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Assessment of the development of the banking sector of the Republic of Kazakhstan in a competitive environment

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Abstract

Relevance. This paper explores modern aspects of the Kazakh banking sector's development amidst a changing competitive environment, globalization, and evolving banking technologies. The Kazakh banking market is the second largest in the Eurasian Economic Union (EAEU) and the Commonwealth of Independent States (CIS) after Russia and is integrated into the global financial system with subsidiaries of large foreign banks. Despite various challenges, some Kazakh banks maintain high competitiveness and rapid development.

Purpose. The study aims to highlight the specific features of banking competition in the Republic of Kazakhstan's banking market.

Methodology. The study assessed external economic factors, compared them with other EAEU countries, analysed banking market size and dynamics, evaluated banking sector concentration, and rated banks based on assets, loan portfolios, equity, income, and return on assets.

Results. In the past five years, the banking sector's concentration level has increased, with a decrease in the number of banks and enlargement of some. The market includes many foreign bank subsidiaries. External factors like inflation, currency volatility, and the COVID-19 pandemic have negatively impacted the sector. Nevertheless, until 2020, Kazakhstan's economy grew faster than Russia and Belarus, and the banking sector's profitability was higher, attracting investors, including foreign banks.

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Conclusions. The Kazakh banking sector faces challenges from environmental factors such as inflation, currency volatility, and the COVID-19 crisis. The market has become more concentrated, with significant improvements in the positions of Sberbank and Kaspi Bank due to their FinTech development. However, the overall number of banks has decreased, with some still experiencing financial issues. The sector's future development largely depends on the COVID-19 pandemic's impact on the economy in 2021.

Keywords: financial market; commerce; banking competitiveness; economics and finance.

Introduction

The banking sector is one of the most important components of the financial market and the financial system of any state. In addition, considering the globalisation of the modern economy and finance, it is an important component of the world economy, the global financial market. Commercial banks (second-tier banks under the current Kazakh legislation) ensure the accumulation of funds and their transformation into profitable assets, which participate, among other things, in stimulating expanded production and finance consumer spending, increasing the level of demand in the economy, as well as provide settlements in the economy, which are their main functions. Commercial banks, competing in the market, carry out both competition for resources and competition for customers on active and other operations.

At the same time, with the increasing availability of resources, it is usually much easier to compete for active operations. Currently, the banking sector of any country, including the Republic of Kazakhstan, is affected by such trends as concentration (a decrease in the number of banks and the consolidation of existing banks) and the penetration of global players (the opening of subsidiaries of large global banks, or their purchase of banking assets in the country). As a result, the problems of maintaining and improving competitiveness are increasingly relevant for any bank. They are also relevant for the Kazakh banking sector, which, despite the fact that it ranks second in size in the CIS and the EAEU, is inferior in a number of parameters to the banking sectors of other states, including neighbouring ones.

Most importantly, it was necessary to focus on the definition of banking competition in the scientific literature. In general, competition in the market is "a struggle for a limited amount of effective consumer demand, conducted by organisations in the market segments available to them" [1]. It is the relationship associated with the competition of participants who have similar goals. It is the presence of similar goals that often complicates or prevent other participants from achieving the same goals. As a result, competition can be called "the action or process of activity of individuals seeking benefits that others simultaneously seek under the same conditions and rules" [2].

In the financial market, as a rule, universal commercial banks have common goals (growth of resources, growth of assets, growth of income-generating operations), which is why, conditionally, the goals of banks are the same. Notably, the general rules for banks operating in the market are also the same, they are determined by state supervisory authorities in banking activities (their essence is to minimise risks for the banking system first of all). R.M. Bukvich pointed out that competition in the banking sector is one of the types of market competition that

emerged after the industry and trade competition, but it is distinguished by high intensity, a wide variety of forms and methods [3]. The author saw the positive effect of the development of competition in the fact that banks develop their branch networks, products, increase the availability of products for customers, develop banking innovations, which ultimately positively stimulate the development of other sectors of the economy [3].

The purpose of the study was to show the specifics of banking competition in the banking market of the Republic of Kazakhstan at the present time. With this in mind, the study considered the banking sector of the Republic of Kazakhstan in general, the position of individual banks on it, and the comparison of the competitive positions of these banks among themselves. Of particular interest were the authors who wrote papers on this subject, including K. Anielak [4], A. Bekmurodova [5], M. Grobelak [6], Yu. Korobov [7], H. Le Long [8], M. Turusbekova [9], E.S. Alpatova [10], A.R. Bazaeva [11], R.M. Bukvich [3], I.I. Bychkova [12], O.A. Sinichenko [13], I.A. Chekhovskaya [14] and others. Their research was used within the framework of this study.

Theoretical Overview

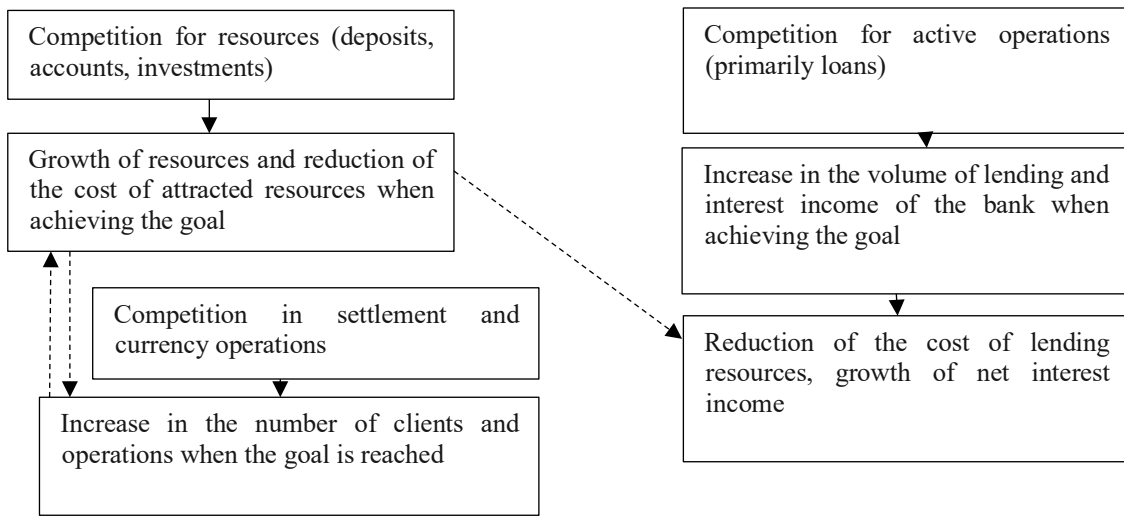
According to A.R. Bazaeva [11], banking competition is a struggle for demand in the banking market for the growth of the bank's market share. At the same time, it is the mechanism that regulates the banking system, and therefore the tasks of the state include the establishment of conditions for the development of healthy competition in this sector, since it contributes to the effective development of the economy in general. It is also necessary to consider the fact that banking activity has specific features that determine the features of the competition itself:

- certain entities are involved, and these are not only commercial banks, but also non-bank credit organisations (providing certain types of financial services);
- competition manifests itself in different ways in different types of banking services;
- a banking product is an intangible product, a service that has certain parameters that are not always obvious to the client, which makes it quite difficult to promote it on the market (unlike a real product);
- high risks associated with both capital raising and its placement (this is not only the risk of non-return, but also liquidity risks, currency risks, and more) [11].

The distinctive feature of the banking sector is that the competition here is not one-dimensional. Yu. Korobov [7] notes that competition in the banking market is quite difficult, it is associated with the areas in which banks operate. The competition can be carried out for resources (for example, in the market of deposits, settlement and cash services, bank securities), for a client in active operations (in the market of bank loans, which, in turn, is also divided

into markets that are quite different in terms of characteristics: consumer loans (by their types, including), bank cards, loans for small businesses, loans for large corporate businesses). That is, the banking market consists of a number of different markets, the main of which are the credit services markets, the deposit market, investment

services, settlement and currency services markets, and competition takes place in each of them. At the same time, competition between banks in different areas, as a rule, complements each other, which can be represented in the form of a scheme (Figure 1):



Source: compiled by the author based on [6; 15].

That is, the bank competes in the market for resources, if it attracts sufficient resources, with a reduction in their cost (including through profitable settlement and other operations for customers who also become the object of competition), it can reduce lending costs, increase lending volumes. Therefore, all these areas of banking competition are interconnected. A. Bekmurodova et al. [5] identify the following factors in the development of banking competition: the number of banks in the country's market, the concentration of banks, the presence of foreign banks in the country's market, the role of the state in the banking sector. At the same time, there are also those parameters that limit banking competition: entry barriers, capital requirements, restrictions on the participation of foreign banks.

The authors also point to the macro-parameters of the economy as an important factor in the development of competition: the growth of the dynamics of the financial market and the banking services market, as a rule, stimulates the growth of competition in the market, while the reduction is a factor of concentration, when the banking business becomes larger, concentrates, preventing risks. M. Turusbekova et al. [9] point out that banking competition can have a positive value for the development of the banking sector, since it forces banks to form products that are interesting for customers at favourable rates and expand the offer. But it can also have a negative impact if banks take risks for the sake of increasing competitiveness, for example, minimising margins, increasing the volume of risky loans, etc.

In connection with the concept of competition, the definition of a bank's competitiveness is also becoming quite an important and key concept in banking marketing. Competitiveness in general, as noted by M. Grzebyk and Z. Krynski [2] is the external and internal ability and flexibility of an organisation, its ability to adapt to the

changing conditions of the external competitive environment to receive concrete benefits from this process. Competitiveness is determined by the competitive advantages of the organisation, that is, a certain skillful use of available resources and opportunities. Confidence in obtaining a relatively permanent competitive advantage is conditioned by limited resources available only to a narrow group of competitors. Competitiveness does not arise spontaneously and automatically as a result of changes in the macro- and micro-environment and is not the only result of entrepreneurship, but is formed under the influence of many factors, both external and internal, that is, both from the capabilities of the organisation and the management of the internal environment, which maximises these opportunities and minimises the negative impact of threats.

From this one can derive the definition of a bank's competitiveness, agreeing with the opinion of O.A. Sinichenko [13], that, firstly, competitiveness is determined by the competitive ability of banking services and products by type (what advantages they have over similar products of competitors), and secondly, by the financial position and dynamics of the bank's development: indicators of the size and dynamics of assets, loan portfolio, portfolio of deposits, profit, profitability, liquidity. At the same time, A.Yu. Chuchelin [16] also points out the importance of assessing performance indicators (assets, loan and deposit portfolio) and their development in dynamics, a change in the bank's rating as a reflection of changes in its competitiveness, competitive position in the market. It is also necessary to focus on the factors that affect the competitiveness of the bank. O.A. Sinichenko [13] highlighted the following parameters:

- a banking brand that has been formed over the years. It is not only the name of the bank, but also its business reputation, which largely affects the trust of customers;
- branch network: size and geographical location;
- bank staff (quality, work system, motivation);
- business processes of the bank (organisation of service, its convenience for consumers);
- types of products and operations and their value to the consumer;
- the amount of equity, including in dynamics and in relation to the size of assets or liabilities as a whole;
- bank advertising.

It is important to note that taking into account current trends, many approaches to banking are changing, including the issue of developing a branch network. In recent years, the current direction of banking development is the transfer of many services, processes to online, the introduction of information technologies (IT) based on big data, automated information processing, the creation of such products for the use of which the client does not need to constantly contact the bank's department – that is, the development of FinTech as bank technologies based on the maximum use of IT [10; 17-20]. Notably, the world leaders in FinTech in the modern world are not the United States or Europe, but Asian countries, primarily China and India, where the share of banking operations transferred to FinTech has already exceeded 50% [10; 21; 22]. At the same time, the maximum number of services is transferred to FinTech (not only settlements, but also lending, currency exchange, investments, etc.), modern banking products are largely becoming complex IT products that are created as additions to the main product-the client's "personal account".

I.I. Bychkova [12] notes that in order to increase their own competitiveness, banks are introducing "ecosystems" based on the fact that, in addition to the services of the bank itself, through the "personal account" of the client, it is possible to use the services of the bank's subsidiaries: insurance and investment companies, leasing companies and others. Modern trends in the development of "ecosystems" form their new types, where in addition to banking services and financial services, non-financial services are generally included (a striking example in Russia is the ecosystem of Sberbank "Sber-Prime", which gives access to the bank's services, as well as related companies (grocery delivery, a cinema, a virtual mobile operator, service announcements, etc.). At the same time, Sberbank [17] notes that the development of this system to bring it to its current state began relatively recently, since 2018, with the creation of the SberX division in the bank's structure. At the end of February 2020, RUB 125 billion was invested in the development of this ecosystem, and the revenue of services (non-financial) included in this system for 2019 alone amounted to RUB 70 billion.

In general, the following can be stated. Banking competition is determined by macroeconomic factors, as well as the activity of banks in the market [23-25]. It is a struggle for demand in the banking market, the actions of banks aimed at achieving similar results for different services [26]. Banking competitiveness is the presence of a bank's competitive advantages related to the general condition and brand of the bank, as well as its individual

services. The current trends in improving banking competitiveness are the development of FinTech (an increasing transfer of services and products to online, automation of the bank's business processes), as well as the creation of complex ecosystems that include, in addition to banking services, other financial, and recently non-financial products.

Materials and Methods

Next, it is necessary to focus on the methods of assessing banking competition and competitiveness, which are further used for analysis in the banking sector of the Republic of Kazakhstan. Banking competition can be assessed taking into account the five forces model of M. Porter [14], which includes:

- 1) the total number of competitors in the market (the more of them, the higher the level of market competition);
- 2) the ratio of competitors' forces (determined by the size of competitors' assets in this area, the share in the total assets of each of the competitors) [27; 28];
- 3) the growth rate of the industry (determined by macroeconomic parameters, depends on the current state of development of the financial market and the banking sector as its component);
- 4) the degree of differentiation of services (creation of individualised products, their promotion by banks in the market, creation of value for the consumer by the bank);
- 5) dynamics of conversion costs (costs incurred by banks for the development of services, products, their own growth) [29];
- 6) the degree of availability of information;
- 7) strategic importance of the industry;
- 8) the height of the entry barriers [30; 31].

The information related to such an analysis is largely contained in the section "Monetary and Banking Statistics" on the website of the National Bank of the Republic of Kazakhstan (NBK) [19]. A number of data are contained on the KAZSTAT website (GDP, inflation, etc.) [20; 32]. The assessment of the development of banking competition can also be measured by such quantitative indicators as indicated by A. Bekmurodova et al. [5], as well as R. M. Bukvich [3], as the Herfindahl-Hirschman Index, which measures market concentration. It is calculated as follows:

$$HHI = \sum_{i=1}^n S_i^2, \quad (1)$$

where: HHI – Herfindahl-Hirschman Index; S_i^2 – the square of the share of each bank in the market (for example, by the total size of bank assets, or by the total volume of lending, or by the total volume of deposits). The higher the HHI, the higher the market concentration, respectively, despite the fact that the following parameters are used for the assessment: $1800 < HHI < 10000$ – a highly concentrated market; $1000 < HHI < 1800$ – a moderately concentrated market; $HHI < 1000$ – low-concentrated market [5; 33].

It is also proposed to evaluate the Lerner's index, which is a method for assessing the market power of an enterprise, equal to the relative excess of price over marginal cost, as discussed by A.V. Bakaykina [18], H. Le Long et al. [8], R.M. Bukvich [3]. For the banking

sector, more precisely, for the bank loan market, this indicator can be calculated as:

$$LI = \frac{P-MC}{P}, \quad (2)$$

where: LI – Lerner's index; P – weighted average rate on loans (including for certain types of loans); MC – marginal costs associated with the issuance of 1 additional monetary unit of loans (includes interest costs associated with attracting resources, as well as transaction costs associated with the issuance itself) [18; 34]. At the same time, the application of Lerner's index is quite limited, knowing information about effective loan rates and on attracting resources by individual banks. Such information can be published by large banks on their websites, for which the reporting for the last year of the first three largest banks in the Republic of Kazakhstan by assets will be considered.

In addition, it is expected to assess the performance of banks: the dynamics of assets (determine the rating of the

largest banks in terms of assets), the size and dynamics of the loan portfolio (similarly), the size and dynamics of equity, the amount of the bank's profit for the period. Indicators on overdue debt, its share in the loan portfolio, which characterises bank risks, are also of interest. Detailed data on the financial condition and financial results of the activities of banks can be found on the website of the National Bank of the Republic of Kazakhstan in the section "Indicators of the financial sector: the banking sector" [19; 35].

Results and Discussion

First of all, it is necessary to assess the overall dynamics of the development of the banking market in the Republic of Kazakhstan and external factors that affect this development. First, it is necessary to estimate the change in real GDP in recent years-2016-2020 (2020 – according to preliminary data for January-September) (Figure 2).

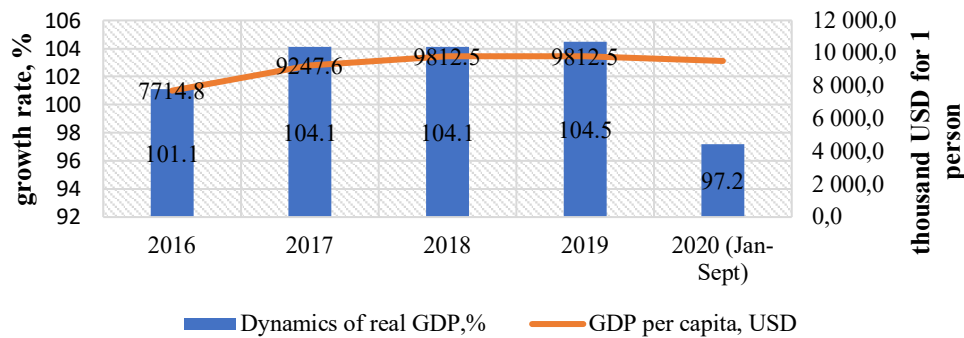


Figure 2. Dynamics of real GDP of the Republic of Kazakhstan for 2016-2020 (2020 – January-September)

The diagram shows that the country's economy grew even faster in 2017-2019 compared to the crisis year of 2016, while the growth rate of real GDP exceeds other large EAEU countries (Russia and Belarus). But in 2019, it has already decreased by 2.8% in the first 9 months, which is significant, and that is conditioned by the COVID-19 pandemic. At the same time, the value of GDP per capita increased significantly in 2017-2019, but by the end of 2020 it is expected to decrease. In general, such

trends are also characteristic of other states, since the problem of the COVID-19 pandemic has affected everyone. Considering the economy of Kazakhstan in comparison with the economies of other EAEU countries (first of all, Russia and Belarus, since the economies of Armenia and Kyrgyzstan are very small), then it has the following differences in terms of GDP for 2019 and GDP per capita (Figure 3):

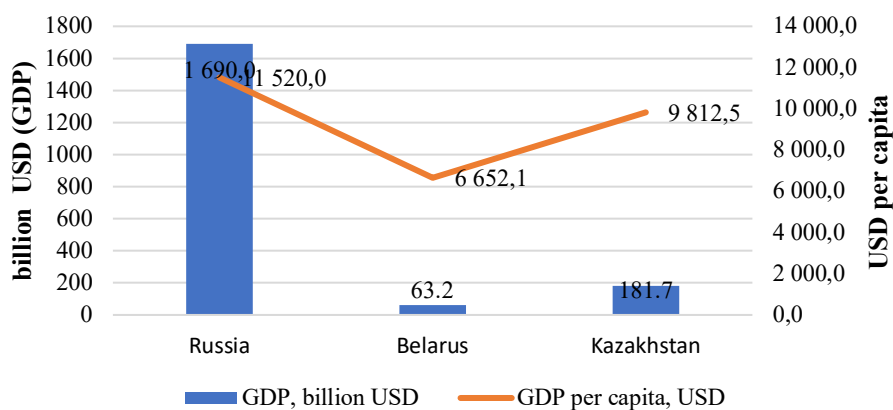


Figure 3. Total GDP and GDP per capita in the major EAEU countries (Russia, Kazakhstan, Belarus) in 2019

Source: compiled by the author according to KAZSTAT data [20].

The data shows that the Russian economy is the largest in terms of total GDP (9.29 times higher than Kazakhstan's and 26.74 times higher than Belarus'). At the same time, per capita GDP in Kazakhstan is only 14.8% lower than Russian and 47.5% higher than Belarusian. It follows that it is the Kazakh market in the EAEU that is most

interesting for attracting investments after the Russian one. It should also be of interest for the banking sector. To assess the risks of the economy, the study compares the inflation rates in three countries (Figure 4):

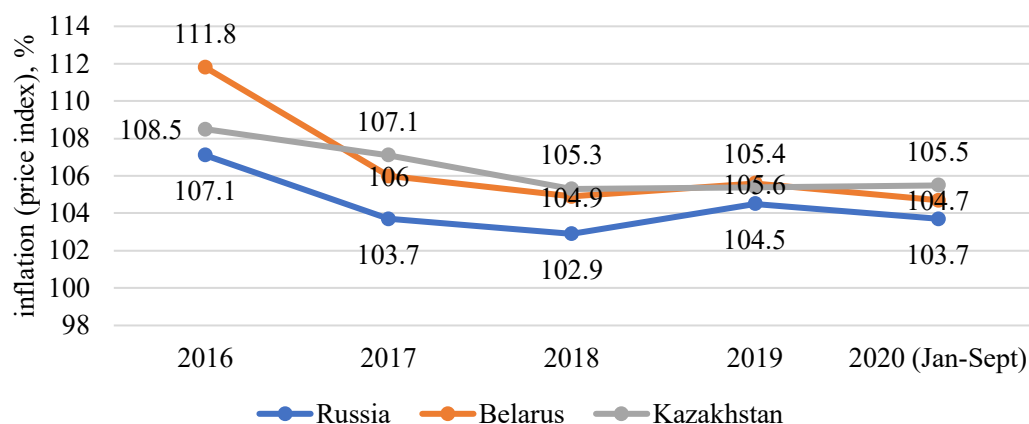


Figure 4. Inflation in the major EAEU countries (Russia, Kazakhstan, Belarus) in 2016-2019

Source: compiled by the author according to KAZSTAT data [20].

That is, in Kazakhstan in 2016, 2017 and 2018, inflation was higher than in Russia, which more characterizes the risks of the country's economy, but in 2019 it was lower than inflation in Belarus. In general, Kazakhstan can be characterized by fairly high inflation, which has a negative impact on the development of the banking sector, especially lending. Considering currency risks, the study compares dynamics of the dollar's exchange rate against the national currency for these three countries (Figure 5):

(higher than in Russia and Belarus – 111.04%). It can be stated that for the Kazakh financial market, a rather dangerous factor is a high currency risk, significant fluctuations in the KZT exchange rate compared to the currencies of other EAEU countries. Next, it is necessary to compare the three countries by assets of the banking system at the beginning of 2020 and by the number of banks operating on the market (Table 1):

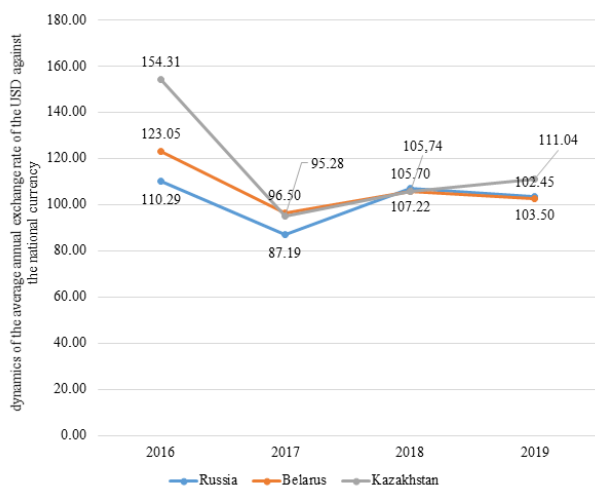


Figure 5. Dynamics of the exchange rate of the dollar to the national currency in the major EAEU countries (Russia, Kazakhstan, Belarus) in 2016-2019.

Source: compiled by the author according to KAZSTAT data [20].

As a result, it is clear that the most stable exchange rate is the exchange rate of the RUB, despite the fact that in 2016 there was a sharp fluctuation of the Kazakh currency (due to the holding of the exchange rate for 1.5 years before), and also in 2019 it was in Kazakhstan that the highest fluctuation of the national currency took place

Table 1. Total assets of commercial banks and the number of commercial banks in large EAEU countries (Russia, Kazakhstan, Belarus) at the beginning of 2020

Indicators / countries	Russia	Belarus	Kazakhstan
Number of commercial banks as of 01.01.2020	372	24	27
Assets of commercial banks as of 01.01.2020, billion USD	1777.8	36.2	70.8
Loan portfolio of commercial banks (non-financial organisations and individuals) as of 01.01.2020, billion USD	927.9	22.1	38.9
Total net profit, billion USD	2.1	0.1	2.1
Dynamics of assets for 2019, % (in terms of USD)	131.2%	106.7%	106.7%
Dynamics of the loan portfolio for 2019, % (in terms of USD)	133.1%	108.7%	107.6%

Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20]; the Bank of Russia [21]; the National Bank of the Republic of Belarus [22].

The table shows that the number of commercial banks in Russia is more than 10 times higher than the number of banks in Belarus and Kazakhstan. Russia has a much more significant (exceeding several times even the total amount of assets in Kazakhstan and Belarus), the same thing is the loan portfolio of Russian banks. Nevertheless, the assets and loan portfolio of Kazakhstan's second-tier banks significantly exceed the Belarusian indicators. According to the dynamics of development (growth of assets and loan portfolio), Russia is ahead of everyone, although Belarus has comparable indicators with Kazakhstan. Nevertheless, considering the net income of the banking sector, they are the lowest in the banks of Belarus, the highest in the banks of Kazakhstan, in comparison with the size of assets.

Therefore, the banking business in Kazakhstan is the most profitable of the three countries represented.

As a result, it can be concluded that although the Kazakh banking sector is much smaller in scale than the Russian one, has more risks (high inflation and a more unstable exchange rate), there is still more profitable activity in Kazakhstan than in Russia. Next, it is necessary to consider the indicators of the concentration of the banking market, calculate the Herfindahl-Hirschman index in relation specifically to the Republic of Kazakhstan. The calculation uses data on the banking market as of 01.01.2017, 01.01.2018, 01.01.2019, 01.01.2020 and 01.10.2020 (the latest up-to-date data). It should be taken into account that at the beginning of 2017, 34 banks were operating in the Republic of Kazakhstan, and as of 01.10.2020 – only 26 banks, that is, their number decreased by 8 (by 23.5%), which is significant. Figure 6 shows the changes in the indicators of the Herfindahl-Hirschman index for this period.

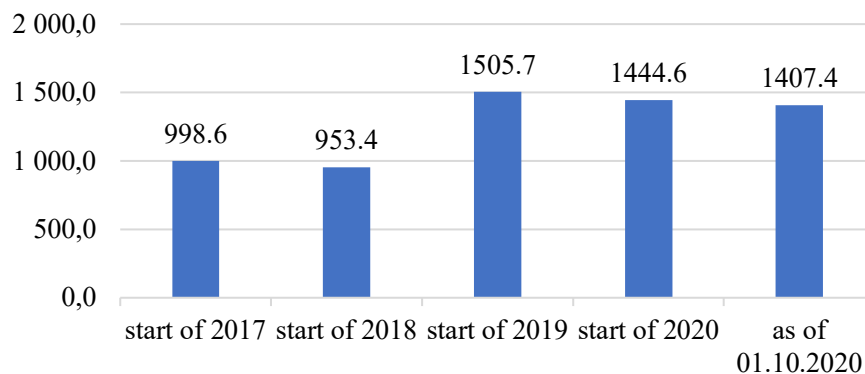


Figure 6. Changes in the indicators of the Herfindahl-Hirschman index in 2017-2020 in the banking sector of the Republic of Kazakhstan

Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

If at the beginning of 2017 and the beginning of 2018 the banking market of Kazakhstan could still be characterised as low-concentrated (HHI index <1000), then since 2019 it has been characterised as moderately concentrated with an index ranging from 1000 to 1800, even though it declined slightly by October 2020. This is largely due to the accession of Kazkommertsbank, which was in a rather difficult situation, taking second place in terms of assets in the banking sector of the country, to the joint-stock company (JSC) Halyk Bank of Kazakhstan during this period, as well as the consolidation of the subsidiary bank (SB) of Sberbank in terms of assets by 1.7 times. At the same time, several banks with foreign capital operate in the Kazakhstan market in the banking sector.

First of all, these are Russian Sberbank (a subsidiary), Alfa-Bank, VTB Bank, also a subsidiary of Citibank (an American banking structure), Home Credit Bank, as well as the Bank of China, TBP of China, Shinhan (a subsidiary of a Korean bank), Al Hilal Islamic Bank (a joint bank of the Republic of Kazakhstan and the UAE), the National Bank of Pakistan. At the same time, if Chinese, Korean, Pakistani and Islamic banks occupy rather low places in terms of assets in the rating of banks in Kazakhstan, then Russian and American banks occupy quite high positions in the rating, and Sberbank ranks the second in the banking sector of the country. The rating of the 10 largest banks in terms of assets is presented in Figure 7:

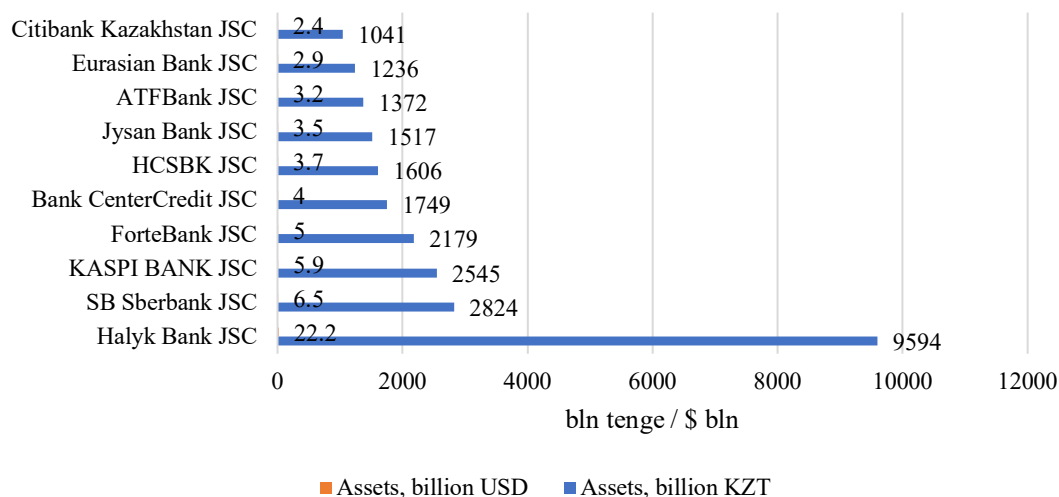


Figure 7. The largest banks of the Republic of Kazakhstan in terms of assets as of October 01, 2020
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

That is, the Halyk Bank is the largest bank in the country, whose share in the assets of the banking system is 32.1%, and the total assets of the other 9 banks from the top ten are only 53.7%. It is important to note that the top-10 also includes subsidiaries of foreign banks: Sberbank (2nd in terms of assets), Citibank (10th place). It will be important to take into account that since the beginning of 2017, two banks have had a fairly significant increase in the rating, increasing their assets – this is a subsidiary of

Sberbank and a bank with national capital – Kaspi Bank. The common thing between these banks is that they actively used FinTech. But if Sberbank brought these technologies from Russia, along with the brand and support from the main Russian structure, then Kaspi Bank implemented these technologies itself and at its own expense. Figure 8 shows the dynamics of their assets in recent years:

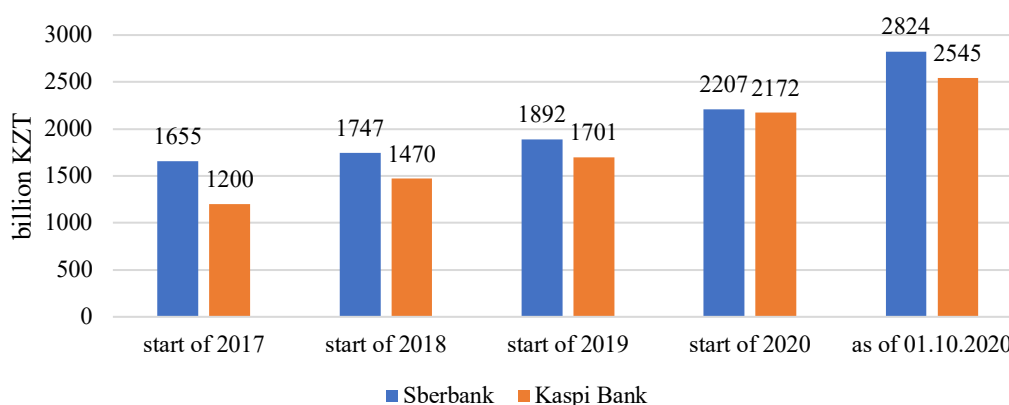


Figure 8. Dynamics of assets of SB Sberbank JSC and Kaspi Bank JSC for 2017-2020
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

From the above data, it can be seen that during the analysed period, Sberbank's assets increased from KZT 1665 to 2824 billion, or 1.7 times. In the rating, it has increased from the fourth to the second position (due to the accession of Kazkommertsbank and due to financial difficulties in Tsesnabank, among others). The assets of Kaspi Bank increased by 2.12 times over the same period, that is, more significantly in relative terms. And the bank

moved from the eighth position in the rating to the third. At the same time, in many respects the reason is the development of FinTech and products that are convenient from the point of view of IT for both individuals and legal entities in this bank. According to the size of the loan portfolio and the share of overdue debt, the following diagram can be drawn (Figure 9):

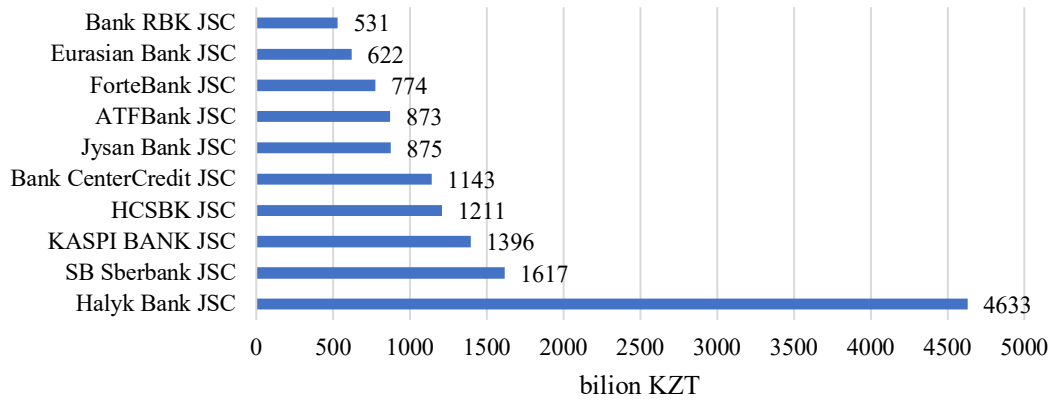


Figure 9. Banks with the largest loan portfolios in the Republic of Kazakhstan as of October 01, 2020
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

Thus, the first three banks that have the largest loan portfolios are also the Halyk Bank, followed by Sberbank and Kaspi Bank. For the rest of the banks, in general, the rating includes the same, except for Citibank, but Bank

RBK is included. According to the level of overdue loans, banks from this rating (Figure 9) are shown in Figure 10:

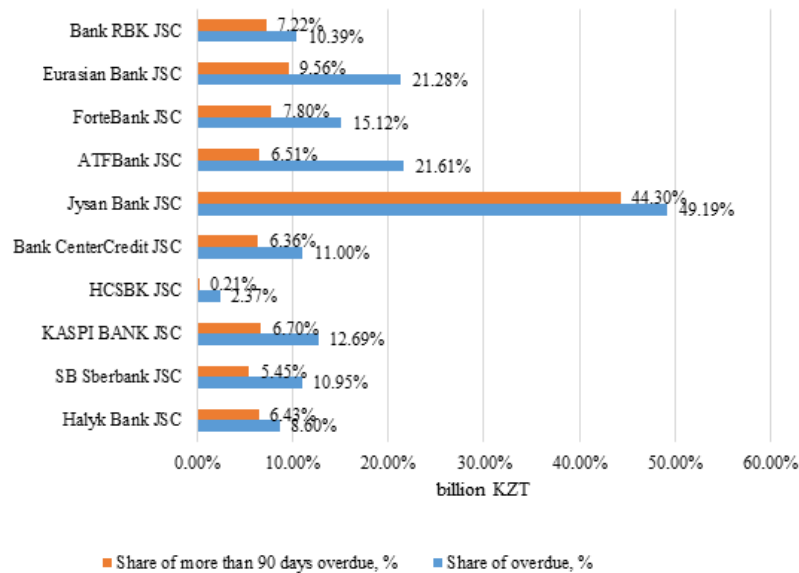


Figure 10. Banks with the largest loan portfolios in the Republic of Kazakhstan as of October 01, 2020 by the level of overdue loans
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

The presented graph shows that it is the Halyk Bank that has the minimum level of delinquency, despite the fact that this bank has the largest loan portfolio. In addition, the level of overdue loans at House Construction Savings Bank of Kazakhstan is minimal (based on the specifics of the work – mortgage lending). The bank with the highest level of overdue loans is Jysan Bank (formerly Tsesnabank), which faced significant financial difficulties

earlier. Sberbank and Kaspi Bank have approximately the same level of overdue debt, but Sberbank still has a lower level, which is associated with lower risks in lending and a more thorough assessment of potential borrowers. According to the size of the equity capital, the rating is shown in Figure 11:

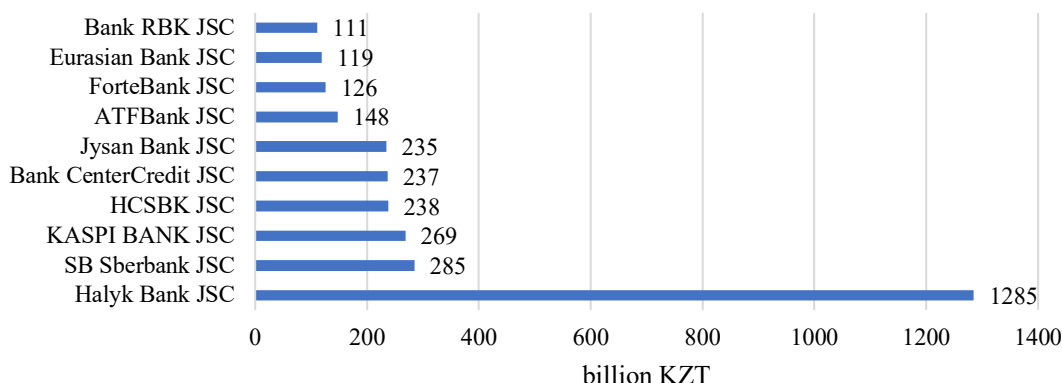


Figure 11. Rating of banks of the Republic of Kazakhstan by the amount of equity capital as of 01.10.2020
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

The presented diagram again shows that the first three banks from the rating by assets and loan portfolio have the most significant equity. In general, this rating includes the same banks as the rating by the size of the loan portfolio, in the same order. Finally, it is necessary to analyse the

rating of banks by net income, while comparing the profitability of the bank in terms of the ratio to the value of assets.

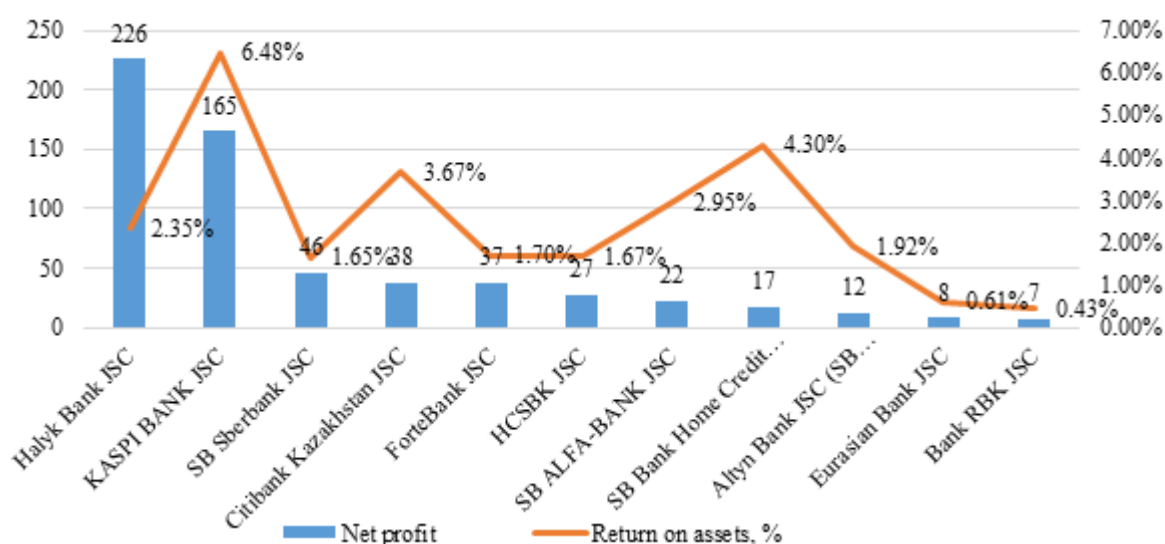


Figure 12. Rating of banks of Kazakhstan by net profit and return on assets for 9 months of 2020
Source: calculated by the author according to the data of the National Bank of the Republic of Kazakhstan [20].

As can be seen from the presented Figure 12, the first 3 banks out of the top 3 by assets are the first three in terms of profit. But Kaspi Bank made a bigger profit for 9 months of 2020 than Sberbank. At the same time, it proved to be the most profitable of the top 3 banks. Despite the lower

profit margins, Citibank, Alfa-Bank (not included in the top 10 in terms of assets and loan portfolio), Home Credit Bank (similarly) show fairly high profitability. The Lerner's index for banks from the top 3 (Halyk Bank, Sberbank, and Kaspi Bank) is presented in Table 2:

Table 2. Calculation of the Lerner's index for the top-3 Kazakh banks for 2019

Bank	Average loan placement rate, %	Average rate of attracting resources, %	Lerner's index
Halyk Bank	12.47%	3.31%	73.49%
Sberbank	14.78%	4.28%	71.03%
Kaspi Bank	22.19%	7.48%	66.31%

Source: compiled and calculated by the author according to the data of financial statements [23-25].

It follows from the presented data that it is the Halyk Bank that has the highest index, which is provided by a large number of fairly cheap customer funds that they attract. Sberbank is in second place, which attracts funds quite inexpensively, being the second largest major bank in the country, and also attracts interbank loans from the

Russian parent company at low rates. In third place is Kaspi Bank, which has fewer such opportunities, from where the index is lower, and profitability is provided mainly due to other lending schemes that give a higher average rate of resource allocation [26; 36].

Based on the results of the analysis, the following

conclusions can be drawn. Kazakhstan's banking sector is characterised, on the one hand, by the fact that it is the second largest in the EAEU after Russia. But the Russian banking sector is much more significant than the Kazakh one, both in terms of the number of participants, and in terms of the assets of commercial banks, their loan portfolios, and profits [37-39]. The dynamics of the Russian banking market is also higher than in Kazakhstan. Nevertheless, the Kazakh banking sector at the end of 2019 had fairly high profitability of activity, higher than the Russian one. But the activity of Kazakhstan's banks was affected by external risks associated with high inflation and the volatility of the national currency [39].

At the same time, the Kazakh economy has grown faster over the past 5 years than the Russian and Belarusian ones [27; 28]. Problems in its development are associated with 2020, in connection with the COVID-19 pandemic, although this factor has a negative effect on other countries. Comparing the number of subjects of the banking sector, then there are significantly fewer of them in Kazakhstan than in Russia, comparable to the Republic of Belarus. At the same time, there are many subsidiaries of foreign banks in the Kazakh banking sector (primarily, Russia, the United States, China, Korea, and some other countries), and one of the subsidiaries of foreign banks (Sberbank) ranks second in the rating in terms of assets, loan portfolio, and equity [29; 40-43].

In general, the banking market of Kazakhstan has become less competitive over the past 5 years, since the number of participants in it has decreased by 8 banks (23.5%), including due to financial instability and the bankruptcy of some, or in connection with mergers. From a fairly competitive one, it has become moderately concentrated, which is due, in particular, to the takeover of Kazkommertsbank by the Halyk Bank (now the NBK is the largest bank with a 32.1% share in the assets of second-tier banks), with the growth of Sberbank's assets by 1.7 times and Kaspi Bank by 2.1 times.

The growth of Sberbank and Kaspi Bank (the second and third place in the rating by assets and loan portfolio) is largely conditioned by the development of FinTech in these banks, but if Sberbank is based on technologies imported from Russia, then Kaspi Bank is developing its own. The policy of Kaspi Bank has brought it from the 8th to the 3rd place in 5 years, and in terms of profit for 9 months of 2020 – to the 2nd place, in terms of return on assets – to the 1st. The growth of Halyk Bank as the biggest bank in the country is largely provided by cheap resources attracted by banks at the expense of customers' funds. This allows lending at relatively low rates to both the population and organisations, generating high incomes [44]. The Lerner's index for Sberbank and Kaspi Bank (the second and third banks in the rating) is slightly lower, due to the fact that they attract resources at higher rates.

Banking competition is determined by the state and degree of development of the country's financial market and the banking market in particular, the development of state regulation in this market, the existence of certain restrictions [45-48]. The current economic situation in the country also affects the development of this competition. Banking competition is a struggle for demand in the banking market, the actions of banks aimed at achieving similar results for different services (lending, deposits and

attracting other resources, settlement, currency and other operations) [30; 49; 50].

But often the competition for different services is closely related to each other, since the achievement of results in one area contributes to the achievement in others (services are interconnected). Considering the prospects for the development of the banking sector in Kazakhstan, it is necessary to proceed from the forecasts for the development of the crisis associated with the COVID-19 pandemic. At present, the forecasts of reducing the incidence of diseases, lifting restrictions and restoring the economy in 2021 have not been fulfilled. The year 2020 ended with a significant decline in the country's GDP, which cannot but affect the banking sector due to a possible increase in inflation, devaluation, as well as a decrease in the incomes of the population and organisations, an increase in overdue debts and losses of banks in this regard [51-53]. There may be an increase in concentration in the banking sector, as was the case in 2016-2019, including due to the unstable situation of a number of banks [54; 55].

Conclusions

Banking competitiveness is the presence of a bank's competitive advantages, which are determined by its size, market share, performance and liquidity indicators, the dynamics of these indicators, and the actual services and products that should have value for consumers and bring income to the bank. The factors of the bank's competitiveness are such marketing factors as a brand, advertising, and such management factors as the branch network, business processes, personnel, and quality of service. Current trends in the development and growth of banking competitiveness today: the development of FinTech, when products and services are increasingly being transferred to the online format, IT is being introduced in the field of bank management and its operations, and the creation of complex ecosystems, which include not only financial products of the bank and its subsidiaries, but also non-financial products.

The analysis of the development of the banking sector of the Republic of Kazakhstan allowed for the conclusion that there are risks that affect the development of this sector, associated with high inflation, exchange rate volatility. However, until 2020, the outstripping GDP growth compared to other EAEU countries, as well as the high profitability in the banking sector compared to other EAEU countries, had a positive effect, which attracted foreign players to the market (now there are several of them: three banks from Russia, including Sberbank, the second-ranked bank in terms of assets, loan portfolio and equity in Kazakhstan), two from the USA, two from China, one from Korea, and also banks from other countries. Notably, the number of market participants has decreased, since 2019 the market has become more concentrated, including due to the takeover of Kazkommertsbank by the Halyk Bank of Kazakhstan.

There was an increase in the assets and rating of Sberbank and Kaspi Bank in the banking sector of Kazakhstan, which is associated, among other things, with their active use of FinTech. At the same time, Halyk Bank as the largest bank has a different advantage: fairly cheap resources that increase its ability to provide credit products

and affect further growth. The further development of the banking sector in Kazakhstan is largely related to how the situation around the COVID-19 pandemic would develop, to what extent this situation would negatively affect the economy in 2021.

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Conflict of Interest

None.

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Оцінка розвитку банківського сектору Республіки Казахстан в умовах конкурентного середовища

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Анотація

Актуальність. У цій роботі досліджуються сучасні аспекти розвитку банківського сектору Казахстану в умовах мінливого конкурентного середовища, глобалізації та розвитку банківських технологій. Банківський ринок Казахстану є другим за величиною в Євразійському економічному союзі (ЄАЕС) і Співдружності Незалежних Держав (СНД) після російського та інтегрований у світову фінансову систему за допомогою дочірніх структур великих іноземних банків. Незважаючи на різні виклики, деякі казахстанські банки зберігають високу конкурентоспроможність і стрімко розвиваються.

Мета. Метою дослідження є висвітлення особливостей банківської конкуренції на банківському ринку Республіки Казахстан.

Методологія. У дослідженні оцінено зовнішні економічні фактори, проведено порівняння з іншими країнами ЄАЕС, проаналізовано розмір і динаміку банківського ринку, оцінено концентрацію банківського сектору, складено рейтинг банків за активами, кредитним портфелем, власним капіталом, прибутком і рентабельністю активів.

Результати. За останні п'ять років рівень концентрації банківського сектору підвищився: відбулося зменшення кількості банків та укрупнення деяких з них. На ринку присутня велика кількість дочірніх структур іноземних банків. Зовнішні фактори, такі як інфляція, волатильність валютних курсів та пандемія COVID-19, негативно вплинули на сектор. Проте до 2020 року економіка Казахстану зростала швидше, ніж у Росії та Білорусі, а прибутковість банківського сектору була вищою, що приваблювало інвесторів, зокрема й іноземні банки.

Висновки. Банківський сектор Казахстану стикається з викликами з боку факторів зовнішнього середовища, таких як інфляція, волатильність валютного курсу та криза, спричинена COVID-19. Ринок став більш концентрованим, зі значним покращенням позицій Сбербанку та Каспі Банку завдяки розвитку ФінТех. Однак загальна кількість банків зменшилася, а деякі з них все ще відчувають фінансові проблеми. Подальший розвиток сектору значною мірою залежить від впливу пандемії COVID-19 на економіку в 2021 році.

Ключові слова: фінансовий ринок; комерція; конкурентоспроможність банків; економіка та фінанси.