

Technical Peculiarities of the Stock Market Implementation: State Policy and Problems of Liquidity

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Abstract:

The current article deals with the problem of the stock markets functioning in Kazakhstan. The aim of the survey is to explore and analyze the peculiarities of implementing the state policy as for the stock markets. The stock market is one of the most effective and sensitive types of business. The problem of the Kazakhstan stock market is its liquidity. The stock market has not yet become a full-fledged mechanism of the country's financial system. IPO industry in Kazakhstan solves the problem of stock market development based on the growth of the number of issuers and expanding the investor base, including retail. In present time, the state sees prospects for the revival of the stock market through the implementation of the project of issue of short-term securities, as the most liquid financial instruments, with the use of "blockchain" technology, which will confirm the transactions and ownership of the purchased securities. Further policy concerning the stock-markets demand support from the state and government over all the levels.

Keywords - stock market, state policy, financial policy, state support, market growth, investment.

I. INTRODUCTION

The stock market is one of the most effective and sensitive types of business, which is a mechanism of contact between the interests of buyers and sellers of the market instrument. A special attraction of the stock market for investors is the ability to diversify investments in securities according to their preferences and expectations.

Investors are rational and invest funds for the specific purpose of creating a flow of income and (or) achieving capital gains. A prerequisite for the decision to invest is the availability of funds. Income from investment can be obtained in the short term, if the task is to cover the planned future costs, or on a long-term basis, when the goal is to increase the capital to use it in the future.

Income is defined as the regular flow of money to cover expenses. This cash flow usually takes the form of interest (on

bonds) or dividends (on shares), or capital in the event of liquidation. In General terms, investments that are more suitable for generating income are Bank deposits and money market instruments, bonds with the high coupon, share tools with high income [15].

Capital gains are defined as an increase in price through an increase in the cost of share capital. Investments that are more suitable for capital growth include equity instruments, mutual funds and zero-coupon bonds. No one can provide a guarantee of the profitability of an investment, and there is always a possibility that the value of the investment will fall, so the investment is characterized by riskiness. The investor, the same entrepreneur, and the risk is an integral part of his activities. From his attitude towards risk depends on his positioning on the stock market.

The problem of the Kazakhstan stock market is its liquidity. In many ways, the current situation is due to objective political and economic factors, historical conditions, mentality of the people. After declaration of Independence, the Republic decided to build the economy on private ownership, adopted a market ideology with all its advantages and disadvantages. Banks provided the needs of the population and enterprises and resources through cheap external borrowing. However, a decade later it became clear that the mechanisms of management and resource mobilization began to fail. Such negative aspects as cyclical production, influence and role of large financial and industrial groups and syndicates on the market, tough competition were not taken into account. So there were serious problems in the Kazakh banking sector. At present, the main source of investment for banks has become the state budget and the national Fund. Therefore, commercial banks are not able to provide enterprises with cheap credit resources, and they are forced to cover their current financial needs in cash by: 1) their own working capital-they are interest-free; 2) credit debt – when business partners provide each other with funds with delay of payment; 3) through the issuance of promissory notes. If the promissory note issued by the enterprise is in demand, then the enterprise in the business community has a reliable reputation.

In addition, many domestic producers experience consequences of sanctions applied by the West to the Russian Federation. Within the framework of the EAEU, the borders are often closed for the export of Kazakh products, and Vice versa.

The main export goods are non-renewable resources-oil, gas, non-ferrous metals. Energy prices are increasingly driven by political considerations rather than economic expediency.

In order to mitigate the negative factors on the country's economy, the state has taken a course on de-dollarization, respectively, which is carried out and financial policy by reforming the tax, budget, monetary part of it.

Regardless of whether the state is more developed or less developed, they have one goal - to increase the amount of financial resources to ensure economic growth. The content of financial policy and its main directions depend on the level of theoretical concepts adopted in a particular country, which determine the degree of the state participation in the management of the economy and the use of instruments for the implementation of financial policy, i.e. specific forms of organization of financial relations. For example, in the US, the state ideology is a free private initiative and the fight against the budget deficit, is solved not by increasing taxes on corporate profits, but by sequestering spending, while in many other countries, the tax burden for citizens with super-income is tightened [14].

Financial policy of Kazakhstan from the first days of independence recognizes the freedom of entrepreneurship, a variety of forms of management, combines public and private interests. Currently, the financial strategy is built into the country's entry into 30 competitive countries of the world, part of which is the construction of a developed open stock market. As far as the financial policy is able to implement it, and tried to answer the authors.

The methodological basis of the research is General scientific research methods, qualitative and quantitative analysis, methods of system, comparative analysis, grouping method, questionnaire.

II. RESULTS AND DISCUSSION

Effective financial policy means macroeconomic financial support of economic sectors; the absence of the state debt; the absence of a budget surplus; the hardness of the national currency. To what extent these indicators have proved to be consistent in practice, we have considered below.

According to economic theory, the deficit and surplus of goods (money) can have an equally negative impact on the economy. In mutual trade, a weak economy is always in debt. The Republic is a member of the EAEU and as a weaker business partner is in an unequal economic position with larger Russian capital. 70% of trade turnover in the framework of the policy of de-dollarization in both countries, with Russian companies is made in Russian rubles. Kazakhstani participants thus support the Russian producer and the currency system of another state.

The main volume of expenditures in 2018, was aimed at the purchase of the US dollars - 57,6%, Russian rubles – 31,1%, and the Euro - 11.0%. By currency type, expenses for the purchase of Russian rubles increased by 6.4%, expenses for the purchase of US dollars and euros decreased by 19.4% and 11.8%, respectively [11].

The total volume of net sales by foreign currency exchange offices in 2018 amounted to 2.4 trillion of tenge.

The fall of prices on oil in 2014 caused a decrease in exports and budget revenues. In General, taxes in Kazakhstan are paid by more than 200 thousand legal entities, 90% of taxes in 2017 were brought by 4920 companies, and in 2016 tax revenues were brought by 4976 companies [12].

The deficit of the Republican budget in 2017 was 2.6% [9].

The government securities market (GS of the MFRK) turned out to be little liquid in the secondary market due to the distribution of GS through the creation of new issues. The average number of bidders is also small. The available volume of investments was distributed among a relatively large number of GS issues (Fig. 1).

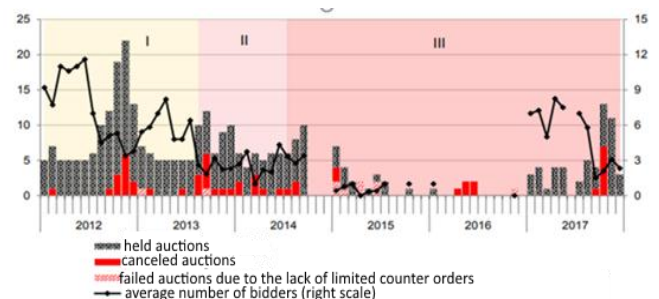


Fig. 1. The Rhythm of the trades in government securities [8]

The state formulated the following fiscal rules: the rule on the budget deficit; the rule on non-oil deficit; the rule of expenditure; the rule of debt. According to them, the state budget deficit from 2018 should be 1.0% of GDP. The target is to reduce the non-oil deficit to 6.0% of GDP in 2025. Fiscal rules in terms of costs are aimed at limiting them. Growth rates, their absolute value or their share in GDP are consolidating.

The upper limit of public debt should not exceed more than 60 % of GDP; the cost of its maintenance and repayment should not exceed more than 15% of the Republican budget revenues, including transfers from the National Fund; the amount of government debt and external debt of quasibusinesses - public sector entities - should not exceed the total amount of foreign currency assets of the National Fund [3].

However, the National Bank is still forced to spend significant funds to withdraw liquidity. Only in 2017, they amounted to 7% of GDP, which puts an additional burden on the monetary system of the country. The National Bank issues notes (own securities), public debt and debt service are growing. The fiscal part of the National Bank does not receive enough revenues and

ultimately these costs fall on the budget. However, the National Bank sees the solution to this problem in the possibility of replacing notes with longer-term bonds of the Ministry of Finance. Thus, the National Bank proposes to expand the instruments of financing the budget deficit through borrowing and budget balances and to reduce the risks of non-return. The Ministry of Finance as a result, does not attract expensive foreign loans, and receives resources to finance domestic projects (development programs).

The country's balance of payments deficit, which reflects the country's place in the world economic ranking, was financed by

the National Fund and Eurobonds. The debt's structure showed clear distortions of the "raw" nature of foreign investment. Net external debt of the Republic of Kazakhstan as of 1 April 2018 amounted to 46.0 billion US dollars or 28.2% of GDP [7]. About half of the debt is accounted for by the mining industry- 82.4 billion dollars, of which 77-billion-dollar account for oil and gas production.

The net international investment position (IIP) = the stock of external assets – the stock of external obligations by 1.04. 2018 (-) 59.6 billion of US dollars [8]/ base rate remains at 9.25% per annum with a corridor of +/-1% [11] (Fig. 2).

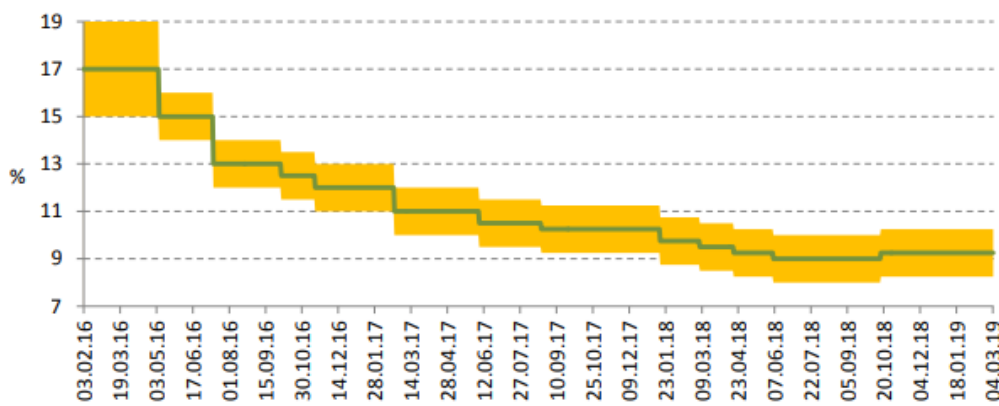


Fig. 2. Dynamics of the base rate and its interest rate corridor [11]

The International Monetary Fund noted that in Kazakhstan the main share of loans goes to public authorities, many times exceeding the share of not only the private sector, but also national companies [7]. Also, attention was drawn to the fact that the regional ratio of loans to the real sector in Kazakhstan decreased by more than 20% compared to 2014, despite their slight increase in 2018. The credit activity of banks was influenced by the supply-reduction of economic capital of banks and by lack of quality borrowers from the demand's point. The total equity (capital) of banks decreased by 0.4% in 2018 [11].

Investments are always good. All economies in the world need them, Kazakhstan is not an exception. For the Republic, the opening of the international financial center in Astana(AIFC) is not a new project. In 2006 The law "on the regional financial center of Almaty" (RFCA) was signed, according to which the RFCA was to become a special legal regime governing the relationship between the participants of the financial center and stakeholders aimed at the development of the financial market of the Republic of Kazakhstan. An important role was given to the integration of the Kazakhstan securities market with international capital markets, the creation of conditions for attracting foreign investors and issuers to work in the financial center, the development and introduction of new financial instruments and stock technologies, improving the investment and financial culture of the population.

For this purpose, tax benefits were provided in respect of dividends on securities in the official list of the stock exchange

operating in Kazakhstan; tax exemption in the possession of the relevant shares (participation shares) for more than 3 years, etc.

However, the stock market within the RFCA has not led to the formation of a full-fledged market of shares, bonds, derivatives. The Republic is in the position of a country with a low investment level. More than 90 issuers have been listed on the Kazakhstan stock exchange (KASE) and only shares of 7 issuers are representative. According to the composition of the issuers presented in the Kazakhstan index, the structure of the country's economy has not undergone fundamental changes over the years of independence (Table 1).

Table 1. Change of KASE index representative list [8]

№	Representative list of KASE index	
	issuers on 25.06.11	issuers on 25.01.19
1	"BankCenterCredit"	"BankCenterCredit"
2	"HSBK"	HSBK "National bank"
3	"Kazakhtelecom"	"Kazakhtelecom"
4	"Eurasian natural resources corporation PLCGB"	"KAZMinerals"
5	Exploration Production "KazMunaiGas"	"KCEL"
6	"KAZAKHMYSPLC"	"KazTransOil"
7	"Kazkommertsbank"	"KEGOC"

Absolute index values are not important. Changes in its composition are more important, as they provide an indication of the overall trend in the economy. The Kazakhstan index reflects the quotes of shares of a narrow segment of the economy and shows its vulnerability and does not take into account the company's sufficient degree of capitalization and profitability of other sectors of the economy, the shares of which would be of interest to retail investors [13]. The most liquid shares in the index are subject to external influence and are not able to influence the investment attractiveness of the market. This is reflected in the normal rhythm of investment processes, which led to an almost complete halt in the processes of renewal and modernization of fixed assets of industrial enterprises.

In the opinion of the authors, the national historical past of the Kazakhs played the basis of the late recognition of securities as an additional alternative in obtaining income. Despite the rich history and original statehood, Kazakhs did not experience as other peoples of Asia or Europe capitalist stage of development. As part of the Russian Empire, where capital was already formed, this process was in its infancy. Thus, at the mental level, the Kazakhs, as a fundamental nation, after the collapse of the USSR required a certain stage of breaking public consciousness. No one in the country disputes the truth that the development and support of innovations, whether it is technology or a financial instrument, determines a certain investment and innovation culture formed in the society. It is understood as a set of rules and ethical standards observed by the company, working for the company, working for a new quality of investment opportunities and economic growth.

Today, such motivation in Kazakhstan is based on the stability of property. In addition, Kazakhstan's business is rational, it is not in a hurry to invest in high-tech projects and gives the right to the state to make decisions and take risks. Thus, public - private partnership is actively developing. But this gives the opportunity to the state to ask the business uncompromisingly rigidly a report on the use of funds at the end of the project so that society can really feel the results through the growth of the revenue side of the budget, and as a consequence, the growth of the welfare of society as a whole.

The third stage of privatization (1996-1998) made a radical change in the minds of people and the victory of market relations in the society when ten percent of the preferred shares of national companies were placed among the members of the labor collective. The availability of equity capital for investors has led to the emergence of new professions - brokers, financial analysts, investment banks and it funds. About 1.5% of all employed workers are involved in the financial and insurance sector.

The program «National IPO» initiated on behalf of the President in 2012 was to provide opportunities for citizens of the country to purchase shares of leading domestic companies and promote the development of the securities market. However, the expected growth of private investment boom was not observed, our population has more confidence in conservative Bank deposits.

The incomes of the population have undergone quantitative, structural and substantial changes. Income from property,

income from business activities, their share in the total amount of income is constantly increasing. This indicates the desire of ordinary citizens to be responsible for personal well-being and a positive attitude to the internal policy of the state for the development and support of business [16].

However, most of them are not ready to participate in the securities market for material reasons (65%) and distrust (35%). At the same time, they noted the following:

1. When buying shares in the future, they will focus on the parameters of fundamental analysis and will consider investing in shares not just as a source of additional profit, but as the purchase of a successful business that is behind these shares. And this is a qualitatively different level of perception of the stock market;
2. They pointed to the weak management in national companies. Respondents noted that their high market value was the result of special privileges. At the expense of budgetary funds, their capitalization was directed billions of \$. Therefore, the positive dynamics of their activities do not reflect the high professional competence of top managers;
3. The absence of a single database on the dividend policy of companies. Neither the state regulator, nor the Kazakhstan stock exchange, nor its subsidiary - IRBIS news Agency provide such information. This infringes on the rights of potential investors and, accordingly, causes distrust to the institutions of the stock market.
4. Not satisfied with the predominance of property based on the dominance of large corporate and family owners, which reduces the number of shares in free circulation and, accordingly, affects the share price is not in favor of retail investors. While the stock markets of developed countries have a very broad representation, in which the shares of small capitalization companies are often much more liquid than many Kazakh issuers.

Among the most popular shares among Kazakh investors are securities of companies in the field of IT and biotechnology.

Households are generally the main providers of money to the financial market. This sector generates large savings of individuals, which, depending on the period of circulation, are classified into consumer (current) savings and investment savings. However, this resource is still underutilized. Thus, the share of retail investors among the population involved in the stock market through the People's IPO is only 0.6 % [6]. Further attraction of retail investors will depend on the IPO of non-commodity companies

The high concentration of export revenues is problematic for Finance in general. As a result, there are gaps between the receipt of such income from companies and their entry into the foreign exchange market. It significantly distorts the reliability of the forecast of exchange rate expectations and leads to their volatility. Secondly, there is an outflow of capital and foreign exchange earnings from the country (Fig. 3).

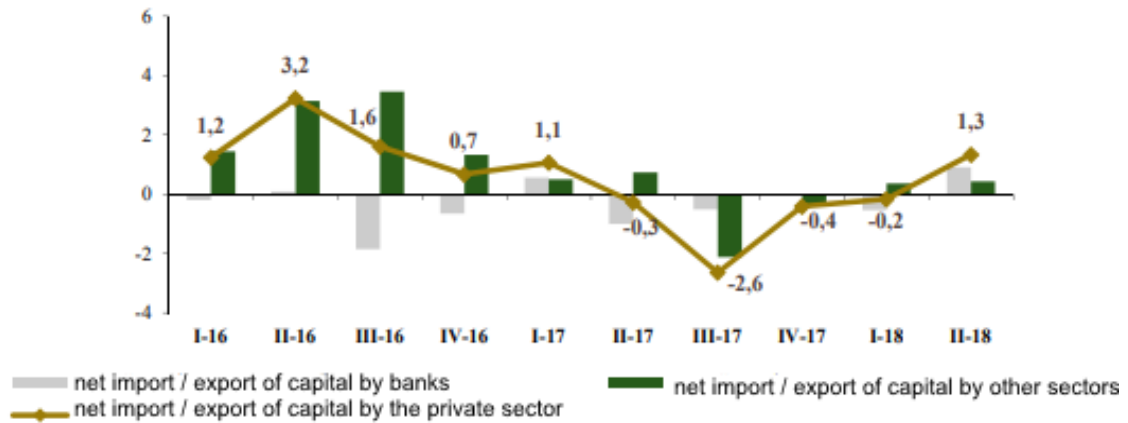


Fig. 3. Dynamics of net capital import/export by the private sector [2]

The program of de-dollarization of the economy and fiscal policy measures over the past two years have already shown results:

1. Dollarization of deposits decreased from 72% in 2016 to 48.4% at the end of 2018. The attractiveness of tenge deposits was based on the increase in the guaranteed amount of deposits in the national

currency from 5 million tenge to 10 million tenge. The total volume of net sales by foreign currency exchange offices for 2018 remained almost at the level of 2017 (an increase of 1.0%) [11].

2. From 4% GDP growth in 2017, the share of non-commodity sector contribution was 60% [4].
3. Money market rates have stabilized (Fig. 4).

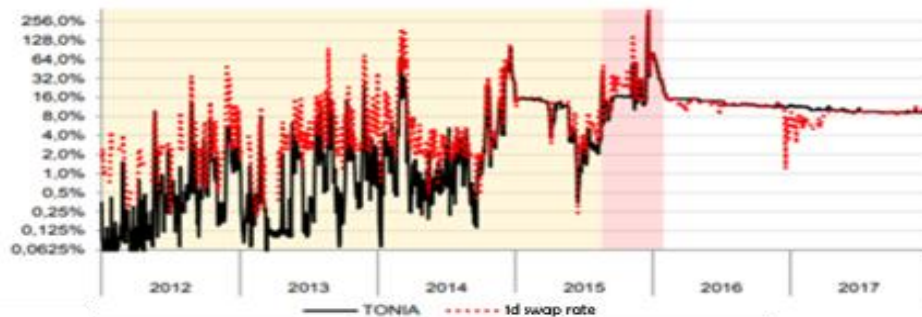


Fig. 4. Dynamics of money market rates [8]

***Note: 1) A logarithmic scale is used on this graph (base 2); 2) the currency swap rate indicator 1d was introduced by the KASE from June 9, 2014. The values of the rate for previous periods obtained by calculation

Thus, the prospects of the stock market in providing financing for the economy are more optimistic than pessimistic. Kazakhstan stock exchange is working to attract interest to the stock exchange. So units of domestic mutual funds, foreign listed securities - shares of Bank of America, shares SSGA (US_SPY_), some Russian companies are listing.

AIFC participants are provided with more fundamental tax preferences, such as exemption from tax payments for 50 years on corporate income tax on income from financial and ancillary services, individual income tax, land tax and property tax. AIFC participants have the right to use any currency stipulated by the agreement and the rules of the AIFC Exchange in their work. The legal and judicial system of the financial center operates on the principles of English common law. An

Arbitration center, an international financial court and an independent financial regulator in the form of a financial services regulatory Committee (independent from the national Bank of Kazakhstan) have been established.

For all the appeal of opening of IFCA, there is skepticism in the community. "Out of the five directions of the AIFC strategy, only the management of the well-being of wealthy individuals and assets, both in terms of services and in the management of repatriated and attracted funds of wealthy citizens of neighboring States, probably has prospects for implementation" [5] according to the authors, in a secular democratic society, as Kazakhstan positions itself to the world, there should be alternatives.

The Ministry of Finance, in order to increase the liquidity of government securities, focuses on holding repeated auctions for their distribution. Therefore, operations management obligations, including the redemption of government securities (early redemption) on the secondary market are carried out. It will allow to structure the market by types of instruments (short-term, medium-term, long-term) and improve the efficiency of the stock market as a whole.

This strategy of issuing government securities allows to take into account long-term trends in the money market with the reduction of transfers from the National Fund to the national budget. Reduction of the guaranteed transfer from the National Fund to the budget is from \$8 to \$6 billion from 2020. The funds of the National Fund will be allocated only for the implementation of anti-crisis programs in periods of economic recession or slowdown of economic growth, as well as non-repayable socially significant projects of national scale, strategically important infrastructure projects in the absence of alternative sources of their financing.

All these activities focus on the partnership of agencies to implement a single effective financial policy. Previously, each of them proceeded more from their departmental interests.

The stock market has not yet become a full-fledged mechanism of the country's financial system. The activity of the IPO market in each country is determined by the adopted investment model and the traditions of building financial systems. Thus, the IPO in the Anglo-Saxon countries is focused on the stock market as a source of investment. The situation is different in continental Europe, which is more focused on Bank lending. IPO industry in Kazakhstan solves the problem of stock market development based on the growth of the number of issuers and expanding the investor base, including retail. The state sees prospects for the revival of the stock market through the implementation of the project of issue of short-term securities, as the most liquid financial instruments, with the use of "blockchain" technology, which will confirm the transactions and ownership of the purchased securities.

IV. CONCLUSIONS

The research allows to make the followed conclusions:

1. The new system of economic and social relations became the basis economic development and financial policy of the state. The state recognizes the advantages of the financial system of the Anglo-Saxon States that have developed securities markets, which allows to be optimistic about the growth of investment in the country's economy.
2. The Stock market as a social institution is able to provide capitalization of savings of economic entities and the population, turning them into investments.
3. Social stratification in the society is transferred to the plane of confrontation between two exchanges – a more democratic KASE and AIX (Astana International Exchange), focused on attracting a global investor.

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