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**Faculty of Economics and Management**

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Abstract of Diploma Thesis

**Fiscal policy in chosen state**

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## **1. Summary**

The diploma thesis focuses on transformation processes taking place in the modern economy of Kazakhstan. The complexity in the scale of reforms of distributive relations on different levels of the fiscal policy represents the base for the study in the thesis. The problem of overcoming the consequences of the global financial crisis to identify patterns of functioning and trends in development of fiscal policy as a mechanism of the state regulation in Kazakhstan economy researched in the thesis.

The theoretical basis of the thesis covers principles in the formation of fiscal policy, while the practical part studies fiscal policy of Kazakhstan in a sense of economic tool, as one of the main management tools to ensure sustainable growth of the national economy. The diploma thesis researches and investigates the choice of fiscal policy in the chosen state, which is determined not only by the objective characteristics of the economic system in a certain period, but also by the need to choose development priorities in conditions of an objective assessment of external and internal factors.

**Key words:** Fiscal policy, Kazakhstan, Taxation, Government revenue, Economic growth, Government spending, Income tax, Aggregate, demand, Income distribution

## **2. Objectives**

The major objectives of the diploma thesis are following:

- ✓ Determine types, purposes, and functions of fiscal policy;
- ✓ Describe instruments of fiscal policy and its effectiveness in state regulation of economy;
- ✓ Analyze practical aspects in current state of fiscal policy in Kazakhstan;
- ✓ Analyze socio-economic condition, budget, and tax system in Kazakhstan;
- ✓ Assess the impact of current fiscal policy on business activities in Kazakhstan;
- ✓ Reveal prospects for development of fiscal system in Kazakhstan under conditions of economic integration.

The research tests the hypothesis which asserts that the choice of the country's fiscal policy has to be determined by the necessity to choose development priorities in conditions of an objective evaluation of external and internal factors.

## **3. Methodology**

Methodological tools of the research are applied through methods of data collection and accumulation of information, study and analysis of scientific and methodical literature concerning the topic of the thesis, in textbooks, handbooks and manuals on economics, finance, and taxation. Methods of registration of facts, events, processes in the study and generalization of domestic and foreign practice to identify patterns and make science-based conclusions on the researched issues are used in the thesis. Different methods of data measurement and processing in graphical and tabular representation are done in the thesis.

Information base of the research comes from the actual data of the official national websites of the Republic of Kazakhstan such as ministry of Finance, Ministry of Statistics, Tax statistic offices. Laws and regulations of Kazakhstan, official statistical data, analytical materials, published in scientific journals and specialized periodical literature were used for practical part of the thesis. The calculations have been done under own effort and from the help of Microsoft Excel. The study also has the financial techniques and methods in analysis part: financial ratio analysis, comparative analysis, trend analysis, horizontal and vertical analysis was used for data analysis purpose.

## 4. Results and Discussion

One of the vital tasks of fiscal policy is the sourcing and formation methods of centralized public funds, means allowing to accomplish purposes of economic policy. A set of fiscal policy instruments includes public expenses and manipulation of different tax types by changes of tax rates or lumpsum taxes. The fiscal policy may influence on the national economy stability both negatively and positively. Fiscal policy efficiency in many ways depends on the reaction rate of the government to changes of economy.

Over the past few decades Kazakhstan has undergone dramatic changes, entered the course of market economy, and changed from the former-Soviet Republic into multinational unitary state. But because of the geographic location and the dependence on environmental resources Kazakhstan is exposed to external shocks. Since its establishment and up to the present time, the fiscal system of Kazakhstan was formed according to the three requirements:

- Adaptation of the fiscal system to the new economic categories and institutions administration;
- Tax optimization of oil sector as a key point of economy growth;
- The promotion of state investment attractiveness by means of easy tax treatment application.

In general, Kazakhstan's fiscal space currently has a low fiscal burden. However, the expectations that a comfortable tax environment in Kazakhstan will cause a stable growth of foreign capital were misplaced. Unfortunately, at the moment low tax rates for Kazakhstan remains the key element of competitiveness in terms of economic cohesion with Russia, Belarus, Kyrgyzstan and Armenia, as there are a number of disadvantages for other economic parameters. With a strong dependence of socio-economic condition of Kazakhstan population on such external factor as the oil price, which is characterized by significant volatility, poses risk to the national security of the country and requires from the government the implementation of fast and radical steps.

The difficult external environment influenced on the reduction of rate of growth of all major divisions of economic activity of Kazakhstan. The GDP growth fell to 1,2% in 2015. The fall in export oil prices led to large adverse changes in the terms of trade amid the deceleration in

growth in China and the continued recession in Russia, which led to a lightening of external and apparent demand. The transition to a floating exchange rate mode in August 2015 led to a sharp diminution of the kazakh tenge (KZT) value and the rise in inflation to 16,7% in May 2016, influencing on the decline in real wages and household purchasing power.

## **5. Conclusion**

Having conducted the analysis of literature sources the next following proprietary formulation was suggested: fiscal policy is a set of measures of state government by public expenses regulation, taxation and government fiscal position intended to economic stabilization by means of end of purposes.

For Kazakhstan economy, the problem of overcoming the consequences of the global financial crisis creates the need to identify patterns of functioning and trends of the development of the fiscal policy as a mechanism of the state regulation of the economy. A stable connection with certain stages of the development, the passage of the economy through the appropriate phases of economic cycle predetermines the process of formation and implementation of the fiscal policy of Kazakhstan in modern conditions. The problem of investigation and understanding of new trends of the impact of fiscal factors on the smoothing of cyclical fluctuations the economic development is one of the priorities for Kazakhstan.

The Kazakhstan dependence on external conditions and fluctuations in prices on raw materials put at risk the macroeconomic and financial stability, by means of extensive devaluation of the currency. The taxation of oil sector by the formation of Kazakhstan's budget began to play annually increasing pivotal role.

The reinsertion of the base rate at the beginning of February 2016 stabilized the money market, the exchange rate also stabilized, and Kazakhstan currency tenge (KZT) began to strengthen with oil price increase. The government of Kazakhstan intends to continue the implementation of structural reforms by diversification of economy and reduction of dependence on oil exports. In addition, the privatization initiative was accepted. The acceleration of the structural reforms implementation may have a significant impact on the growth of non-oil economy.

However, a lot of the tasks set by the president Nursultan Nazarbayev to the government in the framework of the "Plan of the nation - 100 concrete steps to implement the five institutional reforms" as well as other explicit references, led to a significant revision of many fiscal policy

aspects. The government has coordinated the budget spending, taking into account the expectations of lower oil prices in the next few years. The government also balanced previous assumed responsibilities on counter-cyclical spending within the infrastructure development program "Nurly Zhol". This program is aimed to reform Kazakhstan's economy and provides for reducing the shortage of social housing and improving the quality of life in the country.

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