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Diploma Thesis

Fiscal policy in chosen state

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DIPLOMA THESIS ASSIGNMENT

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Economics and Management

Thesis title

Fiscal policy in chosen state

Objectives of thesis

The aim of the Diploma thesis is to learn the presence and impact of Fiscal policy of the Republic of Kazakhstan on the economic and social development of the state.

Methodology

In this Diploma thesis project are used the practical and theoretical methods which are widely observed in the research process a variety of sciences. Practical method allows to capture and describe the phenomena, facts, links between them (comparison, observation, measurement, description). Theoretical method reveals a detailed analysis of the various facts, given material (analysis, classification, modeling, system approach, a statistical method, etc.) is being classified.

The proposed extent of the thesis

60 – 80 pages

Keywords

Fiscal policy, Kazakhstan, Taxation, Government revenue, Government spending, Income tax, Aggregate demand, Income distribution

Recommended information sources

A. Smith. Inquiry into the Nature and Causes of the Wealth of Nations. In 2 vols. V.2 – M.: Everest, 2012
Economics / Ed. by N. Bazyleva and S. Gourko. – Minsk, 2008

J. Stuart Mill. Principles of Political Economy. In 2 vols. V.2 – M.: 1980.
Samuelson. AP Economics. Volume 1. – M.: NGOs Algona, 2012

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Declaration

I declare that I have worked on my diploma thesis titled "Fiscal policy in chosen state" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31 March 2017

Vladimir Petrosenko

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Fiscal policy in chosen state

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

Fiskální politika vybraného státu

Souhrn

Diplomová práce je zaměřena na studium transformačních procesů odehrávajících se v moderní ekonomice Kazachstánu. Složitost v rozsahu reforem distribučních vztahů na různých úrovních fiskální politiky představuje základ pro studium v práci. Problém překonání důsledků globální finanční krize jako zákonitosti fungování a trendů vývoje fiskální politiky jako mechanismus státní regulace ekonomiky Kazachstánu prozkouman ve práci.

Teoretický základ práce zahrnuje principy tvorby fiskální politiky, zatímco praktická část studuje fiskální politiku Kazachstánu ve smyslu ekonomické nástroje, jako jeden z hlavních nástrojů pro správu k zajištění udržitelného růstu národního hospodářství. Diplomová práce zkoumá možnost volby fiskální politiky ve zvoleném stavu, která je určena nejen objektivními charakteristikami ekonomického systému v určitém období, ale také na nutnost zvolit priority rozvoje v podmínkách objektivní posouzení vnějších a vnitřních faktorů.

Klíčová slova: Fiskální politika, Kazachstán, Daně, Příjmy státního rozpočtu, Ekonomický růst, Vládní výdaje, Daně z příjmu, Agregátní poptávka, Rozdělení příjmů

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1 Introduction

Under the conditions of transformation processes taking place in the modern economy of Kazakhstan the problem of an effective implementation of the fiscal policy becomes particularly relevant. The complexity and the scale in reforms of distributive relations on different levels of the economy representing the financial system of the country imply an objective necessity of the establishment and improvement of Kazakhstan fiscal system (Bernanke, 2016).

In turn, the effective fiscal system of the state should determine the optimal level of a tax burden providing the maximum profitable effect of the taxation while respecting the interests of the state and taxpayers. On the one hand, an effective fiscal system of the state should optimize government incomes using appropriate sources of their receipt, and on the other hand, provide a rational use of public funds (Ermekbayeva, 2016).

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. So, the problem of investigation and understanding of new trends of the impact of fiscal factors on the smoothing of cyclical fluctuations of the economic development of Kazakhstan (Aimursina, 2015).

There is also a need to establish and explore new factors, which influence the fiscal policy of the state and allow to evaluate its effectiveness timely and to make a forecast for the future. The improving of the fiscal system of Kazakhstan and making the necessary changes to the tax legislation depends on the following reasons: political – the development of democratic transformations in Kazakhstan society, increase of the independence of local authorities and, as a consequence, the redistribution of funds between budgets of different levels, changes in the relationship between the taxpayer and

the state; economic – the development of market relations, the emergence of new economic and financial structures of Kazakhstan, such as the financial and stock markets, insurance market, their mutual penetration in the global economy; judicial – the emergence of new legal institutions, lack of coordination of tax and civil legislation of Kazakhstan, the large number of by-laws that allow to find a way of avoiding taxation, lack of a single regulatory tax base and others (Uakhitzhanova, 2016).

A theoretical significance of the thesis is the study of the foundations of the state fiscal mechanism, which manifests the further development of the research concerning the fiscal policy. While practical significance is the ability to use the research materials in teaching and lecturing work for students, as well as in the training of professionals of tax and financial services (Grebennikov, 2011).

2 Diploma Thesis Objectives and Methodology

2.1 Objectives

The aim of the Diploma thesis is to present a theoretical foundation of regularities of the formation and practical research of the fiscal policy, as one of the main instruments of governance ensuring a sustainable growth of the national economy.

The objectives of the Diploma thesis set to achieve the aim are follows:

- to consider the theoretical aspects of the fiscal policy as a system of state regulation of the economy;
- to review the literature: to disclose the concept and the nature of the fiscal policy;
- to determine types, purposes and functions of the fiscal policy;
- to describe the instruments of the fiscal policy and its effectiveness;
- to analyze the practical aspects of the current state of the fiscal policy of Kazakhstan;
- to analyze the socio-economic condition in Kazakhstan;
- to research the budget and tax system of Kazakhstan;
- to evaluate the fiscal system in the field of small business;
- to reveal prospects of the development of the fiscal system of Kazakhstan under the conditions of economic integration.

The hypothesis of the research claims that the choice of the country's fiscal policy determined not only by the objective characteristics of the economic system at a certain time interval, but also by the necessity to choose development priorities in conditions of an objective evaluation of external and internal factors.

2.2 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 Tax Law. 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.

Theoretical positions were substantiated by the use of scientific methods of research, such as the method of historical, logical, comparative analysis, synthesis, abstraction, comparison, grouping, summarizing. Special methods of graphical analysis were used for the calculation of the thesis. In practical part of the work there are two main objectives set. These objectives are about to describe features of Kazakhstan fiscal policy at the present time, as well as to identify and estimate development trends of the fiscal system in the state over the last five years' period. Specific methods of financial analysis and evaluation of mechanisms and instruments of the fiscal system were used in some examples of taxation.

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 Committee. Laws and regulations of the Republic of Kazakhstan, official statistical data, analytical materials, published in scientific journals and specialized periodical literature were used for practical part of the thesis.

3 Literature Review

3.1 Theoretical aspects of fiscal policy

The main means of income redistribution and the most important instruments of the state regulation of the economy are the budget and taxes. Budget and taxes are closely related categories to fiscal policy. There is quite often used the term fiscal in the sense of budgetary and taxable issues. Fiscal policy is a system of the government regulation of the economy with the help of changes in government spending, taxes, and the state of the budget. The aim is to change the real output and employment, control inflation and economic growth. In modern economic literature, a lot of attention is paid to the problems of the formation of an effective fiscal policy, in which, it determines, on the one hand, the main directions of the use of financial resources of the state, on the other hand, the main sources of replenishment of the state budget (Mankiw, 2012).

However, there is no clear wording of the term “a fiscal policy”. There are many definitions of it. Fiscal policy is the formation of the state budget through the tax system and the manipulation of the state budget means to achieve the purposes that are the growth in production and employment, inflation decrease. Fiscal policy is a set of financial measures of the state for the regulation of government revenue and expenditure (Bunkina, 2010).

Fiscal policy is the government measures to change government spending, taxation, and the state of the budget for ensuring the full employment, the balance of payments and the economic growth in the production of non-inflationary gross domestic product. The fiscal policy is also referred to the budget and tax system as the state treasury is replenished mainly due to taxes. The fiscal policy is reflected as the main factor of the influence on the state regulation of the market economy (Makkonell, 2016) (Breu, 2016).

3.1.1 Classical theories of fiscal policy

One of the first representatives of the classical economic school in his "Treatise of Taxes and Contributions" William Petty shows the important role of taxes and their impact on the national economy in general, and emphasizes that the best tax is the total lack of any tax.

The representatives of the classical direction Adam Smith and David Ricardo in the work "An Inquiry into the Nature and Causes of the Wealth of Nations", and "The Principles of Political Economy and Taxation" assumed that taxes are one of the types of the government revenue, which are necessary to cover the costs for the maintenance of the state government (Klyukina, 2014).

There is described the system of the basic principles of the taxation in the work "An Inquiry into the Nature and Causes of the Wealth of Nations" of Adam Smith, which are relevant nowadays, as well as the idea of non-interference of the state in the economy.

According to the classical approaches of the mentioned scientists, the fiscal policy serves only as an instrument, with the help of which there is a financial support for the implementation of the functions by the state, but not as a stabilization policy. A classical concept is based on Ricardian equality, according to which the fiscal impact causes a redistribution of funds between the public and private sector of the economy due to the "crowding out" effect in the neutrality of money, but not the change in the gross domestic product (Lamartis, 2014).

Keynesianism is the contrast to the classical concept. The representative of this direction was the English economist John Keynes. In the work "The General Theory of Employment, Money, and Interest", he said that the modern market economy is imperfect and it cannot ensure a sustainable development of the economy at full employment. So, the state regulation of the economy is necessary for the stabilization of the economic growth and full employment (Kiseleva, 2016).

The concept of the fiscal policy as a real instrument of the state regulation of the economy is associated with the name of the Keynesians. From the viewpoint of the Keynesian theory, the essence of the fiscal policy is to manage an aggregate demand by manipulating

taxes, transfers and government procurement. The fiscal policy is aimed at the stimulation of supply and demand during periods of an economic decline by increasing public procurement and tax cuts, as well as the correction of an excessive growth by means of an inverse action (Gorkina, 2012) (Tumanova, 2012) (Shapovalova, 2012).

John Keynes and his supporters assign the fiscal policy a main role in the influence for the economic growth, employment, and price dynamics. The representative of the Harvard Economics School Paul Samuelson uses interpretation the fiscal policy as the process of the establishment of the state taxation and government spending in such a way, which help to extinguish the fluctuations of the economic cycle and support the developing economy of high employment, free of an excessive inflation and deflation. The fiscal policy is considered as an instrument to stabilize the national economy, which is implemented through government procurement of goods and services, defense of spending or reduction in sales tax (Fisher, 2010) (Shmalensi, 2010).

The term "fiscal and tax policy" is used and considered as an instrument to ensure full employment, price stability and economic growth, according to the Keynesian interpretation of the term "fiscal policy". That understands a fiscal and tax policy as a system of measures to overcome the economic slowdown with the use of public procurement, changes in a tax structure and transfer payments, which in turn affects the aggregate demand. The fiscal policy is considered as a conscious manipulation of taxes and government spending, carried out for the changes in real gross domestic product and employment, control the inflation and stimulation of an economic growth (Makkonell, 2016) (Breu, 2016).

According to the economy supply the role of fiscal policy is based on an aggregate supply, on which tax rates have an impact. Thus, they assume a fiscal policy as the government policy aimed at the formation of the state budget revenues by establishing the relationship between tax rates, which should be at the optimum level, and a volume of tax revenues. The neoclassical concept of the fiscal policy is focused on building up the aggregate supply and implies the reduction of the state intervention in the economy by freezing social spending; reduce taxes on income and corporate profits. The neoclassical approach focuses

on indirect taxes, especially value added tax, as direct taxes do not stimulate the growth of employment and business activity. The economy control system by public expenses and taxes, which comes to manipulating of public expenses and taxes (Lipsits, 2016) (Vechkanov, 2012).

There are specialists who hold the opinion that fiscal policy is a way to influence on the economy through indirect regulation with the help of such instruments as taxation and public expenses. Such application of instruments means the draft on funds of government budget, the main source of which is taxes. Some specialists hold on traditional Keynesian views on the fundamentals of fiscal policy. They identify tax-budgetary and fiscal policy as government measures on changing public expenses, taxation and government fiscal position directed on providing full support, balance of payments equilibrium, and economic growth in the production of non-inflationary gross domestic product GDP (Agapova, 2004) (Seregina, 2004).

Another definition of fiscal policy is about collection of all the financial activities on public expenses and revenue regulation. At the same time, fiscal policy has the ability to transform according to the established objectives. Under the fiscal or taxing policy, it is taken the set of actions performing by the state in the formation of government revenues (Abel, 2016).

All above mentioned definitions, despite some differences in the characterization, in any event reflect the essence of fiscal policy. From these definitions follows that fiscal policy is a set of measures of the state government on public expenses regulation, taxation and government fiscal position directed on economic stabilization by achieving purposes.

3.2 Purposes and functions of fiscal policy.

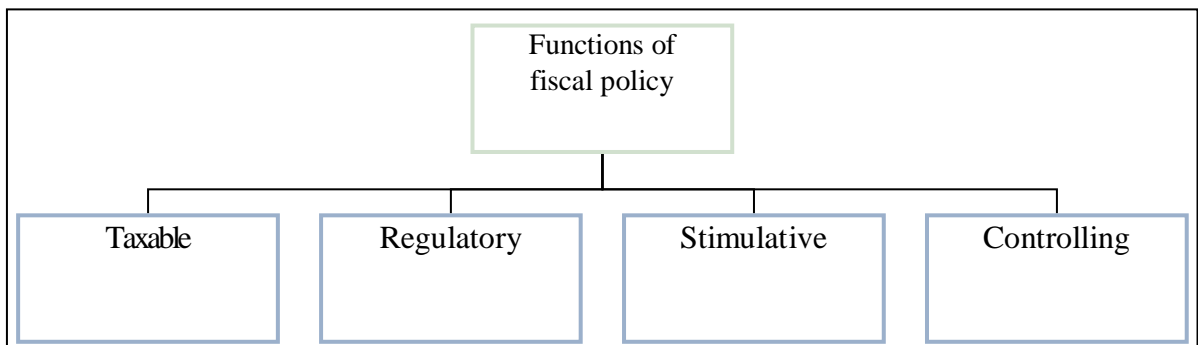
Within a market system the fiscal policy is a main part of the state economic policy as far as one of the most important priorities consisting in the sourcing and development method of centralized state funds, resources, allow to realize the purposes of economic policy.

The main fiscal policy purposes are follow:

- unemployment liquidation
- anti-inflation fight
- economic growth stabilization
- anti-cyclic economic regulation
- reflation
- achievement of foreign trade equation

For the moment, there are four functions of fiscal policy which are mostly applied in Kazakhstan (figure 1).

Figure 1. Functions of fiscal policy



Source: Iokhin, V. Economics, course book economist, 2016

- The taxable function

Historically it is the most ancient and at the same time the main function: taxes are the predominant component of public revenues. The realization of tax function is effected on account of tax control and tax sanctions that providing a maximum collection of imposed tax, creating obstacles to the tax evasion. In other words, it is a tax collection in profit of the state (Iokhin, 2016).

- Regulatory function.

It provides income and expense equalization of taxpayers, redirect flows of refinancing between different branches of economy, income distribution between central, regional and local budgets, etc. This function is implemented by tax rates, including the use of progressive and regressive tax rates, modification in volume proportion of bite of taxes between different level budgets, bite of taxes restructuring by their types, taxation base regulation (Iokhin, 2016).

- Stimulative function.

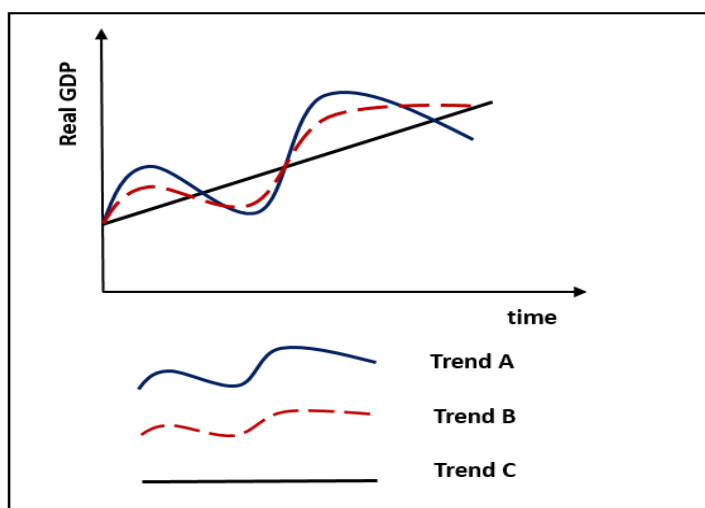
It assumes that fiscal policy is a tool influencing on economic growth rate in the country, accelerating or slowing its rates. Stimulative function is mainly realized by tax concession establishment or tax rebate overall (Iokhin, 2016).

- Controlling function.

It provides the state control over the income and expense rates of its citizens. The fiscal policy could affect on stability of national economics both positively and negatively. If the government uses fiscal instruments for smoothing the oscillation in output of products during economic cycle, maintenance employment and firmness of prices, then the stabilization policy is used. The major task here is to bring the GDP to its potential level (Iokhin, 2016).

The increase of the actual volume of GDP is an expansionary policy purpose, while the reduction of real GDP in comparison with its potential level is the purpose of restrictive policy of business activity. Figure 2 clearly illustrated the consequences of fiscal policy.

Figure 2. Stabilization role of fiscal policy



Source. Compiled by author

Trend A, solid wavy line, shows fluctuations in business activity within the cycle. There are noticeable fairly big changes of GDP and occupational level at the line A, and, as consequence there are fluctuations of the price for the considered period of time in relation

to economic trends, which is represented by trend B, dotted wavy line. Because of the impact of fiscal instruments, there will be no sizeable fluctuation in the economy in the given quantity, indicating stabilization, which is represented by trend C, straight line. The most desirable variant of remediation of the situation for economy would be complete match of B and C trends, but it is difficult to achieve only by means of fiscal policy.

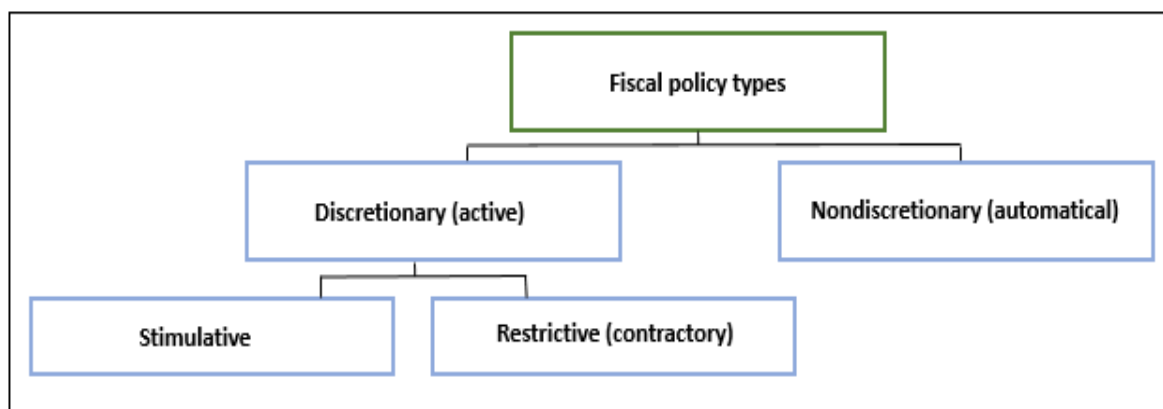
3.3 Fiscal policy types and instruments

Fiscal policy includes the following types:

- Discretionary / active policy based on the hard, conscious intervention into economy
- Nondiscretionary / automatic policy based on automatic economic stabilization

The discretionary policy divides into stimulative and contractionary / restrictive fiscal policy (figure 3).

Figure 3. Fiscal policy types



Source: Mankiw, G. Principles of macroeconomics, 2012

The discretionary policy is called an active fiscal policy; it is legislative or official change in the value of public procurement by the government, the taxes and transfers for the purpose of economic stabilization. Both direct and indirect instruments could accomplish it. The former includes changes in public procurement of goods and services, transfer payments. The second group - changes in taxation (tax rates, tax concessions, tax assessment base), accelerated amortization policy.

Depending on the phase of the cycle where the economy is, there are two types of discretionally policy which are promotional and restrictive policies.

Promotional fiscal policy is accomplished by down times, recession. It aims at reducing the recessionary dissolution issue and decline in unemployment and directed on the active demand which is overall costs increasing (Mankiw, 2012).

In the downcycle when private expenses are too small, the government increases procurements of goods and services. The curve shift of overall costs attends the growth of public expenses up and leads to increasing of the national product, the revenue volume.

Its instruments are the following:

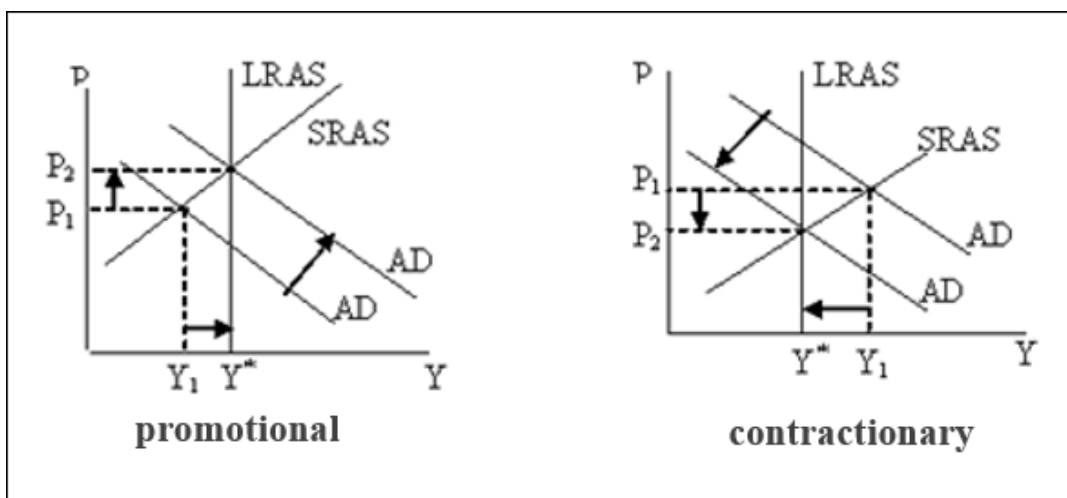
- Increasing of public procurement
- Reduction of taxes
- Increasing of transfers

The promotional fiscal policy leads to the budget deficit.

The restrictive / contractionary fiscal policy accomplished by the period of boom conditions and inflation during overheating. It aims at reducing of inflation gap issue, decline in inflation, and directed on reduction of active demand, where demand represents overall costs (Vechkanov, 2012).

In the period of economic revival, the government reduces procurement of goods and services that attended by the curve shift of overall costs down and leads to reduction of national product, the revenue volume (figure 4).

Figure 4. Promotional and contractionary fiscal policies



Source: Vechkanov, G. Economics, 2012

Its instruments are:

- Reduction of public procurements
- Increase in taxes
- Reduction of transfers

The restrictive / contractionary policy leads to overflow of state budget.

Therefore, the main purpose of discretionary fiscal policy is an opposition of business cycle fluctuations by stimulating or limitation of an active demand. That is why it is called countercyclical stabilization (Vechkanov, 2012).

Adaptation of the discretionary fiscal policy requires measures for balancing the state budget:

- Financing of deficits through loan facilities from public by security sales and emission of currency;
- Liquidation of budget surplus.

Nondiscretionary fiscal policy means that changes in public expenses and taxes are made automatically. In this present case transfers and taxes serve as automatic built-in stabilizers that are not requiring conscious government intervention. The state determines the standards of public expenses and the amount of tax rates but not the tax revenues. The last are changing on a constant tax rate. Automatic fiscal policy is associated with the built-in or automatic stabilizers. Built-in or automatic stabilizers are instruments which do not change the value, but their presence automatically stabilizes the economy by stimulating business activity in the slump and holding it by overheating (Melnikov, 2015).

The automatic stabilizers are:

- Income tax (including household income tax and corporate income tax);
- Indirect taxation (value added tax);
- Unemployment compensation;
- Poverty relief (Melnikov, 2015).

Therefore, the fiscal policy in the state is carried out by using its instruments. Fiscal instruments of the state - are economic tools that achieve the purposes set for the fiscal policy. The set of fiscal instruments include government expenses, subsidies, transfer expenditures, and manipulation of various taxes, individual income tax, corporation tax, and excise tax, by changing of tax rates and lump sum tax (Melnikov, 2015).

3.4 Fiscal policy efficiency

Fiscal policy efficiency mainly depends on response rate of government for changes on the economy. In this context, there are several obstacles, which reduce the level of efficiency of applied fiscal policy.

These obstacles are:

- Perception dissolution

The gap in perception means a period between beginning of a slump and the moment when there is an awareness of these events. It is difficult to predict the future nature of economic activity. Although there are several indicators that predict economic changes however it is rather difficult to see them (Makkonell, 2016) (Breu, 2016).

- Administrative dissolution

The democratic governance wheels are spinning very slowly. Usually a good spell separates the moment when it comes to understanding of fiscal measures necessity from that moment when these measures are taken. The government sometimes spends so much time for correcting of fiscal policy that economic climate has time to change completely and proposed measures become inappropriate (Makkonell, 2016) (Breu, 2016).

- Functional dissolution

In addition, there is also a gap between that moment when government decides on fiscal measures and the time when these measures begin to influence on production, employment and price level. If tax rates are changing very quickly then an actual implementation of public expenses for public works requires long-term planning and even more continuous development of concerned objects. Therefore, these costs bring doubtful use by means of

overcoming short recessions. Because of such-like problems the discretionary fiscal policy in a greater degree is focused on tax changes (Makkonell, 2016).

The efficiency of fiscal policy is developed in its advantages, which should include:

- Multiplier effect

All fiscal instruments have multiplicative effect on the amount of equilibrium active demand (Zubko, 2010).

- The absences of external time lag / blocking

The external time lag is a period between the decision to change the policy and the presence of first results of its changes. When the government decided to change the fiscal instruments and these measures come into effect, the result of their impact on the economy developed very quickly (Zubko, 2010).

- The presence of automatic stabilizers. So long as these stabilizers are fixed, the government does not need to take special measures for economic stabilization. The stabilization by smoothing of cyclical fluctuations of the economy is automatic (Zubko, 2010).

The following disadvantages influence on the effectiveness of fiscal policy:

- Crowding-out effect

The economic substance of this effect is as follows: diseconomy of budget during the recession (increasing of public procurements and/or transfers) and/or the revenue contraction of the budget (taxes) leads to the multiplicative growth of total income that increases money demand and the rate of interest of monetary market. And because first of all firms taking credits, then more expensive borrowing leads to reduction of private investments, namely “supersession” of investment costs parts of firms leads to the reduction of release amount (Klyukina, 2014).

Thus, a part of combined production become extruded or unmanufactured because of reduction of private investments costs amount because of interest rate growth due to carrying out the promoting fiscal policy by the government (Klyukina, 2014).

- The presence of internal lag.

The internal lag is a time between the occurrences of necessity of policy changes and the decision to change it. Government takes the decision of fiscal instruments changes, however introduction into the effect is impossible without discussion and affirmation of these decisions of governance actions by Parliament, Congress, State Duma, giving it the application of law. These discussions and agreements could take a long period. In addition, they come into effect beginning only from the next financial year that increases the lag even more. For this period, economic situation could change. So, if there was a recession primarily in the economy, and measures of stimulative fiscal policy were developed, then, at the beginning moment of their actions it could already become a rise of economy. As a result, the additional stimulation could lead to overheating of the economy and provoke the inflation, in other words has a destabilizing effect on the economy. And to the contrary, the restrictive fiscal policy measures developed during the boom, on account of the long-term internal lag could exacerbate the recession (Klyukina, 2014).

- Uncertainty is a disadvantage characterized not only for fiscal policy, but also for monetary policy. Uncertainty is about:

- Identification problem of economic climate. It is often difficult to identify, for example the moment when the period of recession ends and begins the moment of recovery or the moment when the boom turns into overheating, etc. In the meanwhile, since it is necessary to apply on different cyclical phases different types of policy like stimulative and contractor, the mistake of economic climate meaning and the choice of economic policy type based on this assessment could lead to economic destabilization (Klyukina, 2014).

- Questions on what value exactly it is necessary to change public policy instruments in every economic situation. Even if the economy defined correctly it is difficult to determine exactly how for example necessary to increase public procurements or to reduce taxes, to ensure a rise in the economy and potential output mix but not its contingency, so that not to allow the overheating and rising of inflation. To the contrary during the restrictive fiscal policy how not to lead the economy to depressed conditions (Klyukina, 2014).

- Budget deficit.

The budget deficit is the excess of budget expenditures over its revenues. The national deficit is one of the major disadvantages of fiscal policy. In fact, the stimulative fiscal policy instruments carried out during the recession, aimed to increasing of active demand are the increasing of public procurements and transfers, in other words budget expenditures and tax cuts, budget income that leads to the growth of deficit of government budget. Balanced budget is the basis of proper functioning of the state. If even a small part of the budget is not balanced, then it could lead to financing lag of budgetary institutions, failures to meet the delivery date of government orders, becoming non-payment problems of national economy. The state budget deficit is dangerous because it usually leads to inflation. So, it was, for example, in the USA in 1959-1975, when the budget deficit was caused by the war in Vietnam. Thus, the presence of the budget deficit is usually considered as a negative development. In connection with this, the problem of national deficit financing has turned into one of the most important macroeconomic problems (Klyukina, 2014).

Summarizing all aspects, it can be stated that fiscal policy efficiency develops in its advantages through multiplier effect, absence of external lag and presence of automatic stabilizers. However, on account of administrative, functional dissolutions and gap in perceptions some certain disadvantages like crowding-out effect, presence of internal lag, uncertainty and budget deficit are inherent to fiscal policy.

4 Practical Part

4.1 The current state of fiscal policy in Kazakhstan

The negative experience of the formation of the tax system has led to the need for a critical analysis of the complex and contradictory phenomena and processes in the field of taxation of the Republic of Kazakhstan. Qualitative changes, a progress and a new level of the formation and the development of the national fiscal system are impossible without it. We need new approaches to the revitalization of the fiscal authorities of the state, as the progressive development of the economy is impossible without the further strengthening and the development of a full-fledged budget system (Nikolayeva, 2011).

The analysis of the fiscal policy of Kazakhstan shows that at the present stage of economic development both theoretical and methodological basis of the fiscal policy of the state have a sufficient degree of elaboration. However, neither domestic nor foreign scientists have identified the particulars of the fiscal policy of Kazakhstan and studied their characteristics. Thus, the relevance of the research topic is determined by the current state of the fiscal policy in Kazakhstan, and, requires the formation of more effective policy in modern Kazakhstan economy. In turn, it requires a more detailed study of theoretical and methodological approaches to solving this issue (Nikolayeva, 2011).

Existing methodological approaches concerning the basic categories of taxation, which affect various aspects of the economic development and law are interpreted ambiguous and give rise to contradictions and, as a consequence, inconsistencies in certain provisions of the tax legislation. Many questions are discussed as either there is no consensus or remain unresolved. They are the nature of the category “tax”, the definition of the functions and the relation between direct and indirect taxation, the definition of the relation between the national and regional budgets. Also, a question regarding the content and scope of the concept of the fiscal system is not developed. There is no definition of the fiscal system or it has a declarative natural business along with the concepts in the economic literature such as a tax system, a fiscal function, a fiscal policy (Nikolayeva, 2011).

Elements, internal and external relationships of the fiscal system have not developed yet. For better understanding of the tax system in Kazakhstan it is necessary to study the nature of the fiscal system, its essence, indicators showing the level of its organization. Quite important for the research is to determine the most effective methods and techniques which characterize the degree in the organization of the fiscal system. The versatility, complexity, and insufficient development of the problem in the formation and functioning of the fiscal system reveals the relevance of the researched subject. The diploma research determines the choice of objectives and tasks, as well as the subject and hypothesis of the studied issue (Nikolayeva, 2011).

4.1.1 The analysis of socioeconomic state of Kazakhstan

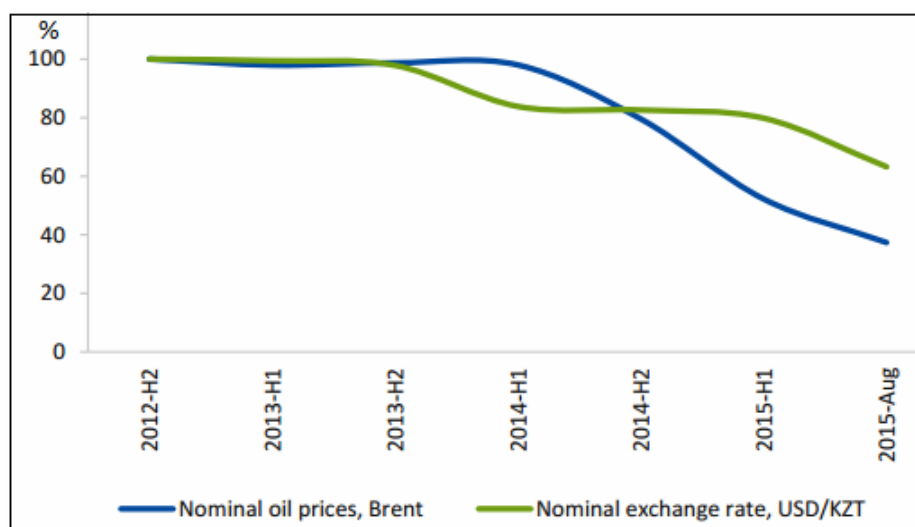
Over the past few decades Kazakhstan has undergone a dramatic change, entered upon the path of market economy, and changed from past soviet republic to multinational unitary state. The wealth of environmental resources allowed the country to win stability and rapid economic growth which results in improvement of the material position of citizens, and reduces the inequality on the income level. But Kazakhstan faces new difficulties in an effort to change the development model, to make an inclusive growth and turn around the fortunes of citizens. Because of geographical location and the dependence on environmental resources Kazakhstan suffers from external shocks (Taybekuly, 2015).

The severe impact on the economy has price fluctuations on primary goods, economic situation in the European Union, China and Russia countries that are major trading partners, and, quite tense today's geopolitical situation. Lack of access to the sea leads to the dependence on the efficiency of the logistics network from neighboring states (Taybekuly, 2015).

Mineral industry plays an important role in Kazakhstan's economy, forming 16% of GDP. In 2000-2005 oil and gas industry provided half of the run-up of real GDP, and it still has a profound effect on the economy. On oil and gas section account about 30% of GDP, almost the third part of budget revenues and about two-thirds of export (Taybekuly, 2015).

Careful flow control of oil and gas revenues allowed escaping shocks. The main part of state oil revenues sent to the National fund. Nevertheless, large oil flows put at risk the macroeconomic and financial stability by means of large devaluation of currency rate and the instability of banking sector. The drop-in oil prices caused a decline of Kazakhstan tenge currency rate against the US dollar (figure 5).

Figure 5. Oil prices change and rate of exchange KZT to USD



Source: World Bank staff calculations based on data published by the National Bank of Kazakhstan, 2015

The dependence on natural environments makes the economy vulnerable in the face of external risks threat. Fall in the global price of oil adversely affected on the GDP growth in Kazakhstan. The rates of growth decreased from 3,9% in the first half of the 2014 to 1,7% in the first half of the 2015 (National Bank of Kazakhstan, 2015).

In connection with the fall in oil prices and the weakening of external demand on the part of China and Russia, specifically for metal and metal product, the total income from export strongly decreased from 62,7 billion US dollars for the first nine months of 2014 to 36,4 billion US dollars for the first nine months of 2015 (table 1). The total import also decreased within the same period due to the apparent demand weakening (National Bank of Kazakhstan, 2015).

Table 1. Balance of payments and official reserves (Unit: billion USD)

	2012	2013	2014	2014 9mos	2015 9mos
Current account balance	1.1	0.9	6.0	6.1	-4.0
Merchandise trade	38.1	34.8	36.7	30.6	10.7
Exports f.o.b.	86.9	85.6	80.3	62.7	36.4
Imports f.o.b.	48.8	50.8	43.6	32.1	25.7
Services	-7.9	-7.2	-6.4	-4.7	-3.8
Primary income, of which:	-28.1	-25.1	-22.7	-18.8	-9.6
Income of direct investors (net)	-24.6	-22.2	-19.6	-16.5	-7.2
Secondary income/transfers	-1.0	-1.6	-1.7	-1.1	-1.4
Capital and financial account balance /1/2	9.0	9.6	0.7	2.3	-2.1
Foreign direct investments	11.9	8.0	4.7	7.6	3.6
Portfolio investments /1	-2.9	1.7	5.7	2.3	2.1
Medium- and long-term investments	4.1	5.1	2.3	1.6	1.2
Other short-term investments /2	-4.0	-10.3	-7.8	-5.9	-9.0
FX liabilities of the NBK to residents	-0.3	0.7	10.3	5.5	6.0
Estimated amount of NBK interventions	-3.7	-11.0	-18.1	-11.4	-15.0
Statistical discrepancy	-0.2	5.1	-4.3	-3.3	0.0
Overall balance /3	10.0	10.5	6.7	8.4	-6.1
Change in FX assets in the Oil Fund	14.3	12.9	2.5	5.4	-5.3
Change in FX reserves at the NBK	-4.3	-2.4	4.3	3.0	-0.8
<i>Memorandum items:</i>					
Total official reserves (stock)	86.2	95.5	102.5	104.2	96.1
FX assets in the oil fund	57.9	70.8	73.2	76.2	67.9
FX reserves at the NBK	22.1	19.2	21.8	20.8	20.5
Gold reserves at the NBK	6.1	5.6	7.4	7.2	7.7

Source: World Bank staff calculations based on data published by the National Bank of Kazakhstan, 2015

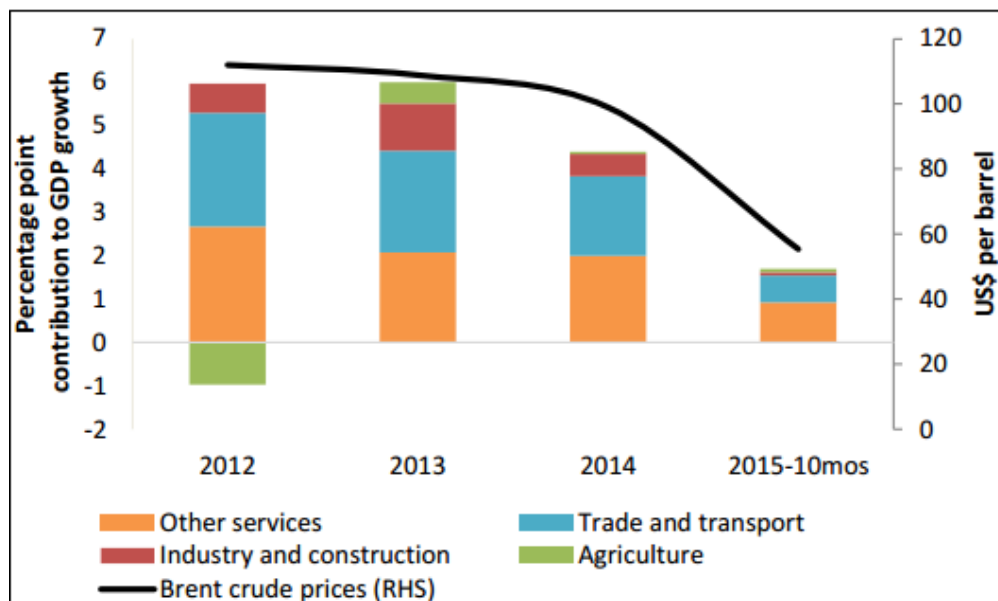
As a result, the trade balance surplus decreased three times in 2015 in comparison with 2014, and the current account moved from a surplus in the amount of 6,1 billion US dollars for the first nine months of 2014 to deficit of 4 billion US dollars for the first nine months of 2015 (National Bank of Kazakhstan, 2015).

The deterioration of the external conditions has led to deceleration of economic growth in Kazakhstan. The household consumption decrease by 2,3% in 2014 then increased again by 1,4% in the first half of the 2015, since probably households begun to use their savings. The public-sector consumption decreased because of budget correction, carried out with reference to the shock of fall in oil prices. The growth of investments of the basic stock decreased from 5,1% in the first half of the 2014 to 2,8% in the first half of the 2015, because the devaluation expectations and indefinite global economic outlooks have weakened the investors' confidence. The manufacturing output reduced by 1,3% within the first ten months of 2015 mainly because of reduction in the mining industry. The production of mining industry decreased by 2,2% for the first ten months of 2015 due to

the reduced demand on oil and metals from China and Russia. The growth of secondary industry increased from 0,3% within the first ten months of 2014 to 0,5% in the corresponding period of 2015, as far as the expansion of metallurgical industry made up the decline in the food and beverage production of 0,6%, petroleum refining decrease of 5,3% and especially, strong reduction in the car assembly industry by 55% (Statistical office of Kazakhstan, 2015).

The growth of service sector fell by half from 5,7% within the first nine months of 2014 to 2,4% in the corresponding period of 2015. The growth was about 1,9% for the first ten months of 2015 In the agriculture sector, little more in comparison to the previous year (figure 6) (Statistical office of Kazakhstan, 2015).

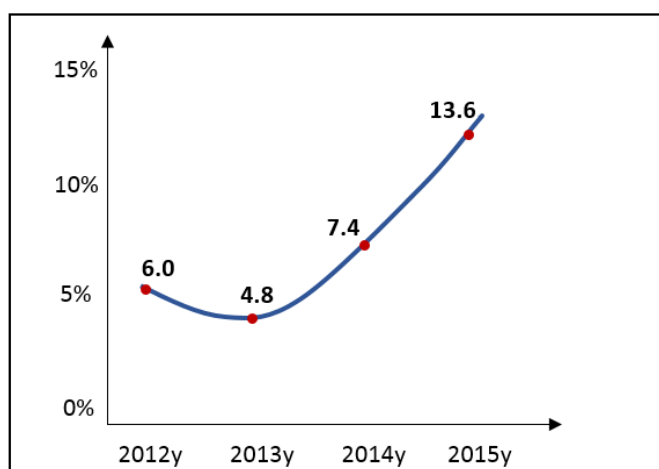
Figure 6. The GDP growth of Kazakhstan and oil prices for 2012-2015 year



Source: World Bank staff calculations based on data published by the Statistical Office of Kazakhstan, 2015

The inflation rate in Kazakhstan increased in 2.3 times for the last four years. According to the Committee on Statistics from the Ministry of National Economy of the Republic of Kazakhstan the inflation raised from 6,0% in 2012 to 13,6% in 2015. The inflation rate dynamics for 2012-2015 is shown (figure 7).

Figure 7. Inflation rate dynamics of the Republic of Kazakhstan (Unit: %)



Source: The Committee on the Statistics of the Republic of Kazakhstan

The expansion growth of inflation rate in Kazakhstan almost in 2,3 times led to the deterioration in the business environment in the country, and the price rise by 31,7% for all goods and services (table 2).

Table 2. Consumer Price Index change (Unit: %)

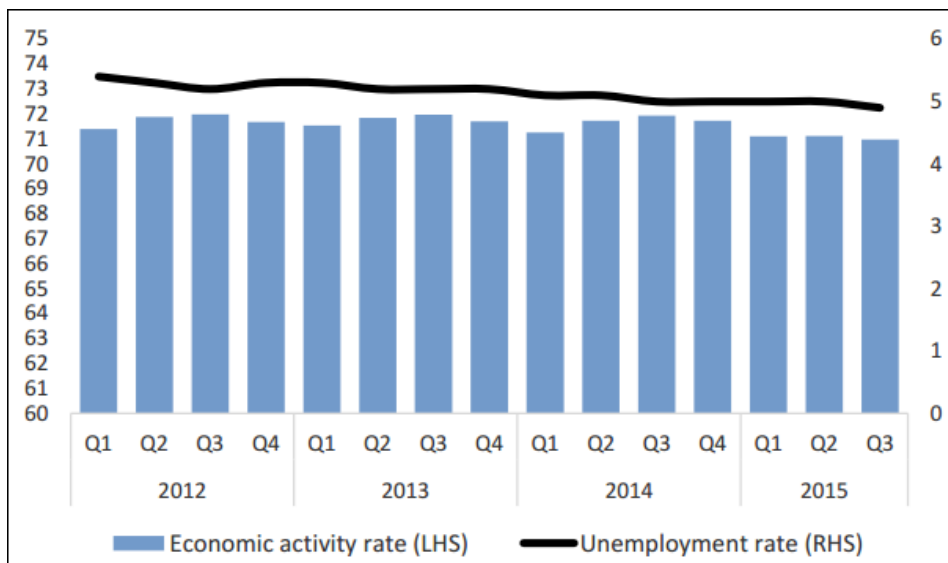
Year	Goods and services	Goods		Market services
		Food	Nonfood	
2012	113,8	115,0	108,9	117,3
2013	119,2	118,8	112,5	126,7
2014	128,0	128,3	121,3	134,8
2015	145,5	142,2	148,7	145,8
Rate of change, 2015/2012 гг.	31,7	27,2	39,8	28,5

Source: Compiled by the author according to the Committee on Statistics of the Republic of Kazakhstan, 2015

According to the statistics represented in the table 2, the rate of change for all goods and services for the review period was 31,7%, including the price rise on food supplies for 2012-2015 is 27,2%, nonfood goods 39,8%, market services got more expensive for 28,5% (Committee on Statistics of Kazakhstan, 2015).

However, job market rates and poorness indicators continue to improve, despite of the slowdown in economic growth. The unemployment rate decreased even by the slowdown in rate of growth. The official unemployment rate decreased from 5% in the second quarter of 2015 to 4,9% in the third quarter of 2015 (Figure 8).

Figure 8. Labor force unemployment rates of Kazakhstan (Unit: %)

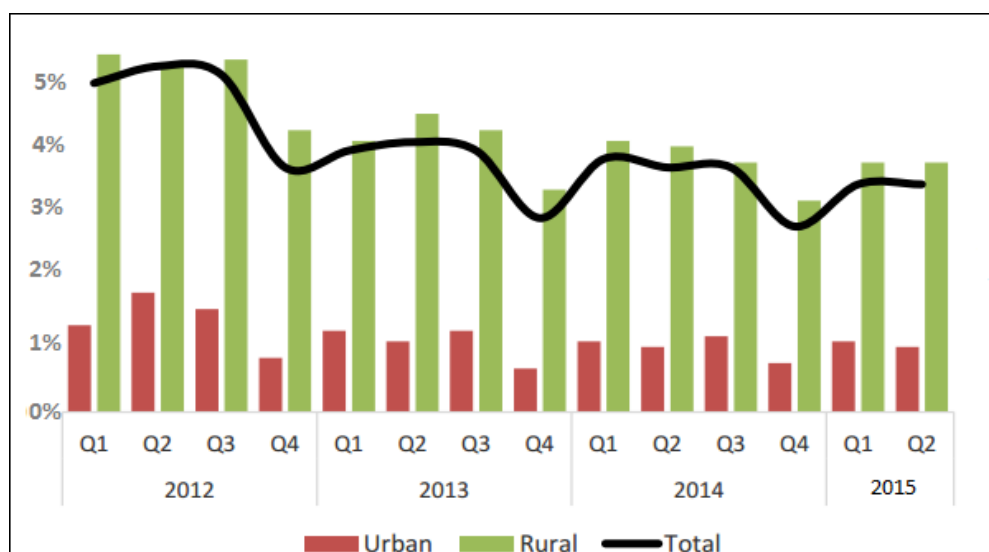


Source: World Bank staff calculations based on data published by the Statistical Office of Kazakhstan, 2015

This can partially be explained by the presence of local programs on control of staff reduction in the recessionary period, in which the workers are sent on administrative leave and are not registered as unemployed (Statistical office of Kazakhstan, 2015).

The poverty rate also continues to decrease, despite the deceleration of economic growth. The common level of poverty decreases from 3,8%, based on the national poverty line at the end of 2012, to 2,9% in 2013, to 2,8% in 2014, and came to 3,2% in the second quarter of 2015 (Figure 9).

Figure 9. Poverty rate of Kazakhstan population (Unit: %)



Source: World Bank staff calculations based on data published by the Statistical Office of Kazakhstan, 2015

However, it may be partially concerned with the problem of measurement based on the nationality poverty. Since 2003 annual mean adjustments of the nominal nationality poverty fail to meet the full extent the nominal wage increase. The wage increase in the public sector along with the increase of social expenditures and the price control alleviate the impact of deceleration of economic growth on the poverty (Kuchukova, 2016).

Therefore, Kazakhstan dependence on environments and price fluctuations of the raw materials lay down at stake macroeconomic and financial stability, by means of large currency rate devaluation. Inflationary development growth in Kazakhstan caused the following social and economic consequences:

- GDP growth fell to about 1%
- The growth of investments in basic stock has reduced
- Manufacturing output has reduced mainly in the mining industry on account of decline in demand
- The growth of service sector fell by half
- Total income from export strongly decreased
- Total import also decreased due to the weakening of apparent demand that caused the fall of trade surplus in three times and emergency of trade deficit (Kuchukova, 2016).

However, the positive point is decline in official unemployment due to the local program performance on control staff reduction within the economic slowdown and also the wage increase in the public sector along with increase of social expenditures and the price control that certainly alleviate the impact of deceleration of economic growth on the poverty (Kamayev, 2016).

4.1.2 The analysis of budget system in Kazakhstan

The budgetary system is the important part of economic system of any state. The budgetary system performance effectiveness has a direct impact on sustainable development of national economics, and this therefore have an impact on the welfare of citizens. Through the budgetary system of the Republic of Kazakhstan redistribute an average of 32% from GDP of the country annually. This fact indicates that the budgetary system provides by the financial resources those economic sectors, which create the base and foundation of the whole state and society existence. In other words, budgetary resources are used for the housing and community amenities development, education, medical care, legislation, defense, citizen's institutional care (Karagusova, 2016).

The government provides the redistribution of national income, affecting on the public production structure, carrying out social changes through the state budget. Under market conditions of market system - amid the global financial crisis, the role of the state budget even more increases of the external support need of local goods producer, the rendering of assistance for disadvantaged social groups, important priorities implementation of socio-economic development of the state (Karagusova, 2016).

The imperfection of market system often leads to deviation of equilibrium quantity of some goods and services production from their optimum size and market refusal of allocation of funds for the public goods and services production. Under the circumstances for leveling unequal allocation of resources the government uses the taxation system, transfers, and prices (Karagusova, 2016).

There are two parts in the structure of budget:

- Revenues and expenditures of the budget. Budget revenues are the revenues, public budget loan repayment, sales proceeds of state financial assets and public loans.
- Budget expenditures include expenses, public budget loans, financial assets buyout, and principal redemption on loans (Karagusova, 2016).

Since December 2009, with the introduction of budgetary code, the structure of the Kazakhstan budget consists of the following sections:

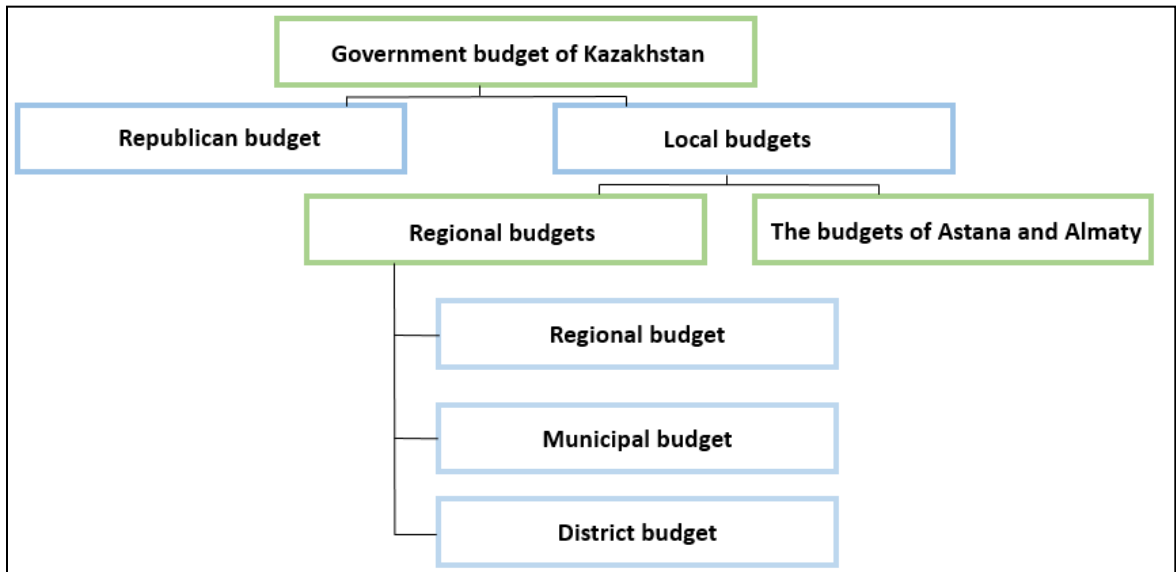
- Revenues: tax revenues, nontax revenues, sales income from basic stock, official transfers income;
- Expenses;
- Operating balance;
- Budgetary net lending = public budget loan - public budget loan repayment;
- Account balance with financial assets = acquisition of financial assets- sales proceeds of state financial assets.
- Deficit or surplus of the budget;
- Financing gap, using the surplus, of the budget through loans revenues plus budgetary funds balance, subtracting redemption of a loans (Karagusova, 2016).

The budget system of Kazakhstan is a set of budget and the National Fund of the Republic of Kazakhstan, budgetary processes, and relations.

In the Republic of Kazakhstan, the budgets of the following levels are approved, executed and independent (figure 10):

- Republican budget;
- The budgets of cities with republican status, capitals - the budgets of the capital city Astana, and the biggest city Almaty;
- Regional budgets: District, regional and municipal budget.

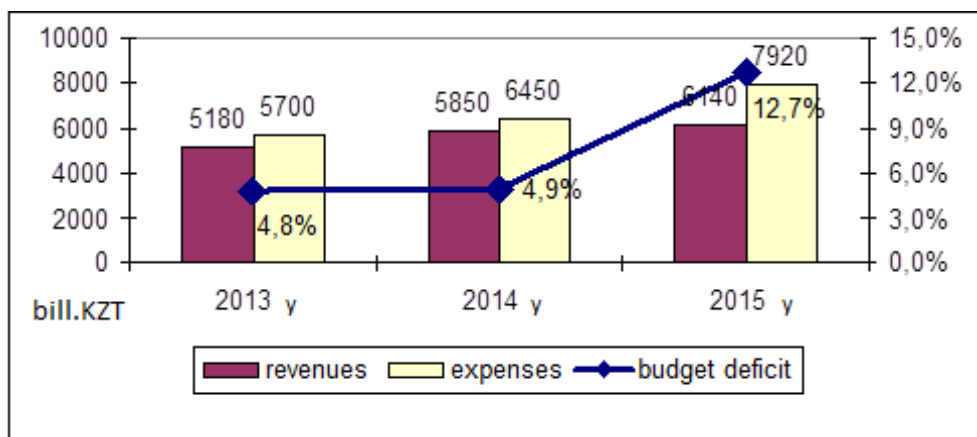
Figure 10. Budget system structure of Kazakhstan



Source: compiled by the author

Main specifications of Kazakhstan republican budget show the growth during 2013-2016. Thus, republican budget revenues increased from 5,18 trillion tenge in 2013 to 6,14 trillion tenge in 2015. However, the expenditure budget increases more quickly than revenues, that's why there has been the budget deficit of Kazakhstan for the recent years observed. The deficit of the republican budget of Kazakhstan on a relative basis according to the results of 2013 is 4,8%, in 2014 is 2,9%, and in 2015 is 12,7%. The growth of budget deficit was two times increased. (Figure 11) (Kurmantayeva, 2015).

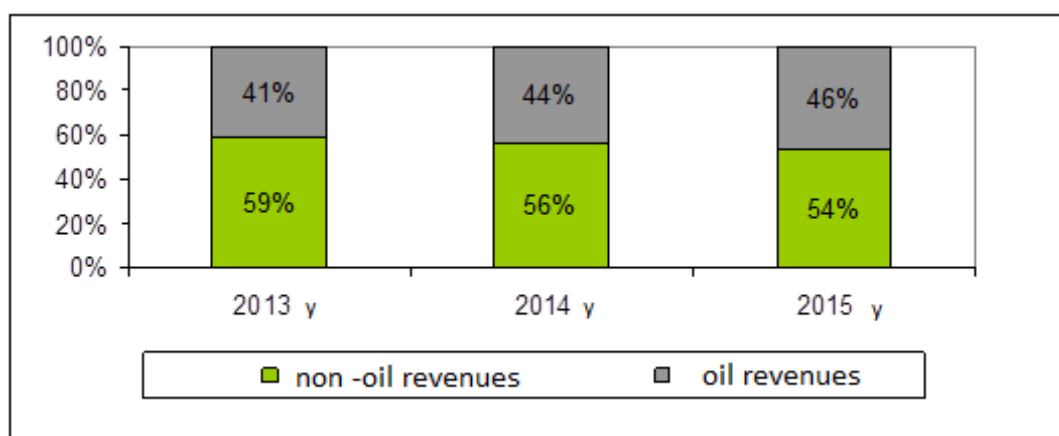
Figure 11. Volumes of the republican budget of Kazakhstan (Unit: billion KZT)



Source: Kurmantayeva, B., Volumes of the republican budget of Kazakhstan, 2015

The deficit of the republican budget of Kazakhstan first of all concerned with the fall in oil prices, which accounts to 60% of export and to 20% of country's GDP. The share of oil revenues in the form of transfers from National fund, which is formed on account of export proceeds of the oil, in the revenue structure of republican budget increased from 41,1% to 46% (Figure 12).

Figure 12. Oil revenues volume in the Kazakhstan budget (Unit: %)



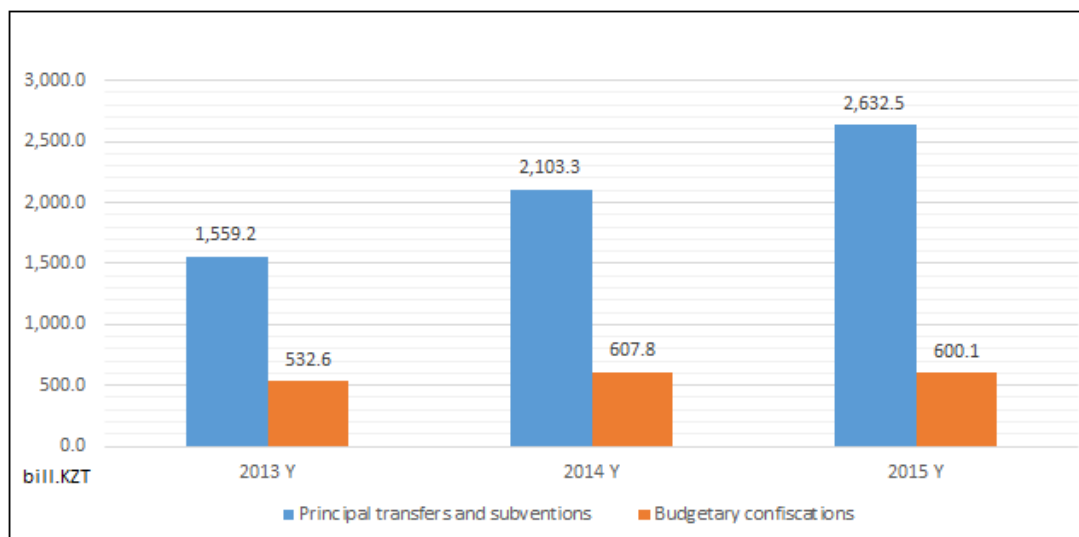
Source: Capital KZ, The volume of oil revenues in the budget of Kazakhstan, 2015

After the collapse in oil prices at the end of 2014 Kazakhstan's budget lose millions of tenge. An increased deficit of the republican budget led to the public borrowing expansion. Therefore, in December 2015 Kazakhstan attracts the loan of Asian Development Bank ADB in the amount of one billion dollars with a maturity of 5 years for budget deficit financing. Furthermore, accepted anti-recessionary measures for the population of the country increased the expenses for social expenditures, which were 39,6% from the expenditure budget in 2015 (Kurmantayeva, 2015).

It is important to note that republican budget is the main part of fiscal system, on which the solution of strategic objectives solution of the state is imposed. Through the republican budget the government provides with the necessary means for arrangements financing in the field of economic, social and cultural developments, having the common to the whole republic meaning. Through the republican budget the redistribution of financial assets between the regions and cities in terms of subvention and credits provide for socio-economic development by the lack of own resources. The principal transfers and

subventions were constantly increasing for last three years, and increased from 1.6 to 2.6 trillion kazakh tenge, while budgetary confiscations increased a little bit from 532 to 600 billion kazakh tenge only (Figure 13)

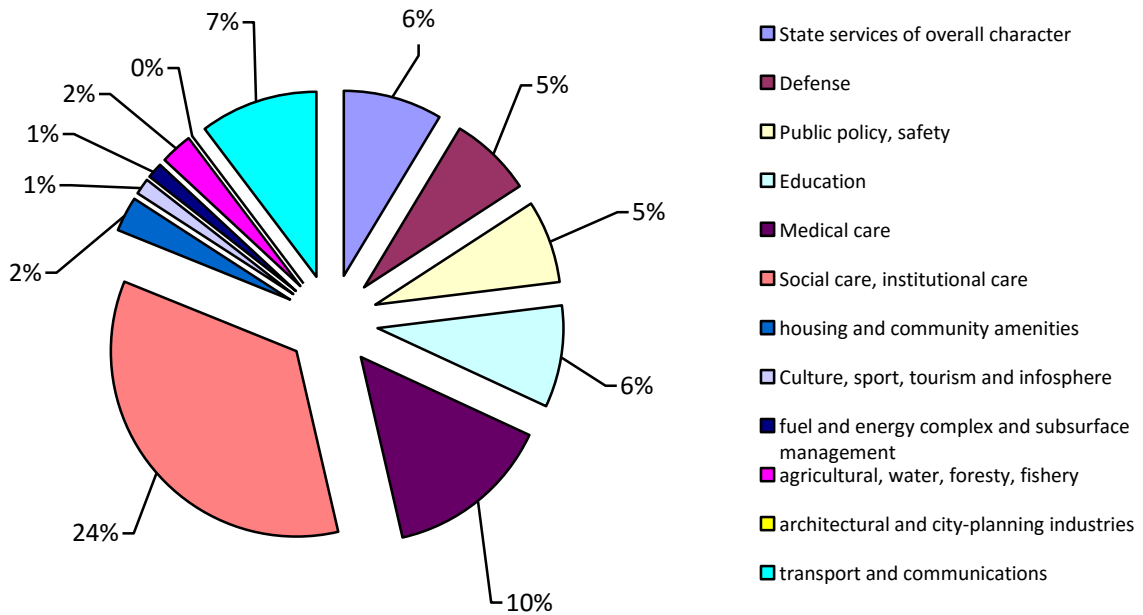
Figure 13. Trend data of inter-budget financial flows of Kazakhstan (Unit: billion KZT)



Source: State Revenue Committee of the Republic of Kazakhstan, 2015

The expenses of the republican budget of Kazakhstan are such expenses of budgetary funds, which directly related with their development, the implementation by the government bodies confer on them functions and powers (figure 14). The main feature that determines the class of expenditure is the allocation of budgetary funds on a non-returnable basis. (State Revenue Committee, 2016) (Kuchukova, 2016)

Figure 14. Equity proportion of the republican budget expenses

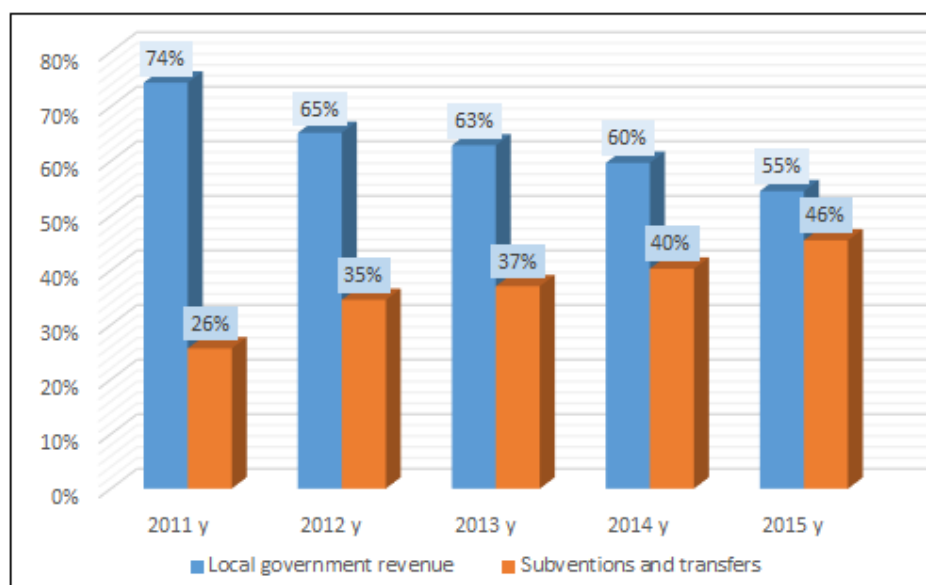


Source: State Revenue Committee of the Republic of Kazakhstan. 2016

Local budgets are the monetary funds of administrative-territorial unit, formed for account of revenues and financing budget deficit, meant for the local budget programs financing. There are a lot of local budgets in Kazakhstan: 14 of regional budgets, two budgets with a special status of the capital city Astana and of the city of republican status Almaty, 84 municipal budgets, 160 district budgets (Kurmantayeva, 2015).

The analysis of republican budget implementation at figure 15 over the past 5 years shows that their own incomes annually decreasing at the average of 4-5%, while the transfers from the republican budget constantly increasing by 5-8% (figure 15).

Figure 15. Structural change of local budgets revenue side (Unit: %)



Source: State Revenue Committee of the Republic of Kazakhstan, 2015

Under conditions of globalization a big job is carried out by the Government of the Republic of Kazakhstan to bring budgetary procedures to the international standards. Nevertheless, definite problems are characterized for the Kazakhstan budgetary system.

The key disadvantages of the Kazakhstan budgetary system are the following:

- The current problem for Kazakhstan is budget balance by means of oil revenues. For the reduction of budget expenses dependence on external factors, as oil revenues, the amount of oil deficit should decrease by means of intentional development of non-oil and gas economy sector. Over the last years there is a consistency of the republic budget deficit, that caused by expenditures enlargement for anti-recessionary measures and social transfers (Karagusova, 2016).
- Problems related to arrears in respect of taxes and levies and the claims of nontax payments. The presence of tax arrears and its growth reflects adversely on the expenditure commitments budget implementation. According to the Ministry of Finance in 2015 the tax arrears are 224 billion tenge, in 2014-199,0 billion tenge and in 2013-100,3 billion tenge. With the reference to tax arrears structure in 2015 its 73% accounts for fake companies. Consequently, effective protection from the fake enterprises will allow reducing the public budget tax arrears (Karagusova, 2016).

- Continuous big and petty stealing of public money indicates about the necessity of improvement of all levels of the budget management. Stable development of the national economy mainly depends on budget system efficiency of the country. So, it is necessary to solve problems influencing on the efficiency of budget system. At the present stage for Kazakhstan the optimum alternative of budget system problem solution will be the reduction of the budget dependence on oil revenues in order to provide financial solvency of the country on the whole (Karagusova, 2016).

4.1.3 The evaluation of tax system and tax revenues to the treasury in Kazakhstan

At the moment, the tax system of Kazakhstan is considered as one of the most attractive in terms of level of rates and the tax quantity both among CIS countries and world-wide measures. For the creation of Kazakhstan tax system, the experience development of foreign countries was widely involved. Representatives and experts of the international institutions held its development: IMF, International Tax Programs, Organization for Economic Cooperation and Development, Hoover Institution, Stanford University, Harvard University of the USA (Kurmantayeva, 2015).

However, the fall in the global price of oil, observed from 2014 revealed the structural disadvantages of many national economics, especially oil-producing nations, which economy depends on oil sector taxation. Let us to estimate the competitive positions and outstanding issues of Kazakhstan tax system (Kurmantayeva, 2015).

For today the tax relations in the republic are regulating by the Code of the Republic of Kazakhstan “On Taxes and other Obligatory Payments to the budget” accepted on January 01, 2009. The management authority is the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan. It was founded in September 2014 by way of merger of the preexisting Tax Committee and the Customs Control Committee of the Ministry of Finance of the Republic of Kazakhstan (Ishmanova,2016).

In accordance with the Internal Revenue Code in Kazakhstan, there are main six tax categories applied:

- Income taxes, which is corporate tax and personal income tax
- Social tax
- Property tax, as wealth tax, land-value tax, single tax and tax on vehicles
- Inland revenues on goods, works and services, as value added tax, excise tax, obligatory levies and charges
- Taxes on foreign trade and on international business activity, customs duties and other revenues
- Compulsory payments, collecting for legal acts performing: state duty, consular fee (Ishmanova, 2016).

Additionally, there are special taxes and payments for subsoil users of mineral resources, applied to juridical entities engaged in mining:

- Compensation bonus
- Payments related to reimbursement of past costs
- Mineral tax
- Excess-profit tax
- Payments from the share under the production sharing agreement (Ishmanova,2016).

The rate and execution of Kazakhstan's tax payments for 2015 are presented in Table 3. Republican budget is formed from corporate income tax, value added tax, customs duties, payments from users of mineral resources, excepting oil sector, excise tax, other tax revenues, like gambling tax, fees for carrying on professional and entrepreneurial business.

National fund, which is formed from payments of oil sector organization only, includes corporate income tax, excess profits duty, rent tax, share of the Republic of Kazakhstan on production sharing, penalty duties, and sanctions (table 3).

Table 3. Taxes and other binding payments in Kazakhstan in 2015

Tax types	Rate, %	Effecting, billion, KZT	The share in revenues of government budget, %
Republican budget			
CIT	20	1224,7	36,7
VAT	12	944,4	28,3
Customs duties	Depending on the object parameter	793,0	26,3
Users of mineral resources payments (except for oil sector)	In accordance with the contract	166,9	5,0
Excise tax	Fixed amount	56,7	1,7
Other tax revenues (gambling tax, fees for carrying on professional and entrepreneurial business, state tax)	Fixed amount	66,7	2,0
National Fund (oil sector organization only)			
CIT	In accordance with the contract	1237,6	-
Excess profits duty	In accordance with the contract	158,5	-
Rent tax	Depending on the object parameter	880,4	-
The share of the Republic of Kazakhstan on Production Sharing	Depending on the object parameter	180,0	-
Penalty duties, sanctions	Depending on the object parameter	35,8	-

Source: Compiled by the author according to the State Revenue Committee data of Kazakhstan, 2015

The taxation of oil and gas section plays annually increasing pivotal role by Kazakhstan budget formation. So, the recession of 2008 as well as downturn in energy prices of the end of 2014 have an instantly impact on Kazakhstan economic climate, one of which of indicators became a republican budget. If prior to 2006 the state budget stable performed by own revenues, as well as without a substantial deficit, then in the following years arising budget deficit loosen by means of accumulated funds of oil and gas section revenues (Ishmanova, 2016).

One of the noticeable budget deficits was observed in 2015 when the items of expenditures of republican budget exceeded revenues to 1780 billion tenge, in other words there was a more noticeable budget deficit which is 12,7%. In the same way, the same sum of annually transfers from the National Fund on account of imposition of export duty of crude oil exporting, which were temporarily canceled in 2009. Furthermore, the government relied on loan in the amount of one billion Dollars with a maturity of 5 years for the financing of the budget deficit. The budget deficit problem is wrong only on one deflation factor of energy sources. It's most likely that a significant influence has another factor: general reduction of taxation base from the recession of internal consumption and international business activity. This situation can be taken as negative trends consequences in the global trade. Another deficit reason was an annual increase of public expenditures. For example, in 2010 public expenditures has grown up in comparison with the previous on 28,5% (Ishmanova, 2016).

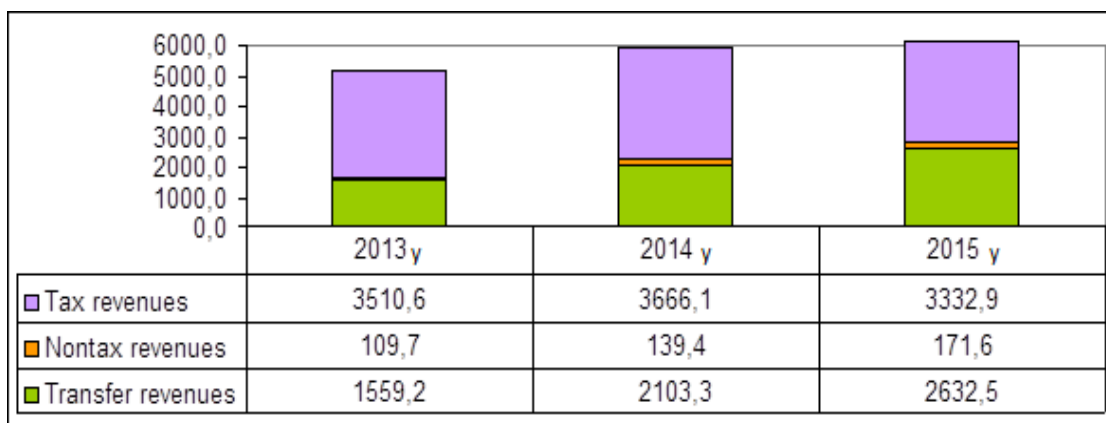
Therefore, under conditions of unstable fiscal potential of oil sector the government had to find the balance between the necessity of increasing of tax revenues and the reduction of the tax burden on the economy. The reduction of burden was motivated by a short economic diversity in the face of negative external conjuncture, and for its indemnity there is a necessity of tax area liberalization. Furthermore, the increased operational expenses of economic agents related to the distance of Global Ocean as well as higher cost of labor in comparison to neighboring states caused the necessity of their compensation by means of fiscal liberalization (Ishmanova, 2016).

In that way, the corporate tax rate and value added tax were reduced in 2009. It is understood that such liberalization of tax regime, especially in the period of the slowdown in the economic growth caused some decline in tax revenues. For example, in comparison with the previous 2008, namely before the reduction of rates the public budget fall short 538 billion tenge, where 221 billion tenge directly related to the VAT rates reduction and CIT. The increment both CTI and tax revenues for the treasury exceeded 30,1% in 2010. The Laffer's Law proved its action as one and the same large revenue to public budget could be provided by low and by high tax rates. One and the same large revenue to the public budget could be provided by high and by low tax rates. The relative amount of the CIT duty in 2013 in relation to 2009 was 192,2% (Izotova, 2016).

Thereafter the one of the problems solution of slowdown in economic was the monetary inference, in particular revenue enhancement in the course of bailout and stimulus package. These measures were intended to support the economic growth in terms of internal consumption increase and therefore tax revenues. In conditions of budget deficit the financial assurance of such politics were generally on account of National Fund transfers, which are 1.4 trillion tenge since 2009 annually. Beginning from 2014 the standby funds transfers increased to 1,7 trillion tenge by way of compensation of second wave of fall in oil prices (Izotova, 2016).

It is absolute, that the policies of increase of public expenditure have effect on the tax component of state budget. By the considering of the dynamics and the role of tax revenues to the budget in the period of 2013-2015 interesting and mixed results has been observed. The fact is that tax revenue share in the central budget of developed nations equals to 80-90%. Before 2015 the bulk of income in Kazakhstan was from tax revenues, where in 2013 it equals to 3,5 trillion tenge (67,8%), in 2014 to 3,66 trillion tenge (62%), in 2015 to 3,32 trillion tenge (54,3%) of the total republican budget revenues (Figure 16).

Figure 16. Republican budget revenues of Kazakhstan (Unit: billion KZT)



Source: Compiled by the author according to the State Revenue Committee of the Republic of Kazakhstan, 2015

The equity proportion of tax revenues decreased by 13,5%. These changes are related both to the fact that tax collections decreased not only by sharing value, but also by absolute value and increase of transfers receipts, where the equity proportion in 2013 was 30,1%, in 2014 was 35,6%, and in 2015 was 42,9% of the total republican budget revenues. Nontax revenues represent slightly over 2% from total amount of republican budget revenues.

Table 4. The share of taxes in total revenues by types in Kazakhstan

Tax types	2013	2014	2015	Rate of change, 2015/2013
Total revenues, billion KZT	5180	5850	6140	118,5
Tax revenues, billion KZT, including:	3510,6	3666,1	3332,9	94,9
Share, %	67,8	62,0	54,3	-
<i>CIT, billion KZT</i>	<i>1030,0</i>	<i>1170,0</i>	<i>1224,7</i>	<i>118,9</i>
Share, %	29,4	31,9	36,7	-
<i>VAT, billion KZT</i>	<i>1330,0</i>	<i>1200,0</i>	<i>944,4</i>	<i>71,0</i>
Share, %	37,8	32,7	28,3	-
<i>Customs duties</i>	<i>863,0</i>	<i>1080,0</i>	<i>793,0</i>	<i>91,9</i>
Share, %	24,6	28,3	26,3	-
<i>The payments of user of mineral resources (except for oil sector), billion KZT</i>	<i>151,0</i>	<i>120,0</i>	<i>166,6</i>	<i>110,3</i>
Share, %	4,3	3,3	5,0	-
<i>Excise tax, billion KZT</i>	<i>49,9</i>	<i>54,1</i>	<i>56,7</i>	<i>113,6</i>
Share, %	1,4	1,5		-
<i>Other tax revenues, billion KZT</i>	<i>86,7</i>	<i>42,0</i>	<i>66,7</i>	<i>76,9</i>
Share, %	2,5	1,1	2,0	-

Source: Compiled by the author according to the State Revenue Committee of the Republic of Kazakhstan, 2015

Tax revenues are all tax types, which are binding cash payments into the budget, produced in the certain amount, having unreturnable and non-reciprocal nature. Tax revenues include other compulsory payments into the budget as well as fees, duties, customs imposed by Tax and Customs Codes of the Republic of Kazakhstan. The main part of the republican budget tax revenues is value added tax and corporate tax. Value added tax (VAT) in 2013 was equal to 1,33 trillion tenge (37,8% of total), in 2014 was 1,2 trillion tenge (32,7% of

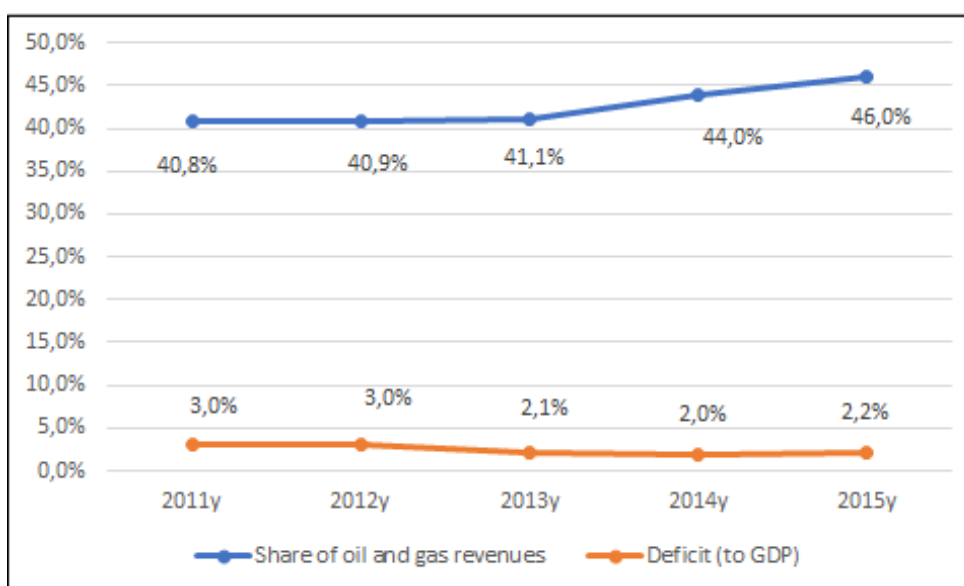
total). In 2015 according to the information of the Ministry of Finance of RK the VAT amount decreased to 944,4 billion tenge with the equity proportion to tax revenues 28,3% from total tax revenues, that was related to the increase of VAT refund amount from the budget. The rate of VAT reduction for the analyzed period was 29%. The corporate income tax CIT was: 2013 1,03 trillion tenge (29,4% of total), 2014 1,17 trillion tenge (31,9% of total). In 2015 CIT was made with the increase, and based on the information from the Ministry of Finance in the Republic of Kazakhstan, the CIT amount was 1,22 trillion tenge (36,7% of total). The rate of growth of CIT over a review period was 18,9% (State Revenue Committee, 2016) (Kuchukova, 2016).

The next tax revenues in terms of volume are customs payments, which were 863 billion tenge (24,6%) in 2013, 808 billion tenge (28,3%) in 2014, 793 billion tenge (26,3%) in 2015. The rate of drawdown of customs payments over the review period was 8,1% that is related to negative developments in the world trade and to the recession of international business activity. It should be noted that excise taxes on goods, imported on the territory of Kazakhstan go into the republican budget; on crude oil and natural gas liquid, and the other excise tax types on goods, produced in the territory of RK, on tobacco products, alcohol, petrol go to the local budget. The rate of growth of the excise taxes over the review period is 13,6%, that is related to export duties increase of crude export duty (State Revenue Committee, 2016) (Kuchukova, 2016).

Other tax revenues of republican budget, gambling tax, duties for carrying on entrepreneurial and professional activity, state duty, other taxes on foreign trade and operations are about 2% from total revenue taxes. According to them there is the most significant slowdown of the growth over the last three years is 23,1%, that was caused by the devaluation of tenge, the reduction of small and medium-sized businesses support as a consequence of the business loss in the country. It is remarkable that in spite of VAT equity drawdown and customs duties, the gross total of tax revenues had the constant increasing tendency. It may be said not about the decrease of revenues but on the other hand about the increase in relation to them of the corporate tax revenues (State Revenue Committee, 2016).

In general tax collections into the budget for the period under review (2013-2015) increased on 18,5%. On the brighter note the share of the taxes in the state budget revenues decreased by 13,5%. This compensated by the transfers increase from the National Fund, the growth of which for the same period was 68,9%. In general, from the start of financial crisis of 2008 the transfers of the National Fund became a kind of tax revenue decline compensator there has been the tax revenue synchronism with the transfers. Thus, during the decline in tax revenues period the transfers amount increases, therefore by the tax revenue increase the transfer amount decreased. As a result, the budget deficit level is maintained at an acceptable point in 3% to GPD. (figure 17) (Committee on Statistics, 2016).

Figure 17. The dynamics of republican budget structure of Kazakhstan (Unit: %)



Source: Compiled by the author according to the State Revenue Committee data of the Republic of Kazakhstan, 2016

In spite of the fact that budget deficit point up to 3% is considered to be acceptable, it is worth consider so called “oil deficit”, where budget revenues are not being taken into account of guaranteed transfers from the National Fund. Therefore, with no regard for guaranteed transfers from the National Fund, so called “oil deficit” of the budget was 8,8% in 2015. In general, the fraction of income, derived from oil and gas section in the public budget is increasing annually. This factor was 46% in 2015. The share of the “oil”

component of public budget showed a moderate increase in the previous years with 40,8% in 2011, 40,9% in 2012, 41,1% in 2013, and 44% in 2014 (figure 17) (Committee on Statistics, 2016).

This factor is based on that taxes from oil sector are directly returning to the National Fund, subsequently returning to the budget in the form of guaranteed transfers. Therefore, the duty on export of crude oil and petroleum products come directly to the republican budget. For example, the amount of collected duties was 553 billion KZT in 2014 or 9% from the total volume budget. Considering that the share of transfers was 35,6% on the same year, the aggregate share of tax revenues, which directly related to oil production was 44,6% in 2014 (Committee on Statistics, 2016) (G-Global, 2016).

Therefore, to sum up we can note the following:

- The role of the National Fund and the whole oil sector taxation by public budget formation increases
- The role of federal corporate income tax and customs payments declines

The deregulation of CIT and VAT rates didn't lead to the significant and long-term decline of own revenue position (Pekarskij, 2016).

To estimate fiscal charges condition within the context of the local budgets we can note the following: the local budget in Kazakhstan as well as tax revenues basically form a republican. However, by the local budget formation in comparison to the republican there are different tax types chargeable. Thus, Personal Income Tax, property tax as well as excise tax on some commodity lines go to the local budget. 15 types of binding charges and payments stay on the local budget in the same way. Regions with a high share of tax revenues in the budget revenues structure are traditionally Mangistau Region with 68%, Almaty city with 61%, and Astana city with 39% (Committee on Statistics, 2016) (G-Global, 2016).

Table 5. The local budget and taxes on region of Kazakhstan

Region	Revenues, million KZT	Where the tax revenues, million KZT	Tax share, %
Astana city	369526	143953	39
Almaty city	468907	284151	61
Aqtobe oblast	136566	37645	28
Akmola oblast	143378	15822	11
Karaganda oblast	173177	46584	27
Kostanai oblast	170032	49686	29
Pavlodar oblast	114404	26144	24
North Kazakhstan oblast	113577	11837	10
East Kazakhstan oblast	212585	27962	13
Zhambyl oblast	181204	16025	9
South Kazakhstan oblast	399168	12947	3
Kyzylorda oblast	204686	57376	28
Mangistau oblast	145800	99600	68
Atyrau oblast	181632	59498	33
West Kazakhstan oblast	117944	31604	27

Source: Compiled by the author according to the official sites of Akimat of regions of the Republic of Kazakhstan, 2015

In accordance with it these regions have a higher level of self-dependence of the local budget, which afford to be dependent on transfers from the republican budget in a lesser degree. Furthermore, these regions are the budgetary funders, in other words providing budgetary confiscations for the benefit of the republican budget. Mainly, it is explained by small and medium-sized businesses activities in Almaty, as well as by the significant oil sector of Mangistau oblast multidivisional public sector in Astana (Committee on Statistics, 2016) (G-Global, 2016).

On the other hand, the low percent of tax revenues by local budget formation is noticeable in the North Kazakhstan oblast, South Kazakhstan and Zhambyl oblast. Therefore, in front of the tax share decline in the budget of Kazakhstan, the increase of share transfers from the National Fund, as well as a large dependence on “oil” payments raises the question about the improvement of tax system efficiency of Kazakhstan, in the part of yield enhancement by non-oil and gas tax base. Under the conditions of increasing dependence of the republican budget on the taxation of material sector in front of negative price dynamics on the global primary commodity market comes the need of new trends study and problematic issues which may have an impact on the tax system development of Kazakhstan over the longer term (Committee on Statistics, 2016) (G-Global, 2016).

4.2 The assessment of fiscal policy impact on the business in Kazakhstan

Under the modern conditions of global transformations in the economy the small business looms large. Small and medium enterprise development in Kazakhstan is notable as a priority task, in particular in the development strategy “Kazakhstan -2030”, in the annual messages of the President and in connection with this a complex regulation mechanism and entrepreneurial activity support is developed in the country. One of the most important elements of this mechanism is tax regulation. In such a case the serious problem is the improvement of entrepreneurial activity tax regulation, which allows combining successfully the fiscal and regulatory activities. Since January 01, 2009 the new Tax Code took an effect, which was intended to promote the diversification of economy as well as the business emergence from the shadow (Karagusova, 2016).

According to the new Tax Code the Special tax treatments in the field of small and medium-sized entrepreneurship are provided in regard to:

- small business entities;
- peasant and farm enterprises;
- legal entities- grower of agricultural produce (Karagusova, 2016).

So, that the small and medium businesses have a right to choose only one of the following manners of tax payments on the basis:

- non-recurrent talon;

- patent;
- simplified return;
- general procedure (Karagusova, 2016).

Since the Tax code establishment to the parts of small and medium-sized entrepreneurship underwent significant changes. There was a change of some parameters of the main terms of patent application. First of all, changes have taken place of the revenue amount of the entrepreneur: when in 2002 his income of the tax period should fit to the amount not more than 1,5 million tenge per year, then in 2009 it shouldn't exceed 200 times of minimum salary, established by a republican budget law. Secondly, there was a reduction of tax rate by 1%, from 3% in 2003 to 2% in 2009 from the items of taxation. The comparison of tax conditions based on the simplified return showed that the maximum number of employees of individual entrepreneur increased from 15 to 25 employees, a marginal gain was also increased from 4,5 to 10,0 million tenge. If the tax rate was 3,9% in 2002, then the tax rate was determined at the level of 3% to the legal tax unit. Tax conditions for companies in terms of simplified return underwent the following changes: the work force is increased to 50 employees, the upper limit of entrepreneur revenues increased to 25,0 million tenge per quarter. The tax rate was up to 9% in 2002, and in 2009 the tax rate was 3% to the legal tax unit. In general, there are serious changes in the tax environment for small to medium-sized enterprise (Berstembayeva, 2016).

It should be noted that the opportunity to impose new kinds of special tax treatments are not limited by the legislation. For that reason, the list of tax treatments of Kazakhstan is not closed. This fact may have both positive and negative consequences of special tax treatments effect. The opportunity to impose the tax environment for free may affect positively on financial activities of small and medium businesses, for which a special tax treatment is imposed. In such a case the tax legislation allows in a flexible way take into account all the aspects of legal tax unit and to provide the development of business activity. Another positive point is that special tax treatment allows simplifying the tax treatment. As a final result, it will allow to achieve a positive result of Small business enterprise development. Among the negative consequences of special tax treatment establishment may include such a case that they lead to provide the advantages for one

subject at the expense of another. This violates the fundamental propositions of tax system development and leads to negative results. Carrying-out of an analysis of Kazakhstan fiscal policy influence on small and medium enterprise development would be limited without the global experience investigation and identity opportunities of its adaptation in Kazakhstan. The international practice investigation of small and medium-sized businesses taxation identified that taxation process provides two main approaches. Adoption of tax advantages for small business by certain taxes, as for example, by income tax or value added tax. Special tax environments establishment of small business (Berstembayeva, 2016).

In the first framework, it is important to note that in the middle of 80th of XX century the profit taxation of most developed nations was based on combination of high tax rates with the large system of tax concessions. In most European countries, the tax advantages for small enterprises are provided in the form of special (reduced) rates. In the consideration of profit tax rate, it must be emphasized that in the Western governments the public policy of small business stimulation is carried out for priority sectors, mainly of manufacturing. Kazakhstan tax system is equal for the producer and for the contractor, unless and until this disadvantage will be removed, the capital outflows of small business from manufacturing will not stop (Berstembayeva, 2016).

One of the forms of tax protectionism is an extension of credit against tax for small enterprises on easy terms. By concessionary terms is meant the extension of credit terms, the reduction of loan rate, the lightening of administrative procedures etc. For example, in France provide a credit against tax for small and medium-size companies, which increase their capital no less than 25%. In a majority of Western governments is provided the research credit against tax, which is represented by tax deduction on revenues of share of R&D spending. The integral parts of the small innovation business activity stimulation are the benefits for revenues imposition absolute undeveloped in Kazakhstan (Berstembayeva, 2016).

The second approach to the taxation of small business consists of the establishment of the tax environment. The simplified taxation is used more often in the tax practice of

developed nations. The analysis of foreign experience of small business taxation brings to the conclusion that by the taxation of the majority of developed nations the small business is determined by way of the special subject of public regulation. The experience indicates strongly that small business development is possible only in the presence of public support and the allocation of financial and other resources (Uakhitzhanova, 2016).

However, Kazakhstan tax system is organized in such a way, that real tax pressure on enterprises in a great measure higher than in the countries with the developed market system. The follow-up study of the fiscal policy in the direction of small business supposed the identification of subject's deposit of small and medium-sized businesses to the public revenues. By considering the role of small and medium-sized businesses in the government revenues formation it may be noted the following (Uakhitzhanova, 2016).

Over the last five years there has been an increasing tendency of the share of paid taxes by the "Small business" enterprises in the overall volume of tax revenues (table 6). If the share of paid taxes by the "Small business" enterprises in the overall volume of tax revenues was 16,9% in 2013, then for the 2015 it achieved 25,6%.

Table 6. The share of taxes of small and medium-sized businesses in total revenues
(Unit: billion KZT)

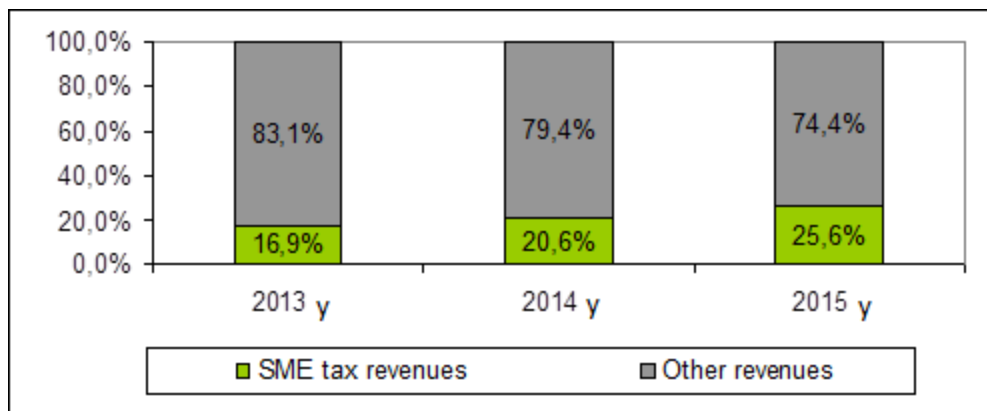
Tax types	2013	2014	2015	Rate of change, 2015/2013 гг.
Bulk arrivals, billion KZT	5180,0	5850,0	6140,0	118,5
Tax revenues from SMBs, billion KZT	875,4	1205,1	1571,8	179,6
Share, %	16,9	20,6	25,6	151,5

Source: Compiled by the author according to the State Revenue Committee data of the Republic of Kazakhstan, 2015

The increment rate of year 2015 index to the base year 2013 equals to 1.8 times. The increment in absolute value it was 696,4 billion KZT. It should be noted that during the whole review period the stable role of small business is maintained in the income generate

of the state budget that demonstrates about the right direction of carrying out the state policy in the field of SME taxation to the Kazakhstan public revenues increases from year to year. SME tax revenues from 2013 to 2015 were 83% to 74,4%, while tax revenues from corporations only 16,9% to 25,6%. This clearly illustrates the fact that doing small and medium businesses is more attractive and popular in Kazakhstan (Figure 18).

Figure 18. Small to medium-sized enterprise tax revenues volume to the Kazakhstan budget (Unit: %)



Source: Compiled by the author according to Forbes Kazakhstan data, 2015

The increase of fiscal revenues from the small and medium-sized businesses to the public treasury, bringing the Tax Code into the compliance with the international standards attests to the fact that reforms are moving in the right direction. Nevertheless, there are some problems of small and medium-sized businesses remain in the field of taxation (Stegailo, 2016).

They are the following problems of small and medium sized businesses taxation:

- Disbalance of state interests and SMBs in the part of fiscal policy.

Currently the SME taxation system proper to fiscal character and underdeveloped the motivation function. Functional type of control in Kazakhstan has marked terms of total tax control. Due to the lack of objects sampling procedure, the procedure is affected by the human factor in reaching the decision for checking purposes. Active tax legislation regulates the periodicity and the tax audit arrangements insufficiently, that's why the SMBs see in the form of the state not the confederate but the major setback of financing

and operating activities. From here it follows their underactive participation in the active business environment formation by the state by the serious legal framework (Stegailo, 2016).

- The presence of the administrative burden in coordination with taxation bodies. In practice, there is a difficulty in obtaining certain types of tax services. A low level of satisfaction of receiving services by electronic means. The imperfection of employee's work of tax administration. High risk of corruption relations emergency (Stegailo, 2016).
- Non-constructive fiscal policy. The irregularity of tax burden on the SMBs forcing them to use different methods of tax optimization, as well as illegal, and also forcing to the escape in the shadow economy. According to the different estimates it makes from 22 to 30% of real turn-round of SMBs (Stegailo, 2016).

The tax system doesn't stipulate for economic incentive for the range growth of small business and the progressive transformation to the medium business. Currently there is no acting Comprehensive Program for small and medium enterprise development in Kazakhstan. The only one comprehensive program "Business road map 2020" has a thin orientation. Access to financing for the SMB is still limited. A difficult credit analysis, higher risks forcing banks to transmit cost of risk on credits by means of interest rate increase on loans of SME or withhold the granting of a loan (Stegailo, 2016).

Totally the analysis shows that reduction processes in SME sector are observed in Kazakhstan, there is absolute measures growth, however it is still necessary for further state coordination of small business in terms of adjustment and improvement of its negative trends both with the use of financing and non-financial items (Stegailo, 2016).

4.3 The development prospects of Kazakhstan fiscal system

Fiscal policy of the country, being an integral part of macroeconomic policy, becomes an important element in any form of economic integration. Joining Kazakhstan to integration associations as part of the Customs Union EurAsEC and EAEU lead to the question of the tax system convergence as a part of EAEU. Namely that difference in tax system parameters create conditions for tax competitions between the integrate parties (Chepurina, 2015).

In general, the development prospect of fiscal system under the conditions of economic cohesion, first of all, generates interest in connection with possibly changes of taxation main characteristics level of rates base determination). Main characteristics of tax system change by the reference of strategic objectives assigned to it, which are in its turn determined by the needs of internal and external business environment of the state (Chepurina, 2015).

Considering this fact for the projected growth of Kazakhstan fiscal system in the long term it is of the importance how the choose model corresponds to modern business environment. Since the establishment up to the present moment Kazakhstan fiscal system was formed in accordance with three developed by that time requirements:

- Adaptation of fiscal system to the new economical categories and institutes managing, required for exchange relation establishment such as enterprises with the foreign capital, stock market etc.
- Tax optimization of oil sector as the key point of the economic growth;
- The promotion of the investment attractiveness of the state and also the increase of savings level and as applicable the internal investments by means of liberal tax conditions (Chepurina, 2015).

In other words, Kazakhstan fiscal policy up to the present moment has the simulative character, which was necessary for the quick exit of transit economic situation. The first task, which required the derestriction of financial institution to develop conditions for the adaptation to taxation of new economic categories, probably became irrelevant.

Furthermore, the currently increased problem of taxation base dilution and profits shift probably will lead to the necessity to revise the principle of taxation of financial transactions (Abaev, 2015).

The second task on the taxation optimization of oil sector amid slumping energy resources prices, observed after middle of 2014 year and succeeded after this the economic contraction remains relevant, however further consideration of oil sector taxation as a stable source of tax revenues for the same reason is irrelevant. Reasoning from this fact the third task of investment attractiveness promotion on account of comfortable fiscal terms became greater relevance. Therefore, it is obviously that current model of fiscal system doesn't require the complete rethink of principal tasks. On the other hand the commitment to the principles of low tax rates is intended to continue the realization of competitive position of Kazakhstan in Central Asia region and also among the member-states of EAEU and World Trade Organization (Baskina, 2015).

In general, Kazakhstan tax space now is considered as one with the low impact on both the economy and the business area at the current time in comparison with other countries, which is shown (table 7).

Table 7. The comparison of fiscal system of countries – participants of EAEU

	Kazakhstan	Russia	Kyrgyzstan	Belarus	Armenia
Tax burden (total) % to GDP	13,5	28,7	21,0	29,8	22,0
Tax burden (middle on business unit), %	28,6	48,9	29,0	52,0	20,4

Source: Global Competitiveness Report, 2015

As given in the table 7, the specified model of Kazakhstan fiscal policy represented as the most liberal in the integration space with the stable improvement dynamics. It is important to bear in mind that such a liberal taxation model, which is used by Kazakhstan dictated by the need of keeping up with other companies in terms of economic cohesion, particularly

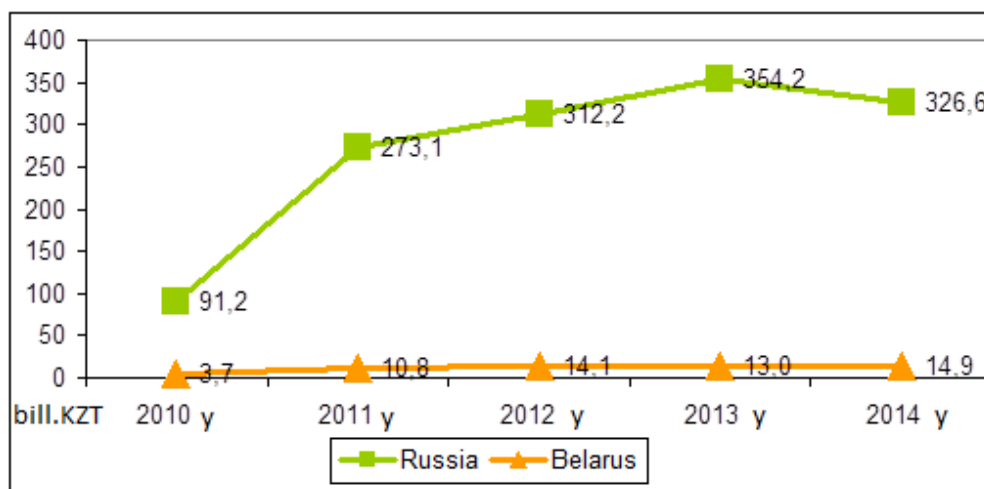
EAEU and World Trade Organization. In other words, low tax rates have the task to make up for shortfall of Kazakhstan economy from partners on integration on broad spectrum of other characteristics like costs of labor and capital, distance of global ocean, and outdated capital funds (Baskina, 2015).

Initially it was assumed that by Kazakhstan accession to the Customs Union with Russia and Belarus; the liberal fiscal policy will make up for shortfall on other competitiveness characteristics. However, the fact that comfortable tax conditions in Kazakhstan will cause a stable growth of foreign capital fall short of expectations. There were no observations of any changes of this fact over last years. So, that according to the Committee on Statistics over the past decade the amount of operating enterprises with the foreign capital in Kazakhstan remains at constant level (Melnikov, 2015).

It is important to note that 47% of given enterprises are the representatives of distributing trade with the low investments to the capital fund and consequently with the low cost benefit of investments, which Kazakhstan was expected. It is noteworthy that the whole period under review was attended by the gradual decline of fiscal burden by means of decrease of consumption tax rate and income tax. However, it didn't cause the increase of corresponding international capital flows. It confirms to the fact that the presence of comfortable fiscal mode couldn't guarantee the right investment attractiveness of the economy, which also depends on many other parameters (Melnikov, 2015).

Nevertheless, relations within the framework of EAEU and the Custom Union brought some positive fiscal effect. For example, VAT revenue position, charged on goods and imported from the territory of Russian Federation and Belarus increased on 33% on the next year after coming into force in 2010, and continued to increase, as shown at figure 19. VAT dynamics and import of goods and services from the Custom Union countries demonstrates that Russia is the biggest exporter to Kazakhstan, with the common number of exported goods and services over 326 billion tenge. Belarus, for instance, exported services and goods to Kazakhstan for only 14,9 billion tenge in 2014 (Figure 19).

Figure 19. VAT dynamics and import of goods and services from the Custom Union countries (Unit: billion KZT)



Source: Compiled by the author according to the State Revenue Committee data of the Republic of Kazakhstan, 2015

Unfortunately, low tax rates remain for Kazakhstan the key element of competitive power under the conditions of economic integration with Russia, Belarus, Kyrgyzstan and Armenia at the moment, because there is a number of disadvantages on other economical parameters. With a strong dependence of socioeconomic state of Kazakhstan population on this external factor as oil price, which is characterized by high volatility put at threat national security of the country and requires from the government the realization of fast and radical steps (State Revenue Committee, 2016) (Berstembayeva, 2016).

The importance of oil for the modern international global economy cannot be overstated. If for some states this raw material are one of the preferred imported articles, important production factor, then for others it is the export earner. To the last range relates Kazakhstan, which is one of the biggest oil producers in the world (State Revenue Committee, 2016) (Berstembayeva, 2016).

At the present moment, according to estimates of British Petroleum oil recourses in the Republic of Kazakhstan equals to 30 billion barrels or 3,9 billion ton, that includes 1,8% from the global stock of these raw materials. Income from oil sales began to be as a lion's share of funds, and by means of them government budget of the Republic of Kazakhstan is formed. To the Kazakhstan budget the guaranteed and principal transfer's funds are

conducted from the National Fund, formed and resupplied on account of petroleum proceeds (Berstembayeva, 2016).

The challenging external environment influenced on the reduction of all rates of growth of divisions of economic activity of Kazakhstan and the income adjustment and inside prices. The GDP growth decreased from 4,1% in 2014 to 1,2% in 2015 and the economy reduced about by 0,2% during the first 5 months of 2016. The slide in oil export prices lead to the large adverse changes under the trade conditions by means of deceleration in growth in China and the continued recession in Russia that lead to the weakening of external and internal demand. The movement to floating exchange rate in August of 2015 lead to the sharp depreciation of Kazakhstan tenge (KZT) and the rise in inflation from 3,8% in August of 2015 to 16,7% in May of 2016 influenced on the real wages reduction and household purchasing power (State Revenue Committee, 2016) (Aimursina, 2016).

Long-income households are especially vulnerable to the rise in the prices, real wage reduction and the degradation of employment. The progress in poverty reduction has stopped and the poverty headcount in the country, with five USA dollars in a day at the nominal value of purchasing power, remained at the same approximate level, 14% during the years 2014 and 2015. The fiscal policy in 2015 was less coordinated, but in 2016 it met expectations of weak oil prices in mid-term. The government of Kazakhstan revised a fiscal policy approach, planning to begin fiscal consolidation in 2016 (State Revenue Committee, 2016) (Aimursina, 2016).

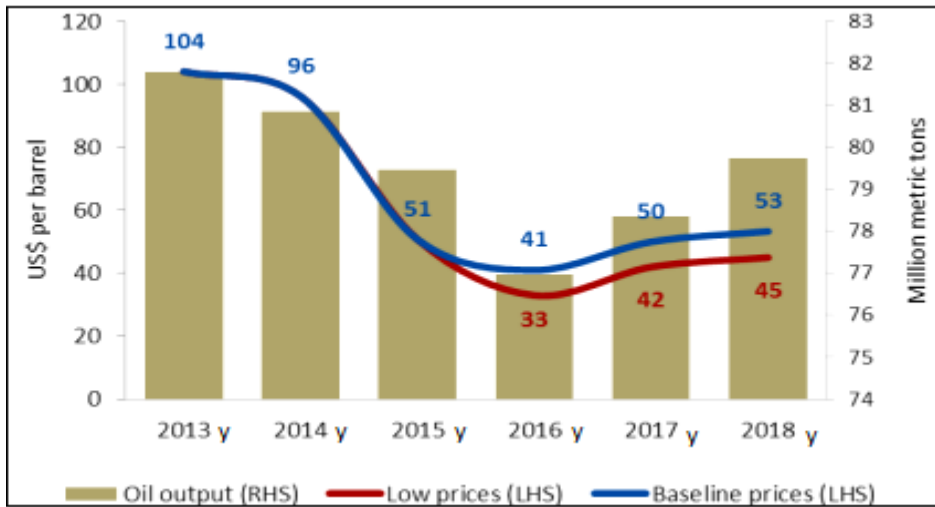
The government has coordinated the budget spending in March of 2015 considering the expectations of weak oil prices over the next few years. The government also balanced previous assume responsibilities on countercyclical spending within the infrastructural development plan “Nury Zhol”, reducing or delaying other non-priority capital expenses. However, the non-budgetary support of national oil company leads to the non-oil deficit increase, thereby preventing consolidation efforts. The adjustment of monetary management and exchange policy was realized belatedly in 2015, the central bank announced about transition to the floating exchange rate, and inflation targeting mode in the middle of the August 2015 (State Revenue Committee, 2016) (Aimursina, 2016).

The transition was difficult, because the base rate was inefficient in the beginning and its implementation was stopped in November of 2015, causing major fluctuations on money market rate, which were extended until early 2016. Monetary management measures in 2016 pointed at full transition to a new money-and-credit mode. The reinstatement of base rate at the beginning of February 2016 stabilizes the monetary market, exchange rate also stabilized and tenge began to strengthen with oil price increase (Botkina, 2015).

The Government of Kazakhstan is intended to continue the structural reform realization of diversification of economy and the reduction of dependence on oil sector. In May of 2015 it began the realization of ambitious program of institutional reforms “100 positive steps-modern state for everyone”, providing the reforms in the sphere of Public Finance Management and their reporting relationship, enterprise management of public sector and also sectoral reforms intended to the reduction of state participation in economic process. An additional point is that the privatization initiative was accepted. The acceleration of structural reforms implementation may have a significant impact on the non-oil economy growth (Botkina, 2015).

According to estimates, the economy growth will be recovered by step in the midterm, but the economy will face the significant deterrents. In the base case, where is represented Kazakhstan’s long road to recovery economy report which is presented in supplement 1, is accepted that oil prices in average 41 USD per barrel in 2016 will increase to 50 USD in 2017, and will achieve 53,3 USD in 2018 (figure 20).

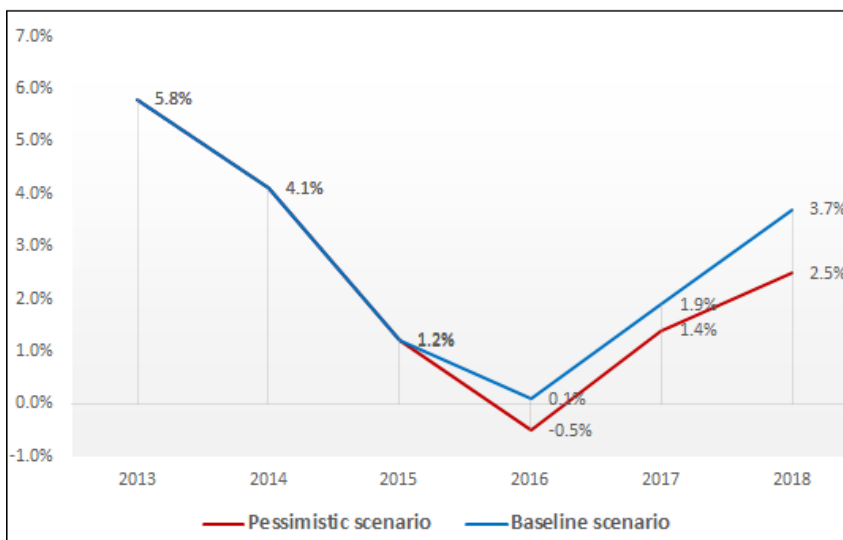
Figure 20. Oil and mining operation price forecast in Kazakhstan



Source: World Bank staff estimates, 2016

In base case the GDP growth remains almost at zero point in 2016, then may increase to 1,9% in 2017, and, to 3,7% in 2018 from the beginning of the production on “Kashagan” field, the recovery of free market price, the building of trust of consumers and investors, supporting the recovery of non-oil branches and the decline in inflation on the average of 6-8% per year (Figure 21).

Figure 21. The forecast of GDP growth in Kazakhstan (Unit: %)



Source: World Bank staff estimates, 2016

At the same time, it is expected that fiscal balances will improve. But these midterms are sufficient to significant risks, including risks related to the financial sector condition, the damped growth of international economy, the possibility of deepening or prolonging the recession in Russia, a further slowing of Chinese economy, and the maintenance of instability in the world oil markets or the production standstill at “Kashagan” field. Returning to the fact that EAEU countries and CIS have the broad range of different competitive factors, and it is important to note that Kazakhstan in the following situation with a medium-scale of economy size by CIS standards, at the same time is expensive labor and capital that at the moment makes a strong case for continuation of priority of liberal fiscal policy (Botkina, 2015).

It is obviously that in light of this Russia and Belarus with a higher rate of tax are interested in a tax burden increase of Kazakhstan by way of strengthening its own competitive positions in the region. In connection with this it is possible for the emergency of new challenges for Kazakhstan related to the strengthening of tax competition, especially under the conditions of economic cohesion in terms of EAEU and WTO.

In this connection taking into account the global best practice it is effectually to implement restricted forms of small and medium businesses fiscal control. The legal framework is necessary for the implementation of tax inspection on the basis of the analysis and probability estimate of tax liability failure of taxpayer (Botkina, 2015).

The current state of the economy and development trend require particular attention to the elaboration and implementation of methods and instruments, intended to real small and medium enterprise development in Kazakhstan. First of all, it is necessary to take measures not only the financial but also the support in order to increase the competitiveness of Kazakhstan labor and capital as a part of integration associations (Borisovskaya, 2016).

In the furtherance of these goals the statutory instruments were reduced on the issue of regulatory approval system in the Mazhilis of Parliament. As a result out from 1436 approvals 699 were reduced, 737 remained. The reduction of approvals almost in 2 times protecting business structure from the bureaucracy and corruption, and generally it makes progressive the regulatory approval system of Kazakhstan. Additionally, by the Mazhilis of

Parliament the draft law on the issue of taxation in terms of which the reduction of taxable income is supposed in order to stimulate the agricultural producers as well as withdrawal of illegal salary to legal field is considered (Borisovskaya, 2016).

In order to support agribusinesses there are rules on the exemption of income tax of private plot incomes of realization of products by processing companies. In order to sponsorship for the promotion of competition, the reduction of share participation of the state in business activity, there is a draft law in the Mazhilis of Parliament on the issue of the reduction of share participation of the state in business activity. As for today there are all necessary conditions for dialogue of the state with the business at all levels of the government, there is also a work of business climate improving and support infrastructure of enterprises is developing (Borisovskaya, 2016).

5 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 (subsidies, transfer expenditures) and manipulation of different tax types (individual income tax, corporate tax, excise duties) 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.

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 at continuing the course of reforms in the country's economy and provides for reducing the shortage of social housing and improving the quality of life in the country.

6 Conclusion

Summarizing the above, it should be noted that there is no identical definition of the term fiscal policy to date. 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 share of oil revenues in the revenue structure of republican budget increased to 46%. The growth of the budget deficit of Kazakhstan in 2015 first of all in two and a half times is associated with a fall in oil prices, which accounts for 60% of exports and 20% of GDP of the country. Increased republican budget deficit has led to a need to increase public borrowings, which amounted to one billion dollars.

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.

Therefore, considering the emerging external and internal factors of the global economic system, I can state that significant reforms of the fiscal system in Kazakhstan in the near future are expected. In general, the expected conclusions of the hypotheses were confirmed. The choice of Kazakhstan fiscal policy is determined not only by the objective characteristics of the economic system at a certain time period, but also by the necessity of trade-off in development priorities in terms of objective assessment of external and internal factors.

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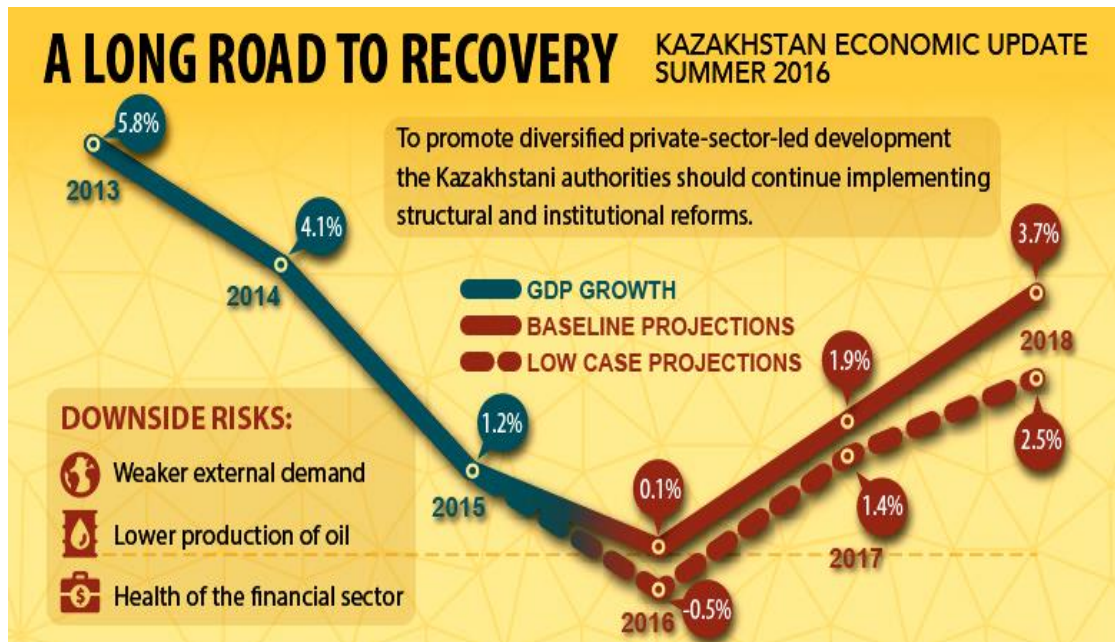
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8 Appendix

Appendix 1. The economy growth prospects and risks for Kazakhstan



Source: World Bank Group, 2016