

Impacts of the 2008 Financial Crisis on Transition Economies¹

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This paper focuses on three transmission processes of the 2008 global financial crisis impacts; pandemic turbulences in financial markets, side effects on capital flows, and contractive impacts on the real economy in many countries. The processes will be further discussed in the context of emerging/transitional economies, followed by some policy implications for Uzbekistan.

I. Impacts of the 2008 global financial crisis

A series of financial turbulences, triggered off by the so-called “sub-prime” in the USA, culminated in catching the international financial sector off its euphoric guard in September 2008. In hindsight, it was obvious that the global financial system had been indulged in a euphoric illusion of safety mainly due to the vague perception that financial experts, traders and regulators were doing their best in getting round the critical situation. Already many papers and books have discussed this issue and related matters, including IMF’s WEO (World Economic Outlook) and GFSR (Global Financial Stability Report) issued in April, 2009, etc. The Uzbek presentation, “The Global Economic Crisis, Ways and Measures to Overcome It in the Conditions of Uzbekistan” was explained during May 22’s conference in the Central Asian context. Apart from these public papers, most recently, Gillian Tett², British lady journalist, has published “Fool’s Gold” focusing on the plight of the world financial sector compounded by financial derivatives and innovations.

The impacts of the most recent global financial crisis on the real economy in many countries could be broken down into three-fold processes: (1) pandemic fears in many financial markets, in particular almost free-fall decline in stock markets, steep rise in various spreads between safe and risky assets, and dramatic shrinkage in financial markets, which have invited (2) quick withdrawals of capital from emerging/transitional economies and economic frontiers in mature economies to safe harbors. The resultant serious liquidity squeeze has, in turn, brought about (3) immediate contractive impacts on the real economy in many countries, in particular the export sector and internationally interwoven businesses. The instability in commodity markets has added to the financial and economic turbulences.

The (1) and (2) are straightforward in transmission and visible in major economic indicators, while the (3) is somewhat diversified in different regions and countries.

The (1) is represented by financial fears, fueled by the collapse of the myth “too big to fail”, which became suddenly pandemic in almost all the financial markets, involving many emerging/transitional countries, and inviting the distrust even among banks and

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financial institutions (market failure). Some money reactions went too far but remained extremely difficult to correct. The impacts of the (1) were almost simultaneous due to the nature of network externality based on close international market linkages.³ In these circumstances, underlying uncertainties revealed themselves quickly, including the unreliability of securitized financial products and “originate-to-distribute” (OTD) model, incapability of rating agencies and now discredited CDS. Even suspicious views were presented to the nature of financial engineering that has dominated the modern financial theory. In addition, painful complaints were presented to the international accounting/auditing standards.

In the process, a blame game (hunting for culprits or drivers) has been played in many forums. For instance, (i) some disputants emphasized myopic business behavior of specific managers/traders of financial institutions, in particular unregulated investment bankers and defectively securitized products/derivatives (or toxic assets), while others emphasized (ii) defective regulatory framework, unreliable rating capability and poor corporate governance or (iii) widespread speculative mentality (money worship, greed and over-leveraging), under-disciplined macro-economic management tolerating easy money policy (Greenspan put option), virulent contagion from the US finance, global imbalance with external deficit/surplus, or unfettered financial capitalism at the back-ground.⁴

Such argument could often be geared up, on the one side, for a fatalistic view of the loose nature of human community where people behave just like they think others doing well, who are blindly follow leading speakers or credit rating agencies (herding or plausible deniability). It could also be geared up for a mechanical view of financial network externality/vulnerability fueled by information/communication technologies (ICT). On the other, it could be geared up for an endless argument whether economic progress is stimulated by easy money policy or not (economic growth is most likely to be accompanied by cheap/abundant credit), or when the punch bowl should be taken away if a financial party goes wild; more sober Volcker-type approach or less sober Greenspan-type approach.

In any case, the extraordinary financial situation has demanded a new package of monetary policy measures, such as reductions in policy target interest rate near zero, special guarantee to creditor/debtor banks, quantitative easing as well as credit easing policy, most of which have been undertaken by monetary authorities immediately; stifled money flows in a number of mature markets required liquidity provision through the new market operation practices of purchasing a variety of financial assets, including even non-bank financial institutions.⁵ The weakened bank soundness has also been reinforced by capital injections and authoritative purchases of bad loans through tax money. Deposit protection has also been pursued by a number of mature and emerging/transitional countries.

In the context of transitional economies in general, the global financial crisis has cast a shadow over the two-decade economic gains. The first and severe impact on many transitional economies was serious credit shortages and difficulties in refinancing their external obligations. They have continued to face and tackle with the unprecedented economic turmoil since their independence from command economic framework. Little voice, however, has been raised against the basic process toward market economy and

in favor of a return to command economy. Both political leaders and peoples seem to have seen the current difficulties in proper perspective. Even in the context of transitional Central Asian economies, policy emphasis appears to have been placed, not on democratic economic/social institutional framework, but on macro economic policies, in particular monetary easing, liquidity support and capital injections, followed by deposit guarantees.⁶

Coupled with the “deleverage” awareness, the (2) as a side effect of the (1) has exposed the financial sector firstly and many other sectors secondly, to liquidity squeeze in mature economies. As a result, the (3) has impacted the real economy. The household sector also became very conservative with prospects of rising jobless rate and shrinking income. The real economy has also witnessed sharp reductions in both business inventories and investment. These contractive impacts have been most visibly reflected in the export sector in many countries, aggravating their future prospects. While in mature economies such as the USA, EU and Japan, the (1) and (2) have directly paralyzed both financial and other business sectors, the economic downturn in some transitional economies has emerged multi-fold; for instance, the earlier liquidity contracting impacts appeared on the Russian economy and subsequent contracting impacts appeared on its surrounding economies and their economic situation were further exacerbated by the lowering commodity and energy prices.

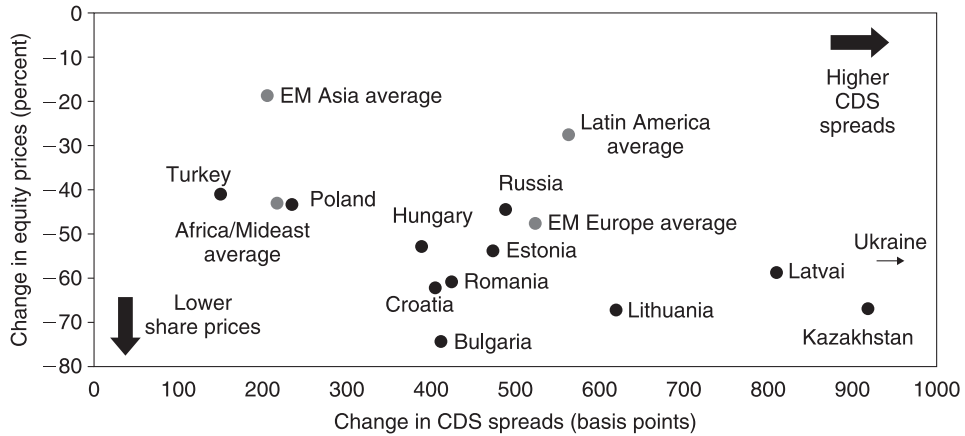
II. Impacts on emerging/transitional economies

As discussed above, the side effect of the 2008 global financial crisis has been increasingly and adversely affecting many sectors in emerging/transitional economies. Big corporations in manufacturing/service sectors, mostly dependent on bank credit, found increasing difficulties in refinancing or obtaining foreign financial resources, which had been a major driving force for their buoyancy.⁷ This situation was clearly visible in the expanded CDS spread in many emerging/transitional economies.

The abrupt pullback of foreign capital was also accompanied by considerable depreciation of local currencies. In the context of emerging/transitional economies, the abrupt change in financial surroundings has driven into economic turmoil Hungary and Latvia on the one hand and Ukraine, Belarus, Georgia and Armenia on the other⁸, whose external imbalances had been building up ominously.⁹ Figure 1. clearly shows that, though often eclipsed by the extraordinary economic performance of Iceland, Ukraine, located between EU and Russia, has suffered most seriously owing to its exposure to external debt, including the household sector’s US dollar borrowings, and preceding politico/economic confusions. In contrast, Turkey, located between EU and the Middle East, has remained resilient owing to the economic reform efforts after the financial crisis of 2001 and relatively solid banking sector.

The intertwining transmission processes of the (3) in emerging/transitional economies produced multifaceted reactions. In an extreme case, for instance, part of the household sector in Hungary and some others that enjoyed real-estate boom had depended for housing loans on borrowings in Swiss francs and Japanese yen with their exceptionally low interest rates, but they are now suffering from the swollen debt resulting from unexpected exchange rate swings.¹⁰

Aside from these extreme cases, in emerging/transitional economies, many



Source: IMF GFSR April 2009 (Figure 1.13, page 9)

Figure 1 Emerging Market Performance of Credit Default Swap Spread and Equity Prices (August 2008~March 2009)

Map: Central and Eastern Europe



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Source: http://www.rec.org/REC/Maps/eur_map.html

economic projects and business activities were forced to scale down, restructure or even stop them. The widespread economic depression has demanded flexible and expansionary fiscal stimuli in major countries, which has also influenced the macro-economic policies in Central Asian countries.

More specifically, the consequences of the (3) differed, depending on to what extent an economy under consideration had been exposed to foreign loan/investment, to what extent it had suffered from external imbalances, whether its currency had been subsumed under its nearby hard currency area, and whether foreign financial resources had come directly to the local business sector or indirectly through the local financial sector. These factors would help to analyze the difference in impacts of the 2008 global financial crisis among Russia, Ukraine, Uzbekistan, Kazakhstan, etc.

While the so-called EU Halo effect had favored many Central and Eastern European countries, the 2008 global financial crisis has revealed the significant implications of the economic basics, such as sound economic management, current account deficits, exposure to external debt, inflation, fiscal deficits, soundness of the financial sector, etc.¹¹ In other words, the EU membership status tended to help euphoric interpretations of economic developments of a member country (the Halo effect). The euro integration expelled foreign exchange risk, allowing lower interest rates than otherwise, inviting capital inflows and accelerating credit expansion but concealing basic economic problems such as loss of competitiveness in export, potential growing businesses and youth unemployment. Now, however, more emphasis has been placed on prudential macro-economic aspects, the differences of which have created substantially different economic consequences among member countries. In short, policy interpretations are inverted upside down.

In my view, the flexibility of exchange rate policy remains crucial in economic management for many emerging/transition economies. It is true that the 2008 global financial crisis has severely affected exchange rate developments in many parts of the world. It is also true that the flexible exchange rate adjustments have helped absorb those external shocks, if not fully. The argument in favor of currency integration merits recently overwhelmed in and around EU despite basic differences in economic infrastructure in this region. Due to under-consolidated economic infrastructure, the latitude for macro-economic policy management is positively required for some EU member countries and in particular many other transition economies outside EU, except for peripheral economies accounted for by optimal currency area.

In the circumstances, for instance, Latvia, heavily dependant on external debt and strongly constrained by its fixed exchange rate policy to the euro, has been most severely positioned like the other two Baltic countries.¹² In contrast, Hungary, also heavily exposed to foreign debt, has witnessed its currency sharply depreciating nearly 30% and in a better position to escape from the shackles of fixed-rate exchange policy. The difference in their policy stance will create different implications for their economic prospects.

In any case, the overall impacts of the on-going global financial/economic crisis are summarized in the following table showing the developments of real GDP:

Just like Japan, Germany and other mature economies, one of the notable consequences of the (3) is most visible in the export sector which has been adversely affected in many emerging/transitional economies. Their consequences have been complicated due to modern business activities. This is typical with many East Asian countries where outsourcing and off-shoring or multi-tiered and interwoven production processes have been generally accepted. Through the division-of-labor type of specialization of modern

Table 1. Developments in real GDP in selected central Asian countries

(Annual percent change)

	2007	2008	2009	2010
Uzbekistan	9.5	9.0	7.0	7.0
Kazakhstan	8.9	3.2	-2.0	1.5
Kyrgyz Republic	8.5	7.6	0.9	2.9
Tajikistan	7.8	7.9	2.0	3.0
Turkmenistan	11.6	9.8	6.9	7.0
Azerbaijan	23.4	11.6	2.5	12.3
Russia	8.1	5.6	-6.0	0.5
Ukraine	7.9	2.1	-8.0	1.0
World output	5.2	3.2	-1.3	1.9
United States	2.0	1.1	-2.8	0.0
European Union	3.1	1.1	-4.0	- 0.3
Japan	2.4	- 0.6	-6.2	0.5
China	13.0	9.0	6.5	7.5

(Source: WEO (IMF) April 2009, page 86 and REO (IMF) May 2009, page 3. Rearranged by the author)

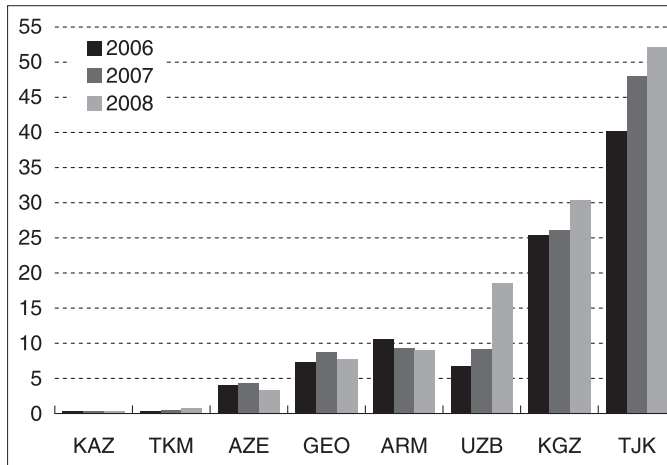
production process, an exporter produces components which are used by another value-added producer and re-exported to a final producer who assembles and re-exports final products to the ultimate consumption country.

Another impact of the (3) is visible in remittances for which a number of economies have been dependent on migrant workers. They have lost an important income source. This is also the case with Caucasus and Central Asia region as well as those countries neighboring EU and Mideast oil producing countries.¹³

Eight months after the Lehman Brothers vaporization in September 2008, the economic omens are mixed. Some indicators are encouraging, including stock market indices. Other indicators need cautious interpretations, including jobless rates and overhanging bad loans in the banking sector. Despite the general recognition that the global economic situation would be much harder before it becomes easier, more attention has been paid to those indicators showing “deceleration” of worsening.¹⁴ Some emerging countries are reported to be beginning to bottom out, including China and Brazil. Other emerging/transitional economies, however, are reported to be suffering from economic agony, including the Baltics and a number of countries in East Europe.

Among advanced countries, it is believed that much cannot be expected from the previous US economic strength sustained by overconsumption and bullish external penetration. In Europe, Germany’s performance, crucial to its longer-term economic trend, remains uncertain. The Asian economy is fortunately driven by a number of promising young economies such as China, India and ASEAN countries in addition to mature economies like Japan and South Korea, but the export-driven model remains to be smoothly converted to domestic demand-driven one.

(In percent of GDP)



Source: Regional Economic Outlook (IMF) May 2009 (page 25)

Figure 2. Remittance Inflows

In these circumstances, an economic model with entrepreneurial spirit and with energy-saving and ecological mind could be nurtured and formed. There, more attention will be paid to the damaging nature of high leverage, asset bubbles and un- or under-regulated non-bank activities (shadow banking). More attention will also be paid to the creeping negative nature of over-extended welfare system, undisciplined fiscal policy and excessive easy monetary policy, which have involved huge public intervention and debt, and after all will lead to inflationary pressures. More specifically for the financial sector, a macro-prudential and regulatory approach, both internationally and domestically, will be emphasized and pursued.

For some emerging economies, hopefully China, India, and Brazil, some economists have begun to argue that the worst is over. There remain, however, many opaque elements before many emerging/transition economies. The Baltics and Hungary will, with their human resources and wisdom, grope their way out of the current bitter situations and will consolidate their future economic infrastructure for the next stage. On this context, for each transition economy, the Regional Economic Outlook (REO, May 2009 IMF) will have to be read and discussed carefully.

The latest REO characterizes the Caucasus and Central Asia region as follows; “While linkages to international financial market are weak in most countries, the global economic crisis is being transmitted to the region via falling commodity prices, declining export demand, and lower remittance inflows, particularly from Russia.”¹⁵ The report also analyzes how the Russian economy has affected the neighboring countries through trade, financial and remittance channels, indicating that, since the end of Russian crisis in 1998, the financial and remittance channels have been playing a more important role, though less associated with trade links, between Russia and Caucasus and Central Asia.¹⁶ The forthcoming “Transition report 2009” (European Bank for Reconstruction and Development, EBRD) will pay somewhat different attention to transitional economies.

III. Some policy implication for Uzbekistan

At the time of writing this paper (May 2009), Uzbekistan appears to have been less adversely affected by the 2008 global financial crisis. There are a number of factors contributing to this, including a cautious approach to external imbalances and weak financial linkages¹⁷, which could be critically regarded as limited external openness resulting from complicated administrative procedures, more burdensome than red tape. Some factors are also found in a coordinated fiscal and monetary policy. The IMF mission's statement issued in December 2008 is surprisingly in favor of the Uzbek economy resilient to the ongoing global financial and economic critical conditions. It provides a strong contrast to those IMF mission's statements several years ago. This favorable assessment is also reflected in the IMF mission's expectation that the Uzbek economic outlook would remain relatively favorable in 2009. The World Economic Outlook's table also indicates a 7.0% increase in real GDP for each 2009 and 2010.¹⁸ While welcoming the policy implications of the Welfare Improvement Strategy (WIS) for a greater role of market principles and the private sector, the EBRD's diagnosis seems a little more cautious about the economic and social achievement in Uzbekistan. In my view, more careful considerations will have to be made to remittance inflows and their implications for macro-economic developments.

With the relatively favorable economic surroundings, the current strength of the Uzbek economy will allow the medium-term economic reform objectives to be more positively pursued. As discussed with IMF and other international organizations, more policy emphasis will have to be placed on enhancement of financial intermediation, liberalization of international trade, a phasing-out of price controls and improvement of business environments.

More specifically for the financial sector in mature markets, the conventional finance has shown many errors and vulnerabilities. However, does it require a drastic change of its financial intermediation model? The historical developments during the 1940s and 50s, and 1990s do not support this claim. Rather, more emphasis has been placed on more supportive institutions for effective function of the market mechanism in more regulatory environments. Our market economy is built on many institutions, including the protection of private ownership and profit motive as well as anti-monopoly framework, benefits for the aged, poor, unemployed and handicapped, public education and public hygiene, etc.

Likewise, in the financial sector, legally ensured trust among economic entities, last resort of liquidity facilities, deposit protection and prudential requirements have been already institutionalized. Many of these institutions inside and outside the financial sector go much beyond profit-making market economy. Ironically, the 2008 financial crisis took place in these circumstances. Our regulatory approach will be reviewed seriously toward a better regulated market mechanism.

In many emerging/transition economies, the effective financial intermediation has a long way to go to work well with the private sector initiative. One typical model of financial intermediation is depicted in the following diagram where domestically created savings, in particular from the household sector are channeled to the business (corporate) sector through either the banking channel or the capital market channel:

In many transition economies, however, savings have failed to be mobilized for

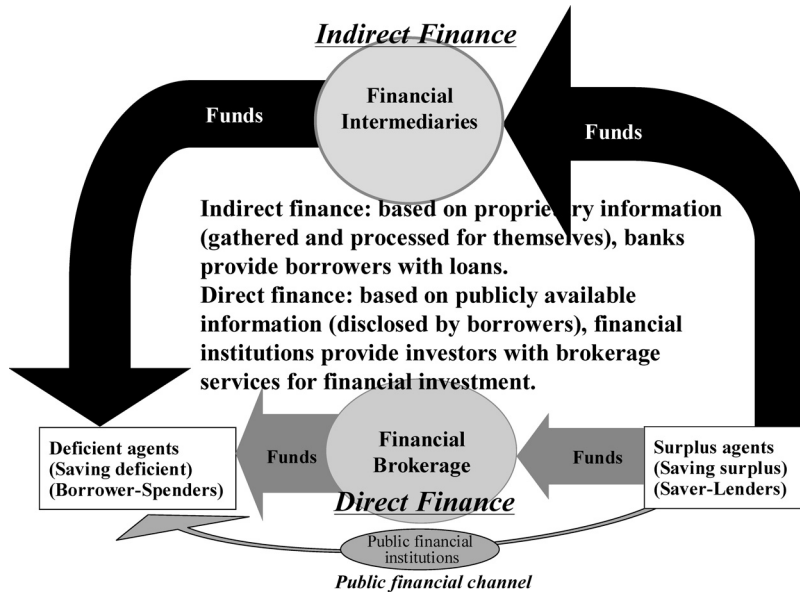


Figure 3. Financial intermediation

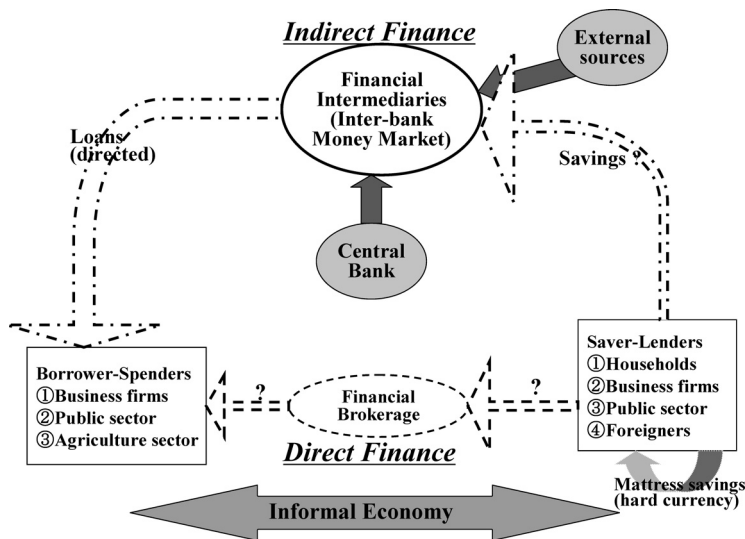


Figure 4. Financial intermediation in some transition economies

productive economic activities. Household savings are often asleep in the form of mattress savings of hard foreign currencies and the business sector has been dependent on bank loans, often directed by the authorities, many of which are financed from the central bank and external sources. In the meantime, it will take a longer time to establish the framework of capital markets. Such situation is depicted as follows:

While the Uzbek banking sector has strengthened its capital basis by intensified capital requirements and capital replenishment from the government, the Uzbek banking sector has already reached a stage where administrative functional requirements

beyond basic banking services are discontinued and practical restrictions on cash withdrawals are eliminated.

That is, the banking sector is in a position to provide banking services without government intervention and take the initiative to promote household deposits and business loans to both strategically important industrial activities and small/medium-sized businesses. The regulatory and policy authorities could focus on capital-related prudential aspects as well as compliance aspects of anti-money laundering (AML) and combating the financing of terrorism (CFT). In these circumstances, with more emphasis on the private initiative, Uzbek banks will find their own ways for mobilizing savings toward productive economic activities. (More emphasis on the private sector initiative will also provide the longer-term basis for domestic demand-based market economy and harmonized trade relationships with neighboring countries and the rest of the world.)

The more trustworthy the domestic financial intermediary channel, the less dependent on the changeable external sources. With the consolidated financial infrastructure, the adverse impacts from external shocks will be effectively delinked and a sound economic management will be more effectively ensured.

Foot notes:

- 1 An abridged version of this paper was presented to the international conference “The Global Financial Economic Crisis, Ways and Measures to Overcome it in the Conditions of Uzbekistan” held in Tashkent on May 22, 2009.
- 2 Her first publication, “Saving the Sun: A Wall Street Gamble to Rescue Japan from Its Trillion-Dollar Meltdown” (subsequently subtitled “Saving the Sun: Shinsei and the Battle for Japan’s Future”) appeared in 2003, inviting wide interests in the crippled financial sector during the lost decade of Japan’s late 1990s and early 2000s. She is a social anthropology major and her penetrating approach to financial issues since 2004 implies something more suggestive and essential than an ordinary financial engineering approach in modern financial analysis. In the context of transition economies, she has now tried to look into behind-the-door, asking why Morgan Stanley suddenly demanded loan repayment which BTA, Kazakhstan’s largest bank, is not able to make. She pays sharp attention to the deceptive aspect of CDS (Credit Default Swap) transactions. (Financial Times, May 1, 2009)
- 3 The impacts differed between Japan’s financial crisis during the 1900s and early 2000s and the 2008 global financial crisis, in that the former concentrated on bad loans or non-performing loans (NPL) in the banking sector and, together with high domestic savings, remained endemic, while the latter penetrated into many financial markets and became dramatically epidemic. The latter breaks up into two parts; structured securitized products (SSP) and credit default swaps (CDS). The two were interwoven each other, complicating and exacerbating US and European financial markets. However, it should be noted that, behind both Japan’s crisis and the 2008 global financial crisis, credit deterioration had been proceeding: it centered on the corporate sector both in Japan and around the household and corporate sectors in the US.
- 4 See “The Future of Capitalism” Financial Times, May 12, 2009.
- 5 Normally a decline in policy target interest rate goes hand in hand with an expansion in money supply. However, the near zero-interest rates require, apart from the price mechanism, explicit quantity targets for the increase in either the money supply or bank reserves. This is why the quantitative easing policy is called “unconventional”. In the USA, the guarantee for inter-bank lending/borrowing has fallen within the purview of the FDIC.
- 6 Regional Economic Outlook (Middle East and Central Asia), IMF, May 2009 (page 31).
- 7 Kazakhstan was hit by the BNP Paribas-oriented credit crunch in August 2007 and Kazakh banks found themselves unable to fund in western markets, leading to a deceleration of bank lending in the

- following quarters. It is now reported that the Kazakh banking sector has a large exposure to Russia. (REO May 2009, page 24) Global Financial Stability Report (IMF) April 2009 analyses as follows; “The retrenchment from foreign markets is now outpacing the overall deleveraging process, with a sharp decline of cross-border funding intensifying the crisis in several emerging market countries. Indeed, the withdrawal of foreign investors and banks together with the collapse in export markets create funding pressures in emerging market economies that require urgent attention. — Though notoriously difficult to forecast, current estimates are that net private capital flows to emerging markets will be negative in 2009, and that inflows are not likely to return to their pre-crisis levels in the future. Already, emerging market economies that have relied on such flows are weakening, increasing the importance of compensatory official support (Executive Summary, page xii). The GFSR also analyzes as follows; “Emerging Europe has been hit hard by global deleveraging. The impact has flowed through the same financial linkages with mature markets that previously allowed the region to build up a high degree of leverage through rapid foreign-financed credit growth. — As a result, external debt spreads have risen sharply, stock markets have collapsed, and currencies have come under pressure, especially in those countries with large domestic and external imbalances” (page 9).
- 8 Romania, Serbia and Bosnia have already succeeded in signing up for the traditional IMF’s rigorous facility. Russia and Turkey will take different courses for economic recovery.
 - 9 For the region of Central and Eastern Europe, specifically Swedish and Austrian banks are reported to have loaned and invested and, as a result, are now exposed to serious foreign exchange rate risks, followed by German and Italian banks and others.
 - 10 In general, World Economic Outlook (IMF) April 2009 describes the 2008 crisis impact as follows; “An important side effect of the financial crisis has been a flight to safety and return of home bias, which have had an impact on the world’s major currencies. Since September 2008, the U.S. dollar, euro, and yen have all strengthened in real effective terms. — Most other emerging economy currencies have weakened sharply, despite the use of international reserves for support” (Executive Summary, page xvi). Other examples of depreciation impacts on the household sector are found in Ireland and Iceland where residential investment was boosted for the last couple of years.
 - 11 Regional Economic Outlook (Europe), IMF. May 2009 (page 48).
 - 12 A similar position is found in Bulgaria with a fixed exchange rate policy. Spain and Ireland have already joined the euro but the relative appreciation of the euro might have made both countries face the inactive situation. In contrast, though fiercely surrounded by economic pains, Poland, the Czech Republic, and a couple of other EU member countries with non-fixed exchange rate policy, appear to have escaped more turbulent economic pressures. After the G 20 meeting in London in April 2009, though Poland was the second country after Mexico to use the IMF’s flexible credit line, the Polish access to this IMF facility indicates its economic resilience with fewer conditions attached than otherwise.
 - 13 Based on international financial sources, both Kyrgyzstan and Tajikistan have been heavily dependent on remittances of migrant workers (35~50% of GDP), followed by Uzbekistan which is believed to be dependant on 2~3 million migrant workers for 12~17% of GDP, \$2.0~3.0 bn. Many migrant workers are now reportedly to bear the brunt of narrow-minded egoistic circumstances in host countries. In eastern Asia, the remittance problem is notable with the Philippines and Indonesia. About 10% of the total population of the Philippines has reportedly been working (OFW, Overseas Filipino Workers of 8 million people) mostly in the USA and Mideast and their remittances amount to 13~15% of GNI. In China it is reported that 130~200 million migrant workers, mostly from inland farmland areas to coastal zones, have supported the buoyant Chinese economy, of which more than 20 million have lost their job in recent times.
Behind migrant workers and remittances, there exist working poor and potential unemployment issues involving underprivileged working conditions and extreme poverty.
 - 14 Economic survey has become increasingly sensitive in deteriorating world economic conditions. A typical observation by Mr. Trichet, President of the European Central Bank, is the world economy is “around the inflection point”, meaning that the economic fall is not around a reflection point but the fall is slowing down or that the economy is slowing down at a declining rate, at the the BIS meeting of central bankers in Basle on May 11, 2009.

- 15 REO (IMF) May 2008, pp. 23–26.
- 16 *ibid.* p. 27.
- 17 Only a few international financial institutions have established their business in Uzbekistan, mainly because a privatization/opening policy of the banking sector has been considerably delayed. In addition, due to the onerous procedural processes imposed on foreign direct investment (FDI) and foreign exchange transactions, foreign companies have faced many difficulties in extending their activities, resulting in a weak financial linkage, together with a relatively small exposure to external debt, between Uzbekistan and advanced countries. This has provided a clear contrast to Kazakhstan. Some critics even say that this small exposure has favored Uzbekistan as a lucky break in the 2008 global financial crisis and that, like the strands of a rope, the preceding smooth capital inflow has militated against Kazakhstan since 2007 while the uneasy capital inflow into Uzbekistan has created a situation to the contrary.
- 18 See Table 1. “Developments in real GDP in selected central Asian countries”.