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## KAZAKHSTAN’S BANKING SYSTEM

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Although the Russian and Kazakh banking systems share several common features, there are also some fundamental differences. Banks in Kazakhstan have experienced a lengthy period of political stability and economic growth. Together with a rational approach to banking and finance policy, this has helped push Kazakhstan’s banking system to a higher level of development. Banking technology and personnel qualifications alike are stronger in Kazakhstan than in Russia.

On the negative side, past stability in Kazakhstan arose from the concentration of virtually all political power in the hands of a single individual – the key factor in any assessment of system or country risk. The potential is there for serious disturbances if and when authority passes into new hands.

Decision-making at the next highest level – in the sphere of business and economics – is somewhat more flexible. Power is distributed among several competing groups, with banks among their various assets.

Political risks aside, the financial health of Kazakhstan’s banks appears quite strong, and their business prospects are not necessarily tied to their owners’ current political standing.

Overall, the Kazakh market is highly attractive to foreign investors. The scope for profits is growing, and country risk is comparatively low.

Because Kazakh banks face a shortage of long-term funds, and access to existing resources is influenced by political factors, capital drawn from the international markets will play a decisive role in their growth.

At the same time, heavy competition in the domestic market is forcing Kazakh banks to actively seek out opportunities in other CIS countries. Given this trend, investments in the Kazakh banking sector are to some extent “transitory”. For international investors, this has two negative implications:

Kazakhstan country risk is compounded by other, less well-defined risks, when investors prefer to choose their own level of risk; and

Kazakh banks have only limited experience in managing risk outside their country’s borders, and in the past their response to crises has been weak