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Impact of coronavirus crisis on the economy of the Republic of Kazakhstan

Abstract

Object: The crisis and the lockdown that led to a sharp reduction in businesses in various industries, sales markets, interruptions in supply chains, restrictions on the free movement of citizens. The demand for oil has decreased and world prices for it have collapsed. All these unfavorable macroeconomic factors indicate that the country is facing a crisis and a long period of recovery of various industries. In this regard, a study of the current state of the economy of the Republic of Kazakhstan during the quarantine period in connection with the COVID-19 pandemic was conducted.

Methods: General scientific methods, in particular, the method of content analysis, the method of analysis, the method of generalization, the method of graphical interpretation.

Results: The results of the study show that in the short term it may be more expedient for the country's economy to give priority to the domestic economy than to the external one. In addition, from the point of view of medium- and long-term plans, it is important that Kazakhstan draws lessons from international experiences to take action on the economic recovery plan.

Conclusions: The development of proposals and recommendations for medium and small businesses to overcome the economic crisis. A number of methodological, theoretical and practical issues related to the improvement of the operational and financial activities of enterprises during the quarantine period and the way out of the pandemic are considered.

Keywords: coronavirus, economy, budget, recovery, pandemic, economic growth, economic policy, COVID-19.

Introduction

Considering the consequences of coronavirus, it is necessary to note the key points: the epidemic itself is not as dangerous as the consequences of fighting it, primarily for economic development. Following the impact on the economy are two other, less obvious, but more profound aspects – the consequences for China's emergency response system and, more broadly, the country's governance, as well as the impact on China's international positioning.

The COVID-19 outbreak caused a significant deterioration in economic conditions for some companies and increased economic uncertainty for others. The company's management needs to assess whether these events or conditions (individually or collectively) raise doubts about whether the company can continue as a going concern, or – in complex cases – an assessment of whether the assumption of going concern is acceptable in the preparation of the company's financial statements.

Although some industries and jurisdictions may suffer more than others, all companies need to consider the possible consequences when assessing business continuity.

The impact on companies from high-risk sectors that are under pressure in the form of lower demand, lower sales and lower margins will be more significant. This is especially true for travel and tourism, hospitality/entertainment/sports, retail and the oil industry. Over time, the impact on the automotive industry may increase if consumers postpone major purchases until the level of uncertainty decreases.

Current events and conditions can significantly affect the company's ability to continue as a going concern.

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Literature Review

Many studies of recent decades have shown that the health of the settlement is directly related to the well-being of the population. There are many channels for the impact of an outbreak of infectious diseases on the economy. Various scenarios of the impact of the pandemic on macroeconomic outcomes and financial markets have been considered in the literature (for example, using the DSGE/CGE global hybrid general equilibrium model) (McKibbin, & Roshen, 2020). These scenarios, which are uncertain in the context of a pandemic, demonstrate that even a contained outbreak in the short term can have a significant impact on the global economy. V. Makkibin and F. Roshen consider traditional instruments (for example, lowering interest rates) ineffective; the economic risks of the current pandemic require not only demand management, but also comprehensive measures in the field of monetary, fiscal and health policy (McKibbin, & Roshen, 2020). The widespread use of hygiene practices described in the work of D. Levin and V. McKibbin can be an inexpensive and highly effective response that reduces the negative consequences of the pandemic for the economy (Levine, McKibbin 2020). J. Bowie considers one of the mistakes that accelerated the spread of the COVID-19 pandemic to be the incorrect identification of the sources of the appearance of viral infection (they were initially associated with bats, snakes, seafood), “giving a false sense of security, obscuring the real epidemic” (Bouey, 2020). The impact of COVID-19 on the global financial system is already being investigated. T. Beck argues that the adverse effects of solvency in the financial system are likely not to manifest immediately, so there will be time to prepare balanced decisions (Beck, 2020). However, panic and side effects in the markets occur quickly, so regulators need to focus on possible failures in the financial system and strengthen confidence in financial markets, clearly signaling the readiness of their intervention. There is no conceptual justification and evaluation of the interrelationships between pandemics and the development of the world economy in the literature. Since the tasks of supply and demand management are of key importance, it is necessary to develop a theoretical basis for identifying complex relationships between the spread of the pandemic and the dynamics of economic growth. As the trajectory of the pandemic takes a final form, the economic dynamics look more and more uncertain; with the arrival of new statistics.

Methods

To achieve the research goal, general scientific methods were used:

- a method of content analysis that allowed organizing and structuring the main scientific research related to the impact of the pandemic on the economy of Kazakhstan;
- a method of analysis that made it possible to assess the state of the main indicators of the country’s economy;
- the generalization method is aimed at establishing the existing relationships between the economic objects and phenomena under consideration;
- the method of graphical interpretation, which made it possible to visualize the obtained results: comparison of indicators by industry over a period of time, and their ratio; ways to improve the economy, etc.

Results and Discussions

The negative consequences of COVID-19 may have the greatest impact on the economy of Kazakhstan for the first time since the collapse of the USSR. The consulting company identified the main points that were affected by the spread of the coronavirus.

According to the IMF’s forecast, Kazakhstan’s GDP will decrease in real terms by 2.5% in 2020, against growth of 4.5% in 2019. The spread of COVID-19 and OPEC+ actions significantly affected oil prices and the tenge exchange rate (Figure 1). On April 2, 2020, the Ministry of Finance reported an increase in the state budget deficit from 1.2 trillion tenge to 2.4 trillion tenge, as well as an increase in the transfer amount from the National Fund in favor of budget revenues from 2.7 trillion tenge to 4.77 trillion tenge.

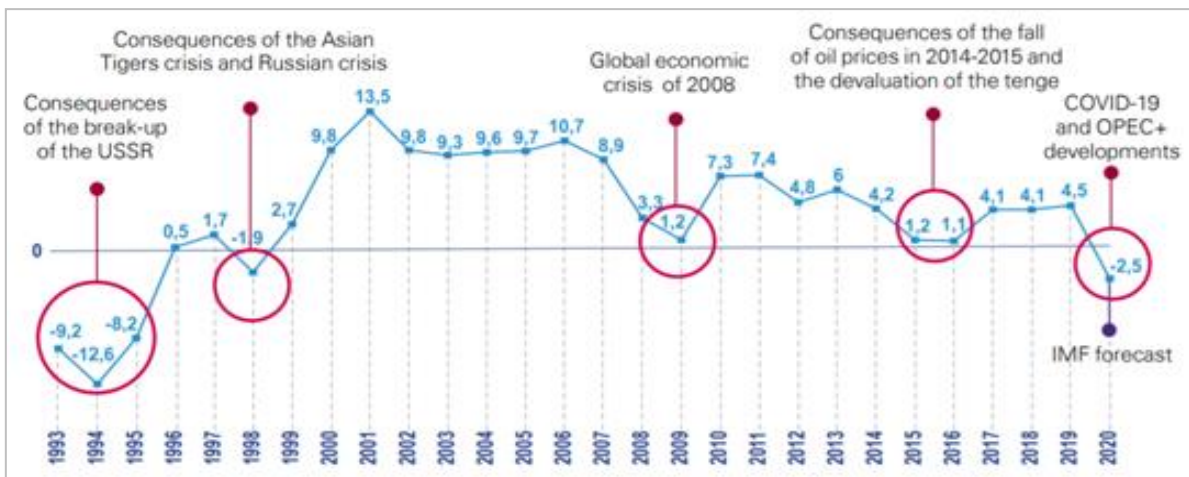


Figure 1. Real GDP dynamics of Kazakhstan

Note – Compiled by the author on the basis of research by KMPG

The company also made the main conclusions in the current situation based on a survey of 50 leaders of the business community in Kazakhstan:

- the current situation with coronavirus is likely to cause one of the deepest crises in Kazakhstan since the collapse of the USSR because COVID-19 caused a global economic crisis, the scale of which is still difficult to fully assess;

- participants in such segments and sectors of the economy of Kazakhstan as SMEs, non-food retail trade, aviation, oil and gas, mining, transport, electricity and services are the most vulnerable in the current market environment;

- measures to reduce administrative expenses were taken by 74% of the Respondent companies. About half of the respondents are actively working on optimizing purchases (restructuring accounts payable, optimizing the logistics chain, reviewing the order book and moving part of the volume of purchases to a later date);

- companies in all sectors of the economy (except for the Telecom sector) have put the implementation of capital-intensive investment projects on pause or are in the process of reviewing more budgetary decisions for the implementation of these projects;

- most market players are developing and implementing an anti-crisis action plan and plan to review their development strategy. Almost all companies are aiming for accelerated digitalization of their sales channels and channels of interaction with customers in the near future.

- representatives of large Kazakh businesses consider the announced measures of state support insufficient and expect support in terms of tax relief (including VAT refund to export-oriented enterprises and companies in the aviation sector), reimbursement of expenses, as well as providing preferential lending;

- about 86% of respondents believe that a gradual return to pre-crisis positions will be realized no earlier than in 3-4 quarters (or later), which indicates that the consequences of the crisis may be felt in 2021;

- the crisis will cause a significant change in people's behavioral responses and the need for the state to rethink approaches to ensuring health security. In addition, the crisis will also significantly change the business landscape and adjust the strategic goal setting on the part of both the state and business;

- the devaluation of the tenge caused by falling oil prices and lower demand for base metals has a negative impact on the effective demand of the population, strengthening the competitive position of enterprises in export-oriented industries in Kazakhstan.

58% of the companies surveyed are reviewing their strategic development plan for the coming years due to the situation caused by the coronavirus. Retail trade and food producers are aimed at narrowing the product line and focusing on products of a lower price segment due to the expected decline in the purchasing power of the population. Retail is actively developing online stores for ordering products. Airports are reviewing their strategies for managing commercial space (favoring large players over small and medium-sized businesses), and are also considering increasing their focus on cargo transportation. Banks plan to issue loans with increased attention to the stability of the borrower's sector. Financial organizations have shifted their

focus to accelerated creation and development of digital products. Real estate companies that manage shopping and entertainment centers are reviewing their marketing strategies to focus on social distance and security.

In addition, the company provided survey results showing that the reduction of the wage fund and restructuring of purchases are the most common short-term stabilization tools.

Optimization of the purchasing structure was observed in 48% of respondents. Company focused on the procurement of key goods and materials, and temporarily postponed the acquisition of secondary products. About 67% of non-food retail companies restructure their accounts payable by agreeing to defer payments, transfer some of their current supply volumes to the future, and reschedule deliveries. The optimization of the logistics chain was noted by representatives of the large food retail trade – the transition to the search for several local alternative suppliers and the formation of micro-supply chains. 70% of all companies surveyed have reduced administrative expenses, including travel, consulting, marketing, training, and labor costs (about 53% of the respondent companies).

Optimization of labor costs during COVID-19 is typical for companies in the aviation, financial and retail sectors, the study says.

Measures to optimize labor costs mainly included transferring employees to paid and unpaid leave and optimizing the amount of remuneration in accordance with the reduction of working hours. None of the respondents did not carry out the reduction of staff. These optimization measures mainly affected companies in the aviation, financial, mining, and retail sectors.

Conclusions

In accordance with IFRS standards, management must assess the company's ability to continue as a going concern. The Company cannot continue its operations if the management either intends to liquidate the company, terminate its activities, or is forced to act in this way due to the lack of real alternatives.

Companies are required to disclose information about material uncertainties related to events or conditions that may cause significant doubts about their ability to continue their operations continuously. In addition, disclosure is necessary when management concludes that there are no significant uncertainties, but this conclusion is largely based on professional judgments (a difficult situation "on the verge").

When assessing the management of the company's ability to continue its operations continuously, it needs to take into account the existing economic uncertainty and market volatility caused by the COVID-19, which are further aggravated by the decline in oil prices.

When assessing the validity of the use of the going concern assumption, management takes into account all available information about the future (considering at least a period of twelve months after the end of the reporting period, but not limited to it), assessing the possible consequences of developments and changes in conditions, and analyzes possible responses to these events and conditions actually available to the company.

Management should re-evaluate the availability of funds, as in the current circumstances it may be difficult to replenish them, and borrowing costs may increase.

– Capital markets are the most difficult to access for borrowers with lower credit ratings. Resuming or increasing funding limits from banks and other financial institutions is also more difficult.

– Banks and other financial institutions may impose new conditions, such as significantly higher profitability or additional collateral, especially in relation to companies from the most vulnerable sectors in these circumstances.

– Banks and other financial institutions themselves may experience difficulties with liquidity, and they may need the help of the national bank to be able to continue or increase the volume of lending.

– The costs of repayment of borrowers' debts denominated in foreign currency may increase significantly due to the depreciation of their national currency.

– The stipulated existence of covenants (special conditions) in credit agreements allows lenders/banks to demand early repayment of debt.

If management concludes that the consequences of COVID-19 have led to such a serious deterioration in the results of operations and financial condition after the reporting date that the assumption of going concern is no longer appropriate, then the financial statements need to be adjusted, i.e. a change in the assumption of going concern is considered a corrective event.

When assessing the company's ability to continue operating in the foreseeable future, management may need to do the following:

– Update forecasts and sensitivity parameters that management deems necessary, considering the identified risk factors and various scenarios. It is important to consider pessimistic scenarios for the development of events, for example, taking into account the consequences of quarantine, when necessary.

– Review the expected future compliance with the terms of loan agreements, depending on the types of scenarios.

– Evaluate plans to mitigate the consequences of negative events or conditions that may cause serious doubts about the company's ability to continue its activities in the foreseeable future. In particular, management is expected to reconsider the issue of the availability of funding. The company needs to assess whether its plans are achievable and realistic.

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Қазақстан Республикасының су ресурстарының экологиялық аудиті

Аңдатпа

Мақсаты: Дағдарыс және одан кейінгі локдаун әртүрлі салалардағы бизнестің, сату нарықтарының күрт төмендеуіне, жеткізілім тізбегіндегі үзілістерге, азаматтардың еркін қозғалысына шектеулерге әкелді. Мұнайға деген сұраныс төмендеді, оның әлемдік бағасы құлдырады. Барлық осы қолайсыз макроэкономикалық факторлар елдің дағдарыс пен түрлі салаларды қалпына келтірудің ұзақ кезеңін күтетінін көрсетеді. Осыған байланысты, COVID-19 пандемиясының карантин кезеңінде Қазақстан Республикасы экономикасының ағымдағы жай-күйіне зерттеу жүргізілді.

Әдісі: Зерттеу мақсатына жету үшін жалпы ғылыми әдістер кеңінен қолданылды, атап айтқанда контент-талдау әдісі; талдау әдісі; жалпылау әдісі; графикалық түсіндіру әдісі.

Қорытынды: Зерттеу нәтижелері қысқа мерзімді перспективада ел экономикасы үшін сыртқы экономикаға қарағанда ішкі экономикаға басымдық беру орынды болуы мүмкін екенін көрсетеді. Сонымен қатар, орта мерзімді және ұзақ мерзімді жоспарлар тұрғысынан алғанда, экономиканы қалпына келтіру жоспары бойынша іс-қимыл жасау үшін Қазақстанның халықаралық тәжірибеден сабақ алуы маңызды.

Тұжырымдама: Орта және шағын бизнеске экономикалық дағдарыстан шығу үшін ұсыныстар мен ұсынымдар әзірленді. Карантин кезеңінде кәсіпорындардың операциялық және қаржылық қызметін жақсартуға және пандемиядан шығуға байланысты бірқатар әдіснамалық, теориялық және практикалық мәселелер қаралды.

Кілт сөздер: коронавируc, экономика, бюджет, қалпына келтіру, пандемия, экономикалық өсу, экономикалық саясат, COVID-19.

Б. Сапарова, Н. Құттыбаева, А. Омарова, Е. Орынбасарова, Ж. Шугаипова

Влияние коронавирусного кризиса на экономику Республики Казахстан

Аннотация:

Цель: Кризис и последовавший за ним локдаун привели к резкому сокращению доли бизнеса в различных отраслях, рынков сбыта, перерывам в цепочках поставок, ограничениям на свободное передвижение граждан.

Спрос на нефть снизился, мировые цены на нее рухнули. Все эти неблагоприятные макроэкономические факторы указывают на то, что страну ждет кризис и длительный период восстановления различных отраслей промышленности. В связи с этим проведено исследование текущего состояния экономики Республики Казахстан в период карантина в связи с пандемией COVID–19.

Методы: Для достижения цели исследования широко использовались общенаучные методы, в частности, контент-анализ, методы обобщения и графической интерпретации.

Результаты: Результаты исследования показывают, что в краткосрочной перспективе для экономики страны может быть более целесообразным отдавать приоритет внутренней экономике, нежели внешней. Кроме того, с точки зрения средне- и долгосрочных планов, важно, чтобы Казахстан извлек уроки из международного опыта, для того чтобы предпринять действия по плану восстановления экономики.

Выводы: Разработаны предложения и рекомендации для выхода из экономического кризиса предприятиям среднего и малого бизнеса. Рассмотрен ряд методологических, теоретических и практических вопросов, связанных с улучшением операционной и финансовой деятельности предприятий в период карантина и выхода из пандемии.

Ключевые слова: коронавирус, экономика, бюджет, восстановление, пандемия, экономический рост, экономическая политика, COVID–19.