THE ROLE OF BANKS IN ECONOMIC GROWTH OF KAZAKHSTAN

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ABSTRACT

This study examines the role of the banking sector in the economic growth of Kazakhstan, focusing on its structural, functional, and developmental dimensions. In particular, the research highlights how banks facilitate financial intermediation by mobilizing savings and allocating capital to productive investments. Furthermore, the study analyzes the contribution of bank lending to the development of small and medium-sized enterprises, which play a critical role in employment and economic diversification. Moreover, the importance of regulatory frameworks and international integration is emphasized as a means of strengthening financial stability. Therefore, the findings suggest that a well-developed, resilient, and innovative banking system is essential for sustaining long-term economic growth in Kazakhstan.

The relationship between banking systems and economic growth has long been recognized as a fundamental pillar of modern economies. In Kazakhstan, this relationship has become particularly crucial due to the country's transition from a centrally planned system to a market-oriented economy. Consequently, the banking sector has evolved into a strategic driver of economic development, facilitating capital accumulation, investment flows, and structural transformation. Therefore, a deeper analysis reveals that banks in Kazakhstan perform not only traditional financial functions but also act as catalysts of long-term economic modernization.

First and foremost, the institutional structure of the banking system plays a decisive role in shaping economic outcomes. Kazakhstan operates a two-tier banking system headed by the National Bank of Kazakhstan, which is responsible for monetary policy, price stability, and financial regulation. At the same time, second-tier commercial banks provide credit, payment services, and financial products to businesses and households. Thus, this dual structure ensures both macroeconomic stability and microeconomic efficiency. Moreover, through instruments such as interest rate policy, reserve requirements, and open market operations, the central bank influences liquidity conditions, which in turn affect investment and consumption [2].

From a functional perspective, banks contribute to economic growth primarily through financial intermediation. In other words, they mobilize savings from individuals and institutions and allocate these funds to productive investments. In Kazakhstan, this mechanism is particularly important for sectors such as oil and gas, construction, agriculture, and manufacturing. Furthermore, by reducing information asymmetry between borrowers and lenders, banks improve the efficiency of capital allocation. As a result, resources are directed toward the most productive projects, thereby increasing overall economic output [1, 150].

In addition, banks play a vital role in supporting entrepreneurship and small and medium-sized enterprises (SMEs). On the one hand, SMEs are essential for diversification of Kazakhstan's economy, which has historically been dependent on natural resources. On the other hand, these enterprises often lack sufficient internal funds and therefore rely heavily on external financing. Consequently, bank credit becomes a key enabler of SME development, job creation, and innovation. Moreover, government-supported lending programs implemented through commercial banks further enhance access to finance, especially in priority sectors [3, 79-94].

Another significant dimension is the role of banks in facilitating investment and capital formation. Specifically, banks provide both short-term and long-term financing for infrastructure projects, industrial expansion, and technological innovation. For instance, large-scale investments in transport, energy, and urban development are often supported by syndicated loans and project financing mechanisms. In this regard, the banking sector acts as a bridge between domestic savings and strategic national development goals. Furthermore, increased investment leads to higher productivity, which ultimately contributes to GDP growth.

At the same time, the development of banking infrastructure and digital technologies has strengthened the link between banks and economic growth. In recent years, Kazakhstan has experienced rapid growth in digital banking, mobile payments, and fintech services [4]. As a result, financial inclusion has improved significantly, allowing more individuals and businesses to access banking services. Consequently, transaction costs have decreased, economic activity has accelerated, and transparency has increased. Therefore, digital transformation in the banking sector can be seen as an additional driver of economic efficiency.

However, despite these positive contributions, several challenges limit the full potential of the banking sector. For example, the legacy of financial crises—particularly the 2008 global financial crisis—has had long-lasting effects on bank stability and lending capacity. In addition, high levels of non-performing loans (NPLs) in certain periods have weakened the ability of banks to provide credit. Furthermore, structural issues such as limited competition, concentration of banking assets, and dependence on external funding sources can reduce the effectiveness of financial intermediation. Consequently, these challenges highlight the importance of regulatory reforms and risk management improvements [5, 523-538].

Moreover, the role of international institutions and integration into global financial markets should not be overlooked. Organizations such as the International Monetary Fund and the World Bank have emphasized the need for structural reforms in Kazakhstan's banking sector. In particular, strengthening governance, improving transparency, and enhancing regulatory frameworks can increase investor confidence and attract foreign capital. As a result, deeper integration into the global financial system can further stimulate economic growth.

To illustrate the multifaceted role of banks, the following table summarizes the key channels through which the banking sector influences economic growth in Kazakhstan:

Table 1. Key Channels of Banking Sector Impact on Economic Growth in Kazakhstan

Channel	**Description**	**Economic Impact**
Financial Intermediation	Mobilization of savings and allocation to investments	Efficient resource allocation, GDP growth
Credit Provision	Loans to SMEs, corporations, and households	Business expansion, job creation
Investment Financing	Funding infrastructure and industrial projects	Capital formation, productivity growth
Monetary Transmission	Interest rate and liquidity management by central bank	Inflation control, macroeconomic stability
Financial Inclusion	Expansion of banking services and digital platforms	Increased economic participation
Risk Management	Assessment and mitigation of credit and market risks	Financial stability and resilience
Innovation & Fintech	Adoption of digital banking and new technologies	Reduced costs, improved efficiency

Furthermore, it is important to emphasize that the effectiveness of these channels depends on the overall quality of institutions and policies. In other words, a well-regulated, transparent, and competitive banking sector is more likely to contribute positively to economic growth. Conversely, weak governance and inadequate supervision can lead to financial instability and economic downturns.

In conclusion, the role of banks in the economic growth of Kazakhstan is comprehensive and dynamic. On the one hand, banks facilitate savings mobilization, credit allocation, and investment financing. On the other hand, they contribute to macroeconomic stability, financial inclusion, and technological advancement. Nevertheless, challenges such as financial vulnerabilities, structural inefficiencies, and external shocks must be addressed through continuous reforms. Overall, a strong, stable, and innovative banking sector remains a cornerstone of sustainable economic growth and diversification in Kazakhstan.

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