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TRAINING MANUAL
on the discipline «Finance» for students of economics

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The essence and peculiarities of functioning of a category «finance», its structural components, properties and principles have been stated in the training manual. Training manual contains theoretical and practical foundations of finance, glossary of key terms. Intended for students of economic specialties.

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Introduction

The necessity of the edition of the training manual in English is caused by the occurrence of English speaking groups in high schools of Kazakhstan and expansion of application of the language in business practice, scientific environment between the countries communications.

Finance in the training manual is submitted both from theoretical positions and in a practical embodiment through the financial mechanism. The theoretical representation of finance is stated as reproductive economic category serving processes of extended reproduction by providing it with financial resources. The classification approaches have been adduced to components of the financial system.

The reduced script selects an additional material of the lectures course explaining the basic rules, typed by larger script. The italics selects the basic formulations, terms, classifications and other parameters necessary for studying. At the given gradation of the text its use is convenient for teaching of bachelors and masters.

The course «Finance» in economic high schools and especially financial-credit direction is introduction, anticipating study of the subsequent disciplines as: «State Budget», «Taxes and Taxation», «Corporate Finance», «Financial Management», «Financial Control and Audit» and others, high schools, included in curricula. It has predetermined structure of discipline, which contains not only statement of general laws of action of finance as a whole, but also basis subordinated of functional and objects of subsystems, transformed in the named disciplines.

1. Concept and attributes of finance

1.1. Concept of finance

The concept "finance" covers extensive area of the economic relations connected with reproduction of a public product in the money form.

The manifestation of finance in the economy occurs as movement of means at different participants of public manufacture. This movement represents transfer of the money sums from one owner to another as noncash or cash accounts.

This feature shows in origin of the term "finance", from Latin "finis" - end, finish, ending of payment. This settlement between the subjects of the economic relations (originally in Ancient Rome - between the population and state). Later term transforms in "financia", used in a broad sense as money payment, and then as set of incomes, both charges of the state and any economic units.

Money is a historical category, it has undergone in the development different transformations - from the elementary forms, to complex, modern updating. In this development money got the new qualitative forms to which finance concerns also.

It is necessary to mean, not any money operation, bargain concern to financial. Movement of all cost of a public product is carried out with help of different economic categories. They are price, payment of work, finance, credit, insurance and others.

The money character of finance emphasizes the form of realization and their belonging to cost economic categories.

To allocate finance from a number of economic categories it is necessary to proceed from consideration of the phenomenon of finance to research its essence.

The hierarchy of the public relations submitted in the following: the money relations concern to economic, which, in turn, are included in productive relations.

Productive relations – this determining part of system of the public relations.

From here follows, that the financial relations are part of the productive relations.

The productive relations develop in the process of public manufacture, distribution, exchange and consumption of goods, boons and services describing reproduction.

The stages of reproduction define presence of the commodity relations between the participants of process of public manufacture, as the made products represent itself as goods subject to sale and purchase. Thus the needs and interests of all participants of the public relations should be satisfied.

In turn, the presence of the commodity relations is caused by necessity of division of labor of the economic agents. They should exchange results of the specialized work. Mutual measurement is carried out with the help of money as measures of cost and universal equivalent. Therefore the material and nonmaterial boons has except for natural material as well term of money.

To proceed occurrence of the financial relations it is possible depending on sphere of their functioning - in primary parts of economy, that is in sphere of material manufacture - real sector, or in activity of the state, as organization regulating public, including economic life, or in sphere of public finances.

For understanding of the essence of finance it is possible to accept a point of readout in reproductive process - the manufacturer moment of division of cost and beginning concerning independent movement of its money form at realization of made production.

At beforehand stipulated character of manufacture form proportions of structure of a sold product on elements appropriate "C*", "V", "M" and the funds, appropriate to them, of money resources or accumulation of these means are formed.

$$P = C + V + m,$$

where: P - cumulative (total) public product;

C - industrial material costs;

V - cost of necessary product;

m - cost of surplus product.

This three elements characterize the main components of cost during reproduction.

That why the funds of circulated assets, amortization and other deductions (for example, on social needs), fund of payment of work, profit are allocated. Further there is a process of redistribution of the mentioned elements of cost according to the established proportions determined specifications of distribution. The part of the received income or profits is deducted at disposal of the state for formation of its centralized funds, other part remains at the manufacturer and is used on his discretion.

The generated funds of money resources are exposed to redistribution, splitting or, on the contrary, integration depending on target purpose of means. Thus, part of cost created by the managing subject, remains in circuit of the given subject, part is spent on reproduction of a labour in form of payment of work, exchanges on material and nonmaterial boons and services, is used and dropped out from the further movement.

The significant part of cost created in material manufacture is passed to nation-wide needs, and is included in sphere of the financial relations of the state as the public revenues. Besides deductions from the incomes of primary parts of

economy the state will mobilize a part of means of the population (in the form of taxes, for example).

So there are forms of the financial relations at a level of the state through formation of the centralized funds of money resources - state budget, funds of social insurance, various off-budgets funds. This part of the financial relations is rather diverse and is connected with creation of the specified funds at different levels of state management - national, local, and with redistribution and use at the mentioned levels, and also by branch, regional, social principles.

Besides it, movement of money resources and funds is mediated by performance of the state long-term target programs - development of productive forces, social, ecological, scientific, regional and others.

At the end, passing all stages of reproductive process, the public product will be transformed and is embodied in three independent funds: compensation fund, consumption fund and accumulation fund.

As a result the part of cost of a product enters in new circuit and the part is consumed and dropped out to the further movement.

The considered processes cause a complex interlacing of the financial relations, their interaction with other economic relations and requires the scientific approach to studying of their action on efficiency of economy.

1.2. Measurement of volumes of national production

In the educational literature of foreign countries the parameter of measurement of scales of development of economy - Gross National Product (GNP). The measurement of GNP incomes made by summation of the following elements:

- 1) volume of the consumed capital (amortization deductions);
- 2) indirect taxes on business;
- 3) wages of the hired workers;
- 4) rent payments;
- 5) percents (interests);
- 6) incomes of the property;
- 7) profit of corporations.

By the charges (that is set of the charges of the subjects for the repayment of all weight of production) GNP includes: volume of the consumer charges of households, that is all population of the country - C; the total private (individual) internal investments - I_g ; governmental purchases of the goods and services - G; X_n - net export (excess of volume of export above import or on the contrary familiar as "minus"):

$$GNP = C + I_g + G + X_n$$

The given parameter characterizes final result of public manufacture, it does not include cost of an intermediate product representing a significant part of circulating capitals, in formation and which movement the huge role belongs

to finance. Therefore the traditional formula of a total public product is accepted:

$$P=C+V+m$$

More detailed accounts of generalizing parameters of economy made by statistical bodies in System of the National Accounts (SNA) at different stages of process of reproduction in mutual coordination of these parameters among themselves. To each stage of reproduction there corresponds special account or group of accounts. For example, account of goods and services; the account of manufacture; formation of incomes; primary, secondary distribution and redistribution of incomes; uses of incomes; operations with the capital.

The accounts consist of two parts: resources and use.

In SNA the specific terminology is used:

- Output at Basic Prices - total cost of goods and services, made in economy in the accounting period;
- Intermediate Consumption ~ means that cost of goods and services, which are transformed or completely consumed during manufacture;
- Gross Value Added — difference between release of goods and services and intermediate consumption;
- Taxes to Products and Import — indirect taxes on business;
- Subsidies for Product and Import -not compensated payments from the state budget to the enterprises and organizations under condition of manufacture by them of the certain goods and services;
- Taxes to manufacture - sum of taxes at use of the factors of manufacture (their size does not depend on volume and profitability of manufacture); the grants for manufacture; consumption of a fixed capital amortization deductions.

The important parameter of SNA is GDP-the gross domestic product describing final result of economic activity of the country.

The difference between the total national income and volume of consumption of a fixed capital represents a parameter of net national income.

Correction of the net national income on the rest current transfers, arrived from "other world" or transferred "to other world" forms a parameter of the net national available income.

The volumes of final consumption and net savings are formed of the net national available income.

The charges on final consumption include the charges: households; non-commercial organizations serving households; state management. The following sectors of national economy are assigned in SNA :

- 1) non-financial enterprises;
- 2) financial establishments;
- 3) government administration;
- 4) noncommercial organizations serving household;
- 5) household.

Concepts of a kind of activity are used for example: a mining industry; a manufacturing industry; manufacture and distribution of the electric power, gas and water; construction; transport and communication; an agriculture, hunting and forestry; fishery, fish economy; trade, repair of automobiles and household goods, financial activities; real estate activities, lease and "services to enterprises; hotels and restaurants; state management; education; public health services and social services; other municipal, social and personal services.

The name of kinds of activity or their groups as branches of economy is supposed also in the statistical account. In sectors, in branches of economy, in the form of activity the set of similar economic entities named as economic units (i.e. the enterprises and organizations), having the similar purpose, homogeneous is grouped from the point of view of carried out functions and sources of financing, that causes their similar economic behavior. They own assets accept the obligation, carry out economic activity and operations with other units. Economic units can be the legal persons and physical persons (or their group) as households.

1.3. Specific attributes of finance

Finance has a number of specific characteristic attributes, which complete presence, defines their belonging category.

As follows from the previous statement the finance has the money form. This form characterizes their patrimonial economic attribute.

The financial relations are mainly reproductive.

These are two major attributes of finance, but not final, as similar attributes have the price, credit, payment of work etc.

The important distinctive attribute of finance is that it is shown in movement of money funds of a various special purpose designation. Last, as a matter of fact businesses are objects of financial relations. The target money financial funds intended for a concrete expenditures, are formed at all participants of public manufacture, in nonproductive sphere with the help of financial methods. The methods, as ways of action in the financial relations have directive, i.e. necessary, inevitable, binding character, that is connected with necessity of regulation of economy and requirement beforehand to provide volumes and directions of use of money resources on the purpose of public development. Undoubtedly, the choice of methods is defined by scientific search and objective preconditions of the certain stage of development of a society.

The money resources are used in economic life, as rule, on the basis of equivalent, that is equivalent movement of cost in the commodity and money form. The attribute of equivalence is inherent to action of other economic categories - price, payment of work, credit. The feature of financial funds allocating them from all money resources, is that they are formed on the basis of one-way traffic of cost in the money form at all levels of management of economy. Any financial operation is characterized by such features (taxes,

deduction from the profit or income, financing of the charges, subventions, etc.), that is nonequivalent. In the branch finance the similar principle inside-economic of target isolation of money resources in funds is applied.

Thus, the considered characteristic features of finance or their attributes allow to allocate the given economic category from a number of others and reflect specificity, feature of finance. If first two attributes - money character of financial relations and reproductive character only limit a circle of these relations, the share form, peculiar to finance, of existence, obligatory, the nonequivalent character of movement of cost in the unilateral order - is emphasized with specific features of finance as special economic category.

On the basis of above stated it is possible to formulate brief definition of finance in the following kind:

- finance represents the economic relations arising during reproduction, as a result of which the creation and movement of cost of a public product is provided by formation and use of the money incomes, accumulation and funds at the participants (carriers) of the relations for satisfaction of their various needs.

2. Nature and functions of finance

2.1. Necessity and nature of finance

A part of the financial relations caused by occurrence of the state, taken on itself the important public functions historically and originally have revealed. For supporting of state authority it is necessary to have special fund of money resources, which is formed at the expense of all members of a society.

By means of taxes, state credit, issue of money, the state accumulated and used money means necessary for the contents of machinery of state, army and performance of other junctions. The state always is the obligatory subject of financial relations, it gives the basis to many scientists to exaggerate a role of the state in a substantiation of necessity of finance: so E. Woznesensky considered, that outside of the state all other subjects of public manufacture conduct simply money, instead of financial business.

The state, besides traditional functions carries out significant economic functions on regulation of economic processes, therefore degree of centralization of means at the order of the state sufficiently high - through the state budget and state off-budget funds now are redistributed approximately 40% of a total internal product and about 20% of a cumulative public product in Kazakhstan.

The concentration at the state of huge money resources until recently was proved by necessity systematically to carry out reproductive processes, to finance the most priority directions of development of manufacture, scientific and technical progress, social programs. Certainly, in scales of all society organized by the state, the perspective proportions of public development are more evidently looked through. These opportunities of the state at correct use of

funds of money resources. But on the other hand, practice of the last years has shown that their direction and use can be inefficient of money resources testify doubtless advantages centralized or economically unjustified as a result of the subjective strong-willed decisions, wrong choice of priorities of development, state and industrial monopoly, it reminds examples of financing, with expenses of huge volumes of financial resources, programs, which have not brought due feedback. Therefore in the transitive period to the market focus was done on bottom parts of managing and regions, to which the large rights and independence in formation of financial resources should be given. Only at rational, scientifically proved distribution of these resources between the centre, regions, by bottom parts economy the high feedback and renewal in the large sizes of used means is possible.

It is important also to take into account, that besides the financial relations connected with existence of the state, there is a part in interrelations of the enterprises and organizations, between last and population.

The nature of finance follows from movement of cost in the money form. A condition of this movement is the presence of the commodity-money relations and action of economic laws, including law of cost.

Earlier, in conditions of a socialist way of manufacture, action of these factors was limited: the means of manufacture were distributed through system of the centralized financial-technical supply, though were realized with the help of the prices also confirmed online. Rigidly regulated distribution of financial material elements of the made product called to ensure regularity of reproduction, on business turned over with a brake which is holding down development of productive forces, as derivated monopolism, deprived the consumer of an opportunity of a choice of production at absence it on free sale, did not stimulate increase of quality, development of scientific and technical progress.

2.2. Functions of finance

The function with reference to finance means a circle of activity inherent to given economic category, display of essence in operation, specific ways of expression of inherent categories of properties. The public purpose of a category⁷ is reflected in function, its economic nature is revealed.

Now greatest recognition was received by two basic concepts of finance: distributive and reproductive,

The supporters of the first concept consider, that the finance arises at the second stage of public reproduction - during distribution of cost of a public product in its money form, that the distributive character of finance reflects specificity of their functioning.

According to the given concept the finance carries out two Junctions: distributive and control.

With the help of distributive function a total public product is distributed and redistributed and its major part - national income, and also part of national riches (for example, at withdrawal of working capital, operations on realization of state property).

Primary distribution of a public product and subsequent, or redistribution is distinguished.

At primary distribution from total amount of a cumulative public product the fund of compensation (material input and amortization deductions) and again created cost - national income is allocated, the primary incomes of industrial sphere (enterprises and organizations and their worker) are formed.

The redistribution covers diverse process of partitioning of a public product on the subjects of managing both in branch, and in a territorial cut (section), therefore the various needs of the participants of reproduction for money resources for maintenance of final consumption of a product in the natural-material form are satisfied.

By the representatives reproductive of the concept the finance is considered as a category of reproduction as a whole, instead of one of its stages. The finance is a category of production, as they serve circulation of production assets during manufacture and actively influence on this process. The finance is a category of an exchange, as in an exchange the process of distribution of a public product proceeds and the finance acts by the tool of this distribution; in an exchange also there are processes transfer of the taxes; besides the finance connected not only with formation, but also use of money funds, and it occurs in an exchange, when on money funds merchandise material of value are got; the finance concerns to a category of consumption, as participate in formation of funds of public consumption and personal consumption and with their help the final proportions of distribution of the national income on fund of consumption and fund of accumulation are provided.

If to proceed from consecutive stages of process of reproduction, in the 1-st stage of manufacture directly there is a creation of cost. It is achieved consecutively by escalating from an initial subject of work up to a ready product (or condition intended for the further processing), intended for an exchange on a money's worth. For this purpose the financial resources, required, first, for purchase of means of work, subjects of work, (raw material, materials, power resources), secondly - for realization of process of manufacture - various money expenses for components of added cost are found: on payment of work to the own workers, payment of material and nonmaterial services extraneous to the subjects.

As against the distributive concept of finance determining their nature in movement of money resources, reproductive concept defines this nature in movement of cost in the money form. At such approach sphere of action of the finance essentially extend.

According to similar expanding by understanding of essence of finance by the supporters reproductive concepts they allocate the finance with the following functions:

1) reproductive function - on maintenance of process of public reproduction by financial resources. It should be represented in different updating (subfunctions), of finance, peculiar to subordinated sub-categories, and which will be considered in the subsequent chapters of the textbook;

2) control function.

The content of sub functions of reproductive concept of finance is explained by different character of economic relations occurring during formation and use of the incomes and funds, and also structure of the participants of the given processes.

The role of an economic category is much wider than its functions. As against functions, which are constant and exist so long as there is economic category, its role can be various, that depends as on change of real conditions, in which occurs action of a category, and from presence of different directions of influence.

Considering functions of finance, it is necessary to recognize, that the separate spheres of financial relations are ambiguous under the contents of operations, objects of action, purposes. Finance is a global collective category including subcategories though also homogeneous from positions of an accessory, and having unequal functional purpose: the system of finance, their relations include such eight subcategories: public finances, finance of enterprises and organizations, finance of home economy, off-budget funds, state credit, international finance, financial market, insurance (social insurance).

Therefore functions of these components are subtractions with reference to subcategories unequal. It allows to become a conclusion about presence at separate spheres and parts of finance concerning independent sub functions.

If the concept of a category is abstract, that is generalized expresses all weight of displays in economic life the concept a subcategory is more concrete (finance - taxes) and further - subcategories of 2-nd, 3-rd etc. the order by a system principle — «a category in a category» (the tax - income tax - individual income tax etc.). Presence of specific properties of categories enables to distinguish them from each other to define borders of distribution of action of separate categories. As the concept of a category is cumulative, as a matter of fact integrated, the role of a category is distributed to all economy and society also its functions also should be volumetric and be considered in macroeconomic scales. On a measure of transition to subcategories and further, - functions are also concretized, but in borders of action general categorical functions. For example, such subcategories of finance as "taxes" and "public credit" can't have identical minor functions. It allows to draw a conclusion on presence at separate spheres and parts of finance concerning independent minor functions. Law of transition of minor functions of the subsequent orders of a

category is traced here, in the process of their increasing concrete definition, in a scope of concept «the financial mechanism » (see 2.3). This phenomenon resolves the dialectic contradiction between functions and their appendix to real social and economic life.

The control function of finance admits as the representatives of almost all scientific concepts. As finance is connected with movement of the money form of cost of a public product, they have property quantitatively to display, reproductive process as a whole and its separate phases through movement of incomes, accumulation, funds.

Due to this property finance can though "notify", how there are quantitative proportions of distribution at different levels of management of economy, ratio of incomes, funds, their separate elements, correctness of use of financial resources on a special purpose designation.

Thus finance informs deviations and disproportions in reproductive process and allows to direct it to the necessary channel. The quantitative expression of processes of formation and use of incomes, accumulation, funds is displayed in the system of financial parameters, which act as a version of cost parameters.

The control function is shown in the financial control, but these concepts cannot be identified. Control function is internal property of finance, and financial control - practical use of control function as objective contents inherent to finance.

3. Financial system

3.1. Financial resources and funds as object of financial relations

By means of finance, the total public product and national income is created, and finance cooperates with others money categories - price, credit, payment of work, insurance. These money categories also participate in all stages of reproductive cycle, however measure and forms of their participation is not alike. Each of the named categories occupies the special place in the reproductive system of the relations, participating by methods, inherent only to it, and ways in maintenance of movement of a public product and national income.

Money and finance. Money as a general category serving public reproduction, personify of a condition and movement of cost, and sub-categories, working on their basis, - price, finance, credit, payment of work, the insurance, embodies it (cost) movement in one more concrete of a direction and specific forms, that is the subcategories fill with the real contents the general form of functioning of the commodity-money relations - money. Thus, money is an initial category, and on the basis of their functions (measure of cost, means of circulation, means of payment, means of accumulation, world (global) money)

works others, subordinated categories (subcategory) with a different degree of scope of the relations. So, in operation prices in the greater degree the function of money as measures of cost and means of circulation, credit - as means of payment, accumulation, world money is shown.

From all categories functioning on the basis of money, most scale financial relations are approached to their action. The finance uses the majority of functions, inherent to money. This circumstance, most likely, also has resulted in practice in treatment of the finance in expanding understanding as money: first in function of means of payment as pecuniary obligations in cash and noncash forms were carried out by money, and then other monetary operations have got financial character. For example, in function of a measure of cost at measurement of results of managing through price measurement of scales of activity (production, services and further parameters of an overall performance of the enterprises and organizations used in financial management)".

The price and finance. The price acts as an initial category of cost distribution, mediated transition of a product of work from the natural-material form in monetary and its movement from one owner to another on the basis of acts of purchase of sale.

During distribution deviations of the prices from cost, therefore at one manufacturers the big cost is realized, and at others - small. In that case in ^distributive process finance enters with methods : they withdraw a part of cost (for example, with the help of excises, taxes to export or import, the customs) or transfer the half received part of cost by subventions, budgetary or branch financing. However action of the price does not cause direct formation of funds, it acts as the tool of commodity production and circulation. With the help of finance process of distribution, begun by the price, taking into account conditions of movement of the cost given by economic plans and proportions is corrected.

Evidently, interaction of both categories is traced at transfer pricing - use of the prices which are formed between the interconnected parties and (or) differ from objectively developing market prices (in their range) at fulfillment of bargains between the independent parties subject to control according to the legislation of the country. According to norms of the Law of Republic of Kazakhstan «About transfer pricing», at an establishment of the fact of a deviation of the price of the bargain from a market price taking into account range of the prices during realization of the checks, the authorized bodies make updating objects of taxation and objects, connected with taxation. Updating is made under bargains with participants, registered in the states with the preferential taxation, carrying out the goods exchange (barter) operations having privileges under taxes, having losses for the certain period, carrying out bargains in the order mutual offset. On the basis of updating objects of taxation and the objects connected with taxation tax payment and other obligatory payments in the budget, designed thus as though incomes or charges of these bargains and

other objects of taxation for an accounting period were determined proceeding from a market price taking into account range of the prices, with application of penalties and fines made according to the legislation.

Finance and payment of work. Finance is closely connected with payment of work. The fund of payment of work (fund of wages) in sphere of material manufacture is isolated from the proceeds from realization of production with the help of finance. This fund can be formed depending on volume of made production.

Payment of work as an economic category determines conformity of a share of each worker in the created product that is, borders of participation of the workers in distribution, and finance forms fund of wages or fund of payment on work.

At the same time spheres of action and motives of action of considered categories essentially differ. The action of finance is wider than payment of work, as the finance distributes all public product and payment of work only necessary product and part additional. The payment of work is connected with action of one of the major factors of manufacture labour, serves a means of indemnification of the spent work and finance besides with means of manufacture, through their direct formation. The payment of work stimulates growth of its productivity, and finance influences all public manufacture, making active its development through system of the financial mechanism.

Finance and credit. The interaction of finance with credit is shown rather closely. As well as in finance, credit relations are formed and the money funds named loan, for the purposes of long-term and short-term crediting of the enterprises and organizations, population, state are used. Both categories are called to create conditions for normal, continuous of circuit of means in a public economy.

3.2. Concept about financial system

The concept "financial system " covers set of the relations, on the basis of which the appropriate funds of money resources are formed, bodies organizing these relations are used.

In the above stated definition of the term the basic model of classification of a financial system proceeding from the intrinsic characteristic of finance, their place in public-economic processes is incorporated. According to this criterion the financial system consists of three parts:

- 1) set of financial relations;
- 2) set of funds of money resources;
- 3) financial organs of management.

for finance it is possible to name as functional subsystems such, as tax, budget, external economic, financial plans (forecasts), legislative maintenance

of the financial control, automated management by finance, financial plans, account, statistics, personnel maintenance.

Besides functional criterion of classification of a financial system the classification to an attribute of the subjects is applied. Finance (participating in the financial relations), that allows to differentiate a financial system on parts.

Finance of enterprises and organizations of sphere of material manufacture makes a basis of finance, they are initial part of a financial system, as in material manufacture the real product basic source of financial resources of a society (community) is created. The nation-wide finance includes financial relations expressed in the state budget as the economic form of formation of centralized fund of financial resources and the basic financial plan of the state, in off budget special funds, as the additional forms of target financing of public needs, in the state credit.

Finance of the population represents original part of financial system. The population enters the relations by the money resources with a nation wide financial system both managing subjects of industrial and nonproductive spheres of all patterns of ownership. These diverse relations are connected with payment of work to the population, deductions in accumulative pension system of money resources and payments from it; receptions of the material and nonmaterial boons; on the other hand, the population through the money resources pays taxes, pays services of state and other establishments both organizations of industrial and nonproductive spheres.

Established centralized and decentralized funds of money resources inherent to parts of financial relations, make the second part of financial system. The material contents of finance finds expression in formation and use of financial resources including many money funds: budget, state and non state social insurance and maintenance, amortization, circulated means, consumption. One funds are centralized in the greater degree, others in smaller.

The financial organs engaged in economic and control job during organization, planning, account of financial activity, perfection of connections of parts of the financial relations is compatible with other parts of financial system.

Alongside with concept of a financial system there is still generalized concept of finance-credit system, in which included not only parts of a financial system, but also credit system.

In a basis of construction of a financial system the following principles are fixed:

1. Combination of centralism and decentralism in organization of financial system; it is shown that at the centralized management on the part of state financial bodies, simultaneously large rights and the independence is given to local financial bodies and enterprises and organizations.

2. Observance of national and regional interests. The requirements of this principle are called to ensure national equality in-the financial relations, no less than socially acceptable level of development of regions.

3. The principle of unity of a financial system is predetermined by uniformed financial policy conducted by the state through the central financial bodies, uninformed purposes facing all financial bodies, uniform basic legislative and normative acts.

4. The principle of functional purpose of separate components of a financial system is expressed in that each part of finance solves the tasks.

4. Financial mechanism

4.1. The essence of financial policy and financial mechanism

The financial policy is a component of economic policy. Financial policy is a set of purposeful intentions and measures conducted by the state and other economic agents in the field of finance for realization of functions and tasks.

The financial policy is realized in real economic life through the financial mechanism. Financial mechanism represents system of kinds, forms and methods of organization, planning and management of finance. By financial relations on formation and use of target funds of money resources and money accumulation for performance of the state programs of economic and social development at different levels of managing and spheres of validity.

As finance is more general economic category consists of separate financial subcategories with a smaller degree of abstraction (taxes, budget etc.), it is possible to allocate with a known degree independence kinds of policy: tax, budget, state borrowing enterprises and organizations, and mechanisms, appropriate to them, tax, budget, financial planning, management of finance, financial-legal, state-credit, enterprises and organizations, insurance.

Financial policy is subdivided into financial strategy and financial tactics.

The financial mechanism embodies the planned financial measures in concrete, address, real results - extended reproduction of financial resources which are included in structure of cost all numerous elements of a public product, nonmaterial boons, services and values at all levels and in spheres of public-economic life.

The contents of financial policy of the state is systematic organization of finance in view of action of economic laws and according to tasks of development of a society.

The purpose of financial policy in conditions of Kazakhstan is development of measures and their embodiment through financial mechanism maintenance of steady economic growth on a basis industrial-innovation development, structural reorganization of a national economy, activization of foreign trade activities by integration of a national economy in a global

economy, uninterrupted and increased financing of the social programs. Thus financial policies and mechanism should supply social protection of population in market processes from inflation, unemployment, loss of the incomes.

Tasks solved by financial policy:

- a) maintenance of conditions for creation of most possible volume financial re-sources on the basis of features of each concrete stage of development of the country;
- b) rational distribution and use of financial resources between spheres of public manufacture, sectors of national economy, direction of resources on definite purposes;
- c) development of the appropriate financial mechanism for performance of planned directions of economic development, its constant improvement.

In conducting financial policy it is important to carry out the following principles of financial policy.

- 1) observance of interests of all participants of public production, social, national and professional groups at drawing up, confirmation and performance of the budgets, forecasts and plans proceeding from real presence of financial resources;
- 2) maintenance of systematic organization of the financial relations;
- 3) equation of incomes and charges in all spheres and parts of financial systems;
- 4) creation of financial reserves (excess of incomes above the charges in budget system and financial reserves in branch finance);
- 5) optimum distribution of financial resources between the state and enterprises , organizations.

Financial policy is a common direction of policy, including financial policy of the state, enterprises and organizations, policy of the financial market, insurance. From financial policy the fiscal policy - that is tax-budget policy of the state is derived.

The financial mechanism, as well as the economic mechanism as a whole, has structure, internal, inherent to it, which can be considered from different positions. So the structure of financial mechanism proceeding from the contents of finance, is subdivided into the following groups:

- 1) mechanism of public finances;
- 2) mechanism of enterprises and organizations;
- 3) insurance mechanism.

In the structure of financial mechanism functional parts are assigned:

- 1) mobilization of financial resources;
- 2) financing;
- 3) regulation;
- 4) stimulation.

Organization of management of finance

Management of finance is the process of influence on financial and adjacent economic and social systems with the purpose of their perfection and development. Thus the methods of purposeful influence on object for achievement of necessary result are used. In a financial system the management is carried out through the financial mechanism with the help of its methods, levers, stimulus and sanctions.

In a basis of management of finance the following principles lay: democratism in management; the political approach to financial questions; an optimal combination of economic and administrative methods in management; scientific character of management; centralized coordination , branch and territorial management; the responsibility in management; continuity of the economic decisions.

In management of finance the following interconnected elements distinguish : the information, planning, organization, regulation, control.

Distinguish strategic and operative management of finance.

Strategic management of finance is assigned by the Constitution of Republic of Kazakhstan to the supreme bodies of state authority and managements: Parliament, Apparatus of the President, Government, The Ministry of Finance, The Ministry of Economy and Budget planning.

Nation-wide finance copes by the state authorized bodies - The Ministry of Finance and Ministry of Economy and Budget planning of Republic of Kazakhstan. The structure of customs bodies includes regional customs managements, customs houses, customs posts.

The Ministry of Finance of Republic of Kazakhstan is the central executive body of Republic of Kazakhstan carrying out a management and interbranch coordination in sphere of execution and control of execution of the state budget, management, account and control of use of a state ownership, control of realization of procedures of bankruptcy and non judicial procedure of liquidation of the insolvent debtor, regulation of system of book keeping and audit of financial reporting.

In the central agency of the Ministry of Finance there are special divisions with certain tasks and functions: -

- committees: exchequers, tax, financial control and state purchases; the customs control; on job with insolvent debtors; state property and privatization, financial monitoring;

- departments: the analysis and methodology of execution of the state budget; code and research of financial models; financings of state bodies; methodology of book keeping and audit; state borrowing and international financial agreements; crediting, development of accounting, auditing activity and financial control; personnel maintenance and document circulation; the reporting and statistics; internal administration of the finance; information technologies; a legal service.

The departments and committees consist of managements, and last - from departments. The names of divisions characterizes carried out functions with specification from management to a department.

The departments concretize functions which are carried out by managements.

Accordingly composition of structure of committees of the Ministry.

The Ministry of Economy and Budget Planning of Republic of Kazakhstan is the central executive body which carries out management and in limits stipulated by the legislation, interbranch coordination of development of the basic directions of socio economic development of Republic of Kazakhstan, strategic and of the indicative plans of social economic development of Republic of Kazakhstan, management of public finances, formation prognosed parameters of the state budget for the intermediate term period and project of the republican budget for the appropriate financial year.

The local financial bodies include regional, urban, regional financial managements and departments. They perform a job on operative management of finance, that is borrow by forecasting, planning, drawing up and execution of the local budgets, revealing of inside-economic reserves and research of economy of resources in all parts of an economic complex and welfare sphere, carry out financing and supervise financial activity of economic bodies, financial bodies are in submission of local administration.

4.2. Financial planning

Financial planning is a subsystem of financial mechanism and major component of economic and social planning. The specificity of financial planning is that, it is carried out in the money form caused relative independence of movement of money resources in relation to financial-material elements of manufacture, active influence mediating by money distribution to public reproduction.

The content of financial planning is represented as beforehand determined opportunity of maneuvering by economic processes of formation, distribution both redistribution and accumulation of money incomes by the economic subjects and on this basis, formation and use centralized and decentralized funds of money resources.

Direct object of financial planning is formation and distribution of incomes and accumulation, formation and use of centralized and decentralized funds of money resources.

The purpose of financial planning is the achievement of proportionality and equation of development of economic subjects, systems on the basis of optimal conformity mobilized and used financial resources to financial material elements of reproduction.

Tasks of financial planning is:

- 1) definition of sources of formation of financial resources and their general size;
- 2) establishment of optimal proportions of distribution of means between centralized and decentralized funds by branches of a national economy and by administrative-territorial units;
- 3) definition of a concrete direction of use of resources and creation of necessary reserves.

In market conditions of conducting economy financial planning is conducted appreciably as forecasting in connection with uncertainty of many influencing factors on planned final results of managing. The forecast is a probable judgment about a condition of any phenomenon in the future on the basis of special scientific research. Forecasting is a development of the forecast about concrete prospects of development of any phenomenon, object, process. With reference to the finance the development of the phenomenon in forecasting is a possible perfection of the financial relations, object - financial resources, process - movement of funds of money resources.

The plan is a system of interconnected, directed on achievement of the uniform purpose of the tasks determining the order, terms and sequence of realization of actions or measures. Planning is the process of covering actual development of the plan, organization of its performance, that is recommendatory planning; it carries out an informative-coordinating role and renders indirect influence on the subjects of financial activity through economic regulators.

The increase of effectiveness system of state management of budget resources, development of steady interest and stimulus of all participants of budget process in achievement of concrete, measurable, results of public importance is conducted by means of budgeting method, focused on result - that is, method of planning, execution and control of execution of the budget ensuring distribution of budget resources on purposes, tasks and functions of the state in view of priorities of state policy and public importance of expected results of use of budget means.

The following major principles lay in a basis of financial planning: a combination of centralized and decentralized approaches, unity, continuity.

In financial planning the following methods are used:

1. The settlement-analytical method consists of definition of financial parameters on the basis of establishment of their dynamics.
2. The method of expert estimations - assumes use of experience of the highly skilled experts - experts for definition of parameters of a condition of object of planning.
3. The normative method allows to expect scheduled financial parameters on the basis of the established norms and specifications.

4. The balance method provides a coordination of the charges with sources of their covering, coordination of all sections of the financial plans among themselves, and also industrial and financial parameters.

5. Programme-target method. Financial programming - method of financial planning using programme-target method, in which basis the precisely formulated purposes and means of their achievement are incorporated:

6. Economic-mathematical methods with use of the computer are applied in case of multialternativeness of accounts, to choose the best decisions.

4.3. Legal maintenance of financial relations and financial control

The financial relations arising in a society, require legal regulation. Thus the various norms of financial right are applied.

The financial right is a set of legal norms regulating the financial relations, which arise during formation, distribution and use of money funds necessary for realization of tasks of the state and other economic subjects at the appropriate stage of development of a society. It is differentiated on separate directions concerning the homogeneous financial relations: the budget right, tax right, economic right; financial right is included also such section as the currency and insurance legislation, bank right, legal regulation of the state credit, money circulation in connection with treatment of finance in wide understanding as money relations as a whole.

In the financial right the financial-legal norms - initial primary elements of the right, that is accepted by the establishing body and supplied by measures of state compulsion the strictly certain rules of behavior in the financial relations are used.

Thus financial relations being basic at use of the financial rules of law will be transformed in the financial rights-relationship. Outside of the normative-legal relations the financial activity is impracticable. Only interconnected legal rights and duties, which realization is guaranteed by measures of state compulsion, the reception by the state and other economic subjects of the forecasting incomes, their distribution and use according to the planned purposes can be supplied.

The transformation objective of financial-legal relations in real results of managing through the forms and methods of imperious compulsion, that is subjective actions of imperious bodies of authority, is represented as the legal mechanism of regulation of financial life of a society and various financial-legal norm and acts - as its levers. Thus there is a connection of the financial and legal forms and methods in the uniform mechanism of financial - legal influence on economic processes.

Methods of financial-legal regulation is imperious instruction to one participants of financial relations on the part of others, which act on the part of the state and are allocated the appropriate powers (an imperative method). To economic organs and citizens who don't carry out financial obligations, the

method of compulsion is applied: indisputable penalty of the out of time brought in payments in the budget and financial sanctions.

Dispositive method assumes, contractual form of the coordination of interests of the parties, that derivates occurrence of their mutual rights and duties. The given method is applied mainly concerning the enterprises and organizations - partners on business: between firms, companies, different other enterprise structures.

Financial control.

Financial control represents specific activity directed on check validity of cost distribution of a total public product on the appropriate funds of money resources and their expenditures on definite purposes. The presence of the financial control is objectively caused by that the control function is inherent to finance as economic category. The specificity of the financial control is that, it is carried out in the money form. Its object is the process of formation of incomes and accumulation, creation and use of money funds.

5. Functioning of finance of enterprises

5.1. The essence of finance of enterprises

Finance of enterprises and organizations is a component of uniform system of finance.

In whole, enterprises and organizations ,economic agents and entities, which can on own behalf own assets, obligations, demand, carry out economic activity and operations with other units.

Finance of enterprises and organizations includes finance of: enterprises, plants, firms, societies , concerns, associations; branch ministries and other economic bodies, intereconomic, interbranch, cooperative organizations, establishments which carry out industrial, agricultural, construction, transport, supply-marketing, trade (intermediary), procuring, prospecting, design activity, household service of the population, communication, housing municipal service, granting of various financial, credit, insurance, scientific, educational, medical, information, marketing and other services in diverse spheres of public-useful activity.

Finance of enterprises and organizations express the basic sides of process of the expanded reproduction in the monetary form and promote its realization according to requirements of economic laws. They are applied to creation, distribution and use of money incomes and the accumulation necessary for the further development of a national economy.

Finance of enterprises and organizations has essence and external forms of display.

Finance of enterprises and organizations carries out reproductive function. Its content consists of maintenance of conformity between movement material

and money resources during their circulation at simple and extended reproduction. Control function of finance plays the enterprises and organizations the important role in economy of the enterprise: it is impossible to manage without the account and control. The money control is carried out not only inside enterprises and organizations, but also at its mutual relation with other subjects, higher organizations and finance-credit establishments.

The diverse relations in sphere of finance of enterprises and organizations are reduced in the integrated groups; these relations arise during extended reproduction between:

- the state and enterprises (organizations) in making payments in the state budget, off-budget funds, formation of currency funds and resources, partially in financing from the state budget (basically - for the state enterprises);
- the enterprises (organizations) and credit system on crediting and payment of (interests) for granting of the long-term and short-term credits;
- the enterprises (organizations) and their higher organizations at redistribution of incomes, funds, on rent payments;
- the different enterprises and organizations entering among themselves in the relation on payment of raw material, materials, fuel ready production, jobs and services, including on intermediary operations (with stock exchanges, brokerage offices etc.);
- the enterprises (organizations) and insurance bodies on insurance of property, personnel;
- the enterprises and organizations at release both realization of shares and other securities at mutual crediting and individual share at creation of joint ventures;
- the owners and hired workers (workers and employees) - on payment of work, material encouragement, sanctions at issue of shares and payment of the dividends on them;
- inside the enterprises and organizations in connection with formation and use of target funds inside facilities of purpose - authorized, consumption, accumulation, reserve, currency, repair or their possible modifications;
- the basic activity of enterprises and organizations and own capital construction during provision of financial resources of expenses on a capital investment and also payment of jobs and services executed for own capital construction.

The basic features of finance of enterprises and organizations are:

- 1) many sided of financial relations, variety of their forms and special-purpose designations;
- 2) obligatory presence of production assets (capital) and for the non-productive enterprises and organizations - non-productive funds (capital) and occurrence in this connection relations connected with their formation, constant updating, increase and redistribution;

- 3) high activity, opportunity of influence on all parties of economic activity of the enterprise;
- 4) they represent an initial basis of all financial system.

Thus, finance of enterprises and organizations represents economic relations connected with creation, distribution and use of money incomes, accumulation both funds by manufacture and realization of production, jobs and rendering of services.

5.2. Classification of enterprises and organizations

The numerous enterprises and organizations are classified by different attributes and the bases of their differentiation on this or that kind can render essential influence on character of organization of finance.

The most general attribute of differentiation is entering the enterprises and organizations to one of spheres of activity material (real sector) or non-material (service sphere).

Enterprises and organizations of material sphere of activity create material products and boons abilities to live, being a basis of all society.

The results of activity of non-productive sphere take the form of services, the process of which creation coincides, as a rule, with process of their consumption, that is they are not subject to accumulation, storage.

The named basic differences of two spheres of public manufacture are reflected in organization of finance of these spheres - as at financing, movement of financial funds during creation of cost of products or services and at formation of financial results of activity distribution and use of accumulation of incomes or profit.

The following attribute of classification is the character of financial activity of the enterprises and organizations - commercial and non-commercial.

The purpose of commercial activity is the reception of income.

The significant-part of establishments of non-material sphere remains in non-commercial sector: state management, defense, state social insurance and maintenance, protection law and order, protection of an environment, most part of public health services and education, cultures and art fundamental science. The noncommercial activity is directed not on reception of income, and on performance of functions and actions necessary for all society, including security of social protection of the population.

Concerning the given attribute of classification the organization of finance is guided on different principles of maintenance of activity: on commercial account or on the budget financing covering needs of enterprises and organizations at a certain established level.

The important attribute of classification of enterprises and organizations is the belonging to the certain form of property. According to the legislation in Republic of Kazakhstan two patterns of ownership are accepted: private and

state. The private property acts as the property of the citizens and state legal persons and their associations; as the special kind of a private property the property of public organizations acts.

The state ownership is submitted by the republican and municipal property.

Inside the named patterns of ownership different economic structures can be formed that derivates a lot of organizational-legal forms of managing:

1. State enterprises based on state ownerships including:
 - republican - for solving of nation-wide tasks of economic and social development of Kazakhstan;
 - the enterprises of the municipal property — for solving tasks on satisfaction of social economic needs of population of the appropriate territory are in local submission.
2. Enterprises and organizations based on private property of the legal persons: economic companies of a different type, including joint- stock companies, cooperative enterprises and organizations.
3. Enterprises and organizations based on properties of public associations.
4. Joint venture on the basis of association of property of the founders, including foreign legal persons and citizens.
5. Private enterprises and organizations based on the properties of the citizens.
6. Mixed enterprises with participation of above mentioned patterns of ownership.

5.3. Features of finance of enterprises of the basic organizational legal forms

The differentiation of the enterprises and organizations under the organizational legal forms attracts distinctions in organization of their finance: formation of the capital, financing productive-economic activity, distribution of results of managing.

There are features of formation of funds of the subjects of managing depending on patterns of ownership. For example, the financial funds of the industrial enterprises and organizations are formed at the expense of own sources (amortization deductions, pure income; credits of banks; means from issue of securities; at the state enterprises these sources of means are supplemented in necessary cases by assignments from the budget and of off-budget funds; at cooperative societies off- budget means share of forming of cooperative members. In practice there are mixed forms of forming funds on their sources caused by mixed patterns of ownership more often. For example, in state cooperative societies, where the most part of basic and circulating capitals

belong to the state, share payments of the workers play a supporting role. The same in state joint-stock companies.

According to formation initial funds of manufacture are distributed and the financial results of economic activity are used: the net income; the percentage income; the dividends; the share incomes; the reimbursement of the budget (budget credits) and of off-budget funds.

Organization of finance of enterprises and organizations functioning on sharing basis of economic companies, cooperative societies, joint ventures are determined by features of formation of means of such enterprises and subsequent distribution of received incomes according to a share in property of each participant.

The significant place in economy occupies public sector. In this sector the following kinds of enterprises function:

1) based on the right of economic conducting which are the material right of the enterprise received property from the state as the property and which is carried out within the limits of the legislation the rights of possession, usage and order by this property;

2) based on the right of operative management (state enterprises), which is the thing right of the enterprise which has received property from the proprietor and carrying out it in limits, carrying out it, (according to the purposes of the activity, tasks of the proprietor and purpose of property of the right of possession, usage and order by this property.

6. Finance of commercial enterprises, organizations and noncommercial organizations

6.1. Organization of finance of commercial enterprises and organizations

The purpose of commercial activity is the reception of income. On the commercial beginnings function an overwhelming part of the enterprises and organizations of sphere of material manufacture and significant part of organizations and establishments of nonmaterial sphere: commercial banks, insurance organizations, other establishments of financial sector (saving-deposits, investment funds, stock exchanges, different establishments serving the market of securities and the money- credit markets), trade-intermediary of the enterprise, voluntary public funds, trust company and other.

The basic principles of organization of finance of this type of enterprises and organizations are: cost accounting, planned character, equality of all patterns of ownership, availability of financial reserves.

1. Cost accounting is a basic principle and main method of conducting economic-financial activity of the enterprises and organizations. The principle of cost accounting means, that enterprises have main working capital

necessary for their activity for constant use compiling owners equity. As a method of conducting economy, cost accounting assumes commensurability of expenses with incomes of economic activity and profitable job.

Determining principles of cost accounting are self-recoupment (ability to pay on its own way) and self-financing.

Self-recoupment is a basic principle of managing, which means that the managing subject is obliged at the expense of the proceeds from realization of production (executed jobs rendered services) to compensate all costs for its manufacture and deliveries.

The self-financing assumes not only compensation of costs on manufacture and realization of production (executed jobs rendered services), but also reception of the sufficient income, at the expense of which, and also other own sources and extra means the managing subject provides covering of expenses on technical perfection and expansion of working manufacture, non-productive construction, social needs of collectives, formation of funds of payment of work and stimulation, updating of assortment of production, on other planned needs.

Compound sign of cost accounting is the financial independence at which the managing subject can itself dispose of basic and turnaround means maneuver them in interests of reception of high income: to leave a part of it itself for material stimulation working, for use on expansion of manufacture and other economic needs.

Cost accounting includes also financial responsibility for performance of enterprises stipulated by plans, contracts, orders, law of the industrial and financial obligations.

Financial interest as one of the requirements of cost accounting is shown in use of financial resources of enterprises and organizations as for material stimulation of workers.

2. The principle of planned character means that the financial activity of enterprises and organization is provided beforehand by accounts of its parameters proceeding from the purposes, tasks of manufacture planned methods of their achievement, sequence and terms of achievement.

3. The principle of equality of all patterns of ownership of the enterprises and organizations is realized in a guarantee of the state of stability of relations and development of different patterns of ownership.

4. A necessary principle of organization of finance of the enterprises and organizations is the presence of financial reserves (reserve fund, fund of risk) at all levels of management. The financial reserve is intended for elimination of temporary financial difficulties and maintenance of normal conditions of activity of economy, and also for financing the expenses connected with industrial and social development, as a rule, not stipulated by the financial plan.

6.2. Financial funds and production assets of enterprises and organizations

During economic-financial activity enterprises and organizations form and use financial funds - money resources intended for definite purposes. In funds money resources are in constant movement are renounced, collected and spent.

Most significant and important for functioning enterprises and organizations are the following funds: statutory fund, reserve, fund of accumulation, fund of consumption, fund of payment of work, currency, repair. In conditions of independence enterprises and organizations can form other target funds of money resources, for example, fund of medical insurance, privatization fund, share fund of participation in development of industrial and social infrastructure and others.

Statutory fund (capital) reflects in money terms size of property' of the managing subject given to him by the state, other proprietor or founder.

Consumption fund includes:

- the charges on payment of work of all personnel (industrial and nonproductive);
- money payments, including compensation on results of job for one year;
- means directed on other kinds of encouragement for work in money and natural forms;
- the material aid;
- means for an establishment of labour and social privileges;
- incomes (dividends, percents (interests)), paid on the shares and contributions of the workers to property of the managing subject;
- other payments carrying individual character, except for compensations for the rationalization offers, invention and discoveries.

Accumulation fund is formed at the expense:

- The fund left at disposal of the managing subject;
- amortization deductions on restoration of the basic funds;
- the proceeds from realization of left property;
- credits of banks;
- additional issue of common stocks;
- other sources.

Accumulation fund on financing of expenses on maintenance of the extended reproduction is used:

- on updating basic and circulating capitals;
- on scientific and technical development, development of new production;
- realization of measures on a nature protection;

On individual share in construction of objects of an industrial and social infrastructure;

The large enterprises and organizations can form and use instead of complex funds of consumption and accumulation separate funds similar on the contents of sources and the charges: wages, payment of work, industrial development, social development.

At the discretion of staff the enterprises and organizations can form & financial reserve (reserve fund, fund of risk, insurance fund).

The currency funds of the enterprises and organizations are formed at the expense of currency means of the following sources:

- 1) export currency proceeds;
- 2) payments in statutory fund in currency;
- 3) currency credits of banks including foreign, other financial establishments and foreign legal persons;
- 4) purchase of currency in the internal currency market through the authorized banks and exchange items;
- 5) financial help (grants) from nonresidents.

6.3. Financial results of activity of enterprises and organizations

The character of use of production assets - from effective up to inefficient - is expressed by special parameters and testify productivity of financial management of enterprises and organizations. This productivity defines in sizes of the income (proceeds) from realization of production, jobs or services, costs of the enterprise, profit or net income.

In Kazakhstan according to the standards of book keeping in a parameter "the income of realization of production (jobs, services) " reflects the income of the basic activity including except for the income of realization of commodity-material stocks, executed jobs rendered services, also income received as compensations (interest), that is percents (interests), dividends, fee and rent deducted VAT, excises, other taxes and obligations, cost of the returned goods both discounts on sales and price.

The difference between the income of realization of production and its cost price forms the total income. However under this circuit the cost price does not reflect all expenses; the part forms of them "the charges of the period", namely: the general and administrative charges (sum of the charges common-economic and administrative purpose); the charges on realization (sale of commodity-material stocks); the charges on percents (interests) (for the received credits, rent of property and miscellaneous costs on percents); the difference between the total income and charges of the period reflects balanced financial result on the basic activity and the income (or loss) from the basic activity.

The income (or loss) from non basic activity - financial result received from transfer to usage of assets, from reassessment of securities etc.

The sum of the income (loss) from the basic activity and income (loss) of the not basic activity represents the income' (loss) from usual activity up to the

taxation. After a deduction from it the income (corporate) tax the income (loss) from usual activity after the taxation occurs. Corrected on the loss from extreme situations it represents the net income (loss) of enterprises and organizations.

THE SCHEMA formations of results of financial activity of enterprises and organizations:

1. General circulation (company, firm) or cost of sales.
2. Income from realization of production (jobs, services) = a general circulation - (minus) VAT, excises, other taxes and obligations, cost of returned goods of discounts from sales and price.
3. Cost price of production, that is cost of direct costs of the company, firm: amortization deductions, charges of materials, energy, wages of the industrial workers.
4. Total income = the income of realization of production (jobs, services) - (minus) the cost price of production.
5. The charges of the period include:
 - a) common and administrative charges;
 - b) charges on realization of production (jobs, services);
 - c) charges on compensation (interest), that is, for the received credits, rent of property.
6. Income (loss) from the basic activity = the total income - (minus) the charges of the period.
7. Income (loss) from non basic activity, that is financial result received from transfer to usage of assets, reassessment of securities and etc.
8. Income (loss) from usual activity up to the taxation = the income (loss) from the basic activity - (minus) the income (loss) from non basic activity.
9. Sum of corporate income tax.
10. Income (loss) from usual activity after the taxation = the income (loss) from usual activity up to the taxation - (minus) the sum of corporate income tax.
11. Income (loss) from extreme situations.
12. Net income (loss) = the income (loss) from usual activity after the taxation - (minus) the income (loss) from extreme situations.

6.4. Organization of finance of noncommercial organizations and establishments

The noncommercial activity is submitted by various kinds, which can be united on the following directions:

- 1) state management and state services of general character;
- 2) defence;
- 3) protection of internal legal order and safety;

- 4) prevention and liquidation of consequences of extreme situations connected with adverse natural phenomena, accidents, failures and other disasters;
- 5) education;
- 6) public health services;
- 7) social protection of population;
- 8) fundamental science;
- 9) culture and art;
- 10) protection of an environment;
- 11) public-household accomplishment of cities and occupied items (illumination, gardening, roads, bridges, sidewalks etc.);
- 12) public associations and organizations;
- 13) charitable and humanitarian organizations and funds.

Thus many branches of non-productive sphere concern to the given activity, though in its structure the ensuring structures inherent to material manufacture can function.

General feature of the mentioned directions of activity is that the basic motive of functioning of organizations or establishments is not the extraction of the profit or income of results of such activity and satisfaction of public needs which private (individual) sector does not wish or not in a condition to ensure. Besides on reasons of strategic public development the certain kind of activity is necessary for concentrating in the centralized order at the state.

Mainly noncommercial activity is defined by necessity of manufacture and maintenance by the public goods, boons and services. Manufacture of the certain kinds of public goods the state takes up in connection with significant tint benefits.

In Kazakhstan according to the Law “About the state social order” realization by non governmental organizations of the state social order the state bodies within the limits of the competence, render it information, advisory, methodical, organizational-technical support.

Material basis of activity of noncommercial establishments, organizations are the funds of non-productive purpose, which have the natural and money form.

Methods of conducting economic activity of noncommercial activity is budget financing - at gratuitous rendered services and boons, and at reimbursment - on the basis of cost accounting and self-recoupment (ability to pay on its own way). In conditions of the market ever more than organizations pass by the beginning of commercial account - realize rendered services at the price of demand with formation of sufficient accumulation for self-development.

1. Budget financing - granting of money resources from the state budget for covering of expenses of organizations and establishments not having own incomes.

2. Self-supporting method of conducting economy is applied in establishments and organizations which expenses are compensated from the proceeds from realization of non-material services and boons.

3. Method of self-recoupage of expenses provides organization of economic activity on the basis of services for payment which price is defined with reference to volume of the charges without accumulation.

In kinds and branches of noncommercial activity there are following financial relations:

- between organization and budget in connection with reception of means through financing and on occasion - performance of the financial obligations before the budget;
- inside branch of the relation between higher and below worth bodies in connection with distribution and centralization of financial resources;
- inside organizations that is between their divisions;
- interbranch - between organizations of different branches;
- between organizations and their workers on payment of work;
- between organizations, establishments and their consumers (on payment of services).

May be relations describing narrower definiteness of interrelations in specific kinds of activity, for example:

- between public organizations and their members on payment contributions - introductory and membership and also payments of incentive character to the members of these organizations for the certain achievement and results of activity;
- between noncommercial organizations and their sponsors on transfer of means in the material and money form for support of activity of organization;
- the relation of obligatory insurance of the certain quota (military men, workers of force departments and tax services, etc.) organizations in the insurance companies;
- the credit relations in the certain conditions are possible also.

The listed financial relations express formation, distribution and use of money funds which can be united in the following basic groups:

- funds ensuring operational activity of organizations and establishments;
- funds of a capital investment;
- funds of incentive and stimulating character;
- funds connected with satisfaction of material, welfare and household needs of the workers and served quota (for example, learning in educational institutions, patients in medical establishments);
- funds of development of basic activity.

Sources of financing and charges of organizations, establishments of noncommercial activity

It is possible to group sources of financing of organizations and establishments which carry out noncommercial activity, depending on a degree of participation of the state in functioning these structures. There where the state completely executes the appropriate functions, the charges on the contents of organizations are carried out at the expense of means of the state budget.

Second on importance a source of financing of noncommercial organizations are the own means received as the income from given services, carried out jobs, profit on production at the subordinated enterprises, incomes of use of other property which is taking place in the property of organization is direct by the organization on a sort of its activity and also total income.

The third source of financing is served by the credits of banks.

7 General characteristic of public finances

7.1. Economic activity of the state

State participates in economic life to a greater or less extent depending on a number of factors: from the chosen model of development of a society, political structure usual traditions, external factors.

The economic activity of the state as a whole is shown in the following functions:

- 1) definition of legal base promoting a normal course of economic development;
- 2) restriction of monopolistic activity and protection of competition;
- 3) redistribution of incomes and riches;
- 4) stabilization of economy;
- 5) redistribution of resources.

The action of the named functions is direct or mediately is connected with use of a category “finance”; in the greater measure this connection is shown for third, fourth and fifth functions of the state.

The incomes and riches the state redistributes because the market system derivates significant inequality in their primary distribution. The state uses systems of taxation, transfers, regulation of wages, prices for alignment of incomes of citizens.

The actions of the state on stabilization of economy include control of an occupation level and inflation caused by fluctuations of an economic conjuncture, and also measure on stimulation of economic growth.

Redistribution of economic resources are caused by imperfection of market system in two situations:

- 1) deviations of equilibrium volume of manufacture of some goods from their optimum volume;
- 2) refusal of the market of allocation of resources or their insufficient allocation for manufacture of public goods, boons and services.

In the first situation manufacture or consumption of a number of goods and services causes costs or benefits in subjects who are not direct manufacturers or the consumers of the given goods. These phenomena are called as “side - effects” or “spillovers” and represent benefits either costs of persons or groups which are not participants of the given economic processes.

To costs of spillover’s refer what are connected with pollution of an environment, presence of noise, vibrations, various inconveniences. In these cases the manufacturers shift a part of the costs on the population and the expenses of manufacturers become underestimated. In result the manufacturers can have greater volume of manufacture hence for manufacture of the given goods the resources act in the increased volumes.

For alignment of spillover costs the state spends regulating measures touching the offer:

1) legislative restriction of activity or requirement to result it in conditions excluding harmful influence; the observance of norms and standards of such activity will cause increase of costs and will result in conformity of equilibrium and optimum volumes of manufacture;

2) introduction of special taxes equal or close to costs of spillover, that will raise general costs of subject of managing and will ensure a condition of balance.

Public goods, boon and services

The variants of direct participation of the state in manufacture and accordingly, financing of branches making, ensuring the certain goods, boon and services are also possible. They are called public or social.

Basic difference of the public goods from usual market is that they are indivisible and are not subject to action of a principle of exception.

The public goods are indivisible, as can not be sold to the individual buyers by parts and users, as it is impossible to discharge a rule, of their consumption, that is in this case principle of exception does not work.

The device and contents of objects of an accomplishment in cities and occupied items concerns to most typical to the public goods: street illumination, gardening, sidewalks etc. convenience; in wider aspect

- service in protection of public order, protection of state against external encroachments, service of state management.

7.2. Concept of public finances

The public finances as a part of a financial system connected with action in the industrial and social relations of public sector covering diverse interrelation in economy and socium. The economic essence of public finances is that, they express the money relations connected with creation, distribution and redistribution of cost of a public product and a part of national riches for

formation of financial resources of the state, its enterprises and use of the received means on performance of functions of the state and state enterprises.

The subjects of money relations in this sphere is the state on behalf of its bodies of authority both management, on the one hand and enterprise, organization, establishment, citizens - on the other. The action of the distributive concept is acceptable to public finances in the greater degree, therefore they carry out distributive and control functions. At the same time, in case of action of financial relations connected with real manufacture in public sector of economy, function of public finances operates as reproductive. As a whole, in the expanded representation, the given part works on public reproduction, regarding assistance to “ reproduction of the person », its material, social, physical and moral wellbeing. In this sense it is possible to speak about global action in the finance reproductive function and partial distributive.

However for more complete characteristic of public finances in distributive function it is necessary to allocate components, subfunctions which follow from necessity of regulating actions of the state; its sub- functions:

1)accommodation; 2) redistributive; 3) stabilization.

Subfunction of accommodation is shown that the public goods, boon and service can not be supplied by means of market system and it is necessary to the state to allocate and to place resources for their manufacture and maintenance of the population.

Among various fiscal tools redistributive subfunction is carried out most directly by the following way:

- 1) tax-transfer of the schema, which combines the progressive, taxation of high incomes with subsidizing - of low profitable households;
- 2) alternatively, the redistribution can be executed by the value-added taxes used for financing of a public economy, such as housing, having the low incomes from tenants;
- 3) at last, redistribution can be achieved by a combination of taxes, on goods bought mainly by the highly profitable consumers with subsidizing of other goods, used by the consumers with low incomes.

7.3. Public revenues

Public revenues are understood as system of economic relations, during which the set of means acting in the property of the state for creation of material base of its functioning is formed.

The revenues - complex economic category, which works in close interaction with finance. The revenue is a result of certain activity connected with expenses of means (irrespective of time of their realization). The revenues are results of manufactures commercial, intermediary, other purposeful activity and arise at a stage of distribution newly created product and services. The revenues can have intermediate character that is after the formation enter a new

stage of distribution, or can serve as the final incomes, passing a new stage of reproduction - exchange (final incomes are understood as the incomes directly used on accumulation and consumption). The intermediate character of the revenues is shown that the incomes of one subject of managing are formed at the expense of the charges of another: For example, the charges of enterprise sector at payment of income tax are the incomes of the state, or the charges of the state on the social purposes are the incomes of population, separate groups. As a result of distribution of a total public product the primary revenues of the state separate enterprises, economic organizations and population are formed. The primary revenues are exposed to complex processes of distribution and redistribution in which the important role is played by the finance. As a result of these processes the funds of money resources and first of all state budget is formed.

Financial-material part of a concept of the revenues are certain money resources focused at the state enterprises and organizations and population. Economic nature of public revenues and their organization is caused by the system of managing, political and economic role of the state. Each public economic society (formation) has inherent system of public revenues stipulated by the level of development commodity - money relations, ways of production, nature and functions of the state.

Formation of public revenues is carried out under the most active participation of the state: it establishes a share of net income, centralizing in the budget and leaving to the enterprises and organizations and also concentrates a part of personal incomes of the population and other means of a society. The state is the proprietor of a part of means of manufacture and accordingly, additional product. In these conditions a significant source of the public revenues is the income of a state ownership. The part of the public revenues is formed at the expense of incomes of business sector and population, mobilized by tax system of the state for satisfaction of national needs.

To the revenues of a state ownership concern:

- 1) revenues of state enterprises and organizations as the total income (profit), tax to added cost, excises, customs incomes;
- 2) revenues of state property (from state inhabited fund, ground, woods, water resources, other natural resources, means from razgosudarstvlenie and privatization of a state ownership);
- 3) revenues of paid services rendered by state establishments and organizations (admission fees etc) and payment for non economic services (Registration fee, tax of car inspection-road fee, the declaring tax on trade marks);
- 4) special means of budget establishments including rent payment for premises, incomes of the subsidiary enterprises etc.

It is necessary to distinguish concepts "public revenues" and "state financial resources". Financial resources of a society is a set of funds of money

resources which are at the property of the state, economic organizations of different patterns of ownership, population on this or that moment of time. The concept “state financial resources” under the contents is wider than concept “public revenues”. Except for the public revenues structure of financial resources is included means which are not incomes, but which can be used on public needs. For example, amortization deductions on restoration of a fixed capital, surpluses of turnaround means, sum of creditor and deponent debts, on which term of limitation of actions, receipt from realization of property has expired: left, escheated, confiscated, proceeded under the right of succession to the state, (undemanded cargoes on transport, unclaimed deposit sum undelivered mail). These money resources (as well from realization of property) are not the incomes in direct sense, that is result of the certain activity connected with expenses of means. The various penalties for the same reason are not considered as the incomes. The receipts from the state loans also are (before repayment of the loans) financial resources of the state, but can not be considered as the state incomes, as it is extra means.

The public revenues have the source the national income and the financial resources will be mobilized at distribution and redistribution of all sum of a total public product.

8. Taxes and organization of tax system

8.1. Concept of taxes and their socio economic essence

Taxes are obligatory payments established by the state and raised in the certain sizes and in target dates. The economic essence of the taxes is that they represent a part of economic relations on withdrawal of the certain share of the national income at the subjects of managing, citizens, which is accumulated by the state for realization of the functions and tasks.

The taxes are an initial category of finance.

The taxes arise with occurrence of the state and are a basis of its existence. During all history of development of mankind the tax forms and the methods changed, developed, adapted to needs and inquiries of the state. The greatest development the taxes have reached in the advanced systems of the commodity-money relations, influencing on their condition.

The modern treatments of principles of taxes are reduced to the following:

1. The principle of equity in taxation is considered in 2 aspects:
 - a) achievement “of horizontal equality”, which requires, that all incomes of the tax bearers, irrespective of the fact how they are earned and are spent, were taxed uniformly on equal terms;
 - b) observance “of vertical equality” under the law on the obligations of the tax bearers having a different level of incomes and who are taking place

in different, from the point of view of conformity to social norms in the given society, situations.

2. Principle of simplicity. For the tax bearer the purpose and contents of the tax should be clear, sphere of application and mechanism of action, the law on the tax not bulky and is not complex.

3. Definiteness of the taxes - immutable equality beforehand established conditions and requirements, uniformity of interpretation and application in all territory of the country and for all enterprises and organizations.

4. Minimum of tax privileges. Besides the proved exceptions the state should not encourage or punish the payers through system of the taxes. For this purpose there should be special clauses in an account part instead of reduction of the taxes in a profitable part of the budget.

5. An economic acceptability - the taxes should not interfere improvement of functioning of economy and growth of capital investments.

6. Comparability of tax rates on the basic kinds of the taxes with other countries - partners of the given country on the economic relations.

8.2. Tax system

Set of kinds of the taxes raised in the state, forms and methods of their construction, bodies of a tax service form tax system of the state.

The tax systems can represent rather complex models, as there is a set of the taxes, their payers, ways of collection of taxes, tax privileges. Taxes can be classified by different principles:

- from object of taxation both mutual relation of the payer and state;
- on use;
- from a body imposing the tax;
- on an economic sign.

To a first sign the taxes are subdivided into: direct and indirect.

Direct taxes are established directly on the income or property (tax to profit, on property, ground, income).

The direct taxes, in turn, are subdivided into: real and personal. Real the property to external signs is taxed, that is at the taxation the object of the tax, instead of efficiency of its use is considered.

In the personal taxes not only income is taken into account, but also financial position of the payer, for example , the marital status

The indirect taxes are levied indirectly - through the prices of the goods, services (tax to added value, excises, customs duties). The tax sums after realization of the goods and services are passed by the owner to the state.

To an attribute of use the taxes are subdivided into: common and special. The common taxes go to the state and at use they depersonalized. The special taxes have strictly certain purpose.

Depending on a body raising the taxes and disposing them, the central (nation-wide) and local taxes differ.

To economic attributes of object the taxes on incomes and taxes on consumption differ; first are raised from the incomes received by the payer from any object of taxation; in the second case the taxes to the charges, which are paid at consumption of goods and services.

There are four ways of collection of taxes depending on ways of the account and estimation of objects of taxation', cadastral, under the declaration of the tax bearer, at a source of reception of income, under the patent.

The account and collection of the tax is carried out according to cadastral way on the basis of the inventory of objects of taxation with the instruction of norm their profitableness (ground, property) without account of actual profitableness.

In the declaration the tax bearer specifies the size of income necessary privileges, deductions, estimates and pays the sum of the tax.

At a source of reception of the income the tax is estimated and paid on a place of reception of income by accounting department of the legal person, where the payer works.

On the basis of the patent the tax is paid for reception of incomes from various kinds of activity, on which it is difficult to define and to take into account their volumes.

Two methods of the tax account are used:

- 1) cash;
- 2) accrual method.

According to a cash method incomes and deductions are taken into account from the moment of performance of jobs, granting of services, shipment and entering of property and payment made on them.

According to accrual method incomes and deductions are taken into account from the moment of performance of jobs, granting of services, shipment and entering of property irrespective of time of payment.

The tax system of Republic of Kazakhstan includes kinds of taxes, duties, rules of law regulating tax relations and bodies of a tax service (Tax committee of the Ministry of Finance of Republic of Kazakhstan and its local bodies).

The tax laws of Republic of Kazakhstan is based on the Code of Republic of Kazakhstan «About taxes and other obligatory payments in the budget» (the Tax code).

2) other obligatory payments in the budget:

- State Tax;
- Collections\$
- Admission fees;
- Collections for travel of vehicles on territory of Republic of Kazakhstan;
- Collections from auctions;

- Import and export license fee for the right of occupation by separate kinds of activity;
 - Permit fee on use of a radio-frequency spectrum to the television and broadcasting organizations;
 - Payments.
- 3) Customs payments:
- The customs;
 - Custom charges;
 - Payment for the provisional solution.

8.3. Organization of levying the taxes

The organization of taxation is reduced to construction and functioning of the tax mechanism including the forms of tax relations, that is concrete names of kinds of taxes, and also order and methods of their application ways of action. In the tax mechanism the special toolkit from the interconnected elements is applied.

To elements of the taxation concern: the subject, carrier, source of tax, unit of taxation, tax base, tax rate, quota, tax salary, tax privileges, terms and order of payment, right both duty of the tax bearers and tax bodies, control of payment of taxes, sanction for infringement of tax laws.

The tax obligation considers the obligation of the tax bearer to the state arising according to the tax laws, by virtue of which the tax bearer is obliged to rise on the registration account in a tax authority, to define objects of the taxation and objects connected with taxation, to estimate the taxes and other obligatory payments in the budget, to make the tax forms, to represent it except for tax registers in taxing authority in target dates and to pay the taxes and other obligatory payments in the budget.

The tax period - period of time established with reference to the separate taxes and other obligatory payments in the budget upon termination of which tax base defined an object of taxation, tax base, estimated sum of taxes and other obligatory payments subject to payment in the budget.

The subject of the tax (tax bearer) is a physical or legal person to which the law assigns a duty to pay the tax.

The concept "a fiscal agent " means - the person to whom according to the legislation the duty on calculation is assigned, deduction and transfer of taxes, deducted from source of payment.

Carriers of taxes - physical persons, final tax bearers, on which the actual tax burden falls are citizens of the state. Taxable object- income, property, kind of activity, rendering of services, money operations, subjects (commodity-material of value), transfer of property, usage of natural resources, added cost of production, jobs and services, economic circulation and so on, which are a basis of taxation.

Source of the tax is the income, from which the tax is paid; till some tax (for example, tax to profit) object and the sources coincide.

In the tax laws of Kazakhstan the concepts “object of the taxation ” and “object connected with taxation ” - property and actions with which presence the tax bearer has tax obligation are divided. Thus the concept “tax base ” is selected which represents cost, physical or other characteristic of object of the taxation and object connected with taxation, on the basis of which the sums of the taxes and other obligatory payments subject to payment in the budget are defined.

9 State expenditures

9.1. The essence of state expenditures

State expenditures are the money costs connected with functioning of the state. As an economic category state expenditures express economic relations connected with distribution, redistribution and consumption of a part of a total public product in the purposes of development and perfection of public manufacture, satisfaction of various needs of a society.

The structure of the state expenditures consists of expenditures of the state budget, state off budget funds, state enterprises and organizations, establishments of industrial and nonproductive spheres.

The structure of the expenditures of enterprises of public sector consists of:

- 1) expenses connected with industrial, economic-operational activity;
- 2) on the extended reproduction (basic and circulating capitals);
- 3) payments in the budget and off-budgets funds;
- 4) in incentive and stimulating funds.

The first group of expenses are connected with circuit of funds (capital) represents both compensation of production costs and concern to the expenditures conditionally (in meaning of the term of “expense”). Therefore state expenditures on the enterprises include only second and third group of expenditures.

The rule of state expenditures among other categories is defined by meaning of a state ownership and role of the state in modern conditions. The state is the proprietor of means of manufacture, acts by the organizer of production, participates in creation and distribution of a gross public product and according to the functions and tasks through system of the state expenditures satisfies a significant part of public needs. Though the share of public sector in economy of republic for the period of reforming sharply has decreased, but at disposal of the state there is a significant share of property, money resources. Therefore category “the state expenditures” reflect the steady economic relations and saves the meaning in the long term.

The role of the state expenditures is defined by that their prevailing part is directed for manufacture or maintenance with the public goods, boons and services of the population of the country. The expenditures on the welfare purposes, defence, protection of the legal order, management, on production and services of the state infrastructural enterprises and organizations, are called to satisfy general needs of the population in addition to maintenance with market goods and services from the part both state, and market sectors of economy.

9.2. Classification of state expenditures

Separate kinds of state expenditures are non-uniform on the economic content and meaning. Distinctions in sources, forms and methods of financing of expenses are caused by it.

Major criterion of differentiation of state expenditures is their relation to process of material manufacture and creation of national income. According to it the state expenditures on economic contents subdivided into three basic groups:

- 1) expenditures directly connected with material manufacture and concerning to industrial sphere;
- 2) expenditures in nonproductive sphere of activity;
- 3) expenditures on creation of state reserves.

The first group of expenditures is caused by economic activity of the state and is connected with creation of the national income.

The second group of state expenditures is connected with consumption of national income for satisfaction of public needs of a society.

The state expenditures of the third group - on creation and replenishment of state reserves intend for satisfaction of needs both industrial and nonproductive spheres at force majeure, for example, at acts of nature, for compensation of losses and maintenance of uninterrupted operation of supply of the enterprises, establishments, organizations population by the goods and products.

To a subject attribute state expenditures are divided into the expenditures on economy, welfare measures, science, defence and management.

To a territorial attribute the state expenditures are divided on economic regions. Such classification allows actively to influence accommodation of productive forces and perfection of proportions in a national economy.

The state expenditures on a branch attribute in sphere of material manufacture are divided into expenses in an industry, construction, agriculture, transport and communication, trade, supply and preparations; in nonproductive sphere subdivided into expenses for education, science, public health services and physical culture, social insurance and social maintenance, on a defence and management.

The state expenditure should ensure the most complete satisfaction of state needs at as much as possible (maximum) an effective utilization of means. In this connection there are two methods of financing of the state expenditures determined by features of managing:

1. Financing the self-supporting enterprises and organizations are made at the expense of own resources, credits of bank and in a missing part - at the expense of budget assignments.

2. Budget financing. In this order expenses for welfare measures, contents of bodies of state authority and managements are financed, defence determined on the basis of the special documents - of the individual plans of financing (estimates). The establishments and organizations financed in such order are called budget.

3. As the way in exclusive cases is applied emission financing at the expense of release of cash money in the reference and credit issue (non-cash).

The following forms of budget financing are applied: the grants, subventions, subsidies.

9.3. Financing economy

Expenditures on development of economy are money resources directed on creation of conditions for constant growth of volumes of manufacture and increase its efficiency. The following concern to them:

- investments in a fixed capital (capital investment);
- repair of a fixed capital;
- gain of circulated means;
- creation of material reserves;
- formation of special funds and funds of target financing.

The main place in expenditures on economy occupy investments in a fixed capital (capital investment) - set of expenses of the material, labour and money resources directed on extended reproduction of a fixed capital of all branches of a national economy. Expenditures on repair (for partial restoration of physically worn out and obsolete fixed capital and maintenance them in an efficient condition) is made at the expense of special fund of repair of a fixed capital created on the specifications with inclusion of expenses in the cost price of production, jobs and services of the enterprises and organizations.

The gain of circulated means is financed at the expense of own or equating to them of means of enterprises. At their lack the budget means basically for the new enterprises are allocated or the credit with its subsequent repayment is given.

The expenses for creation of reserves are a necessary condition of maintenance continuous of circuit means and all process of the extended reproduction, observance of economic proportions, compensation of losses from natural disasters of nature. The financial reserves enable to maneuver money

resources to eliminate temporary financial difficulties arising during economic activity at the enterprise. The reserve funds are created at different levels of managing. State reserves - stocks, created by the state of major kinds of raw material, materials, fuel, some kinds of machines and equipment, grain, articles of food, production intended for defence needs.

Financing scientific-technical progress

The choice of a source of financing of scientific and technical progress (STP) depends on stages and accordingly kinds of scientific and technical development, among which: fundamental and applied scientific researches, design development, introduction of new engineering and technologies, methods of organization of manufacture, work and management.

The basic principles of financial maintenance STP should be multitude of sources of financing and their target orientation.

10. State budget

10.1. The essence of state budget

State budget as the set of the economic relations has an objective character. Its existence as independent category of reproduction objectively predetermined by public manufacture, development of which requires the appropriate centralized resources. The centralization of money resources is necessary for organization of uninterrupted circuit in scales of all national economy for maintenance of functioning of economy as a whole. The existence of specific budget sphere of cost distribution is caused also by nature and functions of the state. The state requires the centralized means for financing priority branches, for realization of welfare measures in scales of all society, solving tasks of defensive character, covering general costs of state management. Thus, existence of the state budget completely not result of subjective desire of the people, and objective necessity caused by needs of extended reproduction, nature and functions of the state.

At the present stage of development of economy the centralized financial resources allow the state to provide necessary rates and proportions of public manufacture to achieve perfection of its branch and territorial structure, to form necessary sizes of means for the prime programs of development of branches of economy, to carry out better large social transformations.

Due to financial centralization money resources are focused to decisive sites of economic and social development, preparing conditions for successful realization of economic and social policy of the state.

Thus, as the special part of cost distribution the state budget carries out specific public purpose-serves to satisfaction of nationwide needs.

Being the economic form of existence of the objective reproductive relations, carrying out specific public purpose, the state budget represents itself as an economic subcategory’.

The same features are inherent, first of all, in state budget as certain set of the financial relations which distinguish a category of finance as a whole: the budget relations have reproductive character are carried out always in the money form are accompanied by formation and use of target money funds. At the same time to budget relation the certain specificity is inherent which however does not leave for frameworks general with finance of features. The state budget as specific sphere of cost distribution is characterized by the following features:

1) represents the special economic form distributive relation connected with isolation of part of cost of a total public product at the state and its use on satisfaction of public needs;

2) are intended for redistribution of cost between branches of national economy, territories, sectors of economy, spheres of public activity as against the finance of material manufacture, mediating process of creation and productive consumption of cost and finance of non-productive sphere serving consumption of cost;

3) expresses such stage of cost distribution which is not directly connected with movement of a public product in its commodity form and is carried out in a known separation from it, while in material manufacture and non-material sphere the financial relations closely bind with commodity-money.

The state budget as well as any other economic category expresses the production relations and has the material embodiment, appropriate to them: the budget relations are materializing in the centralized fund of money resources of the state - in budget fund. As a result of it the real economic (distributive) processes occurring in a society, receive the expression in flows of money resources, mobilizing and used by the state. The budget fund is objectively caused by economic form of movement of that part of a public product and national income, which has passed known stages of cost distribution and has acted to the state for satisfaction of needs on the extended reproduction, to social - cultural service of population, defence and management. Formation and use of budget fund expresses process of movement of cost in connection with its distribution and redistribution.

10.2. Incomes and expenditures of the state budget

The functioning of budget connected with formation and use of centralized fund of money resources of the state occurs by means of the special economic forms - receipts and expenditures of the budget. They express separate stages of cost distribution. Both categories are objective as well as budget and have specific public purpose: the incomes provide the state with necessary

money resources, the expenditure distributes the centralized resources according to nationwide needs.

Receipts of the budget are the incomes, sum of repayment of the budget credits, receipts from sale of financial assets of the state, loans.

The charges of the budget are the expenses, budget credits, purchase of financial assets, repayment of loans.

The structure of both incomes and expenditures depends on directions of realization of budget and tax policies of the state which is carried out in concrete socio economic and historical conditions. Thus the state uses the forms, acceptable in determined conditions, both methods of formation of incomes and realization of expenditures.

As a rule, a source of receipts are the taxes or payments adequate to them. The structure of incomes of the state budget of Republic of Kazakhstan is defined by working system of tax payments and receipts of non tax means.

The incomes of the budget are tax, non tax receipts, receipts from sale of a fixed capital, receipts from transfers. The incomes have no a special purpose designation, except for target transfers.

Tax receipts - taxes and other obligatory payments in the budget established by the Tax code of Republic of Kazakhstan.

Non tax receipts - obligatory irretrievable payments in the budget established by the acts of Republic of Kazakhstan.

The receipts from sale of a fixed capital include money resources:

- from sale of state property;
- from sale of goods from state material reserve;
- from sale of the land areas which is in a state ownership or granting them in constant or temporary usage;
- from sale of nonmaterial assets belonging to the state.

Receipts of transfers - receipts of transfers from one level of the budget in another, from National fund of Republic of Kazakhstan in the republican budget.

Repayments of the budget credits - receipts in the budget connected with return of the basic debt on credits, received from the budget, and also legal persons of the requirements on the paid state guarantees.

Receipts from sale of financial assets of the state - receipts in the budget from sale of a share of participation valuable papers of the legal persons who are taking place in a state ownership, official bodies and state enterprises, and also other state property.

The loans - receipts of money in the budget connected with issue of state valuable papers and the conclusion of contracts of the loans.

Expenses - budget means selected on an irretrievable basis.

The budget credits - money selected from the budget on a returnable, urgent and paid basis.

Purchase of financial assets - budget means directed on purchase to a state ownership share of participation and valuable papers of the legal persons, including international organizations.

Repayment of the loans - budget means directed on repayment of the basic debt according to the agreements on the governmental external loans ratified by Republic of Kazakhstan, and also under the internal loans.

The non petroleum deficiency (profit) of the republican budget is equal to the sum of receipts of the republican budget without the account of receipts of the loans and receipts from National fund of Republic of Kazakhstan, minus the charges of the republican budget, except for repayment of the loans.

The net budget crediting is defined as a difference between the budget credits and repayment of the budget credits.

The rest on operations with financial assets is defined as a difference between purchase of financial assets and receipts from sale of financial assets of the state.

The deficiency (profit) of the budget is equal to a difference between the incomes and expenses, net budget crediting and rest on operations with financial assets. The received size with negative is familiar as deficiency, with positive as the profit budget.

The non petroleum deficiency (profit) of the republican budget is equal to the sum of receipts of the republican budget without the account of receipts of the loans and receipts from National fund of Republic of Kazakhstan, minus expenditures of the republican budget, except for repayment of loans.

Financing of deficiency of the budget - maintenance of a covering of deficiency of the budget at the expense of borrowing and used the rest of budget means.

Use of the profit budget - expenditures of the profit budget, means of the loans used the rest of budget means on repayment of the basic debt under the loans.

10. 3. Balance of budget. Budget deficit

In each budget it is desirable to equilibrate, that is to balance a profitable and account part. The balance is a equilibrium and at drawing up the budget the basic question is the achievement of such condition of money receipts and expenditures of the state.

In general representation the excess of expenditures above incomes causes budget deficit and the excess of incomes above the expenditures forms budget surplus - profit.

In Kazakhstan according to the Budget code the specified representation to these concepts is given: budget deficit is equal to operational balance minus net budget crediting and balance on operations with financial assets; the

received size with negative is familiar as deficiency of the budget, with positive is familiar as profit of the budget.

The deficiency (profit) can be submitted as the sum of borrowing minus the sum of repayment of the basic sum of the debt. The received size with positive is deficiency, with negative profit confirmed, specified both corrected republican and local budgets.

Non petroleum deficiency (profit) of confirmed, specified and corrected republican budget is equal to the sum of receipts of the republican budget except for receipts from National fund of Republic of Kazakhstan minus the expenditure of the republican budget.

The sum of profit is directed on repayment of the state debt or can make the free balance of budget means (in republican and local budgets). The free balance of budget means are budget means which have stayed not used on results of execution of budget at expired financial year as January 1st next expiring financial year.

Temporarily free budget money - budget means which are taking place on the uniform exchequer bill not used during the certain period of time. Temporarily free budget money republican and local budgets can be placed by the central authorized body on execution of the budget in the contributions (deposits) in National Bank of Republic of Kazakhstan.

The free balance of budget means of the local budgets are not subject to withdrawal in the higher budget except for cases stipulated by the legislation.

The presence of significant and constant deficiency characterizes a crisis condition of finance. The allowable shortage level considers 2-3% from size of a total internal product of the country. In such cases the deficiency can be rather easily covered with the help of release of the state loans or issue of paper money. At significant and chronic deficiency of the budget the loans do not cover needs of the state, which provide additional (that is over needs of commodity circulation) with a currency issue, that conducts to development of inflation, infringement of the laws of the money circulation, depreciation of money, decrease of the real incomes and fall of a vital level of the population.

Financing of budget deficit - provision of covering of deficiency of the budget at the expense of borrowing and free balance of budget means. Volume of financing of deficiency of the budget is defined as excess of the sum of the received loans, movement of balance of budget means above the sum of repayment of the basic debt on loans.

Sequestration - special mechanism providing reduction of the expenditure of budget means in certain limits, which is entered in cases when at execution republican and local budgets the authorized receipts not up to receive in republican and local budgets, as result it is impossible to finance in complete volume authorized budget programs.

The fiscal policy concerning budget deficiency is based on three concepts.

1. Annually balanced budget.

2. Budget balanced on a cyclic basis.
3. The concept of functional finance is that their purpose is balancing of economy as a whole for achievement of macroeconomic stability, maintenance of not inflationary complete employment. Balancing of the budget at this concept is a minor task, admitted both presence of deficiencies of the budget and state debt, and budget surpluses.

10.4. The organization of local finance

The local finance represents economic relations by means of which the local bodies of management mobilize, distribute and use according to the functions, assigned to them, a part of a public product in the money form. The local finance is the important part of financial system of the state. They include the local budgets special off-budgets funds and finance of the enterprises and organizations, taking place in the property of local bodies of management.

The structure and direction of the local finance are defined by functions of local bodies of authority and management - maslikhats (assemblies of the deputies), local administration and local self-management.

Now, in conditions of the market relations, the sphere of activity of local bodies extends also, they get significant independence in solving problems of social, economic, ecological, demographic character.

The important tasks on implementation of the social programs of the state are assigned to local bodies of management.

Financing of measures on service of the population basically is carried out at the expense of local financial resources. The branches of social infrastructure provide the population service at the expense of funds which is mostly formed from the budget means.

Financial relations in a local part are adjusted by the Law "About local state management", "By the Budget code of Republic of Kazakhstan", "By the Law on the Republican budget" and other laws on economic and financial activity.

The important role in the local finance belongs to the local budgets being financial base of many related activity of local bodies of authority and management.

Local budgets (areas, cities, regions) in Kazakhstan take on incomes about 45,4 %, and on expenses about 53 % from volumes of means of the state budget (2008 year). About 80 % of all regional and urban (cities of regional submission) are subsidial (from such 193 budgets). According to the Budget code of Republic of Kazakhstan the local budget includes the regional budget, budget of city of republican meaning, capitals, budget of area (city of regional meaning).

The regional budget, budget of city of republican meaning, area (city of regional meaning) capital is the centralized money fund formed at the expense

of tax and other receipts, defined by the Budget code, and intended for financial maintenance of tasks and functions of local state bodies of a regional level, city of republican meaning, capital, area (city of regional meaning) official bodies, subordinate to them, and realization of state policy in appropriate administrative-territorial unit.

In a budget kind of organization of financial relations two tendencies coexist:

- centralization of system of the forms and methods of management of movement of financial resources as reflection of more general process of development of centralized beginnings in management of economy with the purpose of way out from crisis and stabilization;

- decentralization of finance with strengthening of functions of local bodies of authority both management in formation and use of financial funds.

The second tendency is proved proximity of local bodies to local conditions, their greater interest in social-economic development of territories.

In countries with the advanced market economy the redistribution of the national income through the budget is carried out on the basis of the theory "fiscal federalism".

The essence of the theory is that all state economy as a whole (all enterprises, establishment and the administrative structures which are included in public sector of economy) represent multilevel system, where there is a division of functions of management between levels and legal submission them on a vertical.

The policy of fiscal federalism is directed on decrease financial dependence of local bodies of management from the centre. It is a way to decrease of deficiency not only local budgets, but also state budget as a whole, way to real independence in the solution of local social problems. It is achieved at the expense of development of a tax autonomy of regions, granting the rights on collection of the local extra charges to the nation-wide taxes or setting the own taxes (ecological, on property, on inheritance, on consumption). Thus is reduced transferred financing from the central budget, not interested local bodies in an effective utilization of means, depriving their financial independence.

Incomes and charges of the local budgets

The structure of the local budgets is similar to structure of the re-republican budget. The parity between separate categories of receipts in local budgets, on the average over Kazakhstan, according to table 2 has developed with prevalence of transfers over the republican budget (55,8%); tax receipts have made 40,9 % from which the social tax (13,7%) prevails, individual income tax - 14,6%.

In budgets of some subventional areas transfers occupy up to 70% (Shymkent, Jambyl, North-Kazakhstan, Akmolinsk areas) as own tax and other receipts do not suffice for achievement of an acceptable level of financing of

social and economic needs. It is connected with such areas where the narrow tax base submitted by low power managing subjects fiscal potential is insignificant.

In this aspect the urgent problem is redistribution of receipts through the republican budget by means of the mechanism of budget withdrawals and subventions, that is the improvement of the given mechanism on the objective beginnings is required.

The problems of the local budgets consist also of the branches of economy making their property (a housing economy, establishment of culture and art, municipal infrastructure - waterpipe, transport, service of clearing etc.), are either low - profitable, or unprofitable and absorb a significant part of means of the local budgets. At division of the property on republican and municipal in conducting local bodies of authority the unprofitable enterprises or bringing small incomes are transferred.

In the regional budget for the appropriate financial year it provides a reserve for crediting the budgets of areas (city of regional meaning) in case of the forecast in the current financial year of deficiency of a cash of their budgets.

In expenses of the local budgets (table 2) prevails financing a social infrastructure - education, public health services, social protection of the population (47,7%), from economic branches - transport and communications (11%).

The functional group - expenditures on a defence - means financing of expenses for a civil defence (at extreme events) and military registration and enlistment offices.

The densities of the expenditures on transfers - withdrawal of means from the local budgets for transfer to the higher budget (in this case republican) is great enough. The budget withdrawals are made in areas, which in connection with higher economic level of development or on natural conditions, have tax base above average on the country and, accordingly, more high level of tax receipts. As subventions and the withdrawals are used for alignment of a level of social -economic development of administrative-territorial units.

As to a share of the expenditures of the local budgets in the expenditures of the state budget on separate functional groups,

That on directions of financing of a social infrastructure it occupies a prevailing place, for example:

- housing-municipal services - 99,1 %;
- education -83,1%;
- public health services - 88,3%;
- culture, sports, information space - 66,2%;

The expenditures on social maintenance and social help be engaged 9,9%, that is explained by their primary administration by a higher level of management.

The volumes of the expenditures on other groups are rather significant:

- management (state services of general character) - 34,9%;

- the public order and safety - 19,0%.

Financing of economy as a whole makes an account part of local budgets - 19,5% (on densities in a public finance - 58,2%), but in both cases the kind of activity «Transport and communications» - 11,0% and 59,6% accordingly prevails.

11 State off-budget funds

11.1. The essence off-budgets funds

Off-budgets funds - important part of a financial system of the state. They represent set of the money resources used by the state on strict definite purposes and available legislatively fixed sources of formation. As an economic category funds are the relations on redistribution of the national income for centralization of financial resources directed on financing of target needs of the state.

The functioning of special off-budgets funds in parallel with the state budget allows to differentiate the financial relations, to focus a part them in narrowly specialized spheres, to achieve original diversification of these relations in different directions of financial activity.

In Republic of Kazakhstan the functioning state of off-budgets funds since 1996 year has been suspended in connection with change of financial policy from centralization of financial resources of the state: the means of funds were consolidated in the republican budget. However world practice prove to confirm efficiency of decentralization both independent formation and use of state financial resources for operative management by them at maintenance of the appropriate control behind expenditures of means on the part of a society. Therefore, off-budgets funds again gradually began to revive in connection with occurring socio- economic processes: By reforming of pension system (formation of Accumulated State Pensions Fund, 1998), performance of Strategy Industrial-innovation of Development (Kazakhstan Investment Fund, National Innovation Fund, 2003), necessity of accumulation of the petroleum incomes (National Fund of Republic of Kazakhstan, 2001), introduction of system of social insurance (State Fund of Social Insurance, 2005), development of small business (Fund of Development of Small Business, 1997).

Organizationally funds are in conducting the special organ or ministry, that promotes flexibility of management of the stood apart from financial resources, control of their rational, target use.

Off-budgets funds are classified into the following attributes:

- to a target attribute - on social, economic, research, nature protection (ecological), migration, law assistance and order, cultural purpose and others;
- on a level of management - on interstate, state and regional (local).

11.2. Off-budgets funds of social and economic purposes

State off-budget social funds intended for formation and use of target money resources on satisfaction of various social needs. Their structure, orientation, are defined by carried out social policy of the state, its purposes at the given stage of development of a society, and also opportunities of economy.

Accumulative State Pensions Fund (ASPF) - legal person who carries out activity on attraction of pension payments of depositors and pension payments to the addressees in the order, established by the legislation of Republic of Kazakhstan and also carrying out activity on formation of pension assets and investing them in state securities, bank deposits, securities of international financial organizations.

Except for state accumulated pensions fund in Kazakhstan the non state accumulated pensions funds function. The accumulated pension funds can be open and corporate.

The investor of obligatory pension payments - physical persons who concluded the contract about pension provision at the expense of obligatory pension payments and having the individual pension account in accumulated pension fund.

The obligatory pension payments in accumulated pension funds are subject to payment by the investors of obligatory pension payments under the rates determined by the Law on Pension provision in Republic of Kazakhstan. From payment of obligatory pension payments in accumulated pension funds the persons who have reached pension age are released. The obligatory pension payments subject to payment in accumulated pension funds are established at a rate of 10 % from the monthly income of workes, accepted for calculation of pension payments.

Voluntary pension payments - money which is brought in by the investors on the initiative to accumulated pension funds for the benefit of the addressee in the order, determined by the legislation of Republic of Kazakhstan and contract about pension provision at the expense of voluntary pension payments.

Between accumulated pension fund and investor the contract about pension provision is concluded.

The purpose of pension payments is made from the State Centre on Payment of Pensions. The Centre is legal person who is carrying out pension payments to the citizens, having the right on pension provision on conditions of the Law about Pension Provision in Republic of Kazakhstan, at the expense of assignments for payment of pensions from the republican budget for the appropriate year making the account of obligatory pension payments and their translation in accumulated pension funds, and also appropriating social individual codes to the citizens.

Social individual code - the constant individual code appropriated to the citizen and also persons on which the right to pension provision is distributed.

The Accumulated State Pensions Fund form the own capital of fund representing cost of assets of fund minus the sum of its obligations.

Pension assets - money securities, other financial tools intended for provision and realization of pension payments and transfers and also withdrawals from accumulated pension funds in the order determined by the legislation of Republic of Kazakhstan.

The State Fund of Social Insurance is noncommercial organization in the form of joint-stock company, unique founder and which participant is the state.

The basic purpose of activity of Fund is accumulating of obligatory social deductions of the participants of system of obligatory social insurance and maintenance of social payments.

The fund carries out the activity at the expense of commission compensations, received from own assets.

Limiting size of the interest rate of commission compensation and mechanism of its use are annually established by the Government of Republic of Kazakhstan.

The own means of Fund are formed and consist of the authorized capital of Fund and commission.

The fund carries out investment activity by placing assets of the Fund in financial tools through National Bank of Republic of Kazakhstan on the basis of the contracts concluded between Fund and National Bank, which keeps account of all operations on accumulation and placing of assets of the Fund.

The assets of fund are formed at the expense:

1) social deductions, fees, payment, received for delay of social deductions, investment income minus commission compensation on maintenance of activity of fund; the social deductions subjects to payment in Fund of Social Insurance for the participants of system of obligatory social insurance are established at a rate of 3% from object of calculation of social deductions; since 2008 the size of deductions have made 4% in 2010 it will be 5%.

2) other sources stipulated by the legislation of Kazakhstan.

Assets of the Fund can be used for the following purposes:

1) realization of social payments;

2) allocation in financial tools which list is defined by the Government of Republic of Kazakhstan;

3) the return of the unduly paid sums of social deduction and other erroneous entered in an account of means.

The state guarantees safety and target use of social deductions in State Fund of Social Insurance.

Off-budgets funds of economic purpose

Creation of off-budget economic funds, as state institutes of development of Investment Fund, Innovation Fund, National Fund is aimed at achievement of

purposes and tasks of Strategy of industrial-innovational development of Republic of Kazakhstan for 2003-2015 . The purpose of Strategy - achievement of steady development of the country by diversification of branches of economy promoting deviation from a raw orientation, preparation of conditions for transition in the longterm plan to service-technological economy. Manufacture of competitive and export-focused goods, jobs both services in a manufacturing industry and sphere of services is the main subject of state industrial- innovation policy.

In realization of Strategy of industrial-innovational development of Republic of Kazakhstan for 2003-2015 the important place was allocated to investment fund - by the commercial organization in the form of the joint-stock company created under the decision of the Government of Republic of Kazakhstan as which unique shareholder the national managing company acts. The investment fund of Kazakhstan was national institute of development. The purpose of activity of fund defined assistance in realization of industrial-innovational policy of Kazakhstan by means of realization and attraction of investments in projects of the perspective organizations, rendering financial support to initiatives of a private sector in a non raw sector of economic activity.

With acceptance of the Law «About fund of national well-being» existing law «About Investment fund of Kazakhstan» it is recognized that doesn't meet the modern requirements limiting activity of fund. Activity of Investment fund further will be carried out within the framework of the common legal field according to the law «About joint-stock companies».

Fund of national well-being. In Republic of Kazakhstan for performance of measures on maintenance of competitiveness and stability of national economy in 2008 joint-stock company «Fund of national well-being

«Samruk-Kazyna» with hundred percent participation of the state in its authorized capital was founded. Joint-stock companies « Kazakhstan holding on management of state assets «Samruk» and «Fund of sustainable development «Kazyna» are reorganized by merge in joint stock company «Fund of national well-being « «Samruk-Kazyna».

The joint-stock company «Fund of national well-being «Samruk Kazyna» is the national managing holding created for increase of competitiveness and stability of national economy and anticipation of factors probably of negative influence of changes in the world markets on economic growth in the country.

National Fund of Republic of Kazakhstan.

The National Fund of Republic of Kazakhstan represents financial assets of the states concentrated on the account of Government of Republic of Kazakhstan in National Bank of Republic of Kazakhstan and also as other property except for nonmaterial assets. The national fund is intended for maintenance of stable socio economic development of the state, accumulation of financial assets and other property except for nonmaterial assets, decrease

dependence of economy from raw sector and influence of the adverse external factors.

The national fund carries out saving and stabilization functions. The saving function provides accumulation of financial assets and other property, except for nonmaterial assets and profitableness of assets of National Fund in long-term prospect at a moderate risk level. The stabilization function is intended for maintenance of a sufficient level liquidity of assets of National fund. The part of National fund used for realization of stabilization function is defined at a rate of necessary for maintenance guaranteed transfer.

Formation and use of National Fund are defined in view of a con-juncture of the world and domestic commodity and financial markets, economic situation in the state and abroad, priorities of socio-economic development of republic with preservation of macroeconomic and fiscal stability and observance of the basic purposes and tasks of the Fund.

Sources of formation of National Fund are:

- 1) receipts in National fund of Republic of Kazakhstan;
- 2) investment incomes of management of National fund of Republic of Kazakhstan;
- 3) other receipts and incomes which haven't been forbidden by the legislation of Republic of Kazakhstan.

Receipts in the National fund of Republic of Kazakhstan consist of:

- direct taxes from organizations of petroleum sector (except for the taxes,
- enlisted in the local budgets) to which concern:
- corporate income tax, the tax to extraction of mineral resources, the rental tax to exported crude petroleum, gas condensate; subsequent payment of users of mineral resources, carrying out activity under the contract on section of production;

2) other receipts from the operations which are carried out by organizations of petroleum sector (except for the receipts enlisted in local budgets), including receipts for infringements of conditions of petroleum contracts (except for the receipts enlisted in local budgets);

The investment incomes of management of National Fund are formed from financial assets and other property, except for nonmaterial assets.

The national fund of Republic of Kazakhstan is spent:

- 1) as guaranteed transfer from National fund of Republic of Kazakhstan in the republican budget on realization of the budget programs (subprograms) of development for the appropriate financial year;
- 2) as target transfers transmitted from National Fund Republic of Kazakhstan in the republican budget on the purposes determined by the President of Republic of Kazakhstan;
- 3) on covering expenditures connected with management of National Fund and conducting of annual audit.

The Fund can not be used on crediting of physical and legal persons and as maintenance of execution of the obligations.

Guaranteed transfer - irretrievable receipts in the republican budget from National fund of Republic of Kazakhstan. The size of guaranteed transfer from National fund of Republic of Kazakhstan should not exceed one third of assets of National fund of Republic of Kazakhstan at the end of financial year previous to year of development of the Republican budget.

12 State credit

12.1. The essence of the state credit

The state credit - set of credit relations, in which one of the parties is the state, and creditors or borrowers are the legal and physical persons.

By means of state credit on the basis of a reflexivity the means for realization of the state expenditure are accumulated. The state credit should carry productive character, as the means mobilized with its help are directed mainly on financing of economy.

In borders of reproductive function of finance the state credit carries out sub redistribution function of money resources on conditions of their subsequent return. Second sub function of the state credit - regulating. First of all state adjusts money flows, influence on size of loan interest: acting as borrower on the market of loan capitals, it raises demand for this capital, therefore the norm of loan raises. Thus state introduces competition in this market and finds out from it the private investors ("effect of replacement"). It causes restriction of their investment in the certain kinds of business. Simultaneously at purchase of securities of the state the reduction of money (cash and non-cash) in circulation is reached, that can be effective for liquidation consequences of a currency issue.

The role of state credit is reduced to its opportunities in mobilization of temporarily free means of population, enterprises, organizations and direction them on financing, prime needs of the state.

The state credit divided into: on kinds: internal, external (international), conditional.

In the internal credit the state-credit relations arise between government, local bodies of authority, enterprises, organizations and population of the given country from versatile positions: both as borrowers and as creditors.

In the international credit the relations are entered by governments, local bodies of authority - on the one hand, and government, banks, company of other states and also international finance-bank organization

- on the other. The part giving the credit is called the state donor or organization-donor and country receiving the credit - the country- recipient.

The conditional state credit is represented as the obligation of government on guarantees given to creditors of other countries on the loans received by the

domestic borrowers: by the enterprises, organizations, firms, local bodies of authority. In case of default of conditions of the loan the government replies on the coming obligations of the domestic borrower - is paid at the expense of budget means sum of the loan from property or other assets of the borrower.

12.2. Forms and methods of the state credit

The basic form of the state credit are the state loans representing credit relations, in which the state acts mainly as the debtor.

The loans differ on terms of repayment, place, ways of allocation, currency of the loan, kinds of profitability. On terms of repayment the loans are distinguished : short-term (till one year), intermediate term (from 1 year till 5 years), long-term (more than 5 years). In a place of allocation the loans are subdivided into: internal and external. The bonds of the internal loans can be bought with the foreign citizens and society. On ways of accommodation the loans may be: freely circulating, placed on a subscription and compulsory. The state loans are issued as a rule, in the money form, but if necessary can have natural form.

Depending on the emitter the loans differ on the loans of central government and loans of local bodies of authority (municipal loans).

On kinds of profitability the loans can be percentage when the holders of the loan will receive annually equal shares of the firm income under the authorized rate; advantageous or lottery (the income is paid at an issue of bonds in circulation of repayment or circulation of prizes).

Conditional public credit forms are guarantees and surety ship.

State (governmental, sovereign) a guarantee (government guarantee) - the obligation of the government before lender in full or in part to extinguish debts in default of payment the borrower - resident of the given country of the sum due from it when due hereunder. Government guarantees are given to lenders as maintenance of execution with residents of the country of obligations under the non state loans received by them.

The surety ship of the state - the obligation of the government before creditor's to liquidate in full or in part a duty of the borrower under the loan involved within the framework of the concessionary agreement according to the contract of the guarantee. Obligations under the guarantee include a capital amount of the loan and compensation on it. Thus means of the loan involved under the guarantee of the state, are used only on creation of objects of concession.

The government guarantee and the guarantee are given by means of the conclusion of the written contract between the central authorized body on outturn of the budget and lender.

For covering of short-term requirements in money resources at financing from the budget stipulated measures at non receipt or insufficient receipt of

incomes such form of the credit as the state exchequer obligations (SEO) is used. SEO issued in paperless (to dematerializing) form by terms from three months till 10 years for legal persons - commercial banks, enterprises, firms. Allocation of SEO among the holders is made on auction tenders, where the price of the next release of the obligations is established discounting. The ministry of finance redeems them after expiry of the term of circulation at nominal cost, the difference between face value of this securities and discount price makes the income of the investor. The state guarantees stability SEO, giving them the status of means of account and payments on economic operations for the developing market prices in view of a conjuncture.

SEO are an effective means of covering “cash breaks” of the budget, but simultaneously state has certain losses at the repayment SEO, which are equal to size of discount, and its size - profitability SEO - should exceed existing size of bank percent to attract the investors in purchase of SEO.

Earlier used form of the state credit is circulation of a part of the balance on deposits of the population in state banks on formation of loan fund for financing state expenditures. Usually it is savings banks if the capital belongs to the state, on risks of use deposits the state replies ; in case of state participation in the capital of saving bank (joint-stock) there are problems of variants of an effective utilization of the (attracted) means according to opinions of founders (shareholders) of bank.

The possible form of the state credit - attracting means of central emission bank of the country. The given form is accompanied by inflationary depreciation of money weight in circulation, even if such borrowing is carried out on the commercial beginnings, that is in view of existing norm of loan percent it is connected with significant single flow of money in economy and their withdrawal can last long.

Operations of the state opposite to attraction of money resources at disposal of government, local bodies, are grantings credits from their part to the legal and physical persons. This form of the credit is called as the state (exchequer) loans and intended for support of enterprises, organizations in case of their urgent need for money resources at financial difficulties or insufficiency of means for development.

The Budget Code of Republic of Kazakhstan stipulates the following kinds and forms of the state loans:

- 1) in relation to the borrower:
 - the loans of Government of Republic of Kazakhstan;
 - the loans of National bank of Republic of Kazakhstan;
 - the loans of local executive bodies;
- 2) on the markets of the loan capital:
 - the external state loans;
 - the internal state loans;
- 3) under the form of borrowing:

- emission of state securities;
- conclusion of the contracts (agreements) about the loan.

State emission securities on terms of action are subdivided into:

- 1) short-term, with term of circulation till 1 year;
- 2) intermediate term - from 1 till 5 years;
- 3) long-term - more than 5 years.

The state issue securities on the purposes of issue are subdivided into:

- 1) let out with a view of financing a fiscal deficit;

1) let out with a view of assistance to development of a home market of debt tools.

State emission securities can be issued in document and documentless forms.

Borrowing by the Government of Republic of Kazakhstan is carried out when due hereunder on a basis:

- 1) establishments of financial borders of borrowing;
- 2) definitions of investment priorities of borrowing;
- 3) formations of the list of prospective governmental loans.

Borrowing by local executive bodies is carried out as reception of loans from the Government of Republic of Kazakhstan and release by local executive bodies of city of republican value, capital of the state securities for circulation on a home market for financing deficiency of the regional budget, the budget of city of republican value, capital.

Borrowing by local executive bodies of areas (cities of regional value) is carried out as reception of loans from a local executive body of area for financing a fiscal deficit of area (city of regional value).

The non state loan - relations of the loan in which the resident of Republic of Kazakhstan acts as the borrower, it is independent in any size, in any currency and any form with allowance for the restrictions established by the legislation.

The methods of the state credit are various and correspond to the stated forms. In state loans there are ways of attraction of means and their subsequent return: they are defined by conditions of issue of loans: methods of definition up profitability and reception of the income, validities, ways of accumulation (free purchase and sale of the bonds, a subscription; compulsory accumulation), ways of repayment (prizes on bonds, repayment of the bonds with the saved percentage income; on permanent loans -periodic payment of the percentage income).

To methods in the loans concern as well methods of management of the state debt (see further: conversion, consolidation, unification, refinancing).

12.3. State debt

The state debt is the sum of the received and outstanding state loans, and also liabilities for the certain date, referred according to acts of Republic of

Kazakhstan on a duty of the Government of Republic of Kazakhstan, the national Bank of Republic of Kazakhstan or decisions of maslikhats on a duty of local executive bodies, without taking into account mutual requirements.

Depending on the market of accommodation, currency of the loan and other characteristics are subdivided into internal and external state debts.

Internal state debt is a component of a state debt under internal state loans and other liabilities of the Government of Republic of Kazakhstan, the national Bank of Republic of Kazakhstan and local executive bodies before residents of Republic of Kazakhstan.

External state debt is a component of a state debt under external state loans and other liabilities of the Government of Republic of Kazakhstan and the national Bank of Republic of Kazakhstan before nonresidents of Republic of Kazakhstan.

Distinguish also capital and current state debts. Capital debt represents all sums of the issued and outstanding liabilities of the state, including the charged percents (interests) on these obligations. The current debt are the expenditures on payment of the incomes to the creditors under all liabilities of the state and on their repayment, term of which payment has come.

The state debt is caused by use of state loans as one of the forms of attraction of money resources for the extended reproduction and satisfaction of public requirements. The state debt is repaid by the state at the expense of means of the state budget.

The reason of occurrence and increase of the state debt is constant deficiency of the state budget, which has compiled in 1991. 20,4% (to an account part of the budget), in 1993 - 11,9%, in 1995 - 17,4%, in 1996 - 15,4%, in 1997 - 16,1%, in 1998 - 15,6%, in 1999 - 14,3%; with 2000 it sharply reduced and made 0,5%, in 2002 - 1,6%, in 2003 - 4,3%, in 2004 - 1,4%; in 2005 achieved profit - + 2,4%, in 2006 - +3,8%, 2007 - - 8,0%, 2008 - 9,8%.

The presence of the internal state debt is not exception in economy and in the greater extent - a rule: economically advanced countries have a significant state internal debt. The internal public debt at the beginning of 2009 has made 1213 milliard tenge in Kazakhstan (10 milliard dollars), that makes about 7,6% from gross national product; including, a duty of the Government - 820,2 milliard tenge (6,8 milliard dollar).

The presence of external debt of the country is normal world practice. However there are borders, outside which the increase of the state debt becomes dangerous. The attraction in the increasing scales of the external loans can result - and also already happened with a number of countries

- to economic and political dependence on the countries - creditors.

For the relative characteristic of size of the state debt in world practice the special parameters recommended by the World Bank of Reconstruction and Development are used.

By the Budget Code of Republic of Kazakhstan the external state debt is determined as a component of the state debt under the external state loans and other liabilities of Government and National bank of Republic of Kazakhstan before the creditors - nonresidents of Republic of Kazakhstan.

Debt, guaranteed by the state - sum received and outstanding for the certain date of the non state loans having state guarantees of Republic of Kazakhstan. State (governmental, sovereign) guarantee of Republic of Kazakhstan - obligation of Government of Republic of Kazakhstan before creditors completely or partially to extinguish debts in case of nonpayment by borrower - resident of Republic of Kazakhstan of the sum at a quoted date.

The Budget Code of Republic of Kazakhstan establishes limits of borrowing for the appropriate state structures:

- 1) limit of the governmental debt;
- 2) limit of the external debt of National bank of Republic of Kazakhstan;
- 3) limit of the debt of a local executive body.

13. Finance of households

13.1. Concept of finance of households

Allocation of finance of households in an independent part of a financial system in conditions of market relations, when circuit of the capital covers a prevailing part of process of manufacture is stipulated by a number of factors.

The households act as one of the important subjects of economic activity on which results depends not only well-being of a separate economic unit, but also all population of the country as a whole. Becoming the largest subject of economy alongside with the commercial enterprises and state, the households participate in all macroregulating processes. The revival of economy in the beginning of XXI century results in active activity of households.

Households as economic agents accept the decisions, mainly, about consumption of boons necessary for maintenance vital activity of family members. At the end all economic resources belong to households, but they are distributed extremely irregular between them. The absolute majority of households own and dispose labour force. In market economy the labour force is the main goods created within the framework of households and offered in the market of the factors of manufacture. Receiving incomes from sale of resources, the households take decisions on distribution of limited incomes for purchase of various consumer boons. The main economic interest of households is that to maximize utility of the got boons. The choice of the consumer boons by households forms demand in market economy.

In economy there is an exchange between households and enterprises (firms). The households own resources and give to their firms by means of the

market resources. The firms use resources, make products and deliver them on the markets of goods and services. As a result of interaction between households and other subjects in economy total amount of manufacture is formed.

In the economic theory household is understood as an economy which is conducted by one or several persons living in common and having general budget. Household unites all hired workers, owners of the large and fine capitals, ground securities which are engaged and are not engaged in public manufacture.

Conducting household represents the form of industrial activity of family. In a households services and production intended for satisfaction of needs of the given family make. Regular manufacture of production in a households for sale or realizations of services in the market characterize family engaged in individual labour activity and manufacture of agricultural production - personal part-time farm with a commodity orientation.

Often the term "household" in the economic literature is used as similar to the term "family". But unlike family households include not only relatives and can consist of one, two and more members.

Finance of a households as well as finance of society as a whole, represents the economic money relations on formation and use of funds of money resources with the purposes of maintenance of material and social conditions of life of members of a economy and their reproduction. Being a part in a financial system at a level of separate family, they act as a primary element of social-economic structures of a society. Unlike finance of commercial enterprises and organizations having decisive meaning in creation, deciding meaning distribution and use of cost of a total internal product and national income, the finance households did not become a priority part of a financial system and play subordinated though also important role in general set of financial relations.

Finance of a households is important for considering from positions of development of "human capital". The concept "human capital" for the first time was put forward by T.Shults in the beginning of 60-th of the past century*. Under «a human capital we understand abilities, knowledge and skill of workers which actively enable them to operate in social and economic areas». These qualities are defined first of all by an educational level, public health services, a science, culture.

To basic elements of a human capital, according to G. Bekker's representations, concern:

- the capital of education (knowledge - general and special);
- the capital of preparation on manufacture (qualification, skills, productive experience);
- the capital of health;
- possession economically significant information (knowledge of the prices and incomes);

- the capital of migration (providing mobility of workers);
- motivation of economic activities.

13.2. Financial resources of households

Financial resources of households - cumulative fund of money resources which takes place at family disposal . Created as a result of industrial activity of the members up to households, it acts by a part of the national income of a volume of money fund of households depends on efforts of everyone in economy.

The financial resources of households act as the detached money funds having, as a rule target purpose. Two fixed capital is created:

- fund of consumption intended for satisfaction of personal needs of the given collective - family (purchase of food products, goods of industrial manufacture, payment of various paid services etc.);
- fund of savings (postponed needs) intended for use in future for purchase of expensive goods or as capital for reception of profit.

The fund form of financial resources allows to coordinate needs of households to an opportunity of collective economy as a whole, and also to check how needs of everyone in family satisfied.

The structure of financial resources of households includes:

- 1) own means, i.e., earned by each member of the family, salary, income of a part-time farm, profit from commercial activity;
- 2) means mobilized in the market in the form of received credit at credit organizations, dividends, interests;
- 3) means entered as redistributions, - pension, grant, loan from the budgets and of off-budget social funds.

The finance of households cooperates with budgets - (republican, local and off-budget social funds) and by decentralized finance of enterprises of different patterns of ownership, and also with the financial market. There are continuous money flows between them - unilateral, two and multilateral. Between household and state the movement of money flows is carried out constantly. Household members give a labour force for public sectors, sell to the state goods and services of own manufacture. The family receives payment of work and income for it. Besides the financial relations arise and at payment of taxes,, duties and deductions in treasury and social off-budget funds. At the same time households receive from government various money transfers and also public boons and services in the natural form.

13.3. Budget of households

The financial resources form the budget of a households. Under the material contents the budget households is a form of education and use of fund

of money resources of a households. It unites the cumulative incomes of the members households and expenditures ensuring them personal needs. The means of the family budget constantly do not suffice in connection with expansion of needs.

Within the framework of the budget the detached money funds are formed:

- individual, intended for the separate members of family and used on purchase of various goods, entertainments, study, health services etc.;
- joint for purchase of goods of common usage (TV, refrigerator etc.);
- accumulation and maintenance (reserve fund), used for the future capital expenditures (purchase of a house, apartment, land, means of transport and also formation of the initial capital for commercial activity).

The need for creation of fund of accumulation arises not only for purchase of the durable goods which require huge means, for rest and expensive medical service, but also for ensuring of worthy life in old age.

Distinguish the constant and temporary income of budget of households. Constant is an income which according to expectations of the man will be save in future. In a stable economic society payment of labour activity concerns to this kind. Temporary income can disappear in connection with the termination of joint-stock company.

The income of the family budget defines volume of consumption of households. Constant income, which size repeats from year to year, will not cause serious fluctuations in their consumer expenditures. At the same time temporary income can seriously influence on general solvent demand of the country. Its growth in the separate period of time, having created the additional requirement of the goods and services, will complicate a situation in the market.

The state essentially influences on volume of the budget of household as in market economy it completely integrated in general circuit of material and money resources. This influence is carried out:

- 1) through tax system - households pay the taxes, the duties and do other obligatory deductions
- 2) through payment of job of workers in public sector;
- 3) through the given various public boons and services;
- 4) through state price fixing.

14 Basis of insurance

14.1. Economic nature of insurance

In the system of social-economic relations characteristic parts caused by the following circumstances are:

- 1) natural features and condition of people entering in these relations (illness, approach of old age and death, birth of children);
- 2) participation of people in labour activity, risk character of this participation varied depending on different kinds of activity (a trauma, physical inability, occupational diseases);
- 3) adverse natural-climatic conditions of production (drought, sudden sharp cold etc.);
- 4) acts of nature (earthquake, floods, hurricanes etc.);
- 5) failures and casual disasters (explosions, accident, on heat);
- 6) disproportions in development of national economy caused by unforeseen confluences of circumstances and also miscalculations, mistakes.

Thus, these relations are connected with presence of objective contradictions of man and nature with risk character of public manufacture has casual, in most cases unforeseen earlier character; at insurance money the redistributive relations arise caused by presence of certain risk during public manufacture. The objective requirements of a continuity of public manufacture cause necessity of protection, protection from undesirable consequences of similar circumstances, from one hand and compensation of the suffered losses from these phenomena - on the other.

Therefore society separate manufacturers, their groups (in branch or territorial aspects) should have necessary means including as natural- material stocks or reserves and money resources for their purchase with the purposes of continuation of processes of manufacture, maintenance of ability to live or well-being of separate categories of citizens. Such money resources are formed as reserve and insurance funds.

Economic relations connected with acts of adverse natural, spontaneous forces, casual circumstances, production factors and compensation suffered by losses damage at the expense of money payments are allocated in an independent category of insurance.

The purpose of insurance is public or collective protection of citizens, property, processes of manufacture for maintenance of a continuity of public reproduction.

Inherent features of insurance are:

- 1) probable character of relations;
- 2) extreme (not ordinary) character of relations (in any scale - state, regional, at a level of enterprise or its division , separate man).

The part of relations has a rather general orientation and purpose of appropriate funds of money resources through system of public protection with use of reserve funds of wide purpose. These relations and funds are connected and are directed on the prevention (warning) and liquidation of extreme events carrying national character. In such cases besides constantly existing funds (nation-wide material reserves, reserve funds of Government) can mobilize additional means at the expense of the enterprises, organizations, voluntary

donations of the population. These funds are used for compensation of damage to population, reconstruction of objects of manufacture and infrastructure, realization of measures on restoration of ecological balance.

The second part of relations has an orientation on protection of a social status of citizens with education and use of funds rather of narrower purpose, - social insurance and social security. The action of these relations is connected with necessity of social protection of population

The third part represents the relation on insurance protection of health and well-being of people, their property and also property of enterprises and organizations with use of the closed circle of participants and achievement of equivalence of these relations within the limits of their given set. It is property and personal insurance of citizens and property insurance for enterprises and organizations. Concerning independent part of general system of insurance is the medical insurance.

At insurance two basic methods of formation of insurance reserves and funds are applied: budget and insurance. To financing measures on elimination of consequences of large accidents and disasters can be applied as auxiliary methods of collection of the charitable donations or allotment of means among the participants who have been not mentioned by certain event. The method of formation of money resources or material stocks is possible also on the basis of self-insurance, that is within the limits of one managing subject or citizen. Such method is applied in an agriculture (stocks - funds of fodder, seeds, forages, fuel etc.) at the enterprises of sphere of material manufacture (stocks of raw material, semifinished items, other materials); the personal savings of citizens can be considered as their insurance funds.

14.2. Social insurance

Social insurance represents system of economic relations on re-distribution of cost of a public product for material support of the citizens in case of loss of work capacity, job and protection of their health.

Social insurance is one of the forms of more general system — social security. However distinction between these two systems is incorporated in the relation to labour activity of the citizens and methods of formation of funds for invalid.

Social insurance expresses the relations arising in connection with formation and use of funds for citizens temporarily or constantly lost work capacity with application, of a who have constantly lost work capacity. Thus those quota of the citizens who worked or temporarily do not work owing to illness; thus, the important feature of social insurance is that it is directly connected with labour activity of workers in the present or past.

Social security expresses the relations connected with formation and use of funds for support of citizens lost work capacity, or not possessing it, that is

for all citizens, irrespective of their participation in labour activity, a budget method of formation of the specified funds is used.

The objective necessity of action of categories of social security and social insurance is caused by the requirements of process of the extended reproduction, namely one of its components, - reproduction of labour force. Alongside with the basic source of means for this kind of reproduction - fund of payment of work, other personal incomes, funds of social security and social insurance function.

There are two principles of formation of funds of social purpose:

1) on the basis of solidarity of generations, when working generation provides not working, and in turn, in process of loss of work capacity they are replaced by new generations which are included in labour activity;

2) on the basis of personal deductions of citizens in social funds, mainly of pension provision; at action of this principle the size of payments depends on the enclosed sum of the concrete person for all time of his job.

Besides obligatory state social insurance non state pension insurance is applied - relation of social protection of the citizens by formation of additional pension at the expense of voluntary payments of workers and their employers according to the pension contract and payments of pensions through the specialized state pension funds.

14.3. Organization of insurance business

In the insurance market of Kazakhstan the insurance companies, firms of different patterns of ownership were formed. The sphere of their activity covers also risk kinds of insurance: insurance of the exchange bargains, cargoes, credits, commercial, legal and others specific risk (change of a currency rate, idle time of enterprise at strikes, military actions, unemployment, ecological risk etc.).

In connection with realization of Industrial-innovative Strategy of Development of Kazakhstan for 2003-2015 the State insurance corporation on insurance of export credits and investments is organized.

The participants of insurance market of Republic of Kazakhstan are: insurance (reinsurance) organization; the insurance broker; the insurance agent; insurant, insured, beneficiary; actuary; authorized auditing organization (representative auditor); a community of mutual insurance.

The founders and shareholders of insurance (reinsurance) organization can be the physical and legal persons - residents and non-residents of Republic of Kazakhstan in view of the requirements stipulated by the legislative and normative legal certificates of an authorized state body.

Financial stability of insurance (reinsurance) organization is defined by its ability to save the payment - ability during all validity of the accepted

obligations under the contracts of insurance and reinsurance in view of possible adverse influence of external financial and other factors.

The supervision for solvency and financial stability of insurance (reinsurance) organization and persons, concerning which the supervision on the consolidated basis is carried out, made by means of an establishment for them of the prudent specifications and others obligatory observance of norms and limits.

The prudent specifications are established by the authorized state body and include, in particular:

- 1) specifications of solvency;
- 2) specifications of financial stability.

The income of insurer from the basic insurance activity is defined as a difference between insurance payments and other incomes received from insurance activity and expenditures (by payment of the insurance sums and reimbursement of expenditures on organization of insurance business and creation of its material base, expenditure on payment of work, deductions in insurance funds). Income of enterprise activity is estimated according to rules established for these kinds of activity that the taxable income decreases for the sum of deductions to reserve funds.

The insurance market of Kazakhstan is in a stage of coming into being: on economic and legal bases (long crisis, imperfect legislative base) it essentially lags behind a world level. In countries with the advanced market relations the assortment of insurance services reaches 500 kinds while in Kazakhstan - only 40. Many kinds of personal insurance and insurances of property of the citizens are poorly developed in connection with a low level of incomes of population.

15 State financial regulation of economy

15.1. The essence of state financial regulation of economy

With the purposes of updating on the part of the state development of public manufacture in the necessary direction the state financial regulation is carried out.

State financial regulation of economy is a process of purposeful and consecutive application by the state forms and methods of financial influence on the subjects of managing for influencing on macroeconomical balance and forward development of economy at each concrete stage of its functioning.

The preconditions of realization of state financial regulation are the following initial bases:

1. Account of action of objective economic laws of development of a society.
2. Elaboration of scientifically - proved strategic program of development of a society expressing radical interests of all members.

3. Presence of democratic system of expression of visions and democratic institutes representing them for an opportunity of free expression of interests of all layers of population, social, national, professional groups.

4. Presence in the country of the organized legislative system.

The productivity, that is real result of state financial regulation is reached at observance of certain conditions of its realization. The following concern to such conditions:

a) structural reorganization of economy with gradual development is possible of the greater set of manufactures on technological stages;

b) demonopolization of economic processes and structures at all levels of management and in patterns of ownership;

c) development of a competition, business on the basis of creation of original equality of all patterns of ownership of all subjects of managing;

d) from the previous conditions follow : an opportunity of free unobstructed moving of the mobile factors of manufacture (capitals in the different form, labour, technologies, information, property rights etc.) between branches, manufactures, territories both in borders of the state and within the framework of uniform of integrated space of the several countries.

The process of regulation is characterized by variety of objective and subjective factors, conditions of functioning of economy, use of different categories, their elements. Therefore it is important to differentiate these basic system of state regulation, to classify on types, kinds, forms and methods.

The types include: economic (with their parts - financial, price, credit, currency, payment of work) and administrative.

The kinds of financial regulation cover: tax, budget, state-credit, customs-tariff, currency-financial, inside-economic (inside firm, within the limits of the enterprise, organization, corporation etc.).

The forms of regulation designate the processes proceeding in listed kinds as characteristic for the appropriate kind of a financial subcategory and general for all: for example, in a budget kind the forms are financing (subventions, grants, transfers), in tax - direct and indirect taxation, currency-financial - external investment, external loans, external duty. The forms in a state-credit kind are various.

The general form is planning (forecasting).

The special form of regulation is state purchases.

15.2. Macroequilibrium and finance

The influence on social-economic processes with application of various forms and methods, both indirect and direct, includes their financial kinds. Such influence has an objective to ensure evolution of national economy accompanied by economic growth, consecutive steady development of social sphere in certain temporary periods of functioning of the given social-economic system.

In western financial theory the concept "multiplier" for an explanation of influence of public finances on manufacture measured by size of national product is used.

The concept of the multiplier proceeds from scoping a total national product (GNP) by two methods:

- 1) on expenditures, that is set of all expenditures of economic subjects necessary to redeem all made weight of production;
- 2) on incomes (or distribution), that is from the point of view of incomes received by the subjects from production.

Substantiation of action of the multiplier is defined by concepts "marginal propensity to the savings" - MPS and "marginal propensity to consumption" - MPC. In the first case this relation of change in the savings to change in the income, in second - relation of change in consumption to change in the income. Proceeding from this the numerical meaning of the multiplier expresses by a ratio:

$$me = 1/MPS = 1/1-MPC$$

The phenomenon of the multiplier is used at realization of discretionary fiscal policy which is understood as a conscious manipulation by state expenditures and taxes with the purpose of change of real volume of national manufacture and employment, control of inflation and acceleration of economic growth.

The taxes cause reduction of incomes, which leads to decrease volumes of consumption both savings and reduction the size of NNP equilibrium. Similar action on volume of manufacture (alongside with the taxes) has savings and import. All together they represent outflow from system of the incomes - expenditures that is do not mention internal consumption. The consumption decreases, creating break in expenditures which can be filled with investments, export and state purchases.

The decrease of the taxes causes moving the diagram of aggregate expenditures and multiple increase of NNP equilibrium. So the action of the tax multiplier opposite to action of the multiplier of expenditures is shown.

The important characteristic of the tax multiplier is its dependence on consumer components of incomes, that is equal:

$$mt = T \times MPC,$$

where: T - size of tax payments.

Thus the quantitatively tax multiplier is less than multiplier of state expenditures (at the given sizes MPC and MPS). Hence, the changes in the state expenditures have stronger influences on cumulative expenditures, than change of the taxes of the same size. The given properties of the multiplier of expenditures and taxes cause a phenomenon of the multiplier of the balanced budget, at which the equal increases of the state expenditures and taxation leads to the growth equilibrium NNP on same size. For example, if T and G are

increased on 10 mlrd. tenge. Everyone, is necessary to expect increase NNP to 10 bln. tenge. Thus, the multiplier of the balanced budget is equal to unit:

$$mb = me + mt = 1$$

15.3. Variants of fiscal policy

Taking into account the above stated opportunities of action of the multiplier the variants of discretionary fiscal policy are formulated depending on character of a business cycle. During recession the stimulating fiscal policy is conducted:

- 1) increase of state expenditures;
- 2) decrease of the taxes;
- 3) combination of these directions of fiscal policy with view of the greater effect of the greater effect of increase of the state expenditures.

The constraining fiscal policy caused by superfluous demand and inflation, includes return directions:

- 1) reduction of the state expenditures;
- 2) increase of taxes;
- 3) combination of the given directions.

Constraining fiscal policy should be guided on achievement of budget surplus.

Non-discretionary fiscal policy supposes smaller intervention of state in financial processes with accent on market self regulation.

Non-discretionary fiscal policy works on the basis of the mechanism automatic, or built - in, stabilizers (built - in stability). In this case it is supposed that the sum of tax withdrawals varies proportionally to size of a national product in different phases of a business cycle: at rise the tax receipts grow, limiting demand, and automatically constrain excessive economic growth; at recession, on the contrary, the tax receipts are reduced, softening reduction of national manufacture.

The important feature of action of automatic stabilizers is the regulation of budget deficiencies and surpluses: in a phase of rise reduces and the budget deficiency is liquidated and there is a budget surplus that promotes restraint of inflation as high level of national product accompanies inflation; in a phase of recession gradual growth of deficiency of the budget begins which stimulates to overcome recession.

The measures stimulating fiscal policy can be weakened by actions of above mentioned factors. Thus, Keynesian assigns demand for goods and services as the basic factor of regulation of economy: the state promotes stimulation of cumulative demand, influences on increase of employment level of resources, expands volume of state purchases, adjusts cost of credit. Keynesian measures assume decrease of taxes, increase of expenditures stimulation of investments (with the help of decrease of the interest rate.

In financial and economic regulation it is necessary to consider interaction of fiscal and monetary policies.

The monetary policy includes, besides other components, realization of measures on influence on a rate of the national currency - lowered (cheap money) or raised (expensive) money).

16 Finance and inflation

16.1. Nature of inflation

Inflation is a depreciation of money shown in a general and uneven rise in prices on goods and services. At inflation there is an infringement of laws of money circulation caused by disproportions of process of public manufacture and issue of superfluous quantity of money.

The depreciation of money is caused by the following factors:

- 1) superfluous issue of money in circulation;
- 2) adverse payment balance;
- 3) loss of trust to government.

The action of inflation is necessary for connecting problems of finance as the phenomenon of inflation depends on financial factors:

- applications of the certain tax forms and methods;
- volumes of financing through the state budget of measures pro - inflationary character;
- ways of covering deficiency of the state budget;
- the sizes of state debts.

And in the whole efficiency of functioning of financial system, coordination of job of its institutes, can influence on speed of money circulation, condition of money circulation.

The specificity of financial relations in sphere of public finances not supposing of a counter material equivalent, initially pawns an opportunity generating inflation. Crisis of finance, necessity of increase of state expenditures, especially unproductive, transforms this opportunity into reality.

Finance and inflation are mutually dependent. As finance can be the accelerator of inflationary processes and the inflation influences on financial relations. Depreciation of money and the increase of prices in increase of the expenditures of the budget, decrease of real incomes of the state, necessity of amplification of tax burden, growth of the state debt caused by deficiency of the state budget. The high rates of inflation depreciate financial resources of the state as tax incomes and loans act through certain intervals of time, therefore depreciate. A problem of state debts similarly becomes aggravated, as for attraction of loans the state is compelled to rise a profitability of securities above than level of loan interest than causes nominal growth of the state debt. The

unidirectional negative character of financial relations and inflationary processes being mutually supplemented results in negative results in economic system

The inflation is measured by an index of prices: In Kazakhstan prices on consumer goods and tariffs for services grew as follows by the previous year:

1990-1; 1992-2,5; 1993-30,6; 1994-22,7; 1995- 1,60; 1996 -1,39; 1997-1,17; 1998-1,07; 1999 - 1,18; 2000 - 1,1; 2001 - 1,06; 2002 - 1,07; 2003 - 1,068; 2004 - 1,069, 2005 - 1,076; 2006 - 1,086, 2007- 1,108, 2008- 1,17.

Conventional in world practice is considered that if within half

- year and more rates of inflation make 50 % per month (or 11,5 % per one week), such level corresponds hyperinflation. Thus in Kazakhstan this level essentially was exceeded during 1992-1995.

The kinds of inflation differ by the following criteria :

- on rates of rise in prices: moderate, when the prices grow up to 10% per one year; galloping - the prices grow within the limits of 100%; hyperinflation - the prices grow on hundred percents;

- on a degree of equation of a rise in prices: the balanced inflation when the prices of different goods grow approximately to the same extent and rather constant; unbalanced - when the prices for different goods and services grow unevenly;

- in a place of origin or occurrence - imported and exported inflation;
- on a degree of predictability: expected and not expected inflation;
- distinguish also step inflation characterized by non-uniformity of inflationary process, suppressed (latent), when the prices grow insignificantly or constant, but the deficiency of goods amplifies.

In practice two types of inflation differ; inflation of demand (inflation of consumers) and inflation of costs (inflation of manufacturers).

In the first case it is a consequence of increase of demand on production, goods and services in connection with increased money supply at the legal and physical persons at constant or decreasing volume of manufacture.

In the second case inflation is caused by growth of costs of enterprises and organizations on payment of work, on increase of the percentage rates on credits, increase of prices on consumed raw material, material, tariffs for services (transportation, electric power, information etc.).

In real economic life these kinds and consequences accompanying them, are closely bound, mutually supplement themselves, causing so called inflationary spiral, when the increase of costs as a result of rise in prices on consumed components of manufacture and payment of work leads to increase of cost of let out production, which consumption requires additional growth of salary and material costs in adjacent sectors of economy and so indefinitely.

16. 2. Measures of antiinflationary policy

There are two variants of actions of the state at inflation:

1) realization of adaptation policy or adaptations to inflation when measures are applied on indexation of incomes, wages, interest rates, investments; the companies and the firms realize the short-term projects, the physical persons search for additional sources of incomes etc.;

2) realization of complexes of antiinflationary measures on decrease or suppression of inflation.

Complex of measures on overcoming inflation include influence on different parties productive and economic, social, legal, institutional, moral spheres of functioning of a society, though decisive from them is base, productive and economic.

The overcoming of inflation of demand is reached by ordinary macroeconomic methods of use of money and fiscal policy.

Antiinflationary policy includes various methods of restriction of money offer:

1. Reduction of volume of money weight in circulation through reduction of cash issue by the Central bank.

2. Increase of the registration rates (refinancing) for the centralized credits with the purposes of rise in price of all credit resources and decrease of their availability.

3. Increase of the reserve requirements of the Central bank to commercial banks for achievement of compression of the credit multiplier and restriction of credit expansion of commercial banks.

4. Direct reduction of credits of the Central bank in the same purposes.

The antiinflationary fiscal policy is conducted by increase of taxes, reduction of state expenditures and on the basis of it, decrease of deficiencies of the state budget.

The tax antiinflationary policy in conditions of inflation is called to decide two interconnected, but contradicting tasks: first to raise a level of incomes of state budget for achievement of its balancing and elimination of deficiency; secondly, to recover economic activity of primary parts of economy - in sphere of manufacture and exchange. The tax antiinflationary policy is reduction of the indirect taxation. The indirect taxes have inflationary character, as increase the prices, reduce demand. The second aspect of action of the high taxes is their pressure on manufacture, that limits the offer. Thirdly, the significant tax burden, as a rule, contacts to action of set of taxes complicating tax system, that results in evasion from taxes.

Therefore at inflation the more preferably simple and reliable tax system which has been not burdened by conditions granting of privileges with accent on taxation of consumption. To these requirements in the greatest degree there corresponds the tax to incomes and the property tax with a high degree of differentiation of the rates depending on cost of property.

The reduction of state expenditures assumes distribution of this process both on budget sphere and on sphere of material manufacture concerning the

state enterprises and organizations. Here it is necessary to mean, that in the latter case antiinflationary measures concern the second making inflation - inflation of costs or manufacturers, therefore their influence will be considered separately. In this respect interrelation of the reasons of two kinds of inflation and complex ways of counteraction is observed.

In a part of budget expenditures of nation-wide and local levels a general direction is their maximal reduction under all possible clauses. Certainly, the vital social needs on protection of the pensioners learning, workers with the fixed incomes should be supplied.

The restriction of budget expenditures is reached:

- a) direct methods - by restrictions that is by its compulsory decreasing against the achieved level on the basis of acts or orders of proxy state bodies;
- b) sequestering method - proportional decrease of all expenditures according to the given common size of decrease determined by the different factors:
- c) control of a level of available incomes;
- d) restriction of a shortage level of the state budget.

In any case the reduction of expenditures mentions action of many national programs of development, failure of the every possible prestigious projects, measures which are not giving to immediate feedback etc.

More difficult is the decision of problems of overcoming of the second type of inflation - inflation called by growth of production costs (of inflation of the manufacturers), in result:

- 1) increase of wages;
- 2) fall of productivity of work in connection with infringements of an economic mechanism owing to organizational character;
- 3) by inflationary expectations of the owners raw and power resources, by virtue of which they raise the prices for initial products of manufacture.

17. Glossary

Accountants

They are the 'gatekeepers' of the public securities markets. Accountants ensure that the financial statements are correct and complete and give an accurate picture of the company.

Active fund

A fund in which the fund manager actively manages investments (see active management).

Active management

Fund managers strive to outperform the market by identifying stocks that could produce better returns and beat the overall market (or target index).

Advisory broker

An advisory broker advises (and executes) buy and sell decisions on behalf of the client. However, the final decision to buy and sell always rests with the client.

AIM

The Exchange's global market for smaller and growing companies.

American depositary receipts (ADRs)

ADRs are a convenient way for domestic investors to own shares in foreign companies. Denominated in US dollars, ADRs allow American investors to invest in a foreign company. However, ADRs are also traded in London.

Annual General Meeting (AGM)

An annual meeting called by the directors of a company that allow shareholders to stay informed and involved with company decisions and workings.

Applicant

An issuer that is proposing to apply, or is applying, for admission to trading of any of its securities.

Arbitrage

Buying securities in one country, currency or market, and selling in another to take advantage of price differences.

At best order

An order submitted to an order book to deal in a specified number of shares. It may execute, either in part or in full, against eligible orders (at the price of those orders). Unexecuted portions of at best orders are rejected from the order book. Sometimes referred to as an 'Aggressive Type A' order.

Auction period

A period of time during which an auction is in operation. This includes the auction call and any extensions to the auction. The auction period ends with an auction match.

Auction price

The price at which orders execute during an auction match - uncrossing price.

Auction volume

The auction volume is the total executed volume as a result of an auction.

Auditing Documenting and recording all business activities and transactions of an individual or a firm. Such a historic record allows to piece together the chronology of a trade.

Authorisation

The process by which organisations are vetted and licensed to conduct investment business under the Financial Services and Markets Act 2000. Such organisations are known as Authorised Persons.

Authorised share capital

The total number of shares a company is authorised to issue with regard to its memorandum and articles of association.

Average Price

The transaction was effected at a price based on a volume weighted average price over a given period.

Balance sheet

One of the main components of a company's financial statements, the balance sheet provides an overview of the company's assets (what it owns) and liabilities (what it owes) at the end of a financial year.

Bank Interchange Code (BIC)

A unique code identifying a participant.

Best offer

The lowest offer price for a specific tradable instrument (i.e. the lowest price any seller has declared that they are willing to accept for a specific security at a given time). Determined by the current quotes and orders in the trading system.

Bond price

The market price of a bond depends on the coupon rate, the market interest rate and the number of years to maturity. Bond prices are inversely related to interest rates.

Bonds

Debt securities issued by governments and companies as a means of raising capital which generally entitle the holder to a fixed-rate of interest during their life and repayment of the amount of the bond at maturity.

Bonus issue

The issue by a company of new shares which do not require any payment to be made by the shareholder. This has the effect of making the company's shares more marketable because of the increased number available and the lower market price.

Bonus shares

It is the issue of new fully paid-up shares to existing shareholders on a pro-rata basis. The impact of a bonus issue is to reduce the share price as the same market capitalisation of the company is spread over a larger number of shares, which in turn benefits the liquidity of the scrip.

Broker (see Stockbroker)

Broker/Dealer

An Exchange member firm, which provides advice and dealing services to the public and can deal on its own account.

Broker To Broker

The transaction was between two member firms where neither firm is registered as a market maker in the security in question and neither is a designated fund manager. Brokers may also apply this indicator when buying or selling domestic equity market securities through a broker, which is not a member firm.

Bull

An investor who buys a security in the hope of selling it at a higher price, as he thinks the market will go up. A bull market is a rising market in which bulls would prosper.

Business day

Any day upon which the Exchange is open for business.

Buy/sell percentages

The total volumes on each side of the order book expressed as percentages in real-time.

Call (covered warrant)

A covered warrant that gives the holder the right, but not the obligation, to buy the underlying at a future date and specified price.

Call (option)

It is an option that gives the buyer the right to buy an underlying asset at a future date at a specified price.

Call (warrant)

A call warrant allows the holder to benefit from a rising market. It rises in value when the underlying asset rises in value.

Capital appreciation

This occurs when the market value of the shares exceeds the purchase price.

Capital Employed

The value of the Assets invested and employed in the business. Total Assets – Total Current Liabilities.

Capital Gains Tax (CGT)

The tax an individual is liable to on realized capital gains which accrue in a year of assessment during any part of which the individual is resident in the UK.

Capitalization issue

The issue by a company of new shares which do not require any payment to be made by the shareholder. This has the effect of making the company's shares more marketable because of the increased number available and the lower market price. A Capitalization Issue is the same as a Bonus Issue and Scrip Issue.

Cash-settlement

The investor receives cash if the covered warrant can be exercised profitably at expiry. The gain achieved on the warrant is transferred to the holder without the holder having to enact a buy or sell trade.

CAUC

Closing Auction Execution followed by End of Order Book Trading

CCAL

Closing Auction Call

Certificate representing shares

An instrument which confers a contractual right (other than an option) to acquire shares otherwise than by subscription.

Change

The difference between the previous day's closing price and the most recent price of a security.

Chinese Wall

A 'Chinese Wall' separates two departments within an investment bank to ensure that conflicts of interest do not arise.

Churning

Is the unethical practice of buying and selling shares simply in order to earn more commission.

City Code on Takeovers and Mergers

The principles and rules governing takeovers and mergers of UK companies.

Class

Securities, the rights attaching to which are or will be identical and which form a single issue or series of issues.

Close Period (CLOS)

The period during which the trading service remains closed.

Closed-end fund

These funds have a fixed number of shares, which are listed on the stock exchange. The market price of the shares is determined by demand and supply factors. Investment trusts are closed-end funds.

Closing 52 week high

The highest closing price for a specific security over the last 52 weeks.

Closing 52 week low

The lowest closing price for a specific security over the last 52 weeks.

Closing Price

The closing price is the last price for a tradable instrument at the time the market closes. For SETS, the closing trade price is the uncrossing trade price at which orders execute during an auction, or a Volume Weighted Average Price (VWAP). For SEAQ, SEATS and AIM securities the closing price is the best bid, offer and mid price calculated from market maker quotes at the end of the mandatory quote period.

Code of Market Conduct

The standards that are to be observed in the UK markets. The Code is issued and enforced by the Finance Conduct Authority (FCA).

Combined code

The current benchmark for best practice corporate governance. The code is amended to the UKLA's Listing Rules.

Committed Principal

A participant who registers to provide continuous two-way orders (buy and sell committed principal orders) for a particular security.

Consolidations

When a company reduces the number of shares it has in circulation by consolidating its share capital e.g. shareholders would receive 1, 50p share for every 2, 25p shares held.

Consols

Consols are British bonds that have no specified maturity date and pay a coupon forever.

Continuous Trading

The period of a trading day when orders are automatically matched and executed against one another.

Contra Trade

The trade was reported for a transaction previously executed through the order book.

Conversion price

It is the price of the underlying shares at which the bond may be converted (see conversion ratio).

Conversion ratio - Convertible bond

It is the number of shares that a holder of a convertible bond receives at conversion. It is the ratio of the face value of the bond and the conversion price (see conversion price).

Conversion ratio - Covered warrant

This ratio is the number of warrants that must be held and exercised in order to buy or sell a single unit of the asset e.g. one share. A higher conversion ratio will produce a lower warrant price.

Convertible bond

These bonds can be converted into a specified number of shares of the issuing company at a pre-determined price.

Convertible preference shares
These can be converted into ordinary shares at a given price at a future date.

COREDEAL

An electronic exchange for international debt-related securities.

Corporate Actions

This includes a wide range of corporate actions, including takeovers, rights issues, demergers, scrip dividends and conversions to name but a few.

Corporate finance

Any financial activity that deals with a company and its money. These include raising capital and mergers and acquisitions.

Correction

This covers any corrections made to trade reports.

Counterparty

The participant with whom a trade is being transacted.

Coupon

This is a regular payment received by the bondholder over the lifetime of the bond. The coupon rate is expressed as a percentage of the face value of the bond.

Covered warrant

A security issued by a party other than the issuer or originator of the underlying asset, giving the holder the right (but not an obligation) to acquire a share or bond at a specific price and date.

Creating a false impression

The market abuse of deliberately creating false or misleading impressions regarding the supply, demand, price or value of an investment.

CREST

The paperless share settlement system through which trades executed on the Exchange's markets (and elsewhere) can be settled. CREST is operated by CRESTCo, and was introduced in 1996. See Settlement.

Criminal proceeds

Benefit from a criminal or illegal activity.

Cross

The transaction was effected as an agency cross or a riskless principle trade between two member firms at the same price and on the same terms.

Cumulative preference shares

These preference shares accumulate unpaid dividend, which is then paid out when the company next declares it.

Currency

"The currency that the security is traded in.

Currency Conversion

The trade was executed in one currency but converted for trade reporting.

Current Ratio

A measure of a company's liquidity, or its ability to pay its short-term debts. Calculated by dividing current assets by current liabilities. Total Current Assets divided by Total Current Liabilities.

Daily change

The daily change in the price of a security, i.e. the difference between the most recent price of a security and the previous day's closing price.

Daily high

The highest price reached by a given security or index during a given day.

Daily low

The lowest price reached by a given security or index during a given day.

Daily Official List (DOL)

The daily record setting out the prices of all trades in securities conducted on the Exchange.

Dealer

Dealers buy and sell securities on behalf of the broking firm (or investment bank) itself. Securities bought by the bank may be sold to clients or other firms or becomes part of the bank's own holdings.

Debenture

These are secured corporate bonds that are used to raise long-term debt capital.

Debt (see Bonds)

Debt Management Office (DMO)

An Executive Agency of the Treasury, which has responsibility for issuing gilts to fund the Government's borrowing activities.

Debt securities

Debentures, debenture or loan stock, bonds and notes whether secured or unsecured.

Default schedule

The schedule that securities of a particular trading service follow during a trading day.

Demutualisation

Demutualisation involves the conversion of a not-for-profit association owned by its members into a for-profit company owned by its shareholders.

Department of Trade and Industry

The government department that aims to generate wealth for everyone in the UK by helping people and businesses to become more productive and successful.

Depository receipt

Commonly known as 'DRs', Depository Receipts are negotiable certificates that enable domestic investors to own shares in foreign companies. DRs are created when a broker purchases a non-UK company's shares in the home stock market and delivers those shares to the depository's local custodian

bank. The custodian then instructs the depository bank to issue DRs to the investor. Each DR represents a given number of a company's shares and can trade as freely as any other security in the UK. Several types of DRs can be listed and traded in London, including Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) that are denominated in US dollars.

Derivatives

A derivative is an instrument whose value depends on the performance of an underlying asset or security, which may be a commodity or a financial instrument.

Deutsche Borse

Deutsche Borse operates the Frankfurt Stock Exchange (FWB), the largest of the eight German stock exchanges.

Disciplinary and Appeals Handbook

The Disciplinary and Appeals Handbook as issued by the Exchange from time to time, setting out procedures for issuers in relation to appeals regarding the Exchange's application and interpretation of Standards.

Discretionary

A discretionary broker buys and sells shares on behalf of the client and also has the authority to make investment decisions without the prior approval of the client.

Distorting the market

The market abuse of manipulating market prices by interfering with the normal supply and demand process.

Diversification

The process of investing across a range of investments in order to diversify (or minimise risk). As a result, if one investment performs poorly, better performance from the rest of the portfolio helps to reduce the risk of loss.

Dividend

That part of a company's profits after tax which is distributed to shareholders - usually expressed in pence per share. Also see Scrip Issue.

Due diligence

Due diligence is a process carried out by accountants and lawyers when a company is about to acquire another. It involves verifying a company's liabilities and financial performance.

ECN

An electronic communication network (ECN) is an electronic system that attempts to eliminate third party orders by a market maker, and permits such orders to be executed either in whole or in part.

EDS

Electronic Data Services (EDS) gives historical turnover information about securities traded on the Exchange.

Efficient financial market

A market that offers transparency, liquidity, low transaction costs and price movements.

Elasticity - covered warrant

Sometimes called leverage. It measures the theoretical increase (decrease) in the price of a covered warrant (in percentage terms) based in a one percent move in the underlying asset.

Eligibility criteria

The requirements for eligibility and admission to be followed by issuers seeking admission to an attribute group as published by the Exchange and amended from time to time.

Enhanced best price

The number and volume of orders are best on each side of the order book updated in real-time

Entitlement Issue (Open Offer)

Shareholders are given the right to subscribe for the new fully paid share. The new shares are not issued in nil paid form.

EPIC

Exchange Price Input Computer (EPIC) code that has been replaced by Tradable Instrument Display Mnemonic (TIDM) code.

Equity

The risk-sharing part of a company's capital, usually made up of ordinary shares.

Equity option

Equity options give the option buyer the right to buy or sell shares of companies. The standard LIFFE contract size for equity options is 100 or 1000 shares.

ETF (Exchange traded fund)

A collective investment vehicles which track indices - they can allow low cost exposure to the performance of an index as quickly and efficiently as the most liquid UK stocks.

Euro Depositary Receipt (EDR)

As with other depositary receipts, the EDR is a certificate representing ownership of the issuer's underlying shares. The EDR is denominated and quoted in euros.

Exchange

An exchange provides access to capital and facilitates securities dealing through speedy and innovative trading platforms and services. An exchange is also responsible for delivering an orderly market.

Exchange traded contracts

Exchange traded futures contracts are standardized in terms of delivery date, contract terms and amount. These are traded on the LIFFE.

Ex-dividend list

The London Stock Exchange's ex-dividend list service provides advance details of securities that will be marked 'ex-dividend' in the following week. The ex-dividend date defines the date from which the dividend is excluded from the share price.

Execute and Eliminate order

An order submitted to an order book to deal in a specified number of shares at a price no higher than a specified limit price. It may execute, either in part or in full, against eligible orders (at the price of those orders). Unexecuted portions of execute and eliminate orders are rejected from the order book.

Execution only

An execution only broker merely buys and sells shares on the instructions of the client.

Exercise

The process of using the right to buy or sell the underlying at the specified price.

Exercise price

The exercise (or strike) price is the price at which the option can be exercised, regardless of the actual market price of the stock.

Ex-Marker

An indicator used to highlight that a particular ex-benefit condition is in effect on a tradable instrument. For example, Ex-Rights, Ex-Dividend (as above), Ex-Liquidation Distribution, Ex-Entitlement, Ex-Capitalization, Ex-Stock Distribution, Ex-Repayment

Expiry date

Every option/covered warrant contract has a specified date in the future when it expires. The option contract becomes worthless if it remains unexercised on the expiry date.

Face value

This is the value of the bond or security as printed on the document. The face value represents the amount that the issuing company promises to pay at the time of maturity.

Fill or Kill Order

An order submitted to the electronic order book with a specified size and, at the option of the member firm, a specified limit price which either executes in full against eligible orders at the price of those orders or is rejected in full from the order book.

Financial Investigation Unit (FIU)

The police unit that investigates cases related to money laundering.

Finance Conduct Authority (FCA)

An independent body which regulates the financial services industry in the UK.

Financial year

The year for which corporate tax rates apply. It runs from April 1 of one year to March 31 of the next year.

Firm exposure order

An order that is displayed on the trading system with the mnemonic of the member firm.

Firm quote

A quote whose price is guaranteed. That is, market participants are obliged to deal at the displayed prices or volumes, when their quotes are firm. Firm quotes are displayed during the mandatory quote period.

Fixed interest securities

Securities which attract a fixed rate of interest each year.

Flotation

The process by which a company obtains a listing from the UKLA and is admitted to trading on the Exchange.

Forwards

The buying and selling of underlying assets such as commodities and financial securities at a specified future date at a fixed price.

Fraud Squad

The police department that deals with financial crime.

Free float

The number of shares not held by corporate insiders that are freely tradable in the public market or markets on which a company's securities are listed.

Front running

A type of misuse of information, where the employees of a brokerage firm or a bank trade in equity shares using price-sensitive information that is privately available to the firm.

FTSE™ 100

An index of the share prices of the UK's 100 largest companies (by market capitalization).

FTSE™ Indices

Indices, including the FTSE 100 index, which are calculated and maintained by FTSE International Ltd to illustrate the performance of various sectors of the UK and European markets.

FTSE™ International Ltd

A jointly owned company by the London Stock Exchange and the Financial Times that provides financial indices.

FTSE™ MID 250 Index (FTSE 250)

Financial Times Stock Exchange Mid 250 Index comprises the share prices of the 250 companies that follow the top 100 (comprising the FTSE 100).

Fund

A fund is a collective investment scheme where money is pooled, which is invested in a portfolio of securities with a common investment purpose.

Fund manager

A fund manager is a professional who decides how fund money is invested (see Fund).

Futures

A futures contract is an agreement or obligation to buy or sell a given quantity of a particular security, at a specified future date at a pre-determined price.

Gearing

Gearing is a feature of leveraged instruments such as covered warrants, options and futures. In an option, by investing a small amount called the option premium, investors can multiply their gains since returns are magnified.

GEMMs

Gilt-edged market makers.

Gilts or Gilt-Edged Securities

Debt securities issued on behalf of the Government.

Global Depository Receipt (GDR)

Certificate which represents ownership of a given number of a company's shares and which can be listed and traded independently from the underlying shares. Denominated in US dollars, GDRs are traded in London.

Globalization

The tendency of world investment and business to move from national and domestic markets to a worldwide environment.

Going long

Buying futures involves a commitment to buy the underlying asset at a future date at a specified price. This is called going long.

Going short

Selling futures involves a commitment to sell the underlying asset at a future date at a specified price. This is called going short.

Gross

The total amount before deductions (e.g. before tax deductions).

Hedge

A hedge is typically accomplished by making approximately offsetting transactions that will largely eliminate one or more types of risk. Hedging Investors can use derivatives and covered warrants to hedge investments. For instance, if an investor owns a particular stock, he or she can neutralize the impact of an impending fall in price by buying a put option, selling futures or buying a put warrant.

High

The highest price that a security traded at during a certain time period.

High-yield bonds

High-yield bonds, popularly known as junk bonds, are lower than investment-grade securities. These bonds are considered to be 'speculative'

because the issuing company's ability to meet the debt obligations is less certain.

Historic Price Service (HPS)

HPS is a service for customers who want to find past share prices. These requests may be for probate purposes, etc.

Hit Order

An order submitted to the trading system to execute automatically against a firm exposure order.

HM Treasury

Her Majesty's Treasury is the government department that formulates and implements the UK's financial and economic policy.

Hostile bid

A takeover bid by one company for another, in which the directors of the target company oppose the bid.

Hybrid Service

A trading service that combines the features of an order-driven trading service and a quote-driven trading service.

In the money

Options and covered warrants have a 'positive intrinsic value'. In a call option / warrant, the underlying asset price exceeds the exercise price. In a put option / warrant, the underlying asset price is less than the exercise price. For a Call covered warrant, this is where the strike price is less than the price of the underlying. For a Put covered warrant, this is where the strike price is greater than the price of the underlying.

Intrinsic value A term used in options and covered warrants. For a call option / warrant, a 'positive intrinsic value' denotes the difference between the current underlying asset price and the exercise price. For a put option / warrant, a 'positive intrinsic value' denotes the difference between the exercise price and the underlying asset price

Index

A statistical measure of the changes in a portfolio of stocks representing a portion of the overall market. For instance, the FTSE 100 and the S&P500 are examples of indices.

Index futures

Index futures are based on the projected movement of a share price index, such as the FTSE 100.

Indicative Auction Price

The price at which the orders participating in an auction will be executed, if the auction match were to occur at that point.

Indicative Quote

A quote whose price and volume are not guaranteed. That is, market participants are not obliged to deal at the displayed prices or volumes, when

their quotes are indicative. Indicative quotes are displayed during the pre-mandatory quote period.

Individual Turnover Report (ITR)

The Exchange's Individual Turnover Report (ITR) provides historic turnover data for individual Equity and Fixed interest securities, in a report format, on a daily, monthly or yearly basis.

Initial Public Offering (IPO)

Also known as flotation, it is the company's first offer of shares in the stock market. The shares may be offered at face value or at a premium. Also see Offer for sale.

International order book (IOB)

An order-driven trading service for international equities.

International Petroleum Exchange

The world's second largest and Europe's leading energy futures and options exchange.

International Retail Service (IRS)

An order and quote-driven trading service for international equity market securities.

Introduction

Introduction is a process that allows a company to join a stock exchange without raising capital. A company does not issue any fresh shares; it merely introduces its existing shares in the market.

ISIN

International Securities Identification Number (ISIN). International code for a listed security.

Insider dealing

The purchase or sale of securities by someone who possesses 'inside' information affecting securities which has not yet been made available to the market and which, if made available, would significantly affect the share price. In the UK such deals are a criminal offence.

Insolvency

The inability of a person (or a company) to settle debts.

Issued capital

Issued share capital is the total number of shares subscribed to by the shareholders.

Issuer

Any company or other legal person or undertaking (including a public sector issuer) any class of whose securities has been admitted or is, or is proposed to be, the subject of an application for admission to trading.

Issuer Implementation team

The Exchange's department responsible for dealing with applications for admission to trading.

Investment bank

An investment bank is a financial intermediary that offers a range of services and advice to its clients. The role of an investment bank includes corporate finance, securities trading, research, investment management and international finance.

Investment trust

A collective investment fund in the form of a listed company which holds a portfolio of securities on behalf of its own shareholders. Because an investment trust is itself a listed company, its shares can be bought and sold in the usual way.

Investor relations

A department in most medium and large public companies that provide investors with an accurate account of the company.

Limit order

An order submitted to the electronic order book with a specified size and price which is either held on the order book or executes, either in part or full, against eligible orders with any remaining unexecuted portion being added to the order book.

Limited company

A limited company is privately owned with less than 50 shareholders having limited liability. Nearly all newly formed companies in the UK are incorporated as limited companies.

Limited liability

When the liability of the shareholders is limited to the nominal value of their shares, it is called limited liability.

Liquid security

A security that has a sufficient number of buyers and sellers. Liquid securities can be easily traded on the Exchange.

Liquidation

When a company becomes insolvent, it may go into liquidation, wherein all its assets are sold and the proceeds are distributed among the debtors and shareholders, in that order.

Liquidity

The ease with which a security can be traded on the market, usually defined by turnover.

Liquidity provider

A market participant that is obliged to buy and sell less liquid securities that it is registered in. In the process, it facilitates trading and improves liquidity in those securities.

Listed

Admitted to the Official List of the UKLA and 'listing' shall be construed accordingly.

Listed company

A company whose securities have been admitted to the UKLA's Official List and admitted to trading on the London Stock Exchange.

Listing

The process of being listed.

Listing particulars

When a company applies for a listing of its securities, in some circumstances listing particulars (or a prospectus) are required in accordance with the UKLA's Listing Rules, giving information on the company, its accounts, directors and the securities.

Listing Rules

The Listing Rules of the UKLA.

LMIL™

LMIL - London Market Information Link (LMIL™) was the legacy real-time information service, replaced by Infolect in September 2005

London International Financial Futures and Options Exchange (LIFFE)

A Recognised Investment Exchange (RIE) that deals with futures and options.

London Metal Exchange (LME)

An international market for the trading of non-ferrous metals (copper, aluminium, lead, nickel, tin and zinc).

Long

A long position is when someone buys (holds) a warrant or holds the underlying asset. Contrasts with Short position.

Low

The lowest price a security reached in a certain period of time. Opposite of high.

Management fee - investment trust

A fixed fee that a fund manager charges for his services.

Mandatory quote period (MQP)

The period during which market makers on the Exchange's quote driven SEAQ and SEAQ International services are obliged to make a firm two-way quote for the securities in which they are registered. This is 0800-1630 hours for SEAQ and 0930-1530 hours for SE.

Margin

An account with a broker where a client is able to purchase securities on credit after the margin has been deposited.

Market Abuse

A conduct that adversely affects a financial market and falls below the standards expected by the regular user of that market. The Finance Conduct Authority (FCA) can enforce disciplinary action against those who commit such abuses.

Market capitalisation

Market capitalisation is used to indicate the value of a company by multiplying the number of shares in issue by the current share price.

Market maker

A Securities firm which is obliged to offer to buy and sell securities in which it is registered throughout the mandatory quote period.

Market Maker to Market Maker

The transaction was between two market makers registered in the security in question. This may also include those executed through an inter-dealer broker or a public display system.

Market manipulation

The offence of illegally inflating or deflating the price of a security.

Market offence

An illegal/criminal conduct that adversely affects the market.

Market order

An unpriced order submitted to an order book to deal in a specified number of shares. Unexecuted portions of a market order are added to the order book.

Market order extension

A time extension to the auction call period. It occurs if market orders are going to remain unexecuted after the auction match. The extension allows further entry and deletion of orders.

Market price

The price of a security. For shares, there are two prices quoted on the exchange – bid price and offer price.

Market Regulation Department

A department that monitors and enforces the rules of the Exchange.

Market Share

Dissemination of market share and ranking information to member firms.

Maturity period

This is the life of a bond or security. A bond usually ranges from 5 to 15 years but a few government bonds may even have a lifespan of 25 to 50 years.

Maximum spread

The maximum permissible difference between the bid and offer prices of a security.

Member firm

An investment firm which is a member of the Exchange and which may deal in securities on our market on behalf of its clients, or on behalf of the firm itself.

Mergers

In a merger, two companies come together to become one. The shareholders of the merging companies often become joint owners of the combined entity.

Mid price

A price between the offer and bid price. The mid price is equal to the sum of the best bid price and the best offer price divided by two, and rounded up to be consistent with the relevant price format.

Mid-cap shares

A company with a medium-sized market capitalisation.

Misuse of information

The abuse of dealing in securities based on information that is not publicly available. This abuse is similar to the offence of insider dealing.

Millennium Exchange

The London Stock Exchange's real-time information service, used to disseminate market data to customers.

Money flow per security

The cumulative value of trades executed and the value of orders residing on each side of the order book for each security in real-time.

Money laundering

The process of disguising money obtained from criminal activity.

Money Laundering Reporting Officer (MLRO)

An official of a financial firm who is responsible for monitoring and reporting suspicions related to money laundering. Employees of the firm must report such suspicions to the MLRO.

MTN

Medium-term note (MTN). An unsecured note issued in a euro-currency with a maturity of 3 to 6 years.

Mutual fund

A collective investment scheme in the US that pools investors' money to be invested in stocks, bonds and other securities.

Named order

A limit order that is displayed alongside the mnemonic of the participant that submitted it.

Net

The amount remaining after deductions (e.g. after tax adjustments have been made).

Net asset value (NAV)

In the context of trusts and funds, NAV is the total value of the fund's portfolio less liabilities.

New issue

An issue of shares: when a company either comes to the market for the first time or issues extra shares.

Nominated Adviser (NOMAD)

Exchange-approved adviser for AIM companies. AIM companies must retain a nominated adviser at all times.

Nominated Broker (NOMBRO)

The broking firm for AIM companies that brings buyer and sellers of the company's shares together.

Non-anonymous order

An order that is displayed alongside the mnemonic of the participant that submitted it.

Non-Protected Portfolio

The transaction was reported as a non-protected portfolio transaction or a fully disclosed portfolio transaction.

Non-Risk Trade

These trades are the same as Ordinary trades but specifically for SEATS based segments only (i.e. SEQ1, AIM, SEAT)

Normal market size (NMS)

A value assigned to a security by the Exchange. The NMS indicates the liquidity of that security. For quote-driven securities, the NMS is used to calculate the minimum quote size within which market makers are obliged to trade.

NYSE

The New York Stock Exchange (NYSE), the world's largest stock exchange, with a combined market capitalisation of £6 trillion in 2002.

OEICs

These are Open-Ended Investment Companies. OEICs are a 'hybrid' of unit trusts and investment trusts (see unit trusts and investment trusts).

Offer for sale

A method of bringing a company to the market. The public can apply for shares directly at a fixed price. Details of the sale must be printed in a national newspaper.

Offer for subscription

A method of bringing a company to the market. The public can apply for shares directly at a fixed price.

Offer price

The selling price for securities in the market.

Official List

A list of securities maintained by the UK Listing Authority. The Official List includes all securities that are approved for trading in the UK.

Open-ended fund

These funds have no limit to the number of units (or shares) they can issue. The price of the units (or shares) remains closely aligned to the NAV of the fund. Unit trusts and OEICs are open-ended funds.

Option

The right (but not the obligation) to buy or sell securities at a fixed price within a specified period.

Option premium

It is the price paid by a buyer to acquire the option right. The amount is typically expressed as pence per share.

Order

An offer to buy or sell a tradable instrument with a variety of conditions attached. See limit, at best, fill or kill, execute and eliminate and market orders.

Order book

An automatic execution facility operated by the Exchange. Order books facilitate the trading of order book securities.

Order book security

A security that is admitted to trading on the order book.

Order management

The period of a trading day when no automatic execution occurs. During order management, participants are only allowed to delete their orders.

Ordinary shares

The most common form of share. Holders may receive dividends in line with the company's profitability and recommendation of its directors.

Participating preference shares

Participating preference shareholders have the right to participate in the surplus profits of the company, after payment of equity and preferred dividend.

Partnership

In a partnership, two or more people jointly own the business. While general partners are fully liable for the debts of the business, limited partners have limited liability.

Passive fund

A fund in which the fund manager passively manages investments (see passive management).

Passive management

Fund managers do not attempt to beat the market. Instead, they try to mirror the performance of a selected market index such as the FTSE 100.

Pension fund

A fund set up by a company or government to invest the pension contributions of members and employees. These are then paid out when the beneficiaries reach the retirement age.

Preference shares

These are normally fixed-income shares whose shareholders have the right to receive dividends before ordinary shareholders would rank above ordinary shareholders for the repayment of their investment in the company.

Primary market

The function of a stock exchange in bringing securities to the market for the first time. Money is raised either for the company at admission or through further issues to fund future growth.

Private company

A company which is not a public company and which is not allowed to offer its shares to the general public.

Privatisation

Conversion of a state-run company to public limited company status - often accompanied by a sale of its shares to the public.

Professional DRs

These are depositary receipts that are traded only by the institutional investors in the UK.

Prospectus

When a company applies for a listing of its securities which are to be offered to the public in the UK, a prospectus is required in accordance with the UKLA's Listing Rules, detailing information on the company, its accounts, directors and its securities.

Protected Portfolio

The transaction was reported as a protected portfolio or, was as a result of a worked principle agreement for portfolio transaction.

Protection Applied

The transaction was protected at the time of reporting it.

Public limited company (plc)

A company whose shares may be purchased by the public and whose share capital is not less than a statutory minimum. Not all plcs are listed companies.

Public offer

It is a method of flotation in which a company issues shares to the public at large, including private and institutional investors.

Public relations

Public relations consultants are employed by companies to keep their business on the financial pages and in the minds of investors.

Public sector issuers

States and their regional and local authorities, state monopolies, state finance organisations, public international bodies and statutory bodies.

Rating agencies

Rating agencies determine the issuer's ability to meet their debt obligations to the investors. Agencies include Moody's, Standard & Poor's (S&P) and Fitch IBCA.

Recognised Investment Exchange (RIE)

An investment exchange in relation to which a recognised order granted by the FSA is in force.

Redeemable preference shares

The issuing company reserves the right to redeem these preference shares. The shares may, or may not, have a specific redemption date.

Redemption Certain stocks are repayable at a future date set by the issuing company.

Registrar

An organisation responsible for maintaining a company's share register.

Retail DRs

These are depositary receipts that are traded by all investors, including private individuals, in the UK.

RIS

Regulatory Information Service (RIS) – which ensures that information from listed and AIM companies, and certain other bodies, is disseminated to all subscribers (such as major information vendors) at the same time for onward transmission to the market.

Risk

Risk is the probability that the actual return of an investment will be different from the expected return. Higher the risk, higher will be the probability of gain or loss on the investment.

Scrip dividend

An issue of shares available to shareholders that replaces a dividend payment. Shareholders have the option to forgo their dividend for the share alternative.

Scrip issue

The issue by a company of new shares which do not require any payment to be made by the shareholder. This has the effect of making the company's shares more marketable because of the increased number available and the lower market price. A Scrip Issue is

SEAQ

The Stock Exchange Automated Quotations system. SEAQ is a continuously updated electronic notice board containing price quotations of UK securities. Market makers use the system to display the prices at which they are prepared to buy or sell shares of a p

Secondary market

Marketplace for trading in securities.

Securities

General name for stocks and shares of all types.

Securities Management

The Exchange's department responsible for dealing with applications for admission to trading.

Securities Masterfile (SMF)

SMF provides up-to-date information on securities traded on UK and International markets.

Securities trading

Investment banks offer securities trading by maintaining broker-dealer operations. Many investment banks also provide market making for securities.

Share

The authorised share capital of a company is divided into a number of equal parts. Each part is called a share. See Ordinary shares, Preference shares, Securities.

Shares in public hands

A company seeking admission to the Official List must have at least 25% of its shares in public hands where they are held by a director of the company or its subsidiaries, individuals connected with the directors and any person holding 5% or more of the s

Speculation

The process of selecting a high-risk investment to profit from an anticipated price movement.

Stabilisation

A stabilisation may occur after a new issue in accordance with FCA rules. It will entail the stabilising manager buying shares in the market to counter selling pressure in the initial market. This stabilisation period must be fully disclosed by way of a daily notice and last for a maximum of 30 days.

SWIFT

Society for Worldwide Interbank Financial Telecommunications. International body which sets protocols and standards for international payment systems, such as electronic money transfers.

Syndication

In a public offer, usually, a syndicate of investment banks is formed to underwrite the issue. Each member of the syndicate is assigned a certain amount of liability and (number or quota of) shares to sell.

Takeover

The acquisition of one business or company by another.

techMARK™

The Exchange's international market for innovative technology companies.

Third party account

A bank account that does not belong to the client. Money laundering transactions often use third party accounts.

Tracker fund

A fund that aims to mirror the performance of a chosen share index. The amount invested in each company is proportional to the company's weighting on the target index. Management fees for a passively managed tracker fund is lower than an active fund.

Transparent market

A market that provides timely and accurate information regarding all transactions.

Trust

A fiduciary relationship that empowers one or more people (trustees) to safeguard and administer the assets (money or property) of the beneficiaries or investors.

Underlying asset

The value of a derivative instrument depends on the performance of the underlying asset or security. These may be commodity derivatives such as gold, sugar, jute, pepper, iced broilers or coffee. They could also be financial in nature such as stocks, bonds, gilts, currencies and money market instruments.

Underlying share price (see Underlying Asset)

Underwriting

An arrangement by which a company is guaranteed that an issue of shares will raise a given amount of cash. Underwriters undertake to subscribe for any of the issue not taken up by the public. They charge commission for this service.

Unit trusts

These are open-ended funds where private investors pool their money to be invested in a portfolio of securities. Unit trusts issue units to investors.

Units Unit trusts issue units in response to demand. Being open-ended, unit price is closely aligned to the net asset value (NAV) of the fund.

Unlimited liability When a promoter is fully liable for the debts of the business, it is called unlimited liability.

Voting rights

The entitlement of ordinary shareholders to vote in person or by proxy at annual meetings or annual general meetings.

Working capital

The capital used by the company to run its day-to-day operations. It is the difference between current assets and current liabilities of the business.

Yield to maturity (YTM)

Yield to maturity or YTM is the rate of return anticipated on a bond if it is held until the maturity date.

18. The analysis of the financial system of Kazakhstan

Consumer Prices

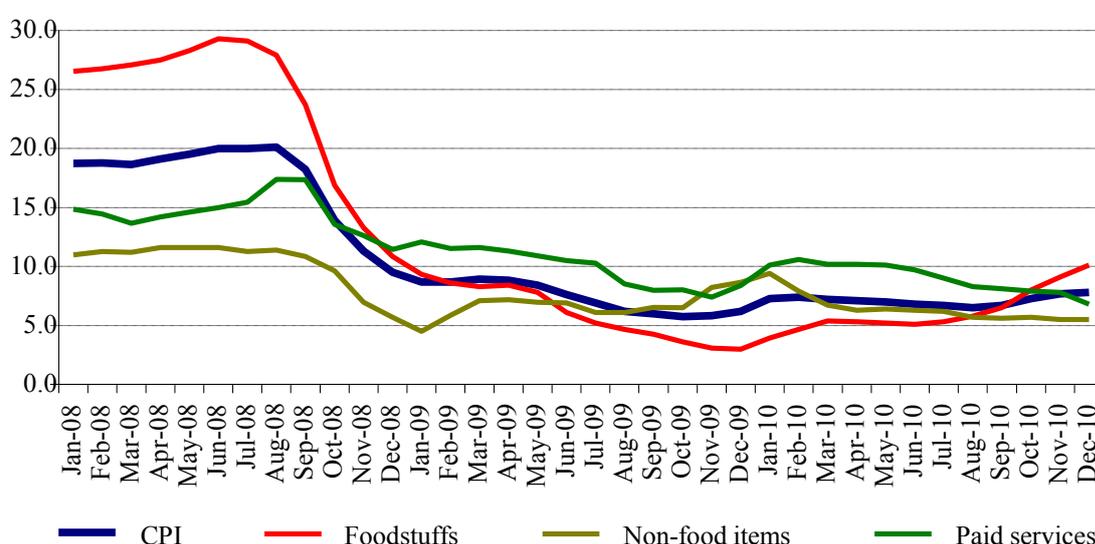
In Q4 2010 the tendency of increased inflationary pressure in the economy remained. The inflation during this period was growing at high rates as compared to Q4 2009. In October-December 2010 the inflation was at 2.4% (in Q3 2010 – 0.8%).

Acceleration of the inflation rates in Q4 2010 was caused by the seasonality factor because of the increase in prices for some foodstuffs and non-food items and for certain services provided to the population including regulated services (hot water supply, central heating).

Foodstuffs increased in price by 3.8%, non-food items - by 1.6% and paid services – by 1.2%.

The main growth in prices in Q4 2010 fell on the following goods and services: cereals– by 28.9%, eggs – by 15.5%, oils and fats – by 10.2%, fruits and vegetables – by 7.2%, flour – by 5.7%, sugar – by 5.2%, dairy products – by 5.1%, diesel fuel – by 8.5%, solid fuel – by 6.6%, liquidized gas – by 4.7%, gasoline – by 2.5%, cold water fees – by 1.7%, central heating fees – by 1.6%. Also the fees for out patient services also increased – by 2.5%.

At end-December 2010 the annual inflation was 7.8% (in December 2009 – 6.2%). Prices for foodstuff increased by 10.1% (by 3.0%), non-food items – by 5.5% (by 8.6%), paid services – by 6.8% (by 8.4%) (Figure 1).



Source: Agency of Statistics of the Republic of Kazakhstan

Figure 1- Dynamics of annual inflation and its components (as % of the respective month of the previous year)

In annual terms the highest price growth was in tobacco products,

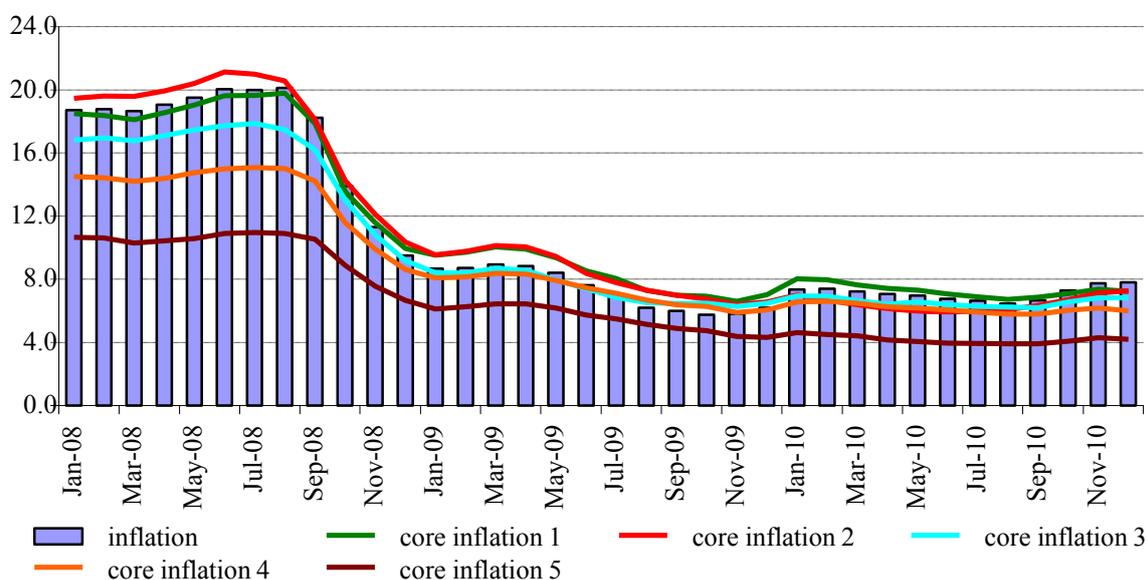
sugar, meat and dairy products, oils and fats, soft beverages, liquidized gas, medications, diesel fuel and gasoline, detergents and cleaners, electricity, cold and hot water, sewage, education services, outpatient services, transportation and legal services.

Core Inflation

In Q4 2010 the core inflation indicators as well as the headline inflation demonstrated higher growth rates both as compared to the previous quarter and versus Q4 2009. Such dynamics was caused primarily by higher growth rates of prices virtually for all food items that are included in the calculation of the consumer price index.

In October-December 2010 the core inflation indicators demonstrated multi-directional dynamics. Core inflation-2 was accelerating in Q4 2010 whereas all other core inflation indicators, after some acceleration in October-November, started to gradually slowdown in December 2010. All core inflation indicators at end-December 2010 were at a lower level as compared to the headline inflation.

In December 2010 indicators of the core inflation-1, 2 and 3 in annual terms were at a higher level as compared to December 2009. This indicates that the inflation background in the economy remains, at the same time the impact of monetary factors on the inflation is minor (Figure 2).



Source: Agency of Statistics of the Republic of Kazakhstan

Figure 2 - Dynamics of annual inflation and core inflation (as % of the respective quarter of the previous year)

Prices in the Real Sector of the Economy. Prices in the Industry

In Q4 2010 the producer prices have increased by 9.3% (in Q4 2009 – by 7.0%). The cost of output appreciated by 9.8%, at the same time the price

of production means within its composition increased by 3.0%, the price of consumer goods – by 4.6%, and interim consumption products – by 10.3%. The price for production services increased by 0.6%.

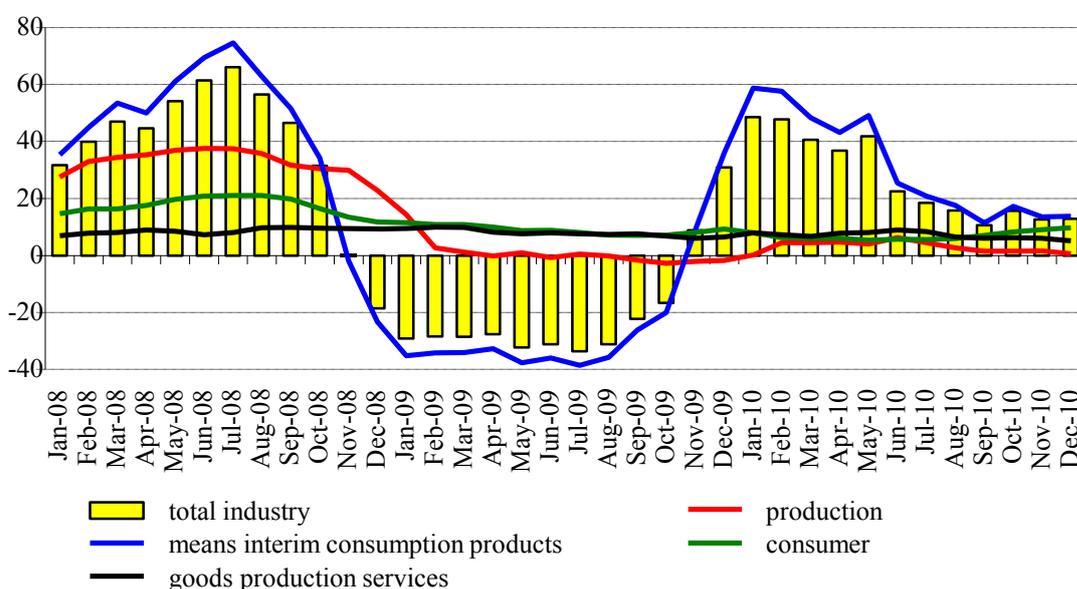
In October-December 2010 the growth rate of producer prices in the mining industry increased significantly. After their decrease in Q3 2010 by 0.2%, in Q4 prices increased by 11.1% (in Q4 2009 – growth by 9.5%).

The cost of energy resources in Q4 2010 increased by 10.2% (in Q4 2009 – growth by 9.9%). In the composition of energy resources the cost of oil production increased by 13.0% (in Q3 2010 – growth by 2.2%), the cost of gas condensate decreased by 4.9% (decrease by 2.5%).

The growth rate of prices in the manufacturing industry in Q4 2010 accelerated significantly amounting to 7.2% (in Q4 2009 – growth by 3.6%). Prices in the metallurgical industry increased by 9.8%, prices in the foodstuff production including drinks and tobacco increased by 7.5%, refined products increased in price by 10.9%.

There was a decrease in prices in the production and distribution of electric energy, gas and water in Q4 2010, which amounted to 0.4% (in Q3 2010 – growth by 0.7%).

In December 2010 the growth of prices in the industrial production in annual terms (December 2010 to December 2009) was 12.9% (Figure 3).



Source: Agency of Statistics of the Republic of Kazakhstan

Figure 3 - Dynamics of the producer price index (as % of the respective month of the previous year)

The cost of output increased by 13.4% in annual terms, including the interim consumption products – by 13.8%, consumer goods – by 9.7%, production means – by 0.6%. The cost of production services increased by

5.1%.

Prices in Agriculture

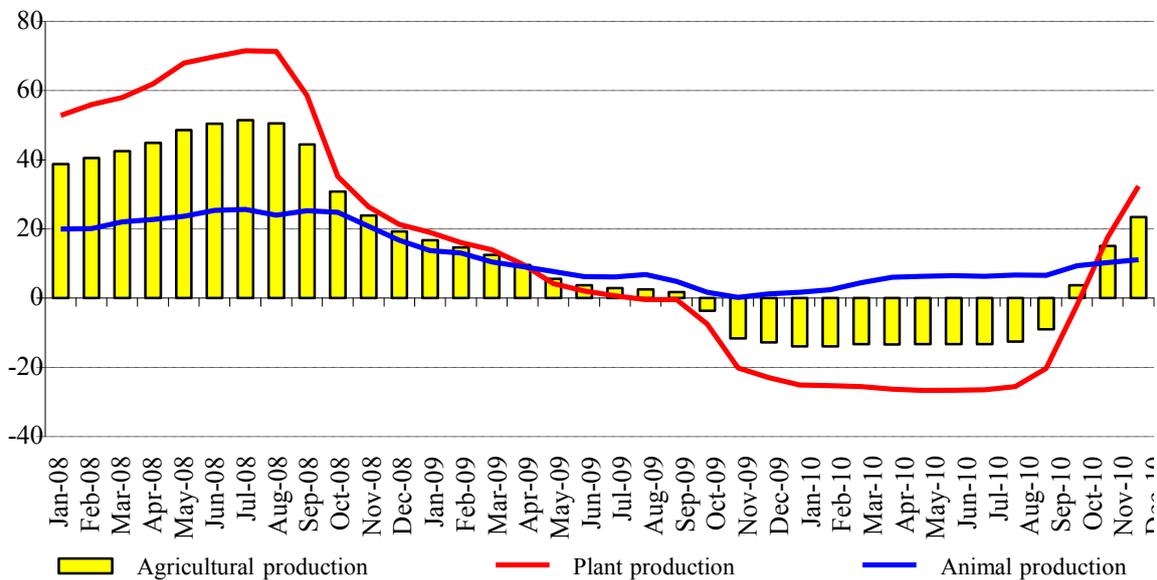
In Q4 2010 prices for agricultural production realized across all channels increased by 21.2% (in Q4 2009 – decrease by 10.7%). The dynamics of prices in agriculture was impacted by appreciation of output in the plant production to a greater extent and in stock-breeding – to a smaller extent.

During October-December the cost of plant production increased by 30.7%, which was mainly caused by the growth in prices for grain cultures – by 30.9%.

Adverse weather and climatic conditions in 2010 resulted in a lower grain yield that influenced the growth in prices for the plant production.

The cost of animal products appreciated by 8.0% in Q4 2010, whereas in Q2 2010 there was a decrease in price under the influence of the seasonality factor, and in Q3 the price growth was insignificant and made 1.3%. At the same time, prices for meat and poultry increased by 1.9%, the cost of unpasteurized milk increased by 20.8%, and the price of eggs increased by 23.6%.

At end-December 2010, prices for agricultural products increased by 23.4% in annual terms. The cost of plant production increased by 32.4%, and animal products increased in price by 11.1% (Figure 4).



Source: Agency of Statistics of the Republic of Kazakhstan

Figure 4 - Dynamics of the agricultural price index (as % of the respective month of the previous year)

Enterprise Monitoring

In Q4 2010 there was a notable slowdown in the growth rates of

demand for final products of enterprises as compared to the previous quarter. This is evidenced by the decrease in a generalized indicator – diffusion index of the change in the demand for final products – to 50.9 from 55.2 in Q3 2010. The decrease in the indicator was noted by 21.9% (in Q3 2010 – 17.0%) of interviewed enterprises and the increase in the indicator – by 23.7% (in Q3 2010 – 27.3%).

The slowdown in the growth rates of demand is, in the first instance, related to the decrease of the indicator in such industries as “construction”, “real estate operations”, “rent and services to enterprises” and “manufacturing industry”, and secondly, with the slowdown in the growth rates of demand in such industries as “agriculture, hunting and forestry”, “transport and communications”, “trade” and “hotels and restaurants”.

In Q1 2011 a minor growth in the demand for final products is expected in the economy as a whole: the diffusion index of the change in the demand went up to 51.1. Alongside with that, 17.0% of interviewed enterprises anticipate that the demand for final products will rise, and 14.9% anticipate that it will fall. The highest growth in the demand is expected in such sectors as “agriculture, hunting and forestry”, and enterprises in such sectors as “construction” and “manufacturing industry” anticipate that the indicator will decrease.

The situation with prices for final products of enterprises in Q4 2010 was characterized by insignificant increase in the growth rates of the indicator as compared to the previous quarter: the diffusion index of the change in the prices for final products went up to 60.7 (in Q3 2010 – 59.8). The percentage of enterprises with increased prices for their products as compared to the previous quarter increased amounting to 25.9% (in Q3 2010 – 24.0%).

The maximum growth in prices occurred in such industries of the economy as “mining industry”, “production and distribution of electric energy, gas and water”, “manufacturing industry” and “transport and communications”. The slowdown in the growth rates of the indicator was observed in the “construction” industry influenced by the seasonality factor.

In Q1 2011 some increase in the growth rates of prices is anticipated, evidenced by the diffusion index of the change in prices for final products which was 62.4 (in Q4 2010 – 60.7). The maximum rates of growth in prices is anticipated in such industries as “production and distribution of electric energy, gas and water”, “transport and communications”, “real estate operations”, “rent and services to enterprises”. At the same time, in such industries as “agriculture, hunting and forestry”, “mining industry” and “trade” a slowdown in the growth in prices for final products is anticipated.

In Q4 2010 there was an insignificant increase in the growth rates of prices for raw materials and supplies as compared to the previous quarter that still remain at a high level in the economy as a whole: the value of the diffusion index of the change in the price for raw materials and supplies was

71.0. The increase in the growth rates occurred in all industries except for industries such as “agriculture, hunting and forestry” and “construction”. In the sample as a whole a number of enterprises that noted the increase in prices for raw materials and supplies increased as compared to the previous quarter amounting to 50.1% (in Q3 2010 – 49.5%). The percentage of enterprises that noted the decrease in prices for raw materials and supplies accounted for 0.9% only (in Q3 2010 – 1.0%). The number of respondents that noted invariance of the indicator decreased to 41.7% (in Q3 2010 – 42.1%).

For Q1 2011 the diffusion index of the change in the price for raw materials and supplies fell down to 68.6, which means a notable slowdown in the price growth. At the same time, the number of respondents anticipating the price growth decreased significantly – to 44.9%, and the percentage of enterprises that noted invariance of the indicator increased to 47.5%, and that the indicator will fall – decreased to 0.3%.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about Q1 2011 are associated with a slowdown in the growth rates of prices for raw materials and supplies and a minor growth in the demand for final products.

Inflation Factors

Aggregate Demand

In Q3 2010 the GDP based on the final consumption method as compared to the respective period of 2009 increased in real terms, according to the estimate, by 2.5% (in the previous quarter – by 11.2%).

Despite the significant fall in one of the key GDP components (gross fixed capital formation), increase in spending on final consumption, growth in net exports, and change in stock were the reason for the GDP growth, although its rate slowed down significantly. Spending on final consumption grew up by 11.1%, net exports increased by 10.7%, gross formation decreased by 25.0% on the whole.

Net exports' contribution to the GDP growth accounted for 1.1%, gross fixed capital formation – (-) 17.2%, households consumption – 8.0%, change in stock – 1.2% .

Individual Consumption and Investment Demand

Household spending on final consumption in Q3 2010 increased versus the respective period of 2009 by 13.6% (in Q2 2010 – growth by 5.8%).

The slowdown of in the growth rate of per capita income in real terms to 7.8% (in Q2 2010 – growth by 8.0%) also affected retail sales, whose rate slowed down to 12.8% (in Q2 2010 – growth by 15.5%). The growth in retail sales, while generally demonstrating the restoration of consumer demand this year, had a significant impact on the improvement of one of the key GDP components by the aggregate demand method, namely the growth in household spending on final consumption.

A high rate of the economic recovery in Kazakhstan, stabilization of the

situation in the banking sector, overcoming of negative consequences of the global crisis on the whole as well as the increase in the amounts of social benefits and retirement benefits from the beginning of 2010 and 25% increase of scholarships and salaries of the public sector employees from the 2nd quarter were the basis for the change in the consuming behavior pattern of the population.

As a result, after their fall during the entire 2009, the volumes of realization of goods in retailers (shops, shopping centers) began to grow since the beginning of this year, their volume in the overall volume of retail sales being significant and accounting for about 55%.

The total volume of spending on gross capital formation demonstrated a significant decline in Q3 2010, as compared to the respective period of 2009, decreasing by 25.0% and thus making negative contribution to the GDP growth of (-)5.9%.

In its structure, despite the fact that the investment activity of enterprises somewhat increased in Q3 2010 and the volume of fixed capital investments increased by 1.8%, gross fixed capital formation decreased by 25.8%, which made negative contribution to the GDP growth of (-)7.2%.

In its turn, the indicator of the change in stock showed nearly a three-fold increase in nominal terms, thus making positive contribution to the GDP growth of 1.2%.

However, such insignificant positive contribution could not neutralize negative effect of the first component, thus resulting in the decline of gross formation as a whole.

Government Consumption

Spending on final consumption by the general government in Q3 2010, as compared to the respective period of 2009, increased by 2.7% (in Q2 2010 – decrease by 4.6%).

In general, during Q3 2010 the state budget spending was financed in the amount of KZT 1 128.7 bln. or 7.7% of GDP. As compared to Q3 2009, the increase accounted for 23.7%.

Current state budget expenditures totaled to KZT 821.5 bln., being greater by 19.2% than in Q3 2009. Within the current expenditures costs on interest payments on domestic and foreign loans, on current transfers to natural persons and legal entities as well as for employer contributions, wages and service purchases increased the most. Capital expenditures of the state budget in Q3 2010 increased by 8.0% as compared to the respective period of 2009, mainly because of the growth in expenditures for acquisition and buildup of fixed capital. Expenditures for acquisition of land and intangible assets and capital transfers abroad decreased by 62.8% and 46.7%, respectively, as compared to the respective quarter of the previous year.

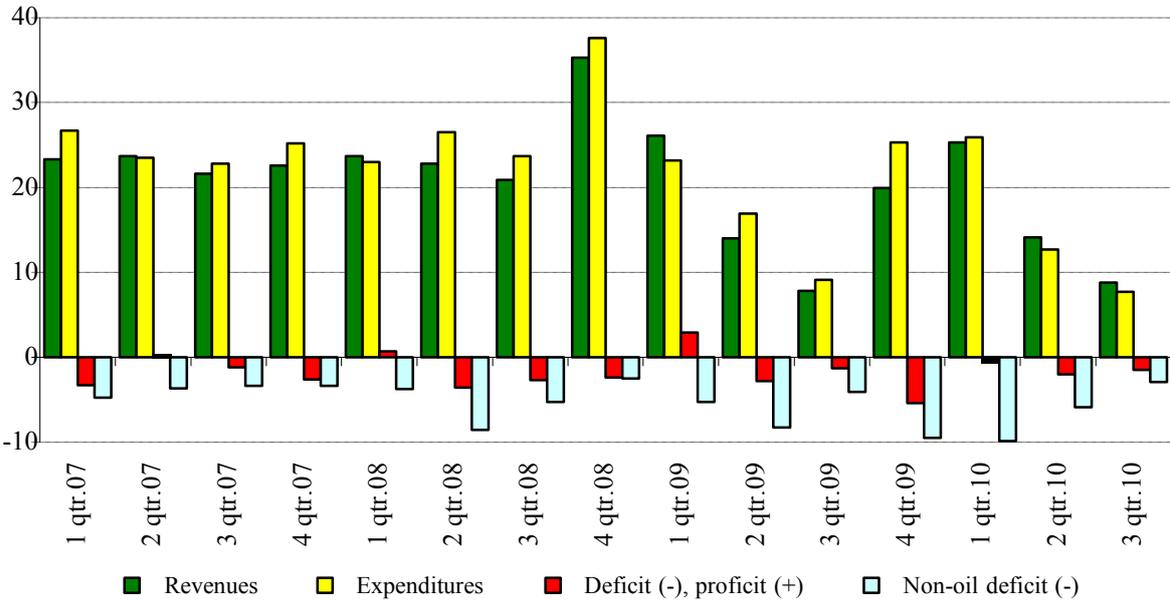
During July-September 2010 state budget revenues amounted to KZT 1

292.65 bln. or 8.8% of GDP, which is by 89.0% greater than in July-September 2009. Two items still prevail in the structure of the state budget revenues: tax revenues – 55.1% (in Q3 2009 – 60.3%), and the official transfer – 41.3% (35.9%). High percentage of official transfers was secured by the receipt of the guaranteed transfer of KZT 445.0 bln. from the National Fund of the Republic of Kazakhstan to the republican budget.

As a whole, in Q3 2010 tax revenues increased by 12.5% as compared to Q3 2009, the increase was due to the increased revenues from corporate income tax and value added tax by 46.3% and 10.7%.

In Q3 2010 as compared to Q3 2009 revenues from the fixed capital sales increased by 30.7%, the volume of non-tax revenues increased by 7.4%.

Since the expenditures were in excess of revenues to the state budget, in Q3 2010 the deficit of KZT 217.8 bln. (1.5% of GDP) showed up whereas in Q3 2009 the deficit was KZT 144.9 bln. (Figure 5).



Source: Ministry of Finance of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

Figure 5 - Execution of the state budget, % of GDP

It should be noted that without the guaranteed transfer of KZT 445.0 bln. to the republican budget from the National Fund, Q3 2010 would have ended with the non-oil deficit of KZT 662.8 bln.

During Q3 2010, the Ministry of Finance borrowed KZT 372.3 bln. (mainly by issuing government issue-grade securities). During the same period debentures were also extinguished on securities issued earlier for the amount of KZT 90.8 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 38.6

bln.

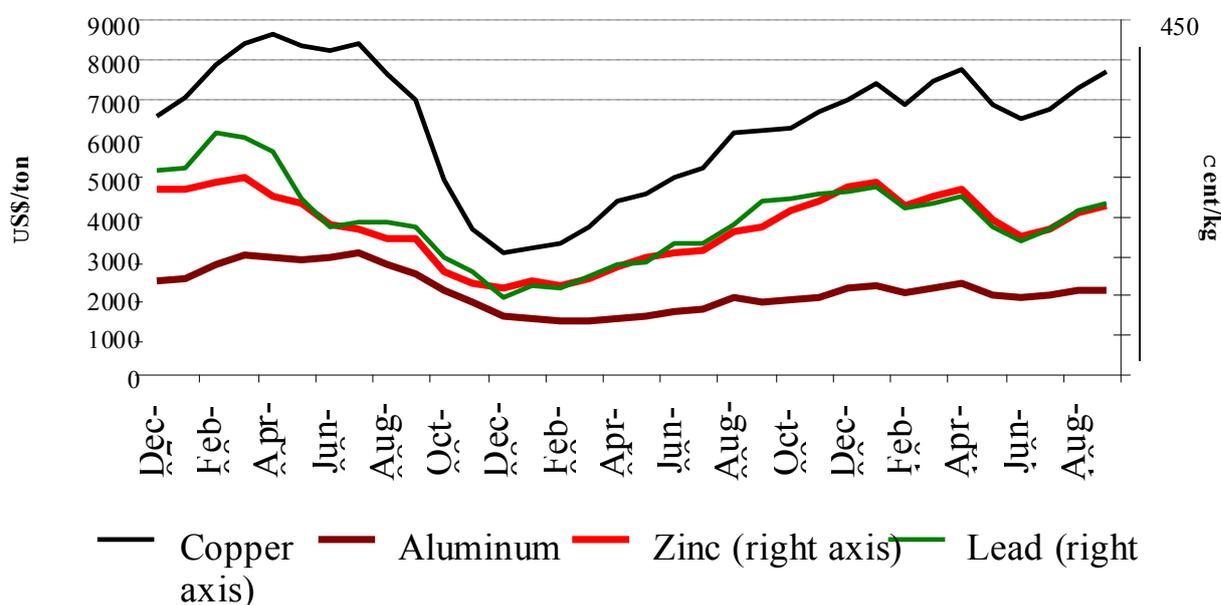
Government domestic debt for Q3 2010 increased to KZT 1 634.9 bln. (7.2% of GDP), i.e. by 46.0% as compared to Q3 2009 (7.2% of GDP). The growth was secured by the issue of government short-term treasury obligations (MEKKAM), government long-term treasury bonds (MEUKAM), and government long-term saving treasury obligations (MEUZHKAM).

The Government's external debt in Q3 2010 increased by 2.1 times as compared to Q3 2009 (1.6% of GDP) and amounted to KZT 508.9 bln. (2.5% of GDP).

External Sector

– World Prices

In Q3 2010 the situation in the global commodity markets remained unstable, which was accompanied by volatility of prices for certain commodities. World prices for metals in July-September 2010 demonstrated a steady upward trend. On the overall, in Q3 2010 prices for copper increased by 3.1% and were about US\$ 7242.7 per ton on average during the period. World prices for lead increased by 4.2% amounting to 203.2 cents per kg on average during the period, prices for zinc decreased by 0.6% with the price of 201.3 cents per kg, on average for the period (Figure 6).



Source: World Bank

Figure 6-Dynamics of world prices for metals

In Q3 2010 world oil prices had an upward trend. Thus, after some decline in prices in May 2010, an upward trend appeared in August-September 2010. On the overall basis, in Q3 2010, as compared to Q2 2010,

oil prices (Brent) decreased by 2.9% and were at US\$76.41 per barrel on average for the period.

World prices for wheat also increased in July-September 2010. On the overall basis, in Q3 2010 the world price for wheat (Canada) increased by 25.0% and was at US\$326.2 per ton on average.

Balance of Payments

In Q3 2010 the current account balance was in deficit at US\$ 0.6 bln.

Proceeds from the exports of goods in Q3 2010 increased by 17.1%, and expenditures on commodity imports – by 13.9% as compared to Q3 2009. A positive trade balance increased by 21.9% and amounted to US\$ 6.0 bln. At the same time, it didn't compensate a net outflow of resources on other components of the current account. The deficit in the balance of services as compared to Q3 2009 increased by 5.8% to US\$ 1.8 bln., and the deficit in the income balance increased by 22.7% and was over US\$ 4.3 bln. Payments to non-residents on current transfers amounted to US\$ 395.9 mln., having increased by 36.3% versus the level of Q3 2009.

The net outflow of resources on financial account operations was US\$ 5.7 bln. in Q3 2010 (in Q3 2009 there was a net inflow of US\$ 2.5 bln.). Foreign assets of residents (except for reserve assets) increased by US\$ 3.3 bln., which is by 1.7 higher than in the respective period of 2009. Foreign liabilities of residents decreased by US\$ 2.4 bln. (growth by US\$ 4.5 bln. in Q3 2009).

As a result, the positive balance of payments for Q3 2010 amounted to US\$ 22.8 mln. (in Q3 2009 – US\$ 1.8 bln.).

Terms of Trade and the Real Effective Exchange Rate

In Q3 2010 the aggregate terms of trade index was by 14.7% higher than the respective indicator for Q3 2009. Alongside with that, the terms of trade with the Euro zone countries improved by 3.7%, and with Russia – deteriorated by 33.3%.

Despite a relatively stable nominal exchange rate, the index of the real effective exchange rate of the Tenge depreciated by 1.9% in Q3 2010 as compared to the prior period. At the same time, Tenge has depreciated versus the CIS currencies basket by 0.2%, versus the basket of other currencies – by 2.5%.

During Q3 2010 the Tenge has depreciated in real terms against the US Dollar by 0.1% as compared to the previous period, by 1.4% against the Euro and remained unchanged against the Russian ruble.

Nominal exchange Rate of the Tenge

The average weighted exchange rate of the Tenge for Q4 2010 at the stock exchange was KZT 147.46/1\$. The stock exchange rate at end-period was KZT 147.50/1\$. Since the beginning of the year the Tenge has

appreciated against the US Dollar in nominal terms by 0.6%.

In October and November the exchange rate of the Tenge versus the US Dollar virtually didn't change and in December it appreciated by 0.1%.

Since the transaction volumes in the Euro and the Russian ruble remain insignificant in the stock exchange segment of the domestic foreign exchange market, the exchange rate of the Tenge versus those currencies is calculated based on the cross-rate to US Dollar. So, the dynamics of the exchange rate of the Tenge versus the Euro and the Russian ruble were driven by the dynamics of the exchange rate of the Tenge versus the US Dollar, the status of the common European currency in the international financial market and the policy implemented by the Central Bank of Russia in respect of the exchange rate of the Russian ruble against the currency basket.

On the whole, during Q4 2010 the official exchange rate of the Tenge versus the Euro has appreciated by 2.6%, and versus the Russian ruble – by 0.2%.

Production

The volume of GDP output in Q3 2010 amounted to KZT 5505.7 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except construction as well as financial and insurance activities, the GDP in real terms increased, according to estimates, by 6.5% versus Q3 2009 (in Q2 2010 the growth accounted for 10.0%).

The GDP growth was caused to a greater extent by the improved situation in the production of services, where the growth rate increased from 7.3% (Q2 2010) to 8.7%, whereas in the production of commodities the growth slowed down from 7.7% to 2.2%.

In the in construction – 104.6%, in agriculture – 93.6% that in the aggregate made a positive contribution of 1.2 % to the GDP formation.

In the production of services the decline in the index of physical volume in financial and insurance activities by 4.1% was fully neutralized by high growth in all other components, which resulted in positive contribution to the GDP formation at the level of 3.6%.

The decrease in Q3 2010 in the volume of financial intermediation services indirectly measured which are used with a negative sign in the total volume of GDP, contributed positively to the GDP growth in the amount of 0.4 %, and the growth of net taxes on products and imports increased the GDP by 1.3% in addition

Labor Market. Employment and Unemployment

In Q4 2010 the number of people employed in the economy, according to tentative estimates, was 8.1 mln., having decreased by 0.4%

versus the previous period. At the same time, the number of employees reached 5.5 mln. (growth by 0.2%), the number of self-employed – 2.7 mln. people (decline by 1.6%).

In the structure of employees, 4.5 mln. individuals (81.5% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.6%), at farms – 0.3 mln. individuals (5.9%).

In Q4 2010 the number of unemployed amounted to 474.7 thous. individuals, having decreased by 1.4% as compared to the prior period and by 10.7% as compared to Q4 2009.

In October and November 2010 the following structural changes in the composition of employees were observed.

The main sectors that contributed to the growth in the employment rates, as compared to the respective period of 2009, were the industry; real estate operations; trade; transport and warehousing; education; public healthcare and social services; general government; accommodation and catering services.

The largest percentage of outflow of the employed was in the construction sector and agriculture.

The decrease in the number of employed in some sectors was largely compensated by their growth in other sectors, whereby the unemployment rate in Q4 2010, according to preliminary information, decreased by 0.1 percentage point and accounted for 5.5% (Figure 7).

Arrangements implemented as part of the Regional Employment and Staff Retraining Strategy (the Road Map) continue to have significant influence on decreasing the unemployment level and increasing employment.



Source: Agency of Statistics of the Republic of Kazakhstan

Figure 7 - Actual unemployment rate, %

Wages and Productivity

The twenty five percent increase in scholarships and wages to the public sector employees from Q2 2010 resulted in accelerated nominal and real growth in wages, as compared to 2009.

After the slowdown in the growth rate of nominal wages in Q1 2010, the growth rate accelerated significantly in the two subsequent quarters. In Q3 2010 as compared to the respective period of 2009, the average monthly wages grew by 17.6% in nominal terms (in Q3 2009 – by 8.7 %), the real wage increased by 10.3% (in Q3 2009 – by 2.2%).

The highest increase in wages was observed in the first month of Q3 2010. In July 2010 as compared to July 2009, wages in nominal terms increased by 18.0%, and in real terms – by 10.6%.

In Q3 2010 the real wage index accounted for 110.3% as compared to the respective quarter of the previous year, which represents the maximum growth rate since 2007. The wage growth was observed in virtually all sectors of the economy. The highest growth in wages was in such types of economic activity as: “ancillary educational services” (two-fold growth); “repair of computers, items of personal consumption and household goods” (by 54.6%); “veterinary business” (by 36.9%). The maximum amount of average monthly wage of one employee was in such sector as “employment assistance” – KZT 545.5 thous., minimum – in “fishery and aquaculture” (KZT 29.3 thous.).

In November 2010 the real wage index was 106.1% as compared to the respective month of the last year. The highest increase was noted in such sectors as “ancillary educational services” (by 3.3 times) and “air freight service and space transportation system” (by 49.1%), and the decline – in “production of motion-picture and video films, television programs, soundtracks and recorded music” (by 31.8%).

The increase in wages to the public sector employees from Q2 2010 impacted labor productivity where the growth index slowed down amounting to 2.3% in Q3 2010, according to the National Bank’s estimate (Q2 2010 – 4.6%).

Money Supply. Monetary Aggregates

In Q3 2010 annual dynamics of cash in circulation demonstrated quite remarkable growth rates, whereas increases in money supply, reserve money and narrow reserve money were moderate.

Reserve money in Q4 2010 expanded by 1.7% and amounted to KZT 2572.9 bln. at end-December 2010. Narrow reserve money contracted by 0.9% to KZT 2143.7 bln.

In 2010 reserve money expanded by 5.0% as compared to December 2009.

Net international reserves of the National Bank increased by 23.0% to US\$ 27.7 bln. in December 2010 as compared to the respective period of 2009. Within their structure, despite operations on the servicing of the Government's external debt and decrease in foreign currency balances with the correspondent accounts of the second-tier banks at the National Bank, net currency reserves increased as a result of foreign exchange purchase in the domestic foreign exchange market and currency proceeds to the Government's accounts at the National Bank. Assets denominated in gold also increased.

Reserve Money

In December 2010 as compared to December 2009 net domestic assets of the National Bank decreased (Table 1), mainly because of a significant increase in liabilities to banks on short-term notes.

Table 1 - Dynamics of changes in assets and liabilities of the National Bank (as % of the respective period of the previous year)

	1 qtr. 10	2 qtr. 10	3 qtr. 10	4 qtr. 10
Net international reserves	41.1	40.8	36.1	23.0
Net domestic assets	-634.7	-341.1	-364.5	-498.0
Net claims on the Government	-12.6	-67.9	-83.5	-64.4
Claims on the economy	-197.0	-169.2	-154.3	-222.4
Other net domestic assets	-7.9	2.2	-18.8	-20.3
Reserve money	22.3	17.3	-7.9	5.0
Narrow reserve money	-1.7	16.8	-1.8	9.3

Source: National Bank of the Republic of Kazakhstan

Money Supply

During Q4 2010 money supply increased by 1.6% to KZT 8546.4 bln.

In December 2010 as compared to December 2009 its growth accounted for 14.1% as a result of increase in net foreign assets of the banking system (Table 2).

Table 2 - Dynamics of changes in money supply (as % of the respective period of the previous year)

	1 qtr. 10	2 qtr. 10	3 qtr. 10	4 qtr. 10
Net foreign assets	121.3	132.6	138.3	63.3
Domestic assets	-10.3	-12.3	-27.4	-14.2
Claims on the Government	506.1	425.6	166.2	72.4
Claims on the economy	5.3	5.1	3.6	6.1
Other net domestic assets	-30.9	-26.0	-42.1	28.4
Money supply	16.0	22.1	15.9	14.1
Cash in circulation	25.1	26.3	34.2	25.7
Deposits of residents	14.9	21.6	13.6	12.5

Source: National Bank of the Republic of Kazakhstan

In the structure of net foreign assets of the banking system in December 2010 as compared to December 2009 net foreign assets increased, both of banks and of the National Bank. The growth in net foreign assets of banks was mainly stipulated by the decreased claims of non-residents on banks.

In the structure of the main components of money supply the outstripping growth rates of cash in circulation were noted as compared to the growth rates of residents' deposits in the banking system. As a result, the share of deposits of residents in the structure of the money supply decreased from 87.8% in December 2009 to 86.6% at end-December 2010.

The money multiplier grew from 3.06 in December 2009 to 3.32 in December 2010 as a result of outstripping growth in the money supply against the rates of expansion of the reserve money. The reason for that was the decreased reserve ratio alongside with an increase in cash preference ratio.

Cash in Circulation

The volume of cash in circulation in Q4 2010 increased by 5.7% to KZT 1148.5 bln. The main reasons for the increase in the cash in circulation were the growth in net payouts on wages, net payoffs on individuals' time deposits and payouts for retirement benefits and allowances. At the same time, the impact of these factors was not neutralized by the growth in net proceeds from the sale of goods, services and performed works, net proceeds from the foreign exchange sales, and net proceeds from loans to individuals and legal entities recorded in Q4 2010.

In December 2010 as compared to December 2009 cash in circulation increased by 25.7%. This shows that the impact of factors contributing to the growth in cash (the increase in wages, retirement benefits and allowances) was dominating over the impact of factors which contributed to its decrease (increased volumes of foreign cash sold by the exchange offices, increased deposit balances, proceeds from sales of goods, works and services, etc.).

In Q4 2010 as compared to Q4 2009 payouts of cash from bank cashier departments increased by 14.1% to KZT 3284.4 bln., cash receipts to bank cashier departments – by 14.9% to KZT 3003.4 bln. As a result, net payouts from bank cashier departments amounted to KZT 281.0 bln.

Financial Market. Deposits of Residents

At end-December 2010 deposits of residents amounted to KZT 7397.9 bln., having increased by 1.0% during Q4 2010. Deposits of legal entities decreased by 0.8%, deposits of individuals – increased by 5.4%. Deposits in the domestic currency increased by 2.4% to KZT 4807.9 bln., deposits in foreign currency – decreased by 1.5% amounting to KZT 2590.0 bln.

Since the beginning of 2010 the growth in deposits of residents amounted to 12.5% and was secured by the growth in the domestic currency deposits by 30.0% whereas deposits in foreign currency decreased by 9.9% (Table 3).

Table 3 - Dynamics of changes in residents' deposits (as % to December of the previous year)

	Dec.07	Dec.08	Dec.09	Dec.10
Deposits of residents	26.4	39.1	21.5	12.5
<i>of the population</i>	<i>40.5</i>	<i>2.8</i>	<i>28.5</i>	<i>15.9</i>
<i>of non-bank legal entities</i>	<i>19.5</i>	<i>60.2</i>	<i>18.9</i>	<i>11.2</i>
Deposits in the Tenge	32.7	32.0	5.9	30.0
Deposits in foreign currency	14.9	54.0	50.0	-9.9

Source: National Bank of the Republic of Kazakhstan

In 2010 the dynamics in deposits of residents were characterized by the highest growth rates of deposits in the second quarter, with a gradual slowdown in the third and fourth quarters. These changes were caused by the transformation of foreign currency deposits of legal entities and individuals.

The interest rates on deposits – both in the domestic currency and in foreign currency have been generally lower during 2010 than in 2009.

The average weighted interest rate on the Tenge time deposits of non-bank legal entities was 3.4% in December 2010 (in December 2009 – 4.5%), and on deposits of individuals – 8.8% (10.0%).

Measures taken by the government to ensure financial stability continue to maintain the high level of confidence of the population in the banking system, which serves as the basis for stable growth of the deposit base of individuals. In its turn, a strong recovery in the growth rate of the Kazakh economy stipulated the decrease in the volume of funds coming as part of the anti-crisis actions influencing the deposit base of legal entities, which decreased by 0.8% in Q4 2010.

The volume of deposits of legal entities increased by 13.8% in December 2010, as compared to December 2009. Deposits of legal entities in the domestic currency increased in annual terms by 24.5%, and in foreign currency – decreased by 9.9%.

The main trend in the deposit market of 2010 was the decrease of the degree of dollarization of deposits ensured by a decreased volume of foreign currency deposits and the growth of the domestic currency savings. The percentage of foreign currency deposits in December 2010 decreased to 35% versus 43.7% in December 2009.

Since the exchange rate of the Tenge versus the US Dollar has been stable in 2010, devaluation expectations reduced significantly and the return on deposits started to be the major factor in attraction of savings. As a result, a higher interest rate on the Tenge deposits appeared to be the main incentive

which dominated in the preferences of legal entities and the population.

The volume of deposits of individuals in December 2010 as compared to December 2009 increased by 15.9%. Deposits of individuals in the domestic currency increased in annual terms by 48.7%, in foreign currency – decreased by 9.9% .

Credits to the Economy

During Q4 2010 bank credits to the economy increased by 1.4% to KZT 7596.5 bln.

Credits to legal entities increased by 2.1%, credits to the population decreased by 0.4%.

As compared to December 2009, the lending volume decreased by 0.6%, including the increase in credits to legal entities by 1.2%, and the decrease in credits to individuals by 4.9%.

The average weighted rate on credits to legal entities decreased from 12.7% to 11.9% in December 2010 as compared to December 2009. This was caused by the decrease in the cost of borrowing for legal entities, both in the domestic currency and foreign currency, with a more significant decrease in the rates on credits in the domestic currency.

The average weighted rate on credits to individuals decreased from 20.2% to 19.8% in December 2010, which was caused by the growth of rates on loans in the domestic currency.

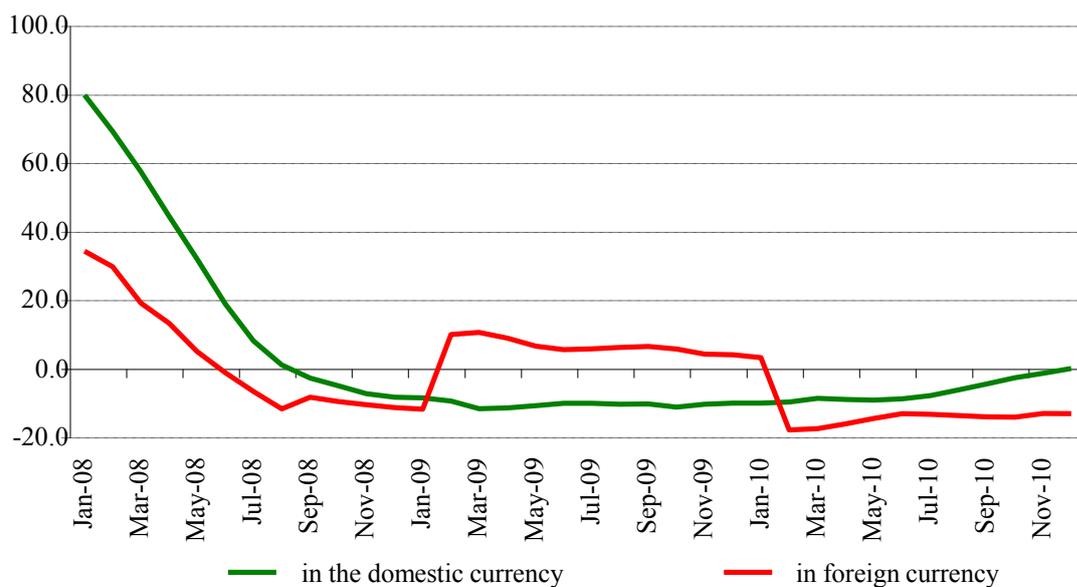
In the structure of credits by objects of financing the major volume of debt falls on credits provided for the purchase of fixed assets, for new construction and reconstruction as well as for other purposes, mainly for refinancing of earlier loans.

In a sectoral breakdown, the highest debt on bank credits falls on non-production sphere and individual entrepreneurship (40.6%), trade (24.0%), construction (18.1%), and industry (9.4%).

The volume of credits to legal entities decreased in December 2010 as compared to December 2009 increased by 1.2%. Credits to legal entities in the domestic currency increased by 16.8% in annual terms, and credits in foreign currency decreased by 13.1%.

The share of medium- and long-term credits at end-December 2010 amounted to 78.7% in the total volume of credits to legal entities (in December 2009 – 78.7%).

The volume of credits to individuals decreased by 4.9% in December 2010, as compared to the respective period of 2009. In the structure of credits to the population, credits in the domestic currency have demonstrated the increase by 0.2% and in foreign currency – the decrease by 12.9% (Figure 8).



Source: National Bank of the Republic of Kazakhstan

Figure 8 - Dynamics of credits to the population (as % of the respective period of the previous year)

Bank Assets and Liabilities

– Assets

In Q4 2010 the amount of bank assets calculated under the Monetary Survey decreased by 0.5% to KZT 15.0 trln. Bank assets increased by 3.0% in annual terms (in December 2010 as compared to December 2009). Foreign assets of banks in December 2010 accounted for 20.2% of the total volume of assets or US\$ 20.6 bln. They have decreased by 14.6% as compared to December 2009, by 3.3% - as compared to September 2010. In the structure of foreign assets in December 2010, credits to non-residents accounted for 49.6% (in September 2010 – 55.2%), deposits placed with non-residents – 28.5% (in September 2010 – 20.3%), securities of non-residents – 4.8 % (in September 2010 - 5.6%), other accounts receivable – 17.2% (in September 2010 – 18.9%). Domestic assets in December 2010 accounted for 79.8% or KZT 12.0 trln., where assets in the domestic currency amounted to 68.1% or KZT 8.2 trln. and assets in foreign currency – 31.9% or KZT 3.8 trln. In September-December 2010 domestic assets increased by 0.3%, including the increase in the domestic currency assets by 2.6% and the decrease in foreign currency assets by 4.3%. As compared to December 2009, the growth in these indicators reached 8.6%, 21.6% and -11.7%, respectively.

In September-December 2010 the quality of bank assets somewhat improved. The share of bad assets decreased from 17.7% to 15.3%, and the share of standard assets increased from 47.6% to 48.3%, at the same time the share of doubtful assets increased from 34.7% to 36.4%. Besides, there is a multi-directional asset migration in the structure of doubtful assets. The share of the 5th category of assets increased from 7.8% to 9.2%, of the 3rd category increased from 6.0% to 7.1%. The share of assets of the 4th category

decreased from 3.8% to 3.6% and of the 1st category – from 12.8% to 12.3%. The share of the 2nd category of assets remained unchanged (4.2%). This is an evidence of the remaining threat of the deterioration in the quality of bank assets.

As a whole, under the Monetary Survey for Q4 2010, bank assets showed some decrease. A high level of credit risk and low asset quality still represent weak aspects of the Kazakh banking system. As before, banks maintain their conservative investment policy and avoid crediting the economy. At the same time, the quality of credit portfolio of Kazakh banks slightly improved (the share of bad credits decreased from 23.3% to 20.0%, and the share of standard credits increased from 26.0% to 26.4%). Generally, the situation with troubled debt, as broadly defined, including restructured credits has been gradually stabilizing. The policy of banks and authorized body focused on accumulation of significant reserves will help leveling down future problem debt write offs.

– **Liabilities**

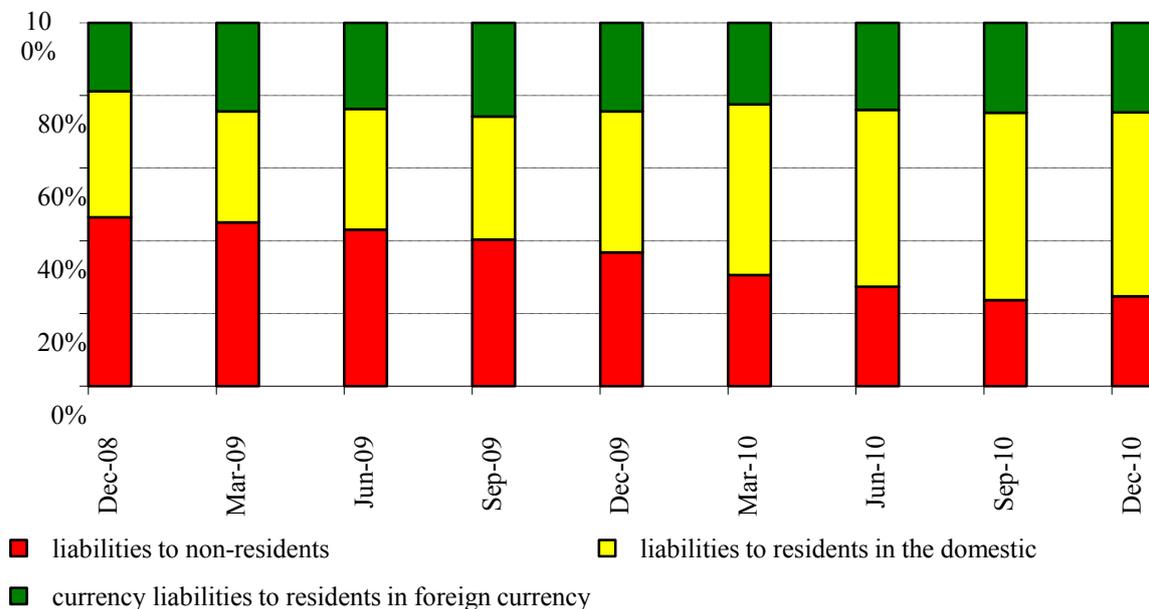
In Q4 2010 total bank liabilities calculated in line with the Monetary Survey increased by 1.1% and amounted to KZT 10.5 trln. at end-December 2010. In December 2010 as compared to December 2009 bank liabilities decreased by 9.0%. Bank liabilities to non-residents decreased by 10.0% to US\$ 16.6 bln. in September 2010 as compared to December 2009. Bank liabilities decreased by 48.7% versus the respective month of 2009. At end-September 2010 they accounted for 23.7% of the volume of bank liabilities. Bank liabilities to non-residents increased by 5.5% to US\$ 17.5 bln. in December 2010 as compared to September 2010. Bank liabilities decreased by 37.3% versus the respective month of 2009. At end-December 2010 they accounted for 24.7% of the volume of bank liabilities.

In December 2010 in the structure of bank liabilities to non-residents, liabilities on deposits of non-residents increased from 6.6% to 9.6% in September 2010, liabilities on securities decreased from 67.2% to 65.0%. Credits from non-residents also decreased to 23.2% from 23.8% in September 2010. In September-December 2010 liabilities to non-residents also decreased by 0.3% to KZT 7.86 trln., including the decrease in liabilities in the domestic currency by 0.6% to KZT 5.3 trln., and the increase in foreign currency liabilities by 0.4% to KZT 2.6 trln. the change in these indicators versus the respective month of 2009 amounted to -9.0%, - 37.3% and 6.8%, respectively (Figure 9).

Thus, in Q4 2010 there was a decrease in liabilities to residents and an increase in liabilities to non-residents. The restructuring process in three Kazakh banks (BTA Bank, Alliance Bank and Temir Bank) has been accomplished successfully, with the risk-sharing with the creditors. As a result, total foreign debt of these banks decreased by over US\$ 11.0 bln. The outcomes of these efforts contributed to creating conditions for the improvement of the situation in the banking sector and pre-requisites for its development in the post-crisis period. Moreover, the restructuring helped meeting one more challenge for the banking sector in early 2010 – reducing

the external debt of the banking sector within total liabilities to the level not exceeding 30%. Particularly, the share of foreign liabilities of banks in their total liabilities decreased to 23.9%¹ at end-2010 versus 33.6%¹ at end-2009.

As a whole, in 2010 the trend of replacing the external funding by the domestic funding sources such as domestic deposits was continuing.



Source: National Bank of the Republic of Kazakhstan

Figure 9 - Structure of bank liabilities, %

Financial Market Rates

In Q4 2010 there was some decrease in the interbank market rates.

The KazPrime index decreased from 2.00% on average in Q3 2010 to 1.98% on average in Q4 2010. At end-September 2010 this indicator was 1.98%, and at end-December 2.00%.

The average weighted rate on 1-day operations in the sector of the automatic REPO in Q4 2010 decreased and was 0.28% (in Q3 2010 – 0.36%). Its maximum level was 0.57% and minimum – 0.11%.

Rate fluctuations on 7-day REPO operations in Q4 2010 were within the range of 0.30% to 0.90% (the average weighted rate was 0.41%), on 14-day REPO operations – from 0.50% to 2.00% (the average weighted rate was 0.76%), and on 28-day REPO operations – from 1.00% to 1.70% (the average weighted rate was 1.24%).

The rate volatility in the money market remains high because of small market capacity, its insignificant depth, the lack of sufficient number of instruments of pledge, and low activity of the market players.

In Q4 2010 the transaction volumes in the sector of the automatic REPO increased by 4.7% as compared to the previous quarter. At the same time, the volumes on 1-day, 2-day and 28-day REPO operations decreased as compared to Q3 2010.

Monetary Policy Instruments and Operations

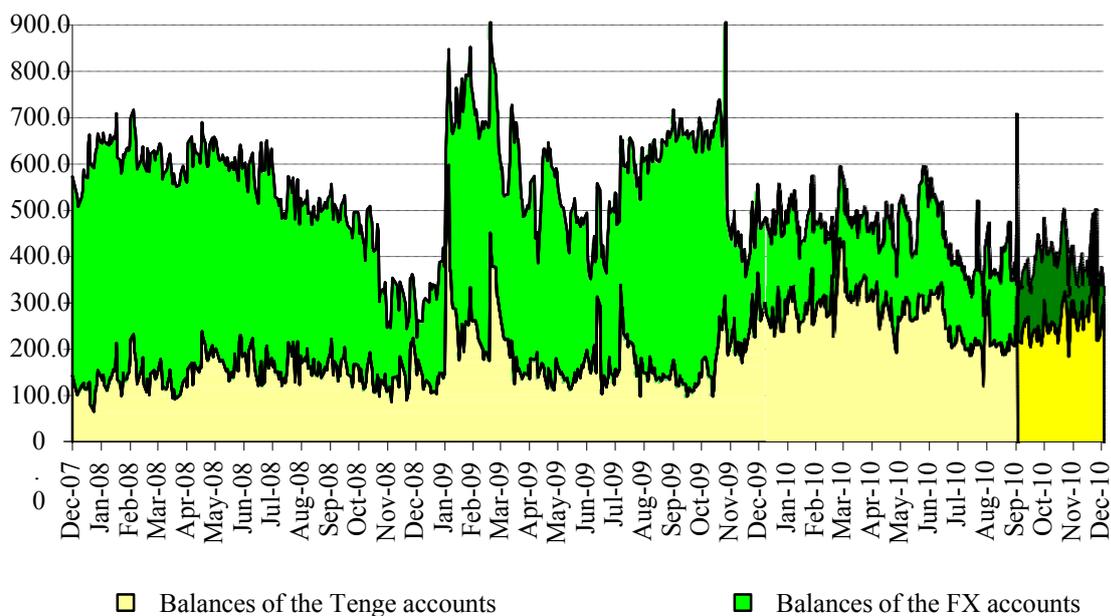
In Q4 2010 the situation in the financial market was stable, banks had sufficient Tenge liquidity.

In Q4 2010 the National Bank's operations in the financial market resulted in the supply of the Tenge liquidity mainly because of the decrease in balances with correspondent accounts of banks at the National Bank.

In Q4 2010 the National Bank's rate band remained unchanged. From October 1, 2010 based on the Resolution of the National Bank's Board, the official refinancing rate stayed at the same level – 7.0%. The rates on deposits attracted from banks also didn't change: the rate on 7-day deposits is 0.5%, on 1-month deposits – 1.0%.

In Q4 2010 the situation in the money market was characterized by lower interest rate volatility as compared to Q3 2010. On average, in Q4 2010 the level of rates was closer to the lower boundary of the National Bank's rate band. The average weighted rate on interbank deposits with maturity less than 30 days was 0.59% in Q4 2010. The average weighted rate on interbank 7-day REPO operations was 0.41%.

In October-December 2010 the dynamic in correspondent account balances of banks with the National Bank was multi-directional. In October correspondent account balances of banks in foreign currency were increasing, from the second half of November a downward trend appeared which increased by the end of December. As a result, at end-December 2010 their volume decreased by more than twice as compared to September. Correspondent account balances of banks in the domestic currency in Q4 2010 were volatile and there was an overall trend for their growth (Figure 10).



Source: National Bank of the Republic of Kazakhstan

Figure 10 - Balances of correspondent accounts with the National Bank, KZT bln.

Interventions in the Domestic Foreign Exchange Market

The situation in the domestic foreign exchange market was characterized by relative stability.

In Q4 2010 the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$ 28.3 bln., having increased (by 5.2%) as compared to Q3 2010.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 5.9% as compared to Q3 2010 and amounted to US\$ 16.7 bln. (net trades at the Kazakhstan Stock Exchange made up 84% of gross trades). In the off-exchange foreign currency market the volume of transactions in Q4 2010 increased by 4.2% as compared to the previous quarter and amounted to US\$ 11.6 bln..

In Q4 2010 the National Bank's participation coefficient in the Kazakhstan Stock Exchange was 10.8% (in Q3 2010 it was 0.4%). Thus, in Q4 2010 the National Bank was primarily the buyer of foreign exchange in the domestic foreign exchange market.

Open Market Operations

In Q4 2010 the demand of banks for short-term notes of the National Bank remained high. In October-December 2010 short-term notes with maturities of 3 and 6 months were issued.

The volume of short-term notes issued in Q4 2010 decreased by 1.8% as compared to Q3 2010 and amounted to KZT 781.4 bln. This was fully in line with the aggregate demand of the market participants for these types of government securities. The average weighted yield on issued notes increased from 1.22% in Q3 2010 to 1.31% in Q4 2010.

At end-December 2010 the volume of short-term notes in circulation amounted to KZT 899.5 bln., which is by 1.9 times greater than the volume at end-December 2009.

Standing Facilities

In Q4 2010 the volume of deposits attracted from banks slightly decreased as compared to the previous quarter. Nonetheless, the volumes of attraction remained high: the peak of attraction occurred in December. In total, during October-December 2010, KZT 3443.1 bln. of deposits was attracted, which is by 5.2% less than the volume of Q3 2010 and by 36.2% less than the volume of Q4 2009.

The average interest rate on deposits in Q4 2010 as compared to the previous quarter decreased from 0.79% to 0.77%.

The decrease in the volumes of attracted deposits was not accompanied by the decrease in the volume of the National Bank's outstanding liabilities on such deposits. In December 2010 the volume of outstanding balances on deposits of banks with the National Bank amounted

to KZT 429.1 bln., which is by 16.7% greater as compared to the volume in September 2010 and by 12.2% less as compared to December 2009.

In addition to sterilization operations, in Q4 2010 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. The total volume of reverse REPO operations in October-December 2010 amounted to KZT 1747.4 bln.

At end-December 2010 the outstanding debt on reverse REPO operations amounted to KZT 464.9 bln..