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Finance and income inequality in Kazakhstan: evidence since transition with policy suggestions

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ABSTRACT

Kazakhstan gained independence in 1990 and has undergone significant changes in economic, social and trade conditions since then. We analyse the effects of financial development on income inequality in Kazakhstan, incorporating economic growth, foreign investment, education and the role of democracy as the drivers. We establish that income inequality in Kazakhstan is impaired by financial development. In summary, we send three messages for policy purposes. First, strengthening financial sector is necessary to close the gap between 'haves and have-nots'. Second, attracting FDI beyond the hydrocarbon sector is necessary to alleviate inequality. Finally, adaptation of education system to the new social and economic environment would help in improving income distribution.

KEYWORDS:

Kazakhstan finance inequality Central Asia

JEL CLASSIFICATION:

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Notes

[1] The well-known Kuznets (1955) hypothesis describes an inverted-U relationship between per capita income and inequality. In the early phase of economic development, income inequality increases, then stabilizes, and eventually declines after a threshold point of economic development.

[2] Educational focus from 1990 onwards has fostered a 'de-Sovietized-re-Kazakhified' national identity within the education system. This will have a significant effect on development, income inequality and the overall social welfare of Kazak citizens.

[3] We chose domestic credit to the private sector as our measure of financial development following Levine (2005). This measure is one of the most widely used in the existing economics literature as an indicator of financial development. Various researchers have also used other measures of financial development such as M2 as share of GDP, liquid liabilities as share of GDP (Masih, Al-Alg, and Madani 2009; Liang and Jian-Zhou 2010; Gantman and Dabós 2012). These measures are unable to measure financial development. The reason is that M2 as share of GDP contains large

portion of currency and reflects monetization (Jalil and Feridun 2011). Liquid liabilities indicate the volume or size of financial sector rather than financial development (Creane et al. 2007). Contrarily, domestic credit to the private sector refers to financial resources disburses to the private sector via loans, purchases of non-equity securities, trade credit and other accounts receivable that establish a claim for repayment (Boutabba 2014). It also shows the actual level of domestic savings disburses to investors for productive investment ventures, which reflects financial development (Martin et al. 2013).

[4] Countries are assigned scores from 1 to 7, where small values represent greater liberties. For further details, see https://freedomhouse.org/report-types/freedom-world.

[5] We present here the graphs for three key variables only to conserve the space.

[6] The unit roots results are not reported to conserve the space.

[7] We use estimated values of the critical bounds from Narayan (2005). Further detail of the test is avoided here for the sake of conciseness.

[8] The short-run results are not reported due to insignificant influence of FDI on IE.

[9] The findings are available upon request.