Kazakhstan devalues national currency

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On February 11, without any prior warning, Kazakhstan's national bank announced the devaluation of the tenge by 18.9 percent against the US dollar. The purchasing power of the working population was thereby reduced at a stroke by almost one fifth.

The devaluation of the Kazakhstani tenge is the latest in a series of devaluations by developing countries. In the face of the intensifying economic crisis, South Africa, Russia, Argentina, Turkey, and Brazil have all devalued their currencies in recent months. Drastic currency devaluations could now follow in Ukraine and Belarus.

Kazakhstan's government justified the devaluation of the tenge with the loss in value of the Russian ruble last year of around 15 percent. At the beginning of February, US$1 cost 35.25 rubles, its lowest value since 2009.

The news agency Bloomberg stated that the devaluation of the tenge was the beginning of a currency war between Russia and Kazakhstan.

Russia and Kazakhstan have been in a customs union with Belarus since 2010. The devaluation of the Russian ruble has increased competitive pressure on local producers in Belarus and Kazakhstan.

Kazakhstan and Russia are competitors on the world market, particularly for raw materials such as oil. After Russia, Kazakhstan is the country with the largest reserves of raw materials in the former Soviet Union. For both countries, the most important importers of raw materials are the European Union (EU) and China. While the EU has been in a recession for years, economic growth has also recently slowed sharply in China.

Kazakhstan was previously hit hard by the global financial crisis in 2008-2009. Until then, it had experienced a relative economic boom along with Russia and Azerbaijan, based mainly on the export of oil. Oil exports account for 60 percent of Kazakhstan's total exports of raw materials.

The country depends for around 73 percent of its economic output on exports of raw materials, resulting in the economy being very vulnerable to price gyrations on the world market. Due to high prices for raw materials, Kazakhstan was able to build a good trade balance in recent years, meaning it had in the long term taken in more through exports than it spent on imports.

However, the balance of trade in 2013 fell by 82 percent to an estimated US$180 million, according to central bank figures.

Declining prices on the market for raw materials has contributed significantly to this. The price for oil has dropped over recent months, falling below US$100 per barrel in February.

Signs of a new economic crisis in Kazakhstan increased last year. According to Bloomberg, the country has registered a drop in trade of goods and services for four of the last six quarters.

Warnings are also mounting over a consumer credit bubble that has been developing since 2009. In the face of the sharp fall in the balance of trade surplus, domestic indebtedness is assuming threatening dimensions.

Analysts anticipate that the Belarusian ruble and Ukrainian hryvnia will be devalued by the countries' respective central banks. The Belarusian ruble fell last year by around 10 percent against the US dollar. The hryvnia has also weakened, due to the political instability in the country as well as the devaluation of the ruble in Russia. The hryvnia was worth less than US$9 at the beginning of February for the first time since February 2008. This equates to a 10 percent loss in value since the start of November.

For the working class, the currency devaluations mean a major attack on their living standards, and it has already provoked strong social unrest in Kazakhstan.

There have been numerous protests against the devaluation of the tenge since February 11. Dozens of protesters surrounded the building of the national bank in Almaty on February 12. Three days later, around 200 people demonstrated in Almaty against the devaluation. Some 30 demonstrators were arrested in the process.

After press reports about the threatened bankruptcy of three banks, Kaspi Bank, Alians Bank and Centrcredit Bank, the banks were stormed in the two large towns of Astana and Almaty. Several dozen people protested the next day in front of the national bank building in Almaty, because their mortgage debt, which they took out in American dollars, was sharply increased by the devaluation of the tenge.

However, those most severely affected by the currency devaluation are the working class and the impoverished rural population. According to the Interfax news agency, the average monthly wage of a worker in 2012 was between US$103 and US$517. At the same time, 34 percent of the population earned less than US$310 per month. The tenge devaluation will above all drive up prices for essential foodstuffs like bread, sugar, milk products, fruit and oil. Between 50 and 75 percent of these are imported by Kazakhstan.

Since the collapse of the Soviet Union and the restoration of capitalism, Kazakhstan has been marked by extreme social inequality. While in 2011, between 70 and 80 percent of the population lived in poverty, according to an estimate from the Asian-Caucasus Institute Analyst think tank, the richest 50 oligarchs in the country controlled US$24 billion in 2012. The president of Kazakhstan and former general secretary of the Communist Party in Kazakhstan, Nursultan Nazarbayev, alone had an estimated wealth of US$7 billion in 2010.

The sharp social tensions erupted in December 2011, when on the 20th anniversary of the country's independence, the government allowed the shooting of oil workers who had been striking for months in the city of Zhanaozen. Although official estimates stated 17 workers died, other sources assumed a figure as high as 70.

Early in 2013, protests took place across the country against the pension reform, through which workers' monthly pension contributions will increase by 5 percent from 2018 and the retirement age for women will rise from 58 to 63. The devaluation of the tenge will further intensify social tensions in the country.