

# **Dealing with Inflows: Kazakhstan's Experience, 2004-06**

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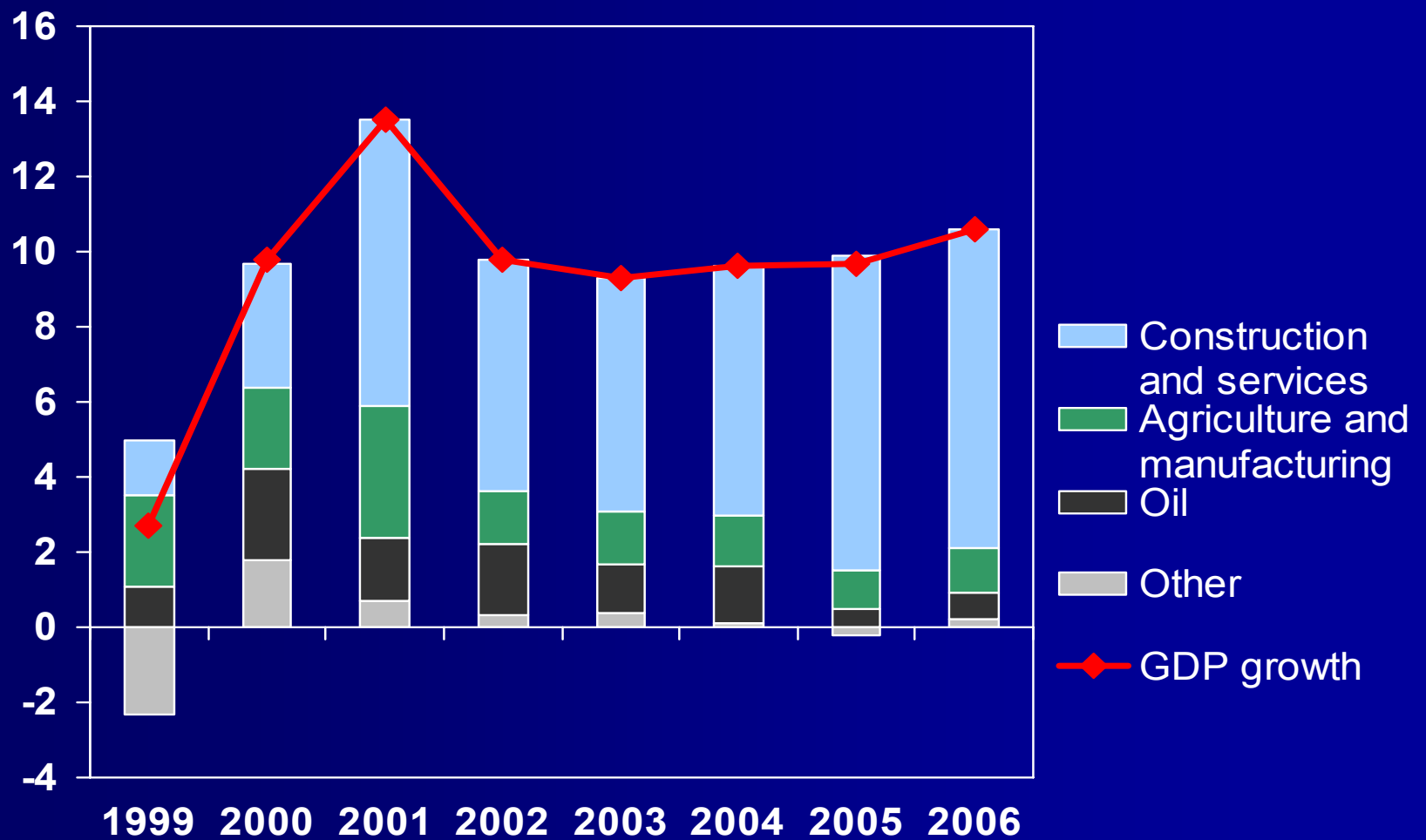
April 2007

## Outline

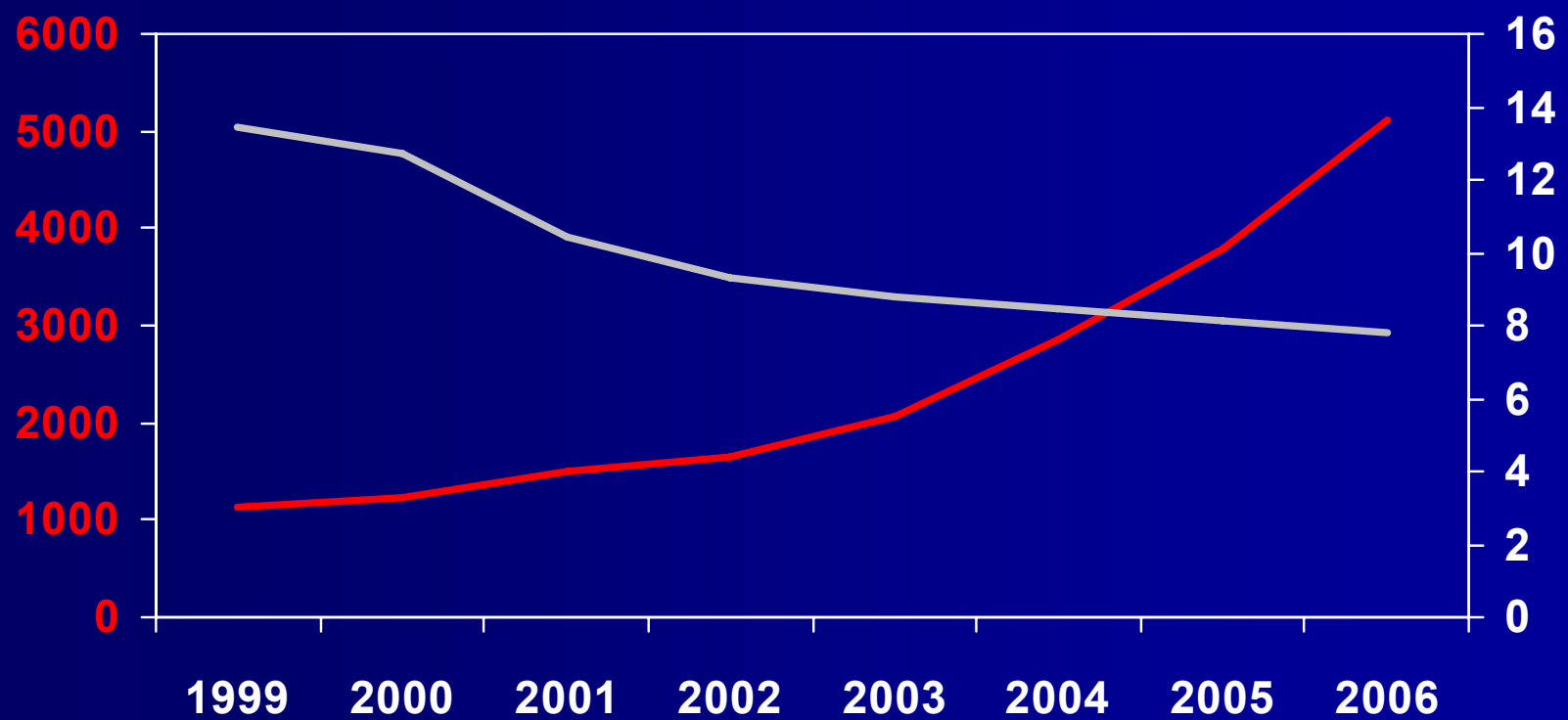
- Impressive macro performance
- Volume and types of inflows
- Outflows
- Scaling the net inflows
- Policy responses
- Lessons

# **Macro Achievements**

## Real GDP growth around 10% or more since 2000

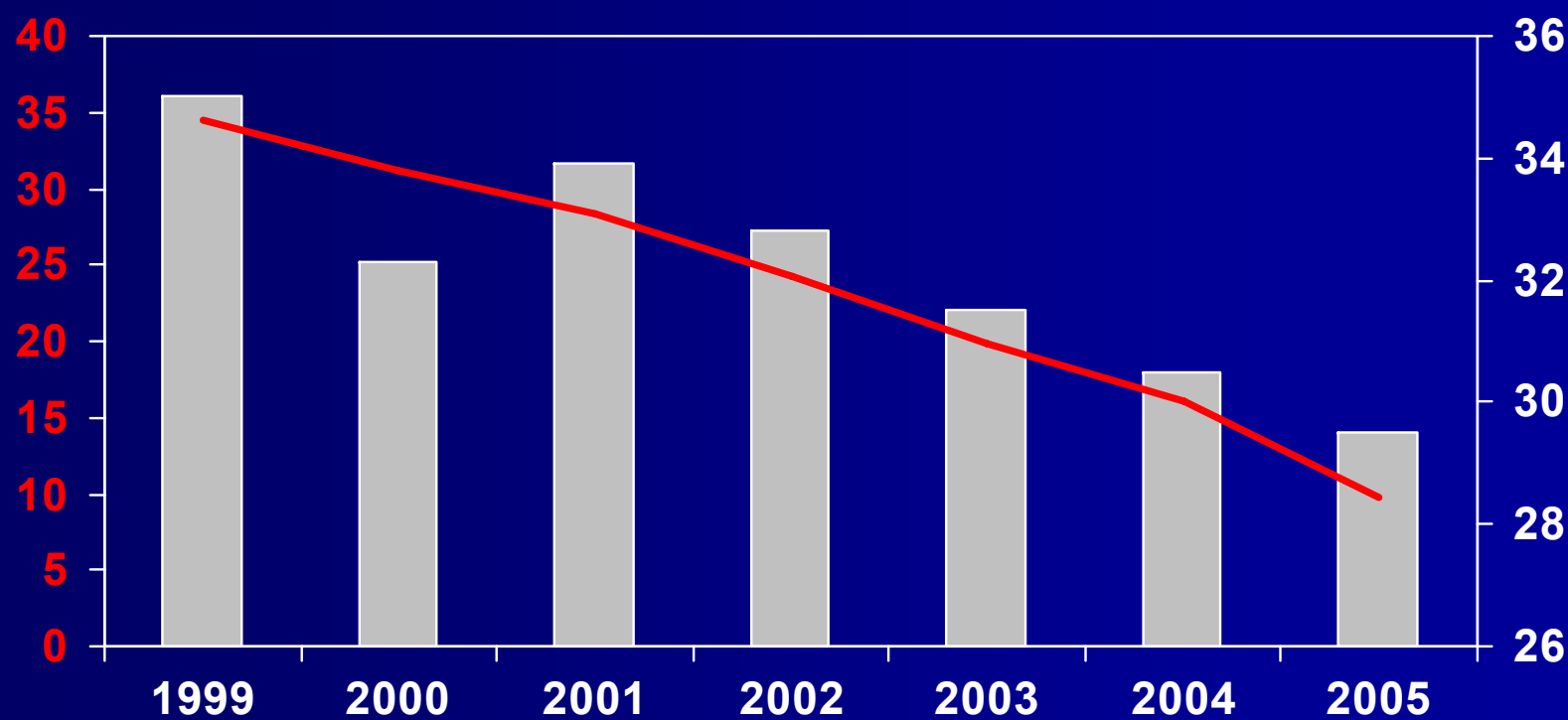


## Per capita quadrupled; unemployment fell



— GDP per capita (dollars; left scale)  
— Unemployment (percent; right scale)

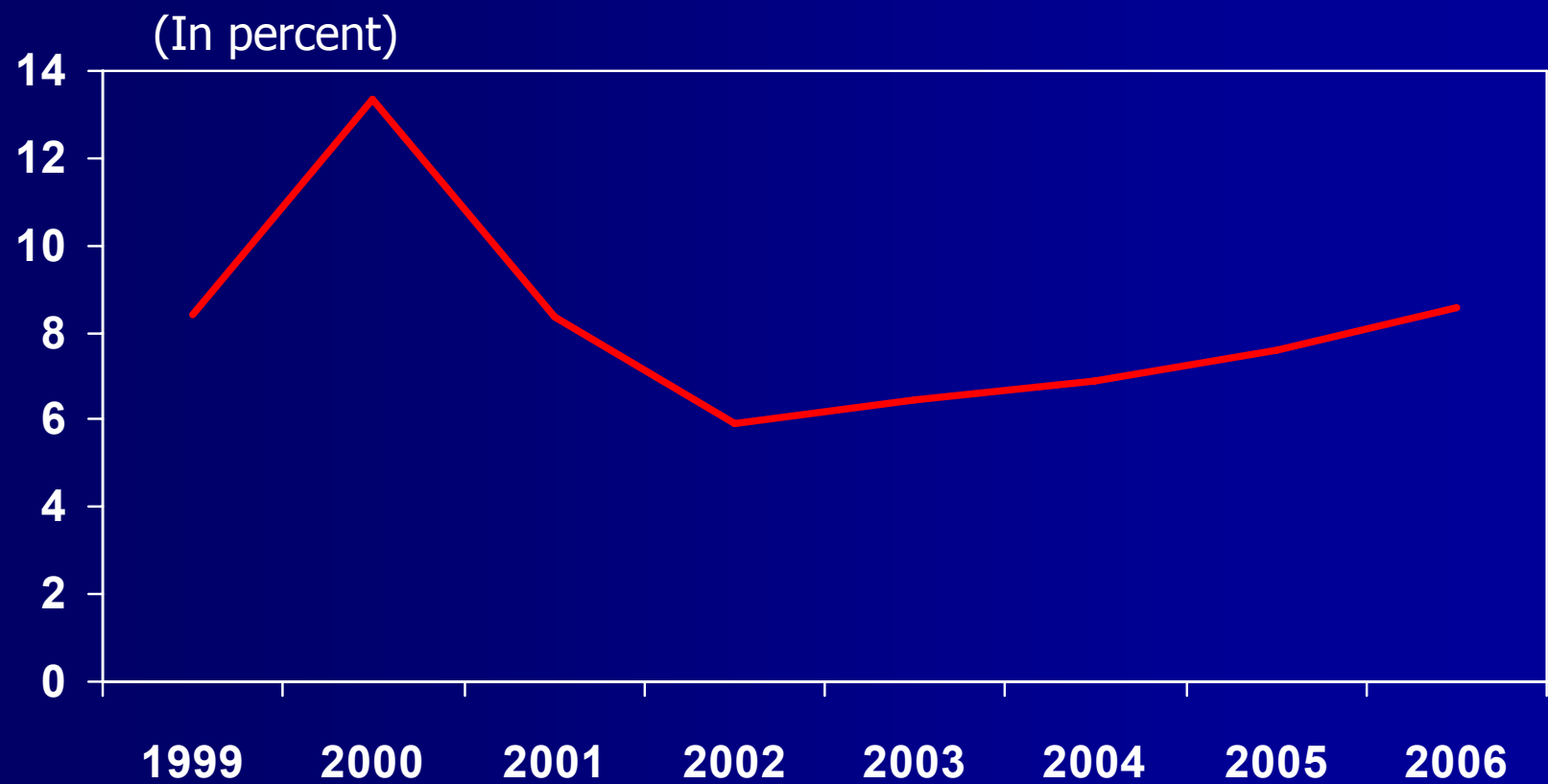
## Social indicators improved



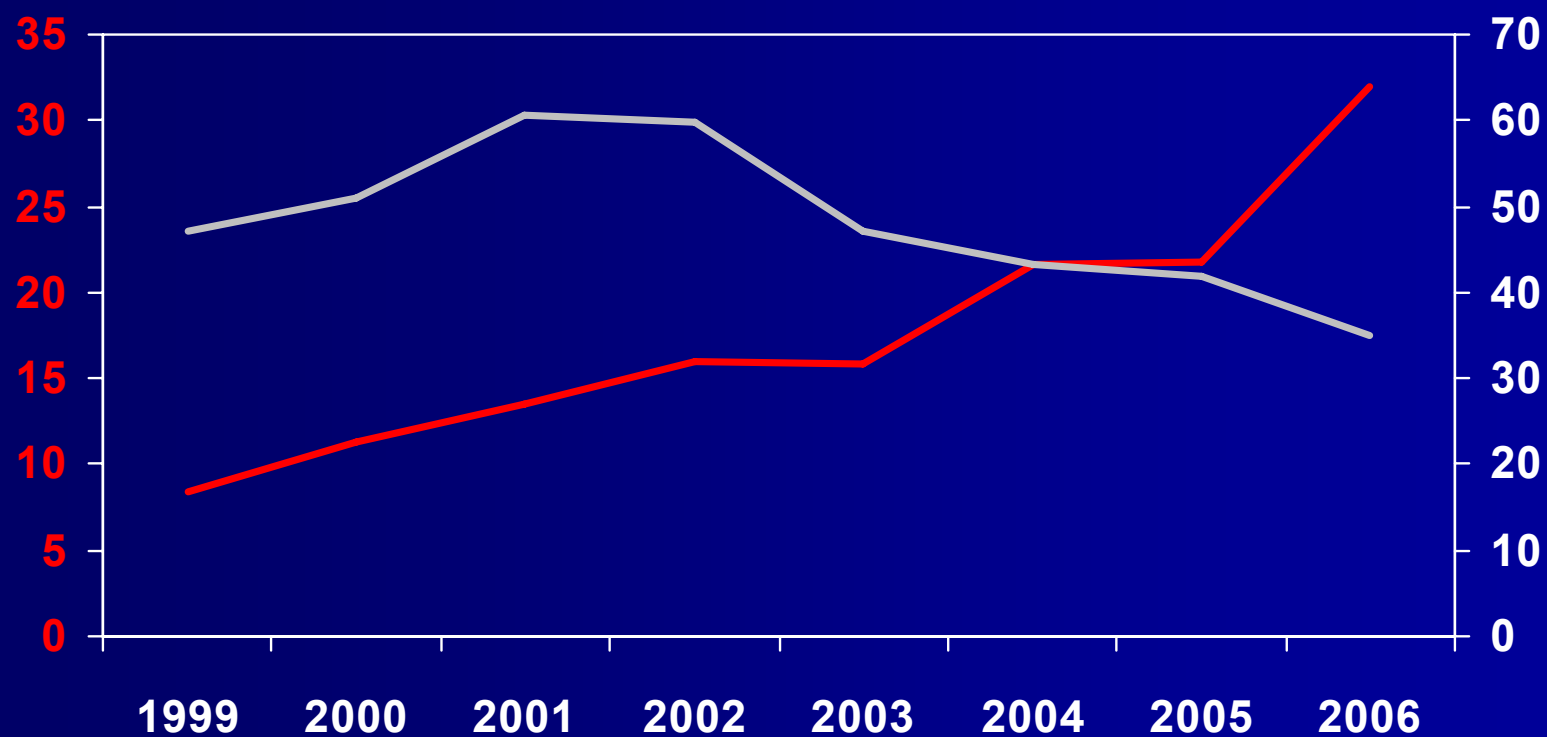
■ Inequality (GINI index; right)

— Poverty (share of population with income lower than subsistence level; left)

## Inflation was tamed



## Confidence in banks improved, dollarization declined



- Total deposits (In percent of GDP; left)
- Forex deposits (In percent of total deposits; right)

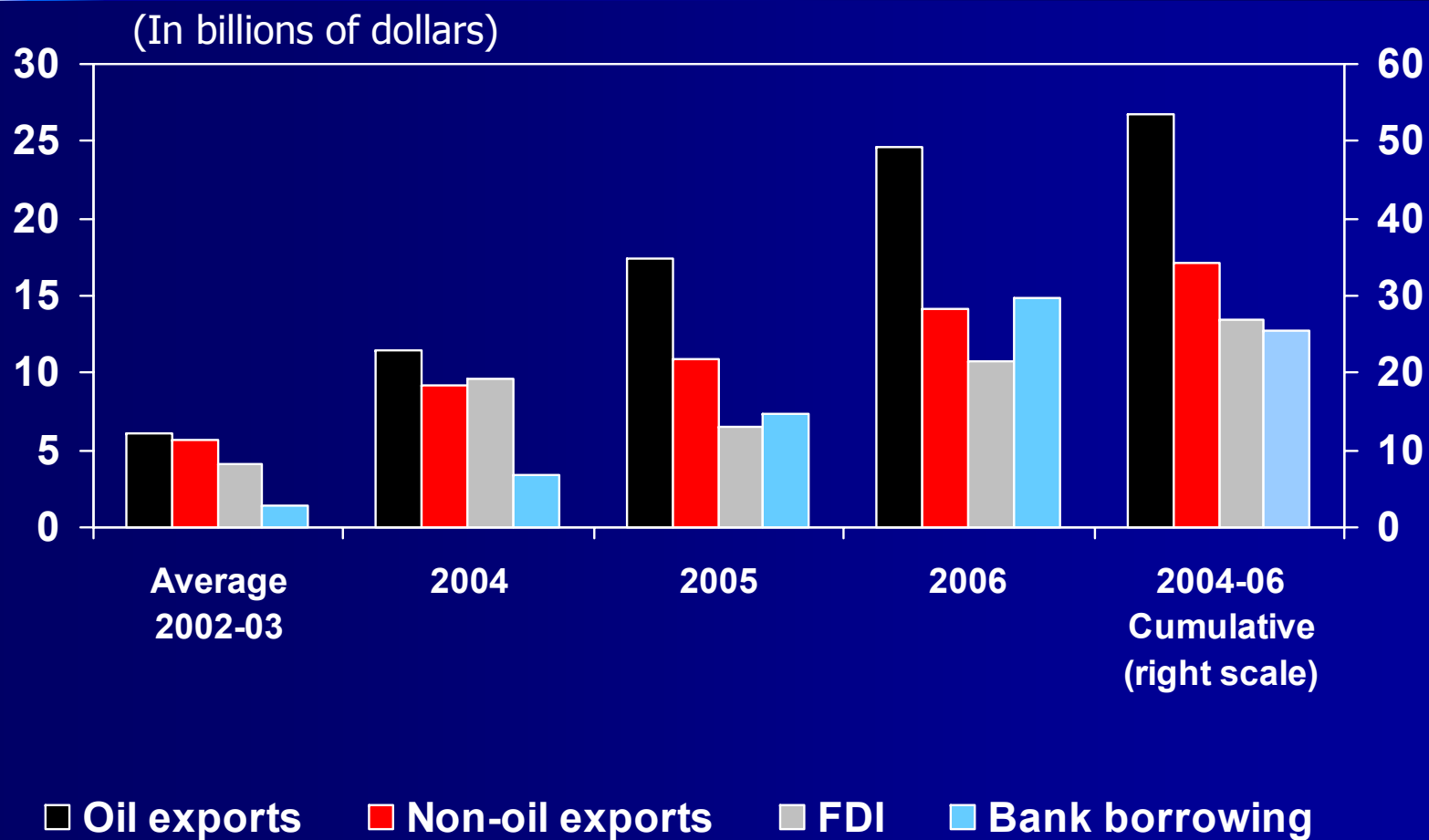


# **Kazakhstan's Forex Inflows**

## **Types of inflows, 2004-06**

- Oil export receipts
- Non-oil exports
- FDI
- Bank borrowing

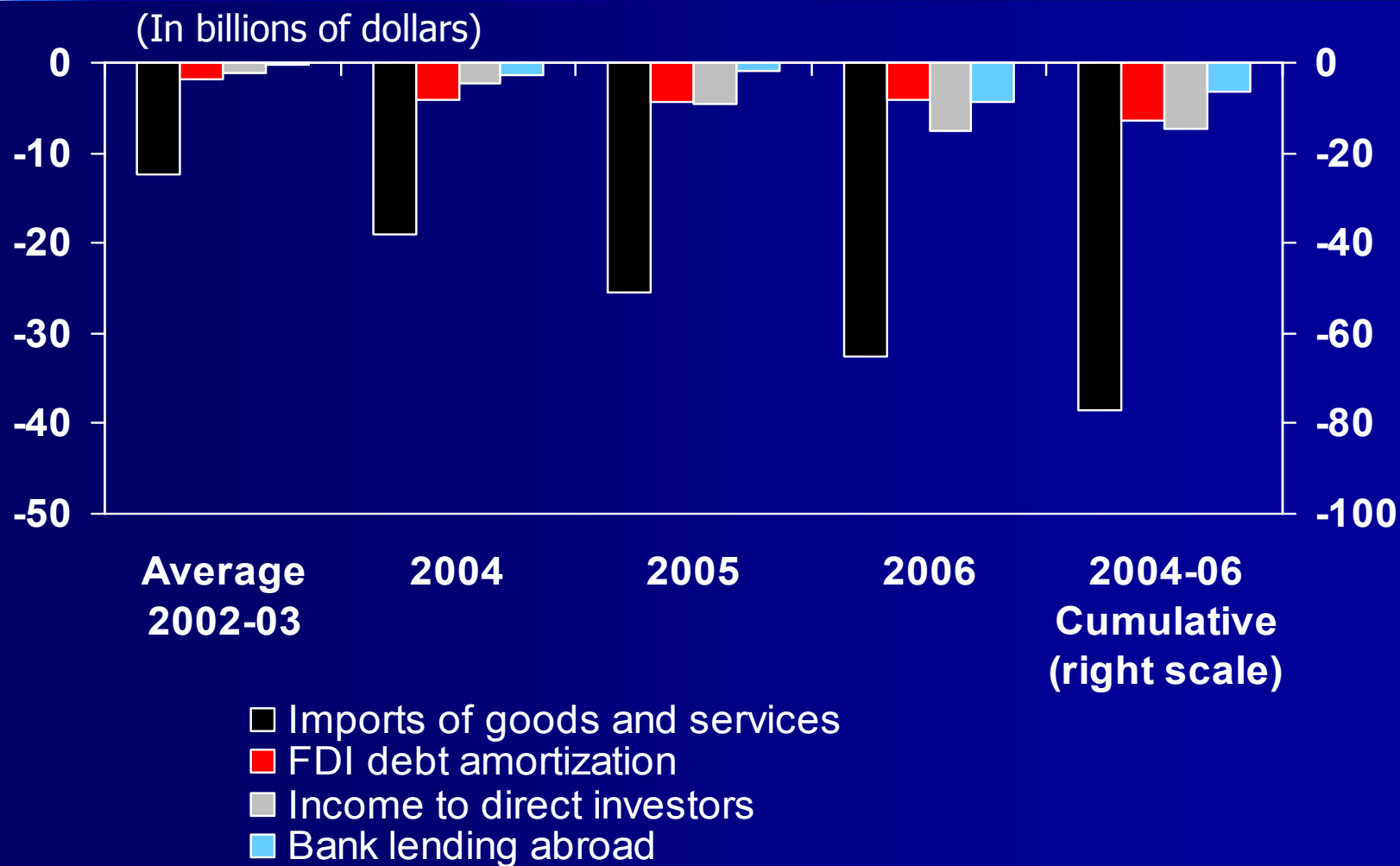
## Volume of inflows



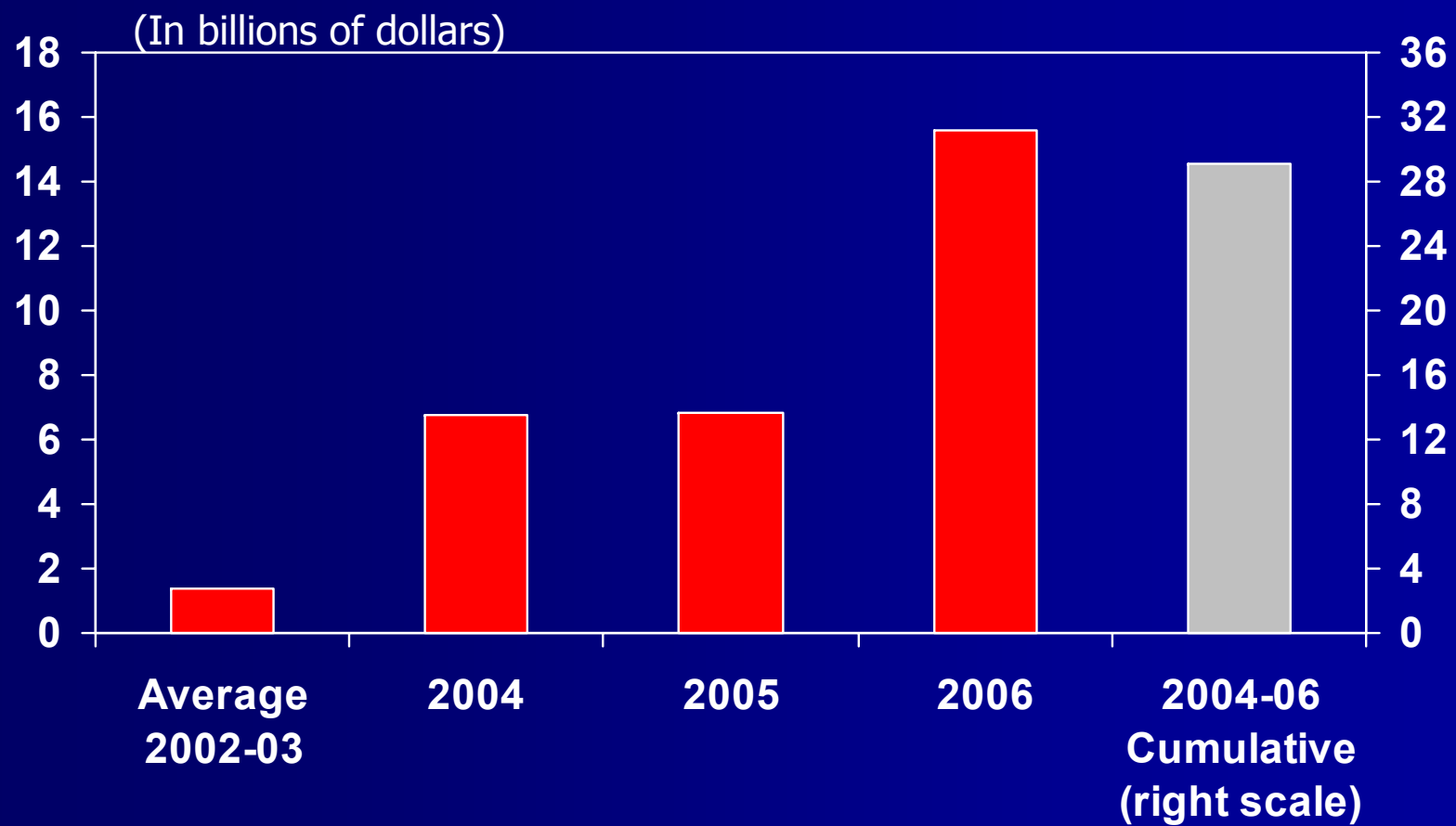
## Types of outflows

- Imports (goods and services)
- FDI debt amortization
- Income to direct investors
- Bank lending abroad

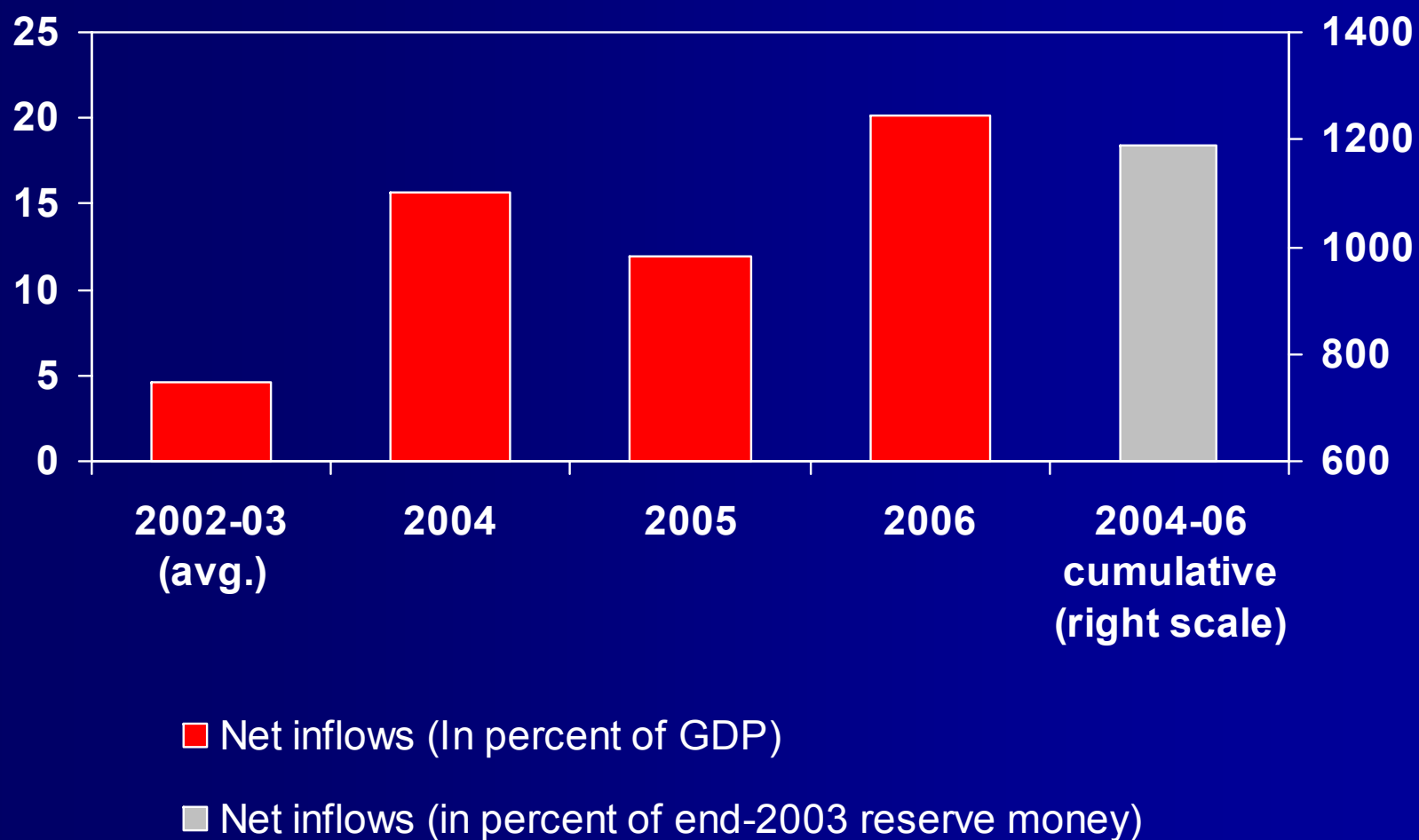
## Volume of outflows



## Net inflows



## Scaling the inflows



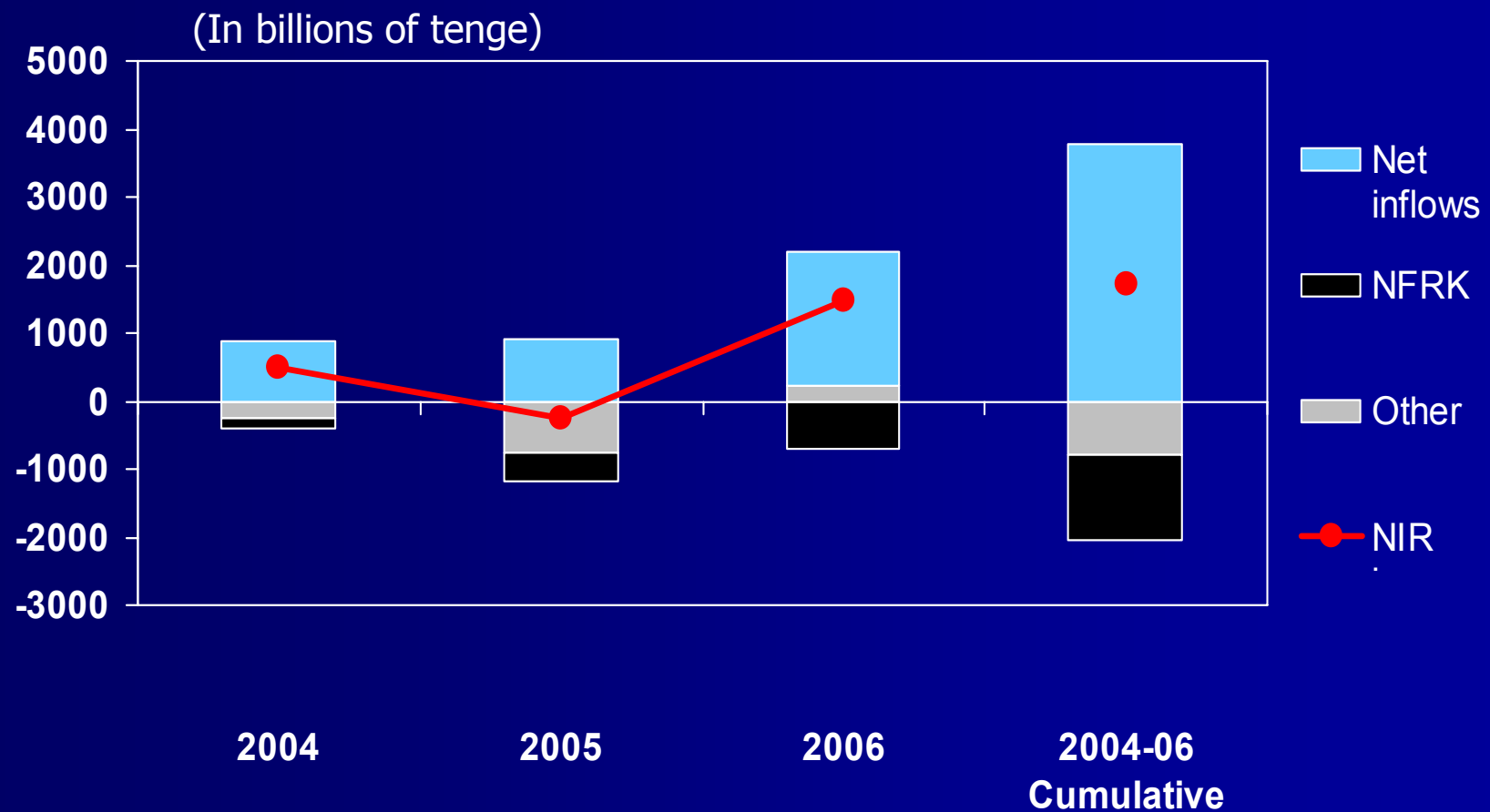
# **Policy Responses**



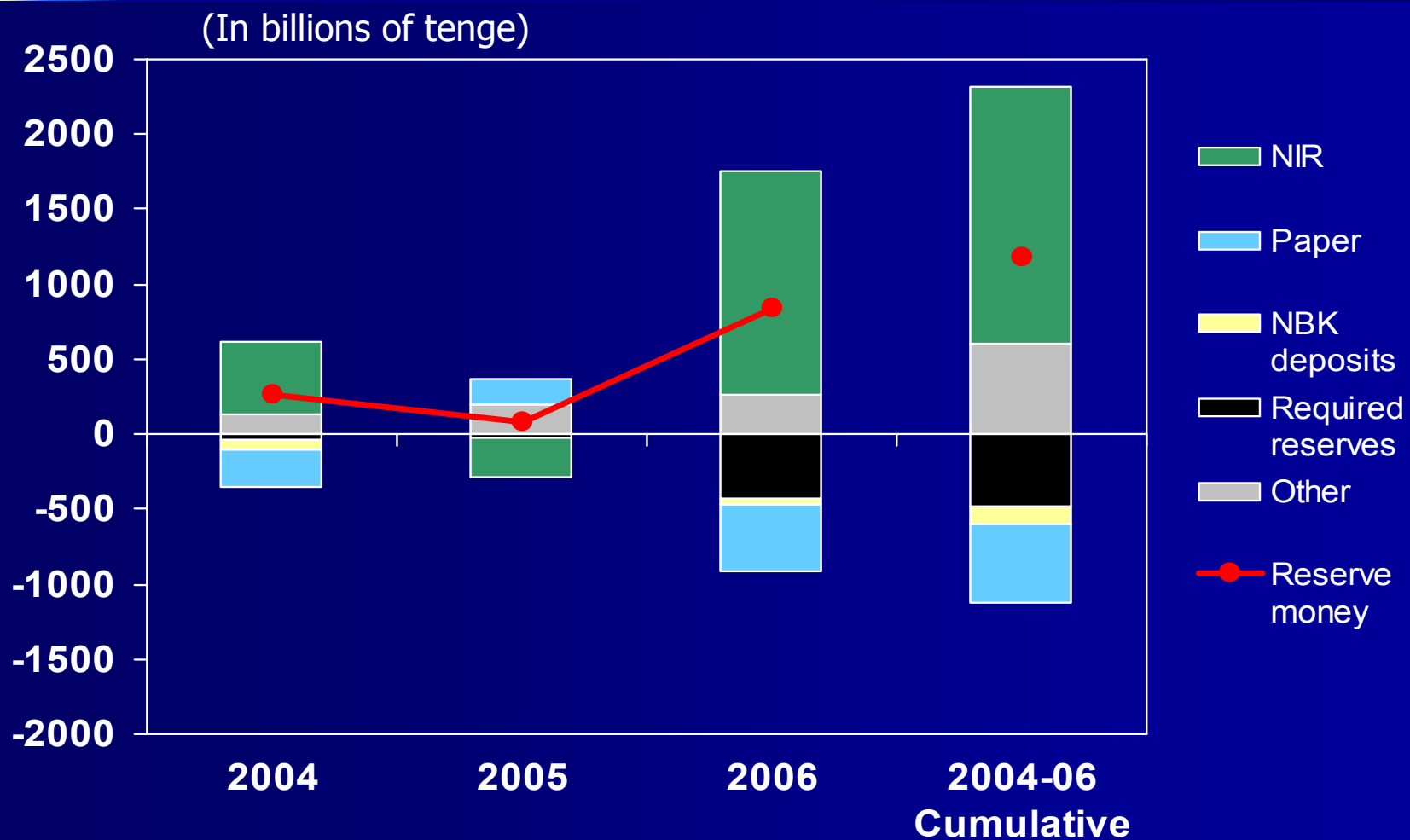
## Handling the monetary impact

- Policy: offset through NFRK
- Other outflows (bank assets, E&O, labor rem.)
- Result: reserve increase (one half of net inflows)
- Policy: partial sterilization through:
  - Issuance of paper
  - NBK deposit window
  - Reserve requirements

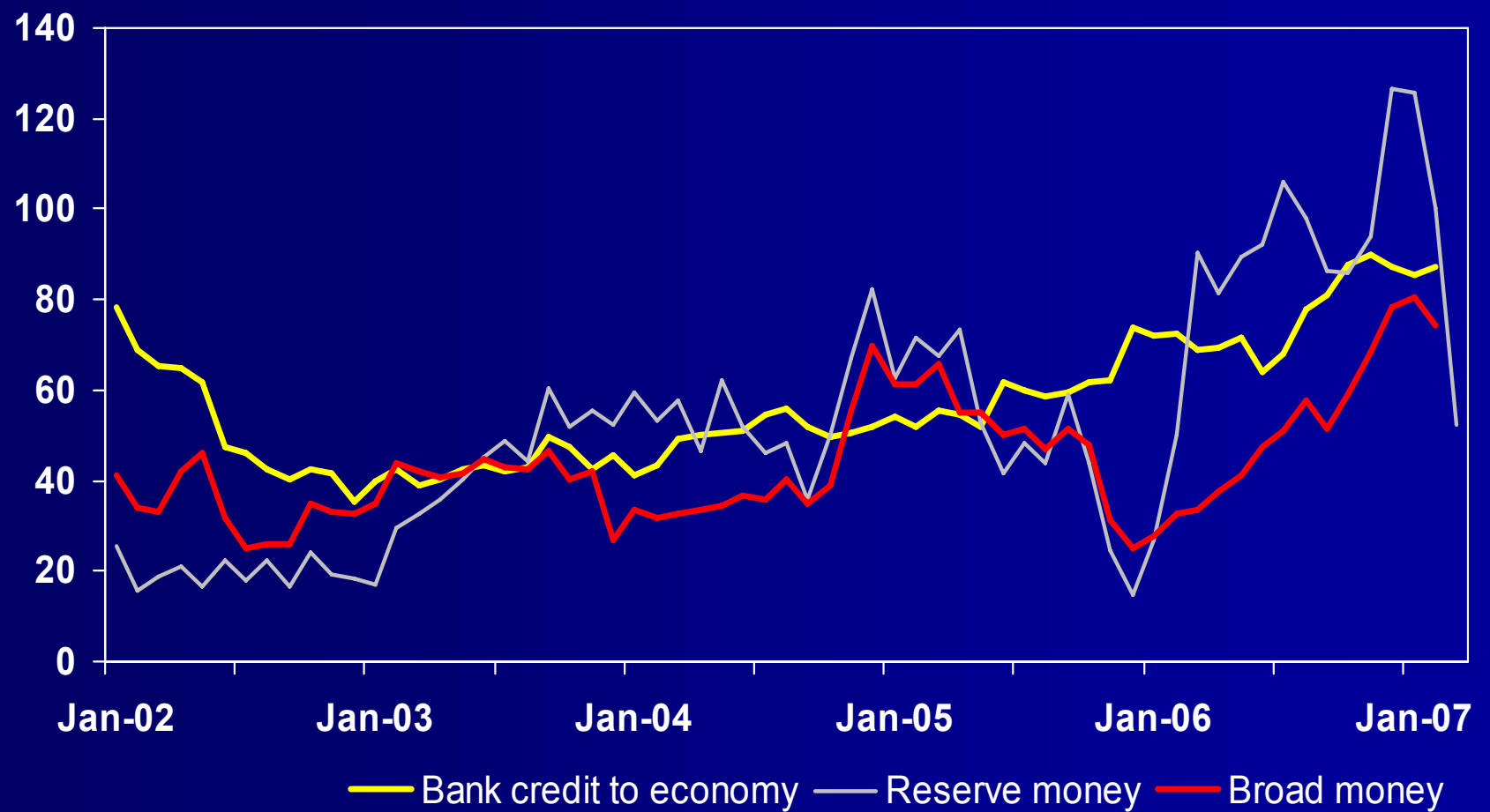
# Monetary impact of inflows



## Monetary response to inflows



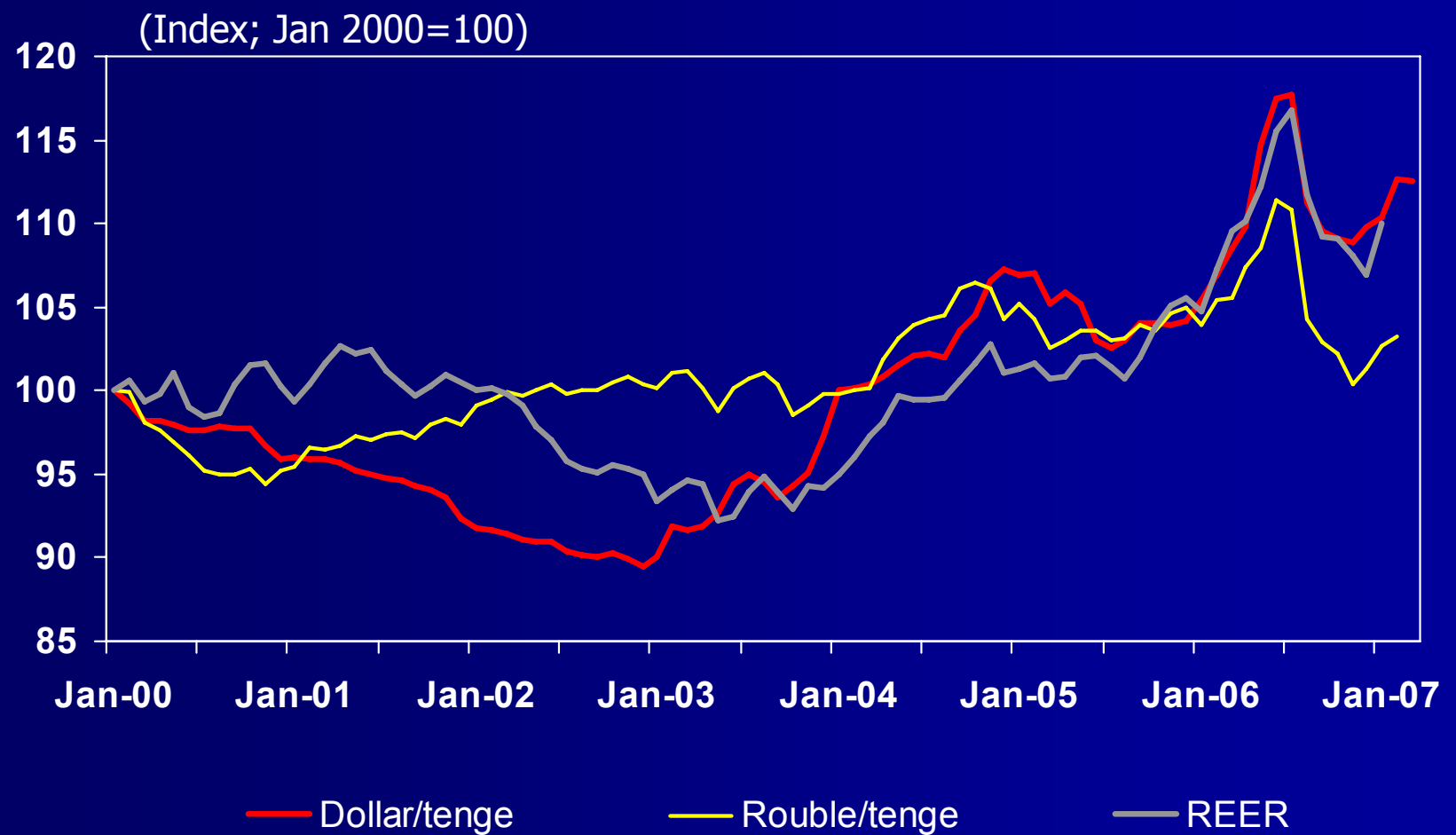
## Result: rapid money growth



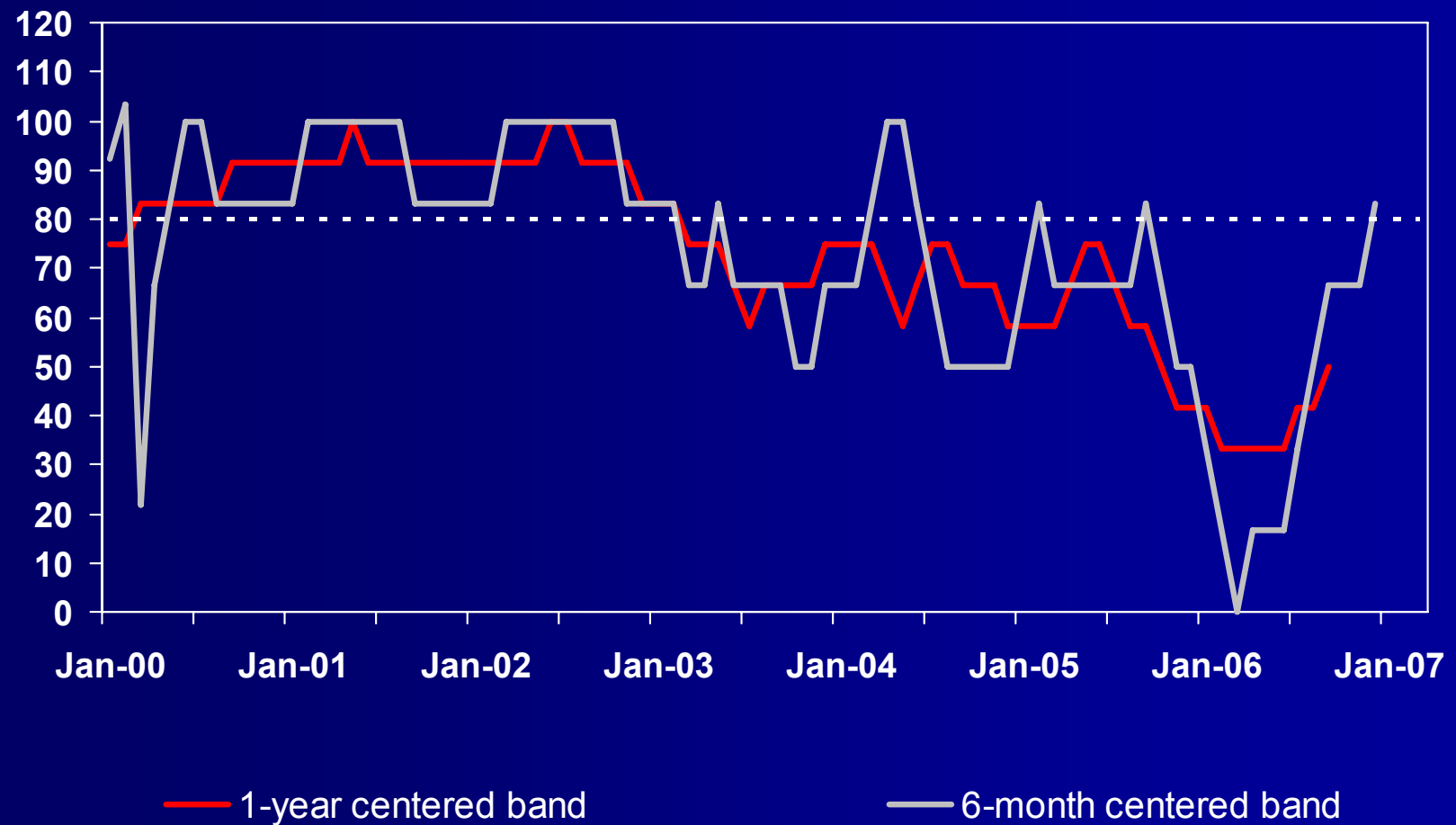
## Prudential measures

- Open forex limits
- Forex liquidity
- Tighter classification and provisioning
- Risks weights for cross-border lending
- External borrowing limits

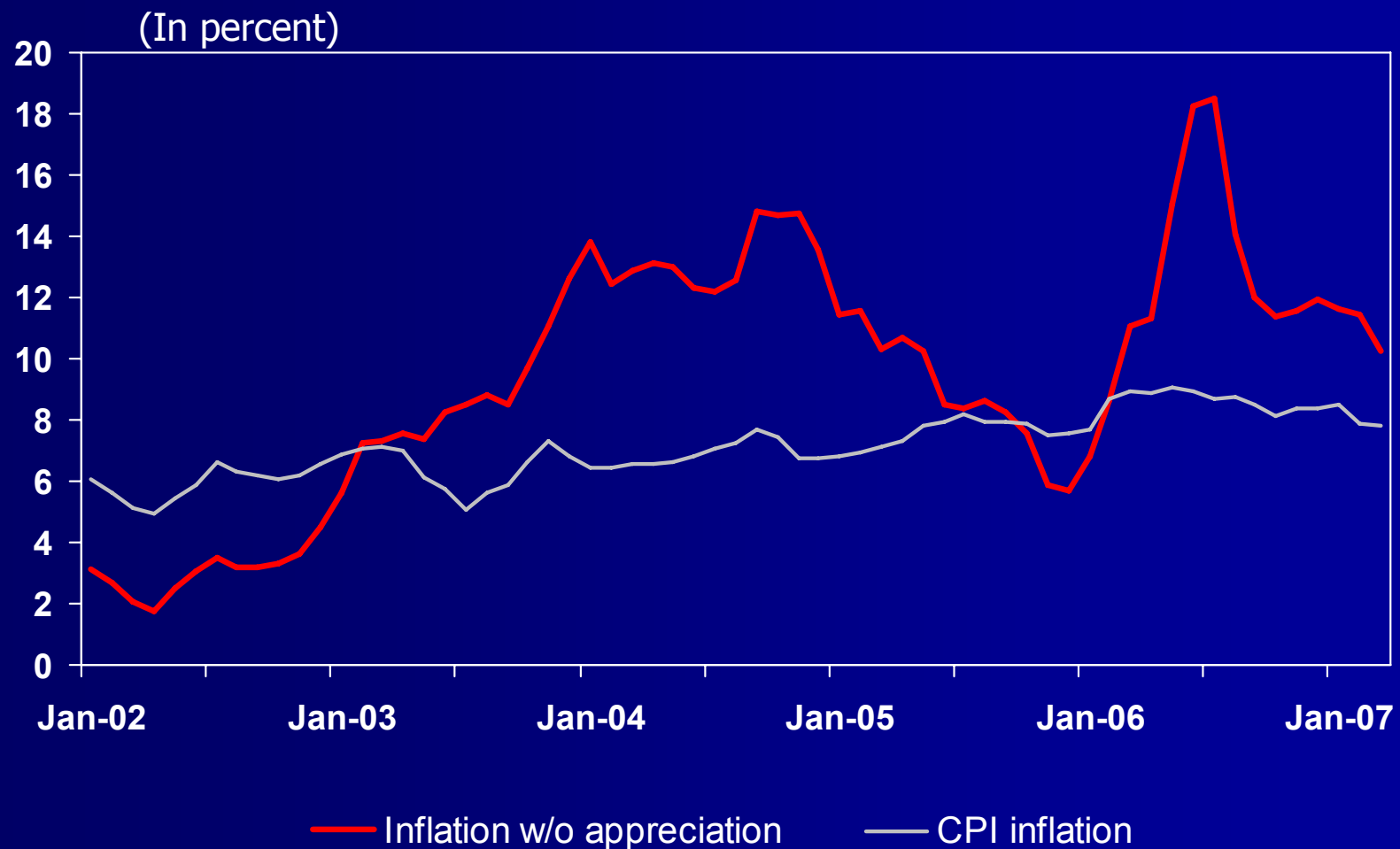
## Exchange rate policy



## Tenge: De Facto Flexibility (Proportion of monthly exchange rate changes that were less than $\pm 1$ percent)

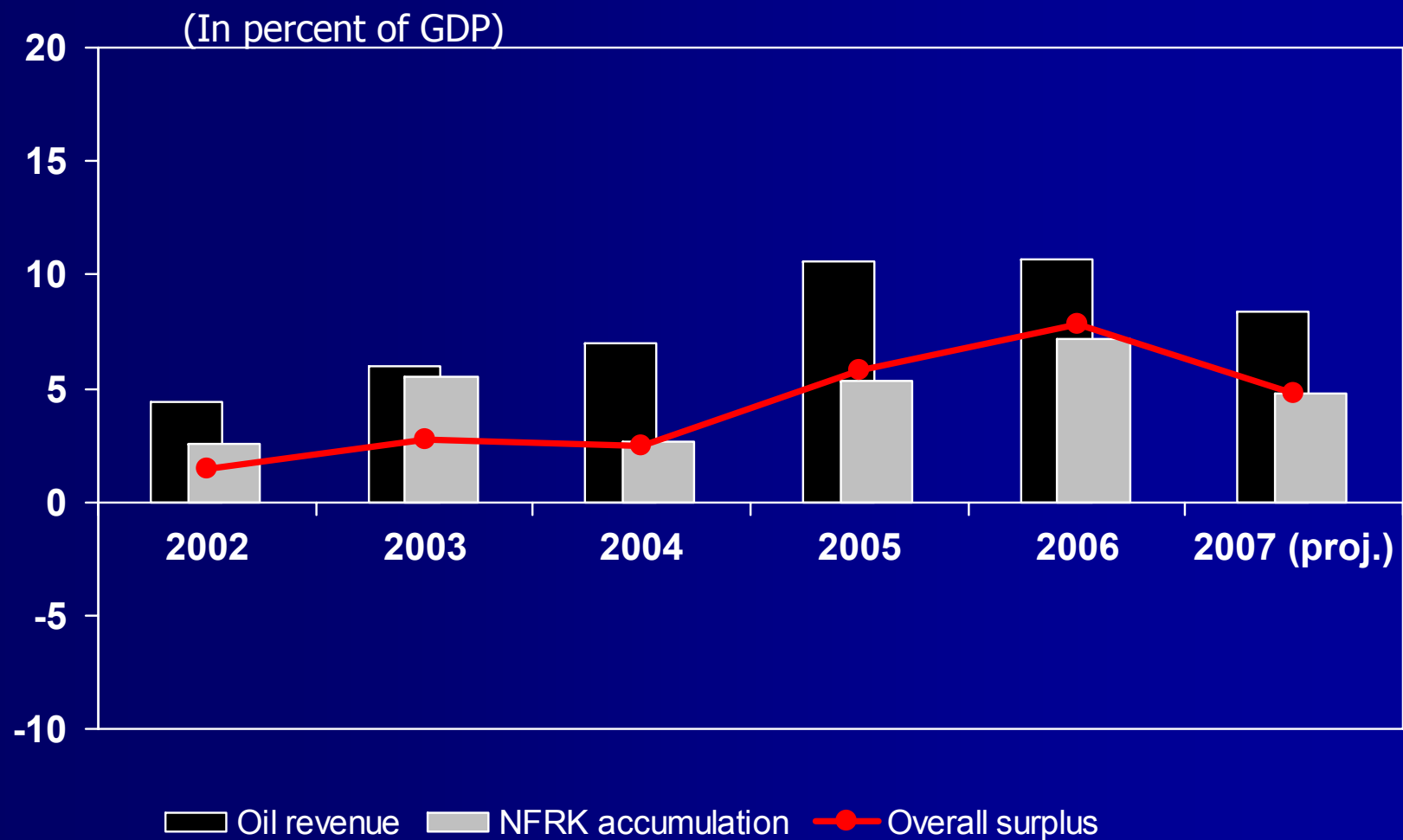


## Tenge appreciation has helped with inflation

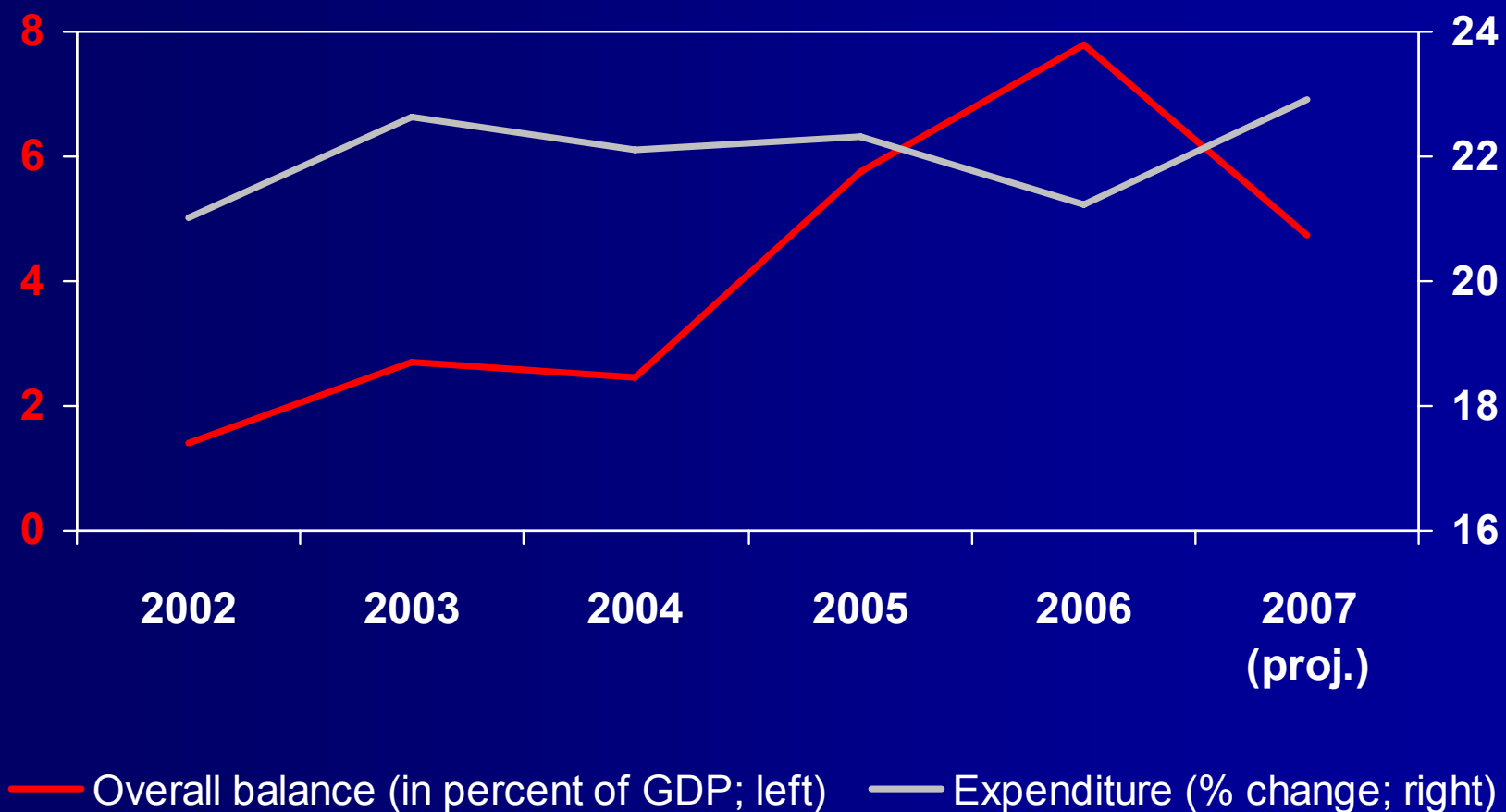




## Fiscal policy—saving oil revenue



## Fiscal policy—prudent stance but monetary impact



# **Lessons and Policy Implications**

## Managing the inflows

- Monetary, exchange rate, prudential, and fiscal policies have played a role
- But money/credit growth remains very high
- External indebtedness of banks continues to rise (rapidly)
- And inflation persisting at a relatively high level

## Implications for near-term policy mix

- Further monetary tightening absorb liquidity
- Further prudential tightening to mitigate risks
  - Measures to slow external borrowing
  - Measures to slow credit growth and maintain loan quality
- Exchange rate appreciation/flexibility
  - Help with inflation
  - Remove one-way bet to facilitate flexibility
  - Which should reduce speculative inflows
- These steps needed to permit the planned fiscal easing without pushing up inflation