

## ESTONIA AND KAZAKHSTAN. FINANCIAL AND ECONOMIC FATE OF ECONOMIES AFTER THE COLLAPSE OF THE USSR

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### Abstract

The collapse of the USSR significantly affected the economic and political situation of all the republics which gained sovereignty as a result. Among them were countries such as Estonia and Kazakhstan. This article considers whether these countries have coped with the new political conditions. Using known economic indicators, a comparison was made of the economic and financial situation of both countries, pointing to the potential causes of diversification of their socio-economic development. Currently, Estonia is considered the most developed country of the 15 former members of the USSR, and Kazakhstan is in 5th place. The research carried out in this paper shows that the current economy of Kazakhstan is clearly moving away from that Estonia needs radical measures to achieve economic acceleration. The authors, analyzing the strategic activity of Estonia and Kazakhstan and the independence of financial management, concluded that these have had a significant impact on the current state of economic and financial development of the countries in question.

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## INTRODUCTION

Thirty years ago, a declaration on the self-dissolution of the USSR was signed, the effect of which was to restore independence to its member states. The emerging, new geopolitical order also meant that these countries had to launch the concept of their own economic system and that they attempted to cut themselves off from the idea of a centralized Soviet command economy.

The fall of the Soviet Union was accompanied by economic chaos: the lack of basic goods, and a decline in production and hyperinflation (Pomfret, 2014). This state of affairs had an impact on the financial structure of the newly created countries: GDP at a constant price and GDP per capita fell shortly after these countries left the Soviet Union (Staehr, 2015), the consumer price index was at a very low level, most countries, during the fall of the USSR, had no foreign direct investment (Waikar et al., 2011). Due to these factors, the employment rate, which was always 100% in the Soviet Union, began to decline after 1991, and thus the unemployment rate increased (Zakirova et al., 2019).

During the fall of the Soviet command economy, only a few countries knew how to plan the transformation of a controlled economy towards a free market economy. The shock related to the transition from communism to an open economy was revealed, among other aspects, by many ineffective industries, in which large tangible and intangible assets were concentrated. There were also significant differences in how the creators and beneficiaries of the "new economy" perceived the functioning of the market, which was reflected, for example, in numerous unsuccessful investments (Gillies et al., 2002). As a result, the transformation in the individual countries of the former USSR proceeded with varying degrees of luck.

In Estonia, the strategy of transition from a command economy to a market economy adopted by its political leaders in the 1990s was relatively successful (Gillies et al., 2002). Estonia is currently one of the leading transition countries. The state's economic strategy was based on the development of new technologies (Coulibaly, 2012). A different approach was adopted by Kazakhstan, which sought sources of development in the oil and gas industry (Coulibaly, 2012). However, the strategies employed by the two countries have not proved to be equally effective.

The purpose of this article is to analyze the development paths of Estonia and Kazakhstan after the col-

lapse of the Soviet Union. The indicators illustrating the economic and financial situation of both countries in the years 1989-2020 were subjected to detailed studies, which allowed for the assessment of the transformation strategies adopted by them.

## LITERATURE REVIEW

### EFFECTIVE TRANSFORMATION

The genesis of the USSR collapse and the economic transformation assessment of the former Eastern bloc countries is currently of interest to scientists and practitioners all over the world (Paladi et al., 2016). Researchers are gradually trying to explain how and what factors determine the effective transformation of the political, economic and financial system in the post-Soviet countries. According to Birch (2003) electoral systems are crucial in political transformation. It is important to understand that the economic and financial structure of a country depends on the politicians who shape the directions of the country's development (Birch, 2003). A good example of research on the importance of the electoral system in political transformation can be the Baltic states, which jointly carried out all the most important reforms and, more importantly, parliamentary elections in a comprehensive, timely and radical package (Birch, 2003). These countries are ripe for full democracy and radical economic and financial reforms.

Among the post-Soviet countries, Estonia stood out with a high degree of cohesion compared to other Baltic countries. It is worth noting that in this country the greatest economic and institutional progress took place during the transitional period (Birch, 2003). The impetus for this can be found in solid standards, introduced in the late 1990s, regulating property rights and market activities (Abrams et al., 2015). Early Estonian governments, notably Laar's, implemented a bold agenda of hard budget constraints that crippled the rising class of political capitalists. Even in several nations that were generally recognized as reform pioneers, the installation of hard budget constraints (HBCs) was half-hearted and took second place to other reform goals, making these policies relatively atypical in the post-communist area (Abrams et al., 2015).

An important discovery concerning the evaluation of the effectiveness of transformation systems was the theory of two paths of transformation of the post-communist economy by Papava (2005). In their opinion, both practicing reformers and economic theorists fall into two main groups: supporters of "shock" eco-

been identified as one of the two major post-communist transition trends.

Roland argues that in the period of political and economic transformation, governments should strive to implement legislation as quickly as possible, while at the same time making these reforms irreversible (Roland, 2002). This should lead to stable economic growth of the country.

Most researchers limited their analyzes of economic transformation to the study of economic and political factors, ignoring institutional, structural, identity, and cultural-ethnic changes (Ferraro, 2021). As some authors point out, comprehensive knowledge of the factors determining the directions of development is important for the evaluation of the process of socio-economic changes (Roland, 2002). In many countries, it helps to understand the success factors of successful reforms as well as the reasons for their failure.

#### **THE TRANSFORMATION OF ESTONIA AND KAZAKHSTAN**

According to the research of Pomfret and Ander-son (2021) made one decade after the collapse of the USSR, the Central Asian republics were nearly completely unprepared for the Soviet Union's abrupt disintegration in 1991. At the end of that year, they faced three big economic shocks as newly independent states: the move away from central planning, the disintegration of the Soviet Union, and hyperinflation. Hyperinflation was fueled by attempts to maintain current economic, commercial, and political ties by keeping a single currency.

Gillies et. al. (2002) noted that the successful transition from a command to a market-driven economy depended on many factors. These included, inter alia, the institutions of laws that establish private property ownership, the sanctity of contracts, and the institutional framework that allows for the orderly transfer of property at the macro level. It also required the establishment of a macroeconomic framework of taxes and government spending to ensure social stability and justice, as well as the implementation of a monetary strategy that ensured currency stability. Authors conclude that if policies like those established and implemented in Estonia are followed, economies may be transitioned from a "command state" to "market driven" in a decade without a collapse of the social and financial system and with a general rise in well-being for all residents (Gillies et al., 2002). The Estonians chose to review business strategies and plans, invest-

ment predictions, and job possibilities in terms of their ability to increase long-term GDP growth. Furthermore, they eliminated the possibility for corruption, which so often thwarts privatization plans, by using an open and transparent tendering process (Gillies et al., 2002; Domanska et al., 2018).

Estonia's transition to a market economy began in 1987, when Gorbachev's market-oriented reforms opened the door to unprecedented levels of autonomy with capitalist countries (Stöcker, 2016). In the course of adopting a more radical pro-market agenda, creating networks with Western firms and economists, particularly from the neutral Nordic neighbors Finland and Sweden, played a vital role (Stöcker, 2016). Swedish and Finnish businesses, investors, and consultants created many linkages to the expanding Estonian commercial climate, unrestricted by diplomatic restraints. Estonian state officials, academics, and entrepreneurs showed a remarkable capacity to form alliances with Western partners and advisers, relying on the structural advantages of pre-existing networks as well as the critical attention of possible investors in Finland and Sweden (Stöcker, 2016). Stöcker claims that the relevance of geographic closeness as the "most essential source of western connectivity" is therefore reaffirmed in the Estonian situation.

Kattel and Mergel (2019) indicate that the driving force behind the Estonian economic transformation should be sought in the development of the technology industry. In 2001, the country introduced two main pillars that essentially focused on creating a digital state and digital citizens: the X-Road data infrastructure and the mandatory national digital ID, which made Estonia successful in the international market. It opened the way to foreign direct investment and, from the point of view of enterprises, it was beneficial, with the launch of new companies in the country, both local and foreign. X-Road is used by more than 2,300 government and private services, and the digital signature has been used almost 350 million times by 1.3 million Estonian residents. The digital technology development path has had an impact on the general household sector and the public sector (Mussagulova, 2021).

The fate of Kazakhstan, a country with a bright future as a middle-income country with a large amount of human capital and natural resources, was somewhat different. Pomfret noted that when the country gained independence, in the medium term it faced major challenges related to nation-building and ethnic diversity (Pomfret, 2005). Political mistakes in the 1990s, such as

(the flawed privatization of large companies and the corrupt process of allocating oil and mineral rights, made it difficult to establish a well-functioning market economy and threatened to establish a form of crony capitalism in the country that was anti-righteous (Pomfret, 2005). Kazakhstan's economy performed poorly during this period; wages fell, and inequality and poverty rose. Failure to establish the institutions necessary for an efficiently functioning market economy resulted in the collapse of all sectors of the economy, despite prospective oil deposits and other natural resources (Pomfret, 2005). The overall economic situation improved after 1999, when a large devaluation increased production and, more importantly, oil prices rose as new oil fields began to emerge and oil transportation problems began to fade away.

The oil boom of the 21st century was an excellent opportunity to rectify the mistakes and missed opportunities of the 1990s (Pomfret, 2005). It not only provided the government with substantial revenues through crude oil exports, but also spurred growth in many other related areas of the economy, including construction, transport, etc., which resulted in the creation of many new jobs (Matcharashvili, 2021). Indeed, the IMF (2003) estimated that crude oil and gas production and related economic activities accounted for about half of Kazakhstan's GDP growth and two-thirds of its exports between 1999 and 2002. Thanks to "crude oil money", from 2003, the government was able to reform the social security system, significantly extending social support to citizens. At that time, it helped to reduce poverty (Agrawal, 2007). In his research, Agrawal (2007) mentions that minerals, oil and gas helped the country attract huge amounts of investment to the financial sector and generally increased GDP, but due to the corrupt government, these investments were misused.

The literature review shows that authors have focused on a comprehensive analysis of the transformation effects of the post-Soviet countries (Szymańska, 2021). On the other hand, there are no publications comparing individual countries that have adopted a different strategy of departing from a centrally planned economy. Therefore, the analysis of the economic data of Estonia and Kazakhstan proposed in this paper allows for a more detailed assessment of the effects of the most important determinants of growth – foreign direct investment, GDP, public debt and budget deficit.

## DATA AND METHODS

The effects study of the economic transformation of the former USSR countries, Estonia and Kazakhstan, will be carried out on the basis of selected measures of financial and economic potential. In order to compare the two countries, indicators were selected that allow for a comprehensive analysis of the effects of the transformation: the public sector, the private sector and households.

Both qualitative and quantitative methods of analysis were used in the research. Qualitative analysis, based on the method of content analysis and case study, was used to examine documents, analyze strategic plans, and evaluate the assumptions for the economic development in each country. The quantitative analysis concerned the selection and comparison of statistical data describing the condition of each country separately, as well as the dynamics of changes in the macroeconomic parameters describing them. The data used in this study derives from the World Bank – World Development Indicators and [countryeconomy.com](http://countryeconomy.com) database. The period covered by the analysis in this study is the years 1989-2020. The use of both research methods has a chance to provide an interesting dose of new information on the inputs (activities undertaken in order to achieve economic independence) and the effects in the form of the currently achieved level of socio-economic development. Therefore, this analysis will allow for the formulation of conclusions and evaluation of the effectiveness of the developed and implemented development policies.

The first part of the compared measures of financial development is FDI and investment expenditure, in the analyzed period in Estonia and Kazakhstan. Foreign direct investment (FDI) plays a significant and growing role in global business, particularly when considering its relevance in the process of becoming a sovereign nation. It can open up new markets and marketing channels for companies, as well as lower production costs and access to new technology, goods, talent and financing. It can also provide a source of new technology, money, processes, products, organizational technologies and management skills to the host country or foreign business receiving an investment, and therefore can provide a powerful impetus to economic development. In its most basic form, FDI is described as a corporation from one country making a physical investment to build a plant in another country (Graham & Spaulding, 2005). Buildings, machinery and equipment are examples of direct investment. Investment

outlays are outlays on the so-called primary investments, as well as financial or material outlays for the creation of new fixed assets or improvement (reconstruction, enlargement, reconstruction, modernization) of existing fixed assets.<sup>3</sup>

In the further part of the research comparison, we will focus on the private sector from the perspective of households in Estonia and Kazakhstan. According to the World Bank, per capita gross domestic product (GDP) per capita quantifies a country's economic output and is calculated by dividing a country's GDP by its population. GDP per capita is the global measure of a country's prosperity that economists use in conjunction with GDP to assess a country's wealth based on its economic growth. In turn, the Gini index, sometimes called the Gini coefficient, is a statistical measure of the income distribution of a population. It was created in 1912 by the Italian statistician C. Gini as a measure of economic inequality, assessing the distribution of income or, less typically, the distribution of wealth among a population (Ceriani & Verme, 2012). The coefficient is a number from 0 (or 0%) to 1 (or 100%), with 0 being perfect equality and 1 being complete inequality (U.S. Census Bureau, 2021). According to the United Nations, poverty is defined as a state of extreme deprivation of fundamental human requirements such as food, clean drinking water, sanitation, health, housing, education and information. This is determined not only by wealth, but also by the availability of services.

Finally, the public sector, namely the public debt and budget deficit of Estonia and Kazakhstan, should be compared and analyzed. Budget deficit and government debt are closely related because a budget deficit occurs when government spending on goods, services, or transfer payments exceeds tax revenues. Governments borrow money to cover budget shortfalls and increase their public debt every time. Low public debt is common in a country with a budget surplus. On the other hand, countries with fiscal deficits need additional sources of spending financing and borrowing both nationally and internationally would seem a simple solution, but the result would be an increase in public debt (Li, 2017). As a result of such actions, inflation and a decline in economic activity may occur.

<sup>3</sup><https://stat.gov.pl/en/metainformation/glossary/terms-used-in-official-statistics/223,term.html#> (Accessed 09.05.2022).

The years selected for the analysis of the economic and financial condition of Estonia and Kazakhstan after the collapse of the Soviet Union may differ due to the lack of continuity of data.

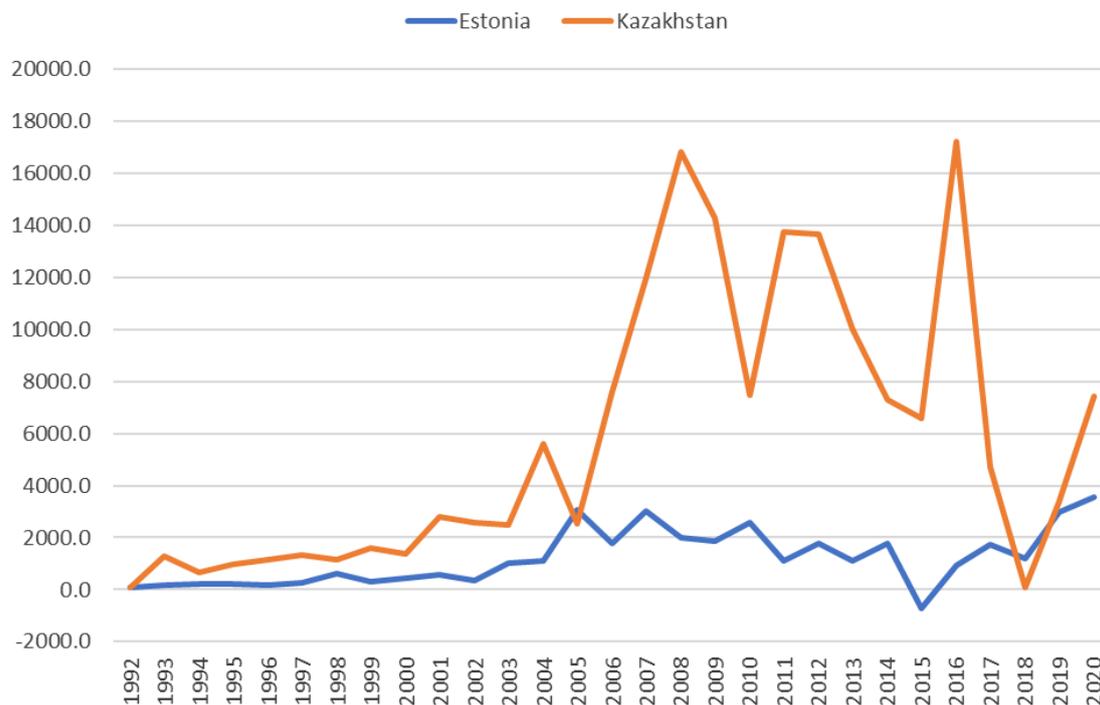
## RESEARCH RESULTS AND DISCUSSION

In 1991, after the collapse of the Soviet Union, most post-Soviet countries began liberalizing their economies. One of the manifestations of such activities was a wider openness to foreign direct investment (FDI). It was considered to be a significant external source of capital expenditure on the development of modern technologies and human capital, determining the economic growth of the state (Waikar, 2011).

Data from 1992-2020 on foreign direct investment, presented in Figure 1, show a significant amount of FDI, given as net inflows to Kazakhstan's economy, which is much higher than FDI received by Estonia. It is worth noting that since 1991 Kazakhstan has been in the forefront of the countries that are the largest recipients of FDI among the countries of the former USSR. The main area of foreign investments was the oil and metallurgical industries, which were also key export areas. Nevertheless, as some analysts indicate, although FDI had a generally positive impact on Kazakhstan's economic development and per capita income, it cannot be considered satisfactory (Waikar, 2011). Significant amounts of FDI were not reflected in the share of these investments in Kazakhstan's GDP. According to data from the World Bank, although Kazakhstan can boast a share of FDI in GDP in the years 1996-2020 at the level of even 12.5%, the average value is slightly above 7% (Worldbank, 2022).

We see a different situation in the case of Estonia. Integration with the West and the departure from Russia were the main factors driving the country's political, economic and financial trajectory. The cooperation with Sweden and Finland, which contributed a significant amount of FDI to the Estonian economy, played a special role here. Real estate, renting, commercial activities and financial intermediation are the most attractive activity categories for FDI in Estonia (Lumiste et al., 2008). Figure 1 shows that these investment areas provided the stability of FDI inflow to Estonia. According to the World Bank, their share in 1996-2020 was on average almost 8% of GDP (Worldbank, 2022).

**Figure 1: Foreign direct investments between 1992 and 2020, net inflows (Balance of Payment, in millions USD)**



Source: Compiled by the authors based on the sources: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=EE-KZ> (Accessed 20.04.2022).

The main challenge for the analysis, which allows us to assess the effectiveness of the adopted state development strategy, is not only taking into account the size of the FDI inflow, but also investment outlays, i.e. government expenditure. According to the Kazakhstan government report for each year, the main spending sectors were social assistance and social security, education and health care. In the case of Estonia, these were: education, healthcare and defense.

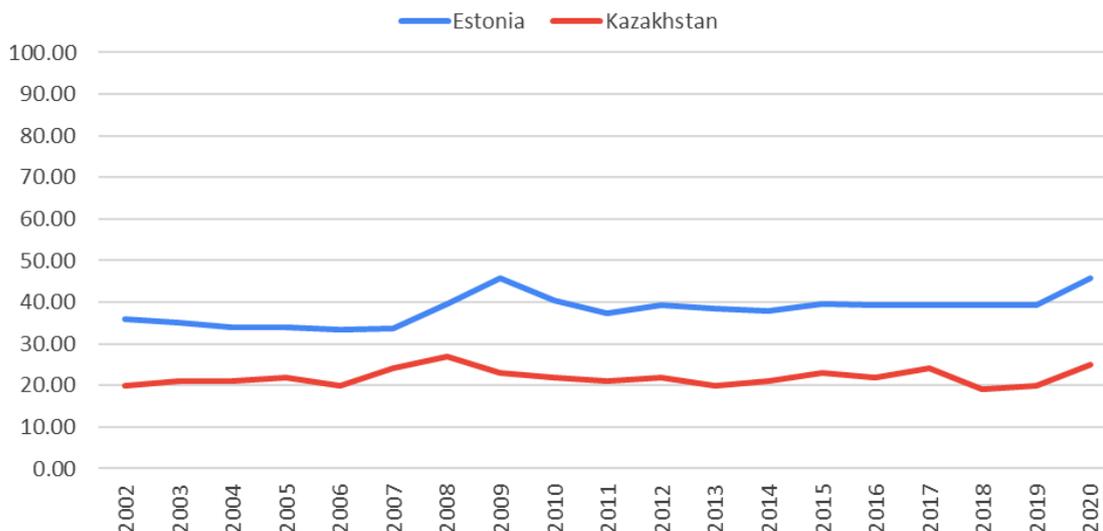
The values presented in Figure 2 are given as a percentage, so they clearly show us the dynamics of the expenditure-to-GDP ratio (100%). In Estonia, expenditure on education, health care, defense and other categories was around 40-46% of GDP, while in Kazakhstan only around 20-25% of GDP. The conducted research has opened many questions about the real government budgets of countries and their real spending. In the

case of Kazakhstan, the main disclosure was the fact that since 2010 the Ministry of Economy and Finance of Kazakhstan declared a threefold increase in the state budget, but when converting this amount into US dollars, it turned out that the country actually had no budget increase and it was maintained unchanged. With a growing population and decaying infrastructure, state structures were not even able to maintain the standard of living in Kazakhstan's cities that they provided ten years earlier.<sup>4</sup>

Estonia had a higher percentage of government spending in its budget, which is explained by the fact that the country spent a large part of its budget, in addition to the education and health sectors, such as Kazakhstan, also on cost-intensive defense.

<sup>4</sup>[https://longreads.cabar.asia/kazakhstan\\_budget](https://longreads.cabar.asia/kazakhstan_budget) (Accessed 10.06.2022).

**Figure 2: General Government Expenditure between 1995 and 2020 (% GDP)**

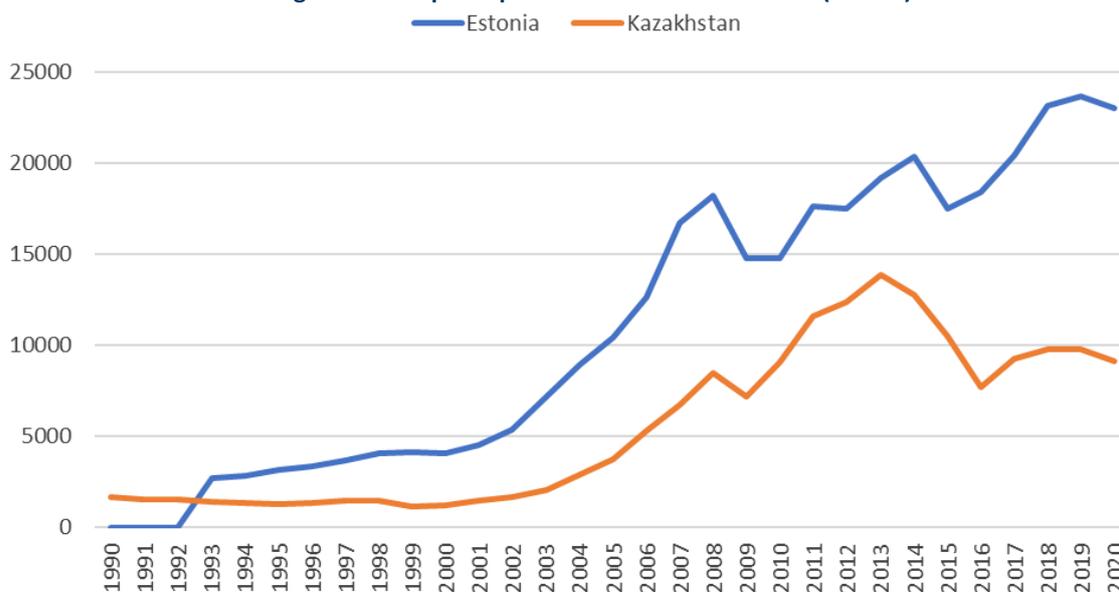


Source: Compiled by the authors based on the sources: <https://countryeconomy.com/government/expenditure/kazakhstan> (Accessed 22.04.2022).

The effectiveness of the development policy adopted by Estonia, based on innovation, is reflected in the values of GDP per capita, one of the most frequently used indicators in the world measuring the welfare of the society. The analysis of data from 1993-2020 (Figure 3) shows a systematic and strong increase in the index for this country. Such a state of affairs can be seen in the direction of the development strategy towards the development of new technologies that are

characterized by an increase in production and income with almost the same size of the population (Kattle & Mergel, 2019). In the case of Kazakhstan, we see a similar trend of changes in the size of GDP per capita in the analyzed period. However, its size is significantly lower than that of Estonia. The adopted strategy for the development of an economy based on natural resources is not reflected in the growth of citizens' welfare.

**Figure 3: GDP per capita between 1990 and 2020 (in USD)**



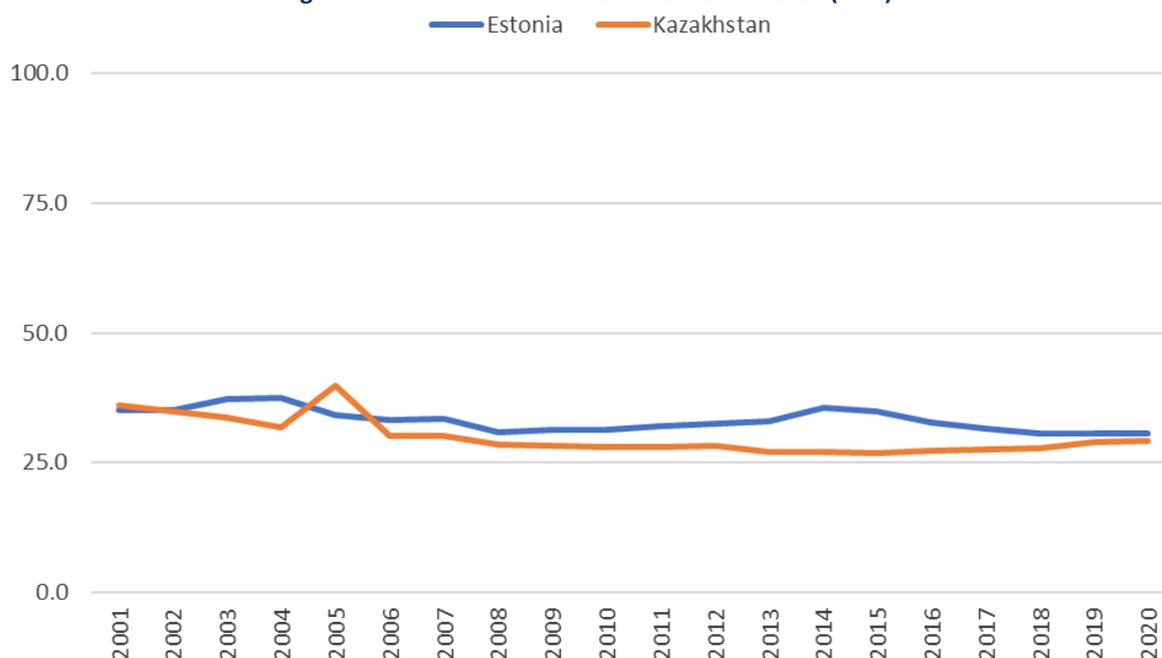
Source: Compiled by the authors based on the sources: Artige, L. (2000). *Transition report 2000: Employment, skills and transition. Transition report.* London: European Bank for Reconstruction and Development, p. 65.

Economists often use the Gini coefficient when they analyze the degree of inequality in any one country, or compare different countries on this parameter. Due to the unavailability of data for Kazakhstan and Estonia in some years, the research result is based on available data on official websites of those countries. According to the Gini coefficient, the degree of inequality is decreasing in almost all post Soviet Union countries (Grimalda, et al., 2010), in particular during the research it was identified that Kazakhstan has been having a lower index compared to Estonia, which can be seen in Figure 4. According to UNICEF Estonia has an adequate equality 0.3-0.4 index and Kazakhstan is a relative equality country with an index of 0.2-0.3.<sup>5</sup> However, there is a widespread perception in Kazakhstan of a growing gap between the wealthy and the

disadvantaged, and consequently of growing social discontent. The Gini coefficient is in most cases based on the level of income, not the level of total assets or wealth. Therefore, the research result states that in a country with a low income-based Gini coefficient, there may still be extreme inequality in terms of overall wealth. This is especially the case in the post-Soviet countries in Central Asia and the Caucasus, where most wealthy social groups often operate outside of the official tax regime, and significant wealth is underreported or even not reported at all. In addition, many wealthy households refuse to participate in population surveys that serve as the basis for calculating the Gini coefficient, or significantly underestimate their assets in these surveys. This leads to a significant deviation of the Gini scores towards a lower level of inequality (Falkingham, 2005).

<sup>5</sup><https://data.unicef.org/country/est/> (Accessed 11.06.2022).

**Figure 4: Gini coefficient between 2001 and 2020 (in %)**



Source: Compiled by the authors based on the sources:

<https://countryeconomy.com/demography/gini-index/estonia> (Accessed 26.04.2022)

<https://countryeconomy.com/demography/gini-index/kazakhstan> (Accessed 26.04.2022).

Kazakhstan has made significant progress in reducing poverty over the last two decades, albeit this development is still fragile. Between 2006 and 2015, both national poverty estimates and worldwide poverty rates – defined as the percentage of a country's popu-

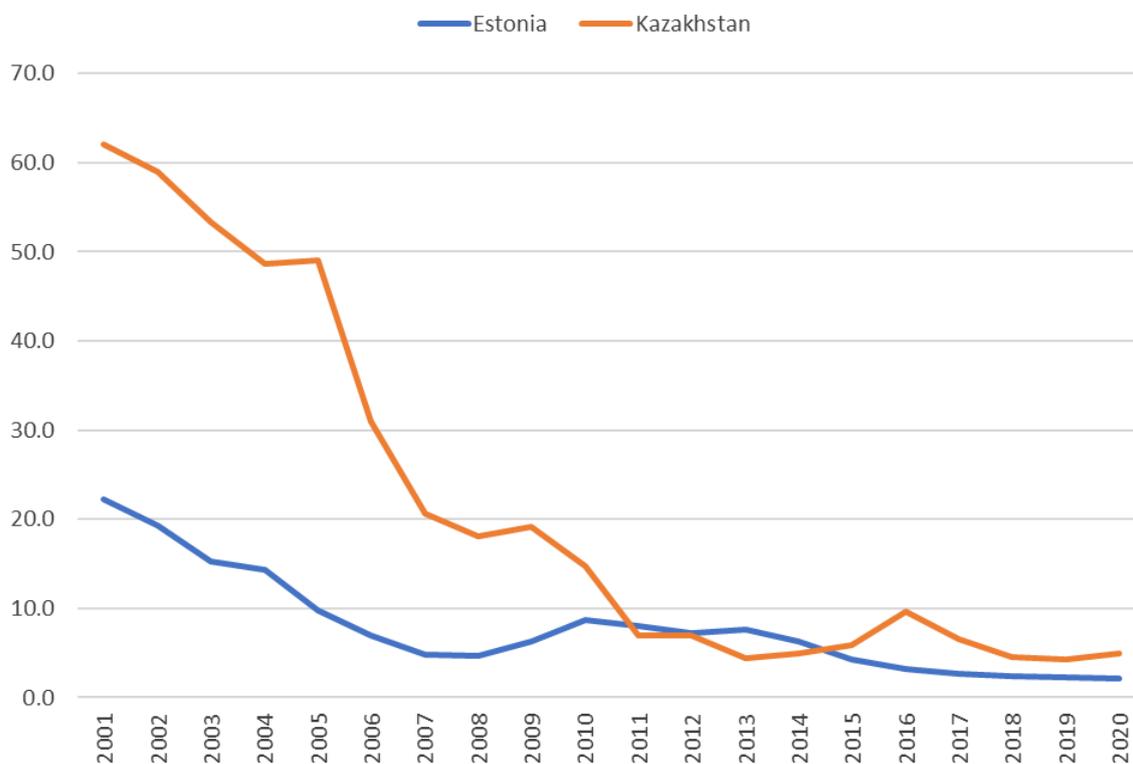
lation living on less than \$5.5 a day at the revised 2011 Purchasing Power Parity (PPP) - fell sharply, owing mostly to rising wage employment incomes (Agrawal, 2007). The poorest 40% of the population saw higher

consumption growth than the national average due to low unemployment rates and growing real incomes. However, due to the economic crisis in 2015, there was a modest reversal in poverty and inequality reduction gains in 2016. This reversal underscores the dangers of an economy that is heavily reliant on oil, as well as how it impacts the most disadvantaged households. The decrease of poverty resumed in 2017 as a result of increased economic growth.<sup>6</sup> In 2020, the country will be hit by two major shocks: the COVID-19 epidemic and a sharp drop in oil prices. The poor and vulnerable are likely to be disproportionately affected by the combined consequences of these shocks (see Figure 5).

<sup>6</sup>[https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2020/Global\\_POVEQ\\_KAZ.pdf](https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2020/Global_POVEQ_KAZ.pdf) (Accessed 26.04.2022).

Looking at the case of Estonia, we can see that during the period under review, the country managed to reduce the percentage of PPPs and now has a very low ratio compared to Kazakhstan. Despite this, in the Gini coefficient figure Estonia overall has a higher coefficient, the reason behind this as mentioned above is the fact that in Kazakhstan the calculation of the Gini coefficient was not made under strong supervision and the collected data is not enough to generally analyze the situation of those countries in terms of the private sector, from a household perspective. The previous economic crisis in 2008 significantly increased the poverty level, but since 2014, poverty has decreased substantially. The reduction of the poverty level was particularly rapid in 2014-2016, with significant increases in family benefits and the subsistence level (see Figure 5).

**Figure 5: Poverty level between 2001 and 2020 (in %)**



Source: Compiled by the authors based on the sources: World Bank, Macrotrends database.  
<https://www.macrotrends.net/countries/KAZ/kazakhstan/poverty-rate> (Accessed 24.04.2022)  
<https://www.macrotrends.net/countries/EST/estonia/poverty-rate> (Accessed 24.04.2022).

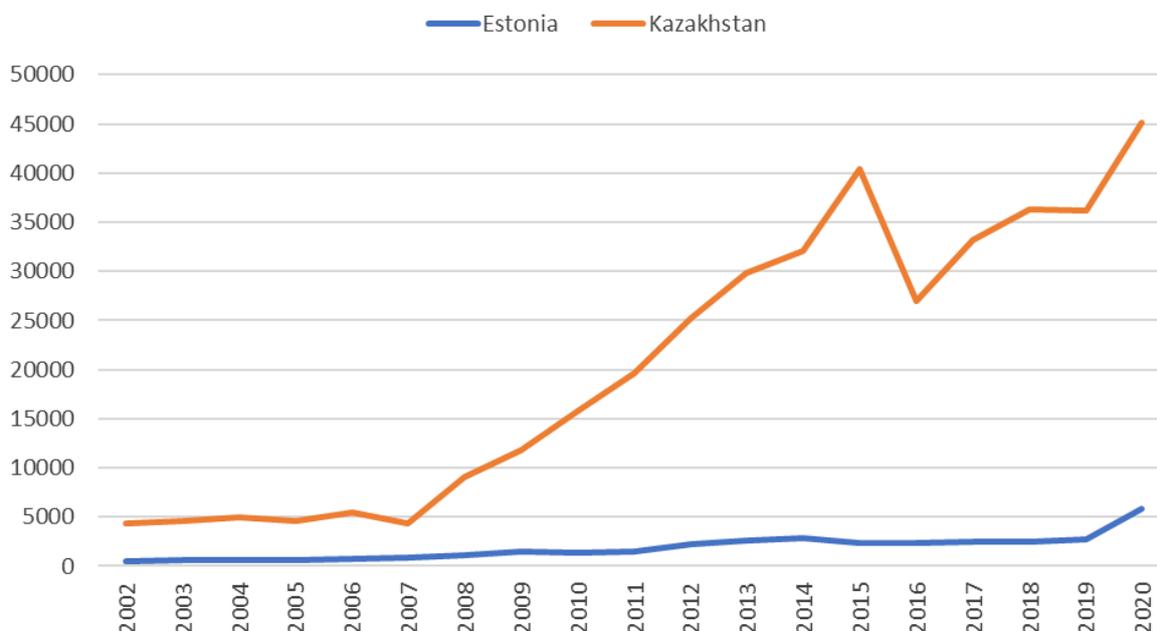
For last 20 years, Kazakhstan's public debt has increased 10 times since 2002 to 45.092 millions of US dollars, or 26% of GDP (see Figure 6). The structure of public debt is formed by the debt of the government, the obligations of companies, banks and other organizations for which the state acts as a guarantor. But the final payer of the public debt remains the citizens who repay it with the help of tax payments. Under these conditions, it becomes important to ensure the transparency of the structure of the debt portfolio and to maximize the effectiveness of the loans received. The World Bank notes that Kazakhstan's current level of debt is sustainable in the face of high oil prices and a reduction in the non-oil deficit. If the first condition is beyond government's control, then the second was not achieved, in part because of the 2020 pandemic. The World Bank notes that the country needs to revise its public debt policy towards greater sustainability of public finances. This requires more transparent and thorough management of public debt, especially its external part. The growth of debt entails an increase in budget spending on debt servicing and the need for a more thorough assessment of the potential of budget revenues. Steadily growing public debt, lack of sufficient information about the structure of debt and its impact on the economy require the development of a holistic policy. The research proposes that such policy

that can be implemented through the development of a single document – a public debt management strategy that will bring together the norms and regulations from different documents and reflect an unambiguous and understandable approach to keeping debt at a safe level and reducing the debt burden, mainly external (Kapparov, 2016).

In the case of Estonia, the country had very low public debt compared to Kazakhstan. While working on the research it was determined that the country's overall public debt never increased from 10% of GDP, however compared to 2019, the debt has doubled, and this is the highest figure in the last 25 years (see Figure 6). At the same time, the level of debt obligations in Estonia is still significantly below the upper limit of the Maastricht criteria. According to Maastricht criteria the public debt should not be more than 60% of GDP.<sup>7</sup> In 2020, the situation in the government sector was significantly less favorable than a year earlier. The rapid growth in spending is driven primarily by measures related to the coronavirus, such as subsidies.

<sup>7</sup><https://www.bundesbank.de/en/statistics/public-finances/maastricht-deficit-and-debt-level/maastricht-deficit-and-debt-level-793140#:~:text=The%20Maastricht%20Treaty%20specifies%20reference%20values%20for%20the,of%20GDP%20for%20government%20debt%20%28the%20Maastricht%20criteria%29> (Accessed 11.02.2022).

**Figure 6: Public debt between 2002 and 2020 (in millions USD)**



Source: Compiled by the authors based on the sources:  
<https://countryeconomy.com/national-debt/kazakhstan> (Accessed 26.04.2022)  
<https://countryeconomy.com/national-debt/estonia> (Accessed 26.04.2022).

Analyzing the budget deficit of Kazakhstan and Estonia, we have got an interesting situation in both countries. The budget of Kazakhstan has not received as much as it spends for many years. Every year Kazakhstan borrows huge sums from the National Fund. Transfers from the National Fund to the budget in official reports are called income. But these revenues are not based on domestic production or any other real segment of the economy. They rely solely on the accumulations of the National Fund, which are rapidly declining. The illusion of growth in budget revenues is created due to the constant depreciation of the national currency against the dollar. Real dollar incomes (excluding transfers) balance at a very modest level and depend entirely on mineral prices. The growth of budget revenues in Kazakhstan is a myth. The country's budget is in deficit. Kazakhstan annually needs huge (up to 30% of the total budget) injections from the National Fund. Every year the country will be forced to take more and more from it, as the population grows, and real budget revenues do not increase. If oil prices had not jumped in the past decade (the National Fund was formed through the sale of oil), the economy of Kazakhstan would most likely have collapsed during the economic crisis of 2020.<sup>8</sup>

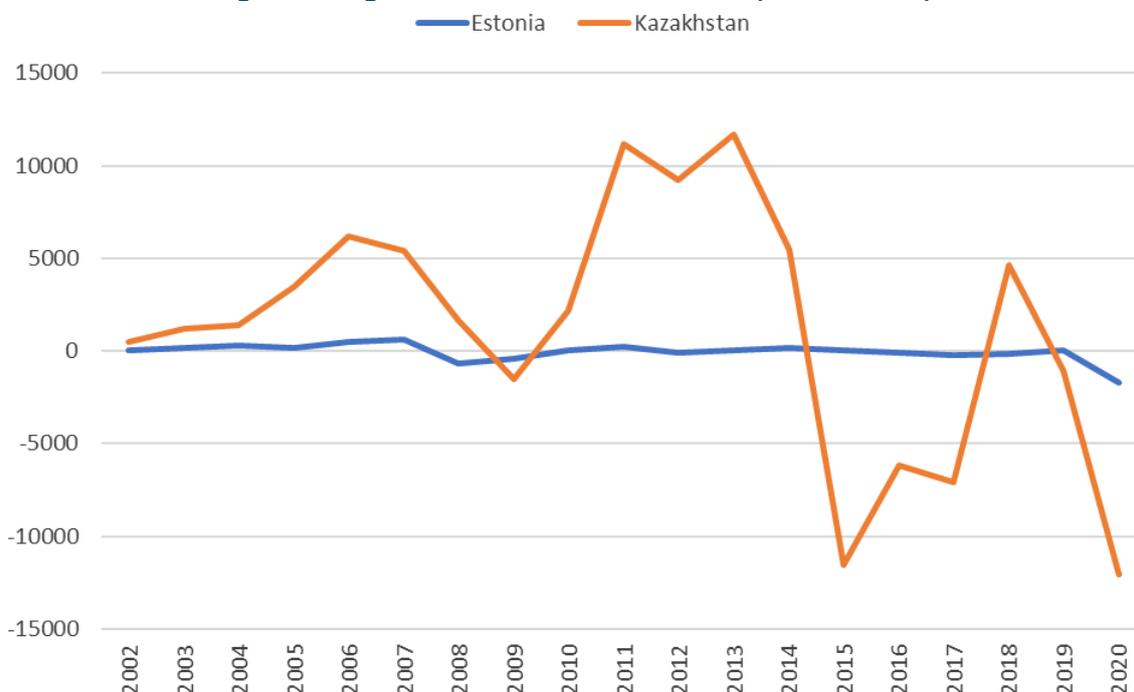
<sup>8</sup>[https://longreads.cabar.asia/kazakhstan\\_budget](https://longreads.cabar.asia/kazakhstan_budget)  
(Accessed 10.06.2022).

From Figure 7 it is clearly visible that in Kazakhstan budget deficit (surplus) fluctuates from year to year, whereas in Estonia it is stable. It has never increased from 3% of GDP, only in 2020, the value was 5.60% of GDP<sup>9</sup>, and 1.7 billion US dollars, which is the maximum percentage of the deficit in terms of its relation to GDP (see Figure 7). From the analysis it was determined that the government did not set quantitative limits on the budget deficit in 2020-2021, since the implementation of budgetary rules in the European Union was temporarily suspended. The sharp increase in the budget deficit of Estonia in 2020 to -5.60% of GDP<sup>10</sup> and to 1.7 billion US dollars is explained by Covid-19. Overall, since its independence the country has been showing good performance in terms of the government revenue, government spending and public debt as well as budget deficit, unlike Kazakhstan. Kazakhstan also has many gaps in the correctness of the data provided by the government, which could use closer scrutiny.

<sup>9</sup><https://countryeconomy.com/deficit/kazakhstan>  
(Accessed 26.04.2022).

<sup>10</sup><https://countryeconomy.com/deficit/estonia>  
(Accessed 26.04.2022).

**Figure 7: Budget deficit between 2002 and 2020 (in millions USD)**



Source: Compiled by the authors based on the sources:  
<https://countryeconomy.com/deficit/estonia> (Accessed 26.04.2022)  
<https://countryeconomy.com/deficit/kazakhstan> (Accessed 26.04.2022).

## CONCLUSION

To conclude the study, the authors outline that initially after the collapse of the USSR, thirty years ago, Kazakhstan and Estonia had experienced the breakup of the Soviet Union with economic turmoil, including a shortage of critical products, a drop-in production, and hyperinflation. By analyzing the development path of the two countries in the economic and financial sectors, the authors highlighted the key results from the research:

Firstly, from the enterprise side the authors conclude that these countries had a wider openness to foreign direct investment after entering the market economy. Kazakhstan has been at the center of the former Soviet Union's major receivers of foreign direct investment (FDI) since 1991. Nonetheless, despite the fact that FDI had a generally good influence on Kazakhstan's economic development and per capita income, the results of the analysis cannot be regarded satisfactory. Significant sums of FDI were not represented in Kazakhstan's GDP share of these investments. In the case of Estonia, we observe a different situation. Integration with the West, as well as strong collaboration with Sweden and Finland, which provided major FDI to the Estonian economy, played a key part in the country's political, economic, and financial development. According to the findings, Estonia has a consistent FDI inflow, and the efficacy of Estonia's development policy, which is centered on innovation, is reflected in GDP per capita numbers. Another key factor that allowed the authors to assess the effectiveness of the adopted state development strategy was the government expenditure. From the perspective of government expenditure, the conducted research has brought up many questions about the real government budgets of Kazakhstan and its real spending. The authors conclude that Kazakhstan's government constantly exaggerates and do not reveal the real situation with the country's economic and financial state.

Secondly, from the household perspective of the affluence of society, the Gini coefficient and the poverty level were analyzed. In Kazakhstan, the size of GDP per capita has changed in a similar pattern throughout the same time period as Estonia's. However, its size is significantly lower than that of Estonia. Based on the analysis, it is concluded that the selected approach for developing a natural resource-based economy has not resulted in an increase in citizen wellbeing. The fact that Kazakhstan has a lower Gini coefficient than Estonia is an interesting finding, which can be explained in part by the fact that many wealthy households refuse

to participate in population surveys, which are used to calculate the Gini coefficient, or significantly underestimate their assets in these surveys. As a result, the Gini values deviate significantly towards a lower degree of inequality. Another significant factor in this analysis is the level of poverty in society, and over the previous two decades, Kazakhstan has achieved great progress in eliminating poverty, however this progress is still fragile. It emphasizes the hazards of a heavily relied on oil economy, as well as how it affects the most vulnerable households. When we compare Estonia to Kazakhstan, we can observe that the nation managed to lower the proportion of PPPs over the time under consideration, and today has a very low ratio.

Finally, in describing the public sector, including the public debt and budget deficit, the authors conclude that Kazakhstan's public debt has expanded tenfold since 2002. According to the World Bank, the government needs to reform its public debt strategy to provide stronger fiscal sustainability. This, according to the authors, necessitates a more open and thorough management of public debt, particularly its external element. The research suggests a policy that can be implemented by creating a single document – a public debt management strategy – that will bring together the norms and regulations from various documents and reflect an unambiguous and understandable approach to keeping debt at a safe level and reducing debt burden, primarily external debt burden. Other nations, including Estonia, might implement this approach as well. In terms of the budget deficit, Kazakhstan's budget has not received as much money as it spends for several years. The authors come to the conclusion that Kazakhstan's budget income increase is a myth, and the country's budget is in deficit. Due to the ongoing depreciation of the national currency versus the dollar, the government creates the appearance of increased budget receipts. The only thing keeping the country's economy from collapsing is the rise in oil prices. By comparing the percentage of budget deficits in the two countries, the authors discovered that the budget deficit (surplus) in Kazakhstan fluctuates from year to year, whereas the budget deficit in Estonia has never risen above 3% of GDP, except in 2020, when the indicator increased due to Covid-19.

Overall, the deep analysis in measures of financial development showed that Estonia has been improving and developing since its independence in a way that is beneficial for the nation and the country itself was prepared for changes, whereas Kazakhstan has been trying to keep up with the world's financial developments.

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