

Capacity utilization of the Kazakhstani firms and the Russian financial crisis: A panel data analysis

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Abstract

This paper examines the evolution of capacity utilization for Kazakhstani enterprises over a 7 year period. Three main theoretical propositions are tested through panel data regressions. The results show that the Russian financial crisis (August 1998) substantially reduced capacity utilization throughout 1999 and that only from 2000 onwards did enterprises recover from the crisis. Moreover, the Russian financial crisis led to a permanent change in enterprises' behavior, in that only after the crisis enterprises became responsive to market signals. Finally, we also find evidence of a differential impact of the Russian financial crisis for different enterprise characteristics, including ownership, size, sector and location.

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1. Introduction

This paper examines the evolution of capacity utilization for Kazakhstani enterprises over a 7 years time period. It draws upon a unique database constructed from quarterly surveys of 1403 leading enterprises in Kazakhstan from the fourth quarter of 1996 to the fourth quarter of 2003. During this period, the Kazakhstani economy underwent substantial structural transformations, namely privatization, price liberalization, the establishment of the two tier banking system, etc. As Djankov et al. noted, “the widespread liberalization meant that enterprises had to adapt in

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order to survive and prosper in markets that were increasingly contestable” (2002, p. 743). In addition, during the same period, the Kazakhstani economy also experienced several external shocks, including the Russian financial crisis of August 1998, the decline of world oil prices in 1999, and its increase from 2000. There is now a consensus on the fact that the Russian financial crisis has demonstrated how fundamental weaknesses in restructuring, corporate governance and financial discipline can expose transition countries to economic instability. By 1998, Kazakhstan had liberalised trade and prices, reduced inflation, stabilised the exchange rate and privatized most of its enterprises. Yet Kazakhstani enterprises have made little progress in restructuring. Their low capacity utilization concealed underlying structural and financial problems, also caused by deteriorating payment discipline, the toleration of arrears and other forms of soft budget constraints. That is why we consider it crucial to test predictions derived from the economic theory on the evolution of capacity utilization over time and across different enterprises characteristics, using panel data regressions.

One of the key issues that we explore is whether the Russian financial crisis has implied major changes in the behavior of Kazakhstani enterprises, particularly with respect to their ability to adapt to the new market needs. Overall, we expect that such an external shock has led to an increase in the market orientation of the Kazakhstani economy, as reflected by a higher responsiveness to market signals. Our results indicate that this is the case. In particular, before the Russian financial crisis, Kazakhstani enterprises were not significantly responsive or adaptive to market signals, such as an expansion of the aggregate demand, and they became responsive only after the crisis.

Another issue that we explore is when enterprises recovered from the reduction in capacity utilization and whether there has been a differential impact of the crisis for different firm ownership structure, size, sector and location. We find that the Russian financial crisis substantially reduced capacity utilization throughout 1999 and that only from 2000 onwards, enterprises recovered from the crisis in terms of substantially improved capacity utilization. The recovery might also be explained in terms of the effectiveness of policy responses from the authorities in the first half of 1999 and also from a more favorable external environment, including the increase of world oil prices from 2000 onwards.

In terms of the differential impact of the Russian financial crisis for different enterprise characteristics, we find that state-owned enterprises and larger enterprises were less capable of adjusting towards a market oriented economy and were still struggling with the legacy of the centrally planned period. Finally, in terms of sector and location, our results show that the Russian financial crisis hit harder the regions neighboring Russia, which had the strongest trade ties with Russia, and the import-substitution sectors, which faced the strongest competition from cheaper imports from Russia.

A number of studies for developing and developed countries investigated the relationship between efficiency, technical progress and capacity utilization. In the case of Chinese state enterprises, for instance, [Zheng et al. \(2003\)](#) showed that wage incentives and capacity utilization had a positive impact on productivity growth. [Ohanian \(2001\)](#) analyzed the key reasons (amongst them capacity utilization) underlining the productivity fall in the great depression in the US, emphasizing that “a major challenge is to explain not only why measured productivity fell, but why productivity change varied so much across sectors” ([Ohanian, 2001](#), p. 38). The study of [Abdul \(2001\)](#) for India showed that that the commonly used capacity utilization measures tend to underestimate the true economic utilization level. Finally, [Belton and Cebula \(2000\)](#) and [Alaouze \(2003\)](#) explored the inflationary pressure brought by capacity utilization for the cases of the US and Australia, respectively. Although economic research has not paid enough attention to the

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