territorial development till the year 2015 is worked out. The strategy assumes a transfer from the policy of smoothing the regional differences to a policy of development and the all possible state support for the factors of growth, such as labor productivity, capital availability, and the technological progress and innovation, which are the key factors of the upsurge of the national economy.

APPENDICES

Appendix 1. Production of the GDP (millions of tenge)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Production of goods | 656567.6 | 864112.3 | 1210175.1 | 1458432.7 | 1654267.8 | 1910774.7 |
| Agriculture, hunting, forestry, fishery | 148467.8 | 199353.9 | 210872.4 | 283608.6 | 301947.7 | 324608.9 |
| Industry | 422520.8 | 569087 | 864727.4 | 997071.9 | 1112959.7 | 1310531.7 |
| Construction | 85579 | 95671.4 | 134575.3 | 177752 | 239360.4 | 275634.4 |
| Production of services | 983395.4 | 1057476.6 | 1256024.3 | 1600954 | 1905930.6 | 2295437 |
| Trade | 262653.7 | 273895.7 | 323467.2 | 392906 | 459464.5 | 539228.5 |
| Hotels and restaurants | 11297.5 | 11621.9 | 14782.9 | 18919.9 | 25838.8 | 39356.6 |
| Transport | 212508.5 | 212595.3 | 260172.4 | 314737.1 | 380874.3 | 461549.2 |
| Communications | 26877.8 | 30601.1 | 38342.1 | 47814.4 | 56897.7 | 74716.2 |
| Financial activity | 29847.8 | 54602.6 | 80679.3 | 111502.8 | 130528.3 | 149299.3 |
| Real estate activities | 226756.5 | 241361.2 | 279953.1 | 389145.5 | 474132.7 | 597895.1 |
| Government administration | 50951.7 | 52687.2 | 60739.6 | 65562.6 | 74464.4 | 78628.3 |
| Education | 78011.4 | 86268.3 | 96184 | 118227 | 131422.3 | 155389.8 |
| Healthcare and social services | 47497 | 49034 | 52466.4 | 68272.3 | 77519.3 | 90928.5 |
| Community, social and personal services | 36993.5 | 44809.3 | 49237.3 | 65513.3 | 85169.7 | 108445.5 |
| Activities of households | - | - | 906.2 | 8992.5 | 9618.6 | - |
| Total for branches | 1639963 | 1921588.9 | 2466199.4 | 3059386.7 | 3560198.4 | 4206211.7 |
| FISIM | -10370.4 | -18660.6 | -23660 | -37339.5 | -55702.8 | -63539.6 |
| Gross value added | 1629592.6 | 1902928.3 | 2442539.4 | 3022047.2 | 3504495.6 | 4142672.1 |
| Taxes on products and import | 106899 | 119724.6 | 157362.2 | 228701.1 | 273722.7 | 307123.6 |
| Subsidies on products and import | 3228.1 | 6196.6 | 1848.1 | 4074.6 | 1941 | - |
| Gross domestic product | 1733263.5 | 2016456.3 | 2599901.6 | 3250593.3 | 3776277.3 | 4449795.7 |

Source: The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

National Accounts of the Republic of Kazakhstan 1998-2002 (statistical compendium), Almaty, 2004

The Agency of Statistics of Kazakhstan, <http://www.stat.kz>

Appendix 2. Unemployed population (thousands of people)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total unemployed | 780.3 | 690.7 | 672.1 | 658.8 | 640.7 |
| Males | 338 | 283.8 | 281.4 | 281.1 | 270.6 |
| Females | 442.3 | 407 | 390.7 | 377.7 | 370.1 |
| youth at the age of 15-24 years | 240.4 | 193 | 188.6 | 191.6 | 183.6 |
| Urban area | 522.7 | 453.3 | 436.2 | 416.7 | 402.7 |
| Males | 217.1 | 177.3 | 170 | 166.4 | 162.4 |
| Females | 305.6 | 276 | 266.2 | 250.4 | 240.3 |
| youth at the age of 15-24 years | 139.2 | 108.7 | 104 | 105.5 | 102 |
| Rural area | 257.6 | 237.4 | 235.9 | 242.1 | 238 |
| Males | 120.8 | 106.5 | 111.4 | 114.7 | 108.2 |
| Females | 136.8 | 131 | 124.5 | 127.4 | 129.8 |
| youth at the age of 15-24 years | 101.1 | 84.4 | 84.5 | 86.1 | 81.6 |

Source: Agency of Statistics of the Republic of Kazakhstan, Almaty, 2006

Appendix 3. Basic Indicators of the level of living in 1995-2001

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|--|--------|--------|--------|--------|--------|--------|-------|
| Actual final consumption of housekeeping, billions of tenge | 803.3 | 1063.4 | 1294.5 | 1370.4 | 1592.4 | 1831.2 | 2214 |
| per head, thousands of tenge | 50.8 | 68.3 | 84.4 | 90.9 | 106.7 | 123.2 | 149.3 |
| in percentage to the previous year | 81.2 | 93.8 | 101.2 | 97.8 | 101.3 | 106.1 | 107.4 |
| Nominal cash incomes of the population (monthly average per head), tenge | 1721 | 2371 | 2849 | 3020 | 5539 | 6102 | 7317 |
| Average monthly accrued wage of one worker, tenge | 4786 | 6841 | 8541 | 9683 | 11864 | 14374 | 17303 |
| Minimum wage, tenge | 262 | 1550 | 2129 | 2395 | 2605 | 2680 | 3484 |
| Relation of monthly average accrued wage of one worker to a minimal wage, in percentage terms | 1826.7 | 441.3 | 401.2 | 404.3 | 455.4 | 536.3 | 496.6 |
| Monthly average size of stated pension of one pensioner (at the end of year), tenge | 1876 | 3283 | 3554 | 4213 | 4270 | 4462 | 4947 |
| Size of the cost of living in average per head, tenge | 1923.2 | 2821 | 3120 | 3336 | 3394 | 4007 | 4546 |
| Share of the population with incomes lower than the size of the cost of living, in % | - | 34.6 | 38.3 | 39 | 34.5 | 31.8 | 28.4 |
| Cost of the food basket, tenge | - | - | 2184 | 2335 | 2376 | 2805 | 3217 |
| Share of the population with incomes lower than the cost of the food basket, in % | - | - | 12.7 | 16.2 | 14.5 | 11.7 | 11.3 |
| Correlation of incomes between 10% of the of the most and the least provided population | - | - | 10.2 | 11.3 | 11 | 11.9 | 11.3 |
| Allocation of the overall volume of cash incomes of 20% groups of the population, in % | | | | | | | |
| 1st group (with the lowest incomes) | - | - | 6.5 | 6.1 | 6.2 | 6.1 | 6.3 |
| 5th group (with the highest incomes) | - | - | 41.8 | 42.1 | 42 | 43.1 | 43.9 |
| Correlation with the cost of living, in % | | | | | | | |
| of the average cash incomes per head used for consumption | - | - | - | - | - | 125.5 | 121.2 |
| the average monthly accrued wage | 248.9 | 242.5 | 273.8 | 290.3 | 349.6 | 358.7 | 376.5 |
| minimum wage | 13.6 | 54.9 | 68.2 | 71.8 | 76.8 | 66.9 | 75.8 |
| average monthly stated pension | 97.5 | 116.4 | 113.9 | 126.3 | 125.8 | 111.4 | 107.6 |
| CPI (January-December of the corresponding year in % to January-December of the previous year) | 276.2 | 139.3 | 117.4 | 107.1 | 108.3 | 113.2 | 108.4 |

Source: The Agency of Statistics of the Republic of Kazakhstan 1991-2002, Almaty, 2004

LIST OF USED ABBREVIATIONS

| | |
|--------------|---|
| CIS | Commonwealth of Independent States |
| CPI | Consumer Price Index |
| FISIM | Financial intermediation services indirectly measured |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| IMF | International Money Fund |
| NPISH | Non-profit institutions serving households |
| PPP | Purchasing Power Parity |
| RK | Republic of Kazakhstan |
| USSR | Union of the Soviet Socialist Republics |

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