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PROBLEMS AND PERSPECTIVES OF DEVELOPMENT OF FINANCIAL ARCHITECTURE IN THE REPUBLIC OF KAZAKHSTAN

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Abstract. This report provides an analysis and evaluation of the problems and perspectives financial architecture of the Republic of Kazakhstan. The aim of the report analyzes the main problems of financial architecture and give practical advices. Report include information about present position financial architecture and financial instruments that are using in Kazakhstan.

Key words. Financial architecture, financial instruments, financial system, Islamic financial instruments, economic growth, financial crisis, Green Economy Concept.

By the reason of the composite financial crises in the 20th and 21st centuries, there seems to be a resolution that there is a dire need for a transform of the Global Financial Architecture (GFA). “Global Financial Architecture” is the term given to the institutional, regulatory, and supervisory framework governing the world’s monetary and financial system. By itself, the term "financial architecture" was first pronounced by us President Clinton at the New York Council on foreign relations in September 1998. The Global Financial Architecture is the “collective governance settlements at the international level for protecting the effective functioning of the worldmonetary and financial systems” [1].

As a special constantly updated basic framework of the institutional structure of the world financial system, emerging at all levels, the world financial architecture is specific and can radically change both in time and in space. It is very important, in our opinion, from the point of view of assessing the effects of globalization of the world economy is to determine the structure and nature of the elements of all levels of the world financial architecture and on the basis of this development of adapted to the conditions of Kazakhstan mechanism of regulators of national financial systems, which should be considered in more detail the institutional and instrumental system of the world financial markets. Kazakhstan financial sector is formed and operates under the influence of factors that create an environment, in which practice of financial sector institutions activity is generated and developed, and the degree of its impact on the real economy and its competitiveness is determined.

The growth of the financial system of the Republic of Kazakhstan is unstable and is caused by a number of key problems, many of which are protracted, which is also confirmed by inter-country assessments of leading international organizations. The stagnation of the financial market in recent years is caused by both internal reasons and restrictions on the part of the real sector, in particular:

- bank lending priorities reflect imbalances in the structure of economic growth based on consumer demand rather than investment;
- the limited range of services provided to large enterprises, and the inability of banks to accumulate independently a significant amount of resources needed to Finance large-scale investment projects, determine the dependence of the financing of priority areas of economic development, including small and medium-sized businesses, largely on the resources allocated by the state;
- the bias towards retail funding of the banking system in the actual absence of the market for redistribution of liquidity and underdevelopment of refinancing mechanisms makes the system vulnerable to risks of" change of mood " of depositors;
- the high volume of non-performing loans reduces the ability of the banking sector to respond flexibly to changes in the macroeconomic environment, the situation in certain markets;
- mismatch in the structure of assets and liabilities of the banking system by currency, as Bank lenders increase preferences for foreign currency, and borrowers-to the national currency;
- absence of internal points of growth of other segment, in particular insurance, when development is provided by compulsory types of insurance or accompanying insurance, as cross-sales when lending by banks, pension annuities due to transfers of pension savings from accumulative pension funds to insurance organizations;
- systemic risk associated with high loss-making of certain types of insurance as a result of legislative restrictions on the size of insurance tariffs and deregulation of state functions with the transfer of their commercial insurance companies without proper risk selection;
the low potential of non-Bank institutional investors in the private investment market, when the possibilities of insurance companies are limited by the transfer of a significant amount of insurance premiums to reinsurers-non-residents of the Republic of Kazakhstan, and in the management of pension money in the creation of a Single accumulative pension Fund (UAPF) comes to the fore the question of ensuring the safety of funds by reducing investment risks;

- supply deficit and unattractiveness of securities market instruments in relation to Bank deposits and real estate market for retail investors;
- as a result, there is no alternative to the banking services market on the part of the securities market [2].

In the banking sector, after several years of stagnation caused by the financial crisis, there was a certain growth dynamics. However, indicators of the level of financial intermediation show the lack of efficiency of banks in reallocating resources in the economy and meeting the demand for loans from economic agents and also reflect the strengthening of regulation in the light of international initiatives to address the problems that led to the global financial crisis.

The low level of financial intermediation is largely due to unbalanced lending and low diversification of the loan portfolio, as well as mainly short-term funding. Its structure is dominated by loans to the services sector, in particular trade (i.e. loans with a high share of turnover), construction and real estate (loans issued largely in the pre-crisis period). The lack of involvement of the banking sector in the process of financing small and medium-sized businesses reflects the high level of debt and the unstable financial situation of the latter, including due to their low ability to generate capital, which leads to the concentration of credit risk in these areas.

In the securities market, the decrease in the liquidity of the domestic stock market was negatively affected by the reduction of investment activity of the main class of institutional investors in the face of accumulative pension funds and pension asset managers, including as a result of legislative changes that created and supported the demand for corporate securities of Kazakh issuers. In addition, the opportunities for issuers to attract equity and (or) debt capital through the securities market and investment horizons for other investors have narrowed, as a result, the volume of the internal organized market represented by the Kazakhstan stock exchange has decreased [3].

Thus, according to the world Economic Forum, which was held on October 17, 2018, one of the weak indicators of Kazakhstan's competitiveness is the financial system. This indicator Kazakhstan took the 100th place in the ranking [4].

The modern world financial crisis has shown the importance and magnitude of miscalculations in the economic policy of Kazakhstan, imbalances in the structure of the economy, the imperfection of the institutional structure of Kazakhstan's financial system. Kazakhstan has not effectively used the opportunities created by rising revenues from high oil prices to intensify the processes of structural adjustment of the economy, complete institutional reforms and adapt the national financial system to the new challenges of globalization.

Precedency in the evolution of the financial system is the development and introduction of new financial tools such as index funds (ETF), the securitized assets (SPV), futures, options, Islamic instruments (sukuk, etc.) are accessibly for a wide range of investors (such as institutional investors and for individuals). At the moment, Kazakhstan uses these tools to improve the financial architecture.

Nowadays, Kazakhstan is prepared the legislative framework for appeal major Islamic financial instruments. These instruments contain project financing, private account management, trust funds a client issue Islamic securities. It can also be named specific properties of Islamic securities – sukuk, which are analog bonds. They are released to increase capitals to finance projects. On them are also forbidden the use of interest, i.e. forbidden from guaranteeing any fixed payments. In turn, the issuer commits to hand out the profit to be received from the project between the owners of a given government securities. It should be said that in the world has not been a single default of Islamic securities.

With the target of creation the suitable conditions for realization of Islamic financing into the Kazakhstani market, the RFCA made the request on amendments to the current banking laws, precisely in the part of adjustment of Islamic banks and its operating activities; tax laws with the goal of lowering of the tax heaviness and creation of the fair rival conditions for Islamic banks progress; general improvement to the Civil Code of the Republic of Kazakhstan [5].

In addition, the Republic of Kazakhstan has made exponential development in reforming the Green Economy Concept, including the development of the Business Scheme in Kazakhstan (K-ETS), as well as in energy effectiveness and renewable energy policies. With the endorsement of the European Bank for Reconstruction and Development (EBRD), Kazakhstan also submitted its National Deterministic Deposit
(NDC) to the UNFCCC in September 2015. Kazakhstan signed the Paris Agreement on Climate Change in August 2016. Green Finance in Kazakhstan includes some important aspects, such as greening the banking system, greening the bond market, greening institutional investment [6].

We believe that in Kazakhstan at the moment there are real prerequisites for the formation of a regional financial center, subject to changes in the institutional dynamics of the Kazakh economy and its financial system, for example, as one of the main dominants of the institutional development of the financial system of Kazakhstan can be noted such as – ensuring the national financial and economic security of Kazakhstan through the formation of a post-crisis model of the banking system, involving the implementation of the following activities:

- ensuring effective redistribution of capital within the banking system;
- formation of Bank risk management standards taking into account the cyclical nature of economic development;
- reduction of net external debt of Kazakhstan banks and recapitalization of the banking sector;
- the increase in domestic sources of savings;
- consolidation of the banking sector;
- improving the competitiveness of Kazakhstan's economy and changing the role of Kazakhstan in the formation of the global financial architecture.

Thus, the conclusion about the need to develop the financial architecture and its instruments in Kazakhstan is very reasonable, only then Kazakhstan will improve its financial performance and reach the world level.

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INFLATION AND THE ROLE OF ANTI-INFLATION POLICY IN KAZAKHSTAN

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The problem of inflation occupies an important place in economics, since its indicators and socio-economic consequences play a serious role in assessing the economic security of a country. In terms of inflation, there is a depreciation of money, which is manifested in relation to goods, gold, and foreign currency.

Accordingly, inflation is manifested in the sphere of circulation, but its root cause is disproportion in the reproduction process. Therefore, the state of monetary circulation in the country can be considered a barometer of its economic and political life.

It should be mentioned that, inflation is a long-term process of lowering the purchasing power of money, an increase in the general price level, accompanied by a corresponding decrease in the purchasing power of money (depreciation of money) and leading to a redistribution of national income. Regardless of the state of the monetary sphere, commodity prices may change due to increased labor productivity, cyclical and seasonal fluctuations, structural shifts in the reproduction system, monopolization of the market, government regulation of the economy, introduction of new tax rates, devaluation and revaluation of the monetary unit, changes in market conditions, the impact of foreign economic relations, natural disasters.

Therefore, inflation is caused by monetary and structural reasons: