

The Financial Aspects of the Third Economic Modernization in Kazakhstan

Nurilya Kuchukova*

L.N. Gumilyov Eurasian National UniversityKazhymukan Str., 11, Astana, Republic of, Kazakhstan

Galymzhan Kerimbek

L.N. Gumilyov Eurasian National UniversityKazhymukan Str., 11, Astana, Republic of, Kazakhstan

Botagoz Saparova

L.N. Gumilyov Eurasian National UniversityKazhymukan Str., 11, Astana, Republic of, Kazakhstan

Aigerim Zhussupova

L.N. Gumilyov Eurasian National UniversityKazhymukan Str., 11, Astana, Republic of, Kazakhstan

Akilbek Ilyas

JSC «Finance academy»I. Esenberlin str. 25, Astana, Republic of, Kazakhstan

Abstract

The article looks into the financial aspects of Kazakhstan's economic modernization. Based on the results of studies conducted, key features and problems of the development of the national economy are identified given the new challenges and threats, close integration and interdependence from the development of the world economy. The use of modern methodology allowed to demonstrate the significant impact of the state financial policy on the implementation of the third modernization of the Kazakh economy, as well as highlight its priorities and substantiate the financial mechanisms that would increase the global competitiveness of the national economy. The study was carried out using the example of transformations characteristic of the modern economic system in Kazakhstan. The aim of the study is to substantiate the author's approach to creating a fundamentally new model of economic growth by providing financial stimulation to the accelerated technological modernization of the economy to ensure its global competitiveness.

Keywords: Technological modernization; Kazakhstan's economy; Financial aspects; Global competitiveness; Economic growth.



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1. Introduction

Accelerated Modernization-3, diversification and increasing the competitiveness of the national economy should be the key basis for sustainable development in the Republic of Kazakhstan. The problem lies in the fact that the modernization of the national economy is being deterred by its having not been able to overcome its raw material orientation. Despite the fact that more than 14 years have passed since the implementation of the Strategy of Industrial and Innovative Development of Kazakhstan for 2003-2015, the country's raw material orientation has not been reduced.

The relevance of the research topic is reinforced by the fact that there is an objective of implementing the Third Modernization of Kazakhstan, industrialization and innovation, however, the financial aspects of the accelerated technological modernization of the Kazakh economy and the implementation of government programs are not sufficiently developed.

In this regard, it is necessary to analyze the financial sources of technological modernization within the framework of the government programs of innovative industrialization in order to more effectively use the enormous financial resources aimed at accelerating the technological modernization of the national economy.

The purpose of this study is to develop recommendations for improving the mechanism for attracting and raising funding sources for accelerated technological modernization based in a study of the theory and world practice of financing innovative industrialization.

The subject of the study are financial relations, mechanisms and processes that accompanied the process of technological modernization of the national economy within the framework of government programs of innovative industrialization.

As its object the study is focused on the activities of government bodies and financial development institutions that implement various government programs for the modernization of the economy.

Within the framework of the study, modernization refers to a development process that will yield a country that is strong in the economic, political, military, scientific and other respects with the growth of the well-being of its population.

In turn, economic modernization at the macro level implies the following: the implementation of progressive systemic, interrelated changes in the structural, technological and institutional spheres; improving the cultural and educational level of society as a whole; the development of human capital and the training of highly-qualified professionals in demand to ensure the country's global competitiveness.

2. Research Methodology

Methodologically the study is based on a systematic approach, the dialectical method of cognition, logical analysis and synthesis. The study was based on the following material: statistical data of the Statistics Committee of the Ministry of National Economy, Reports of the Ministry of Investments and Development on the implementation of the Government Program for Forced Industrial-Innovative Development for 2010-2014 and the

Government Program for Industrial and Innovative Development for 2015-2019, the Government Program "Nurly jol" for 2015-2019, Forecasts of social and economic development for 2015-2019, for 2016-2020, for 2018-2022 years of the Ministry of National Economy, Forecast of budgetary parameters for the years 2018-2020 of the Ministry of Finance, National Bank reports in recent years, Presidential Addresses to the people of Kazakhstan for a number of recent years, materials, monographs and articles by leading scientists throughout the world and Kazakhstan; data from the authors' own analysis obtained as a result of applying the economic-statistical research method, historical and logical methods. The materials studied were analyzed using the grouping and comparison method, as well as the abstract-logical method. During the research the authors, based on the analysis of the dynamics and structure of investments in fixed assets over the last 5 years, have identified positive and negative trends in the dynamics of investments over a number of years and suggested recommendations for improving the mechanism for attracting additional financing sources for the modernization of the national economy.

The scientific novelty of the research and the methodological approach to studying the processes of economic Modernization-3 is manifested in the fact that the authors explore the influence of Kazakhstan's financial system on the modernization of the national economy, since finances serve and mediate national production, making the technical and technological modernization of the real economy impossible without government financial resources especially during a crisis in the development of the national economy.

These processes are interrelated and interdependent, they cannot be separated from each other. On the one hand, the financial system has a significant impact on the implementation of technological modernization, either accelerating or slowing down these processes. On the other hand, technological modernization contributes to higher labor productivity, lowering the cost of production, increasing the efficiency and competitiveness of production, thereby increasing the financial resources of the government. In this regard, a systematic and integrated approach to the study of these interrelated processes is important.

The article examines the impact of financial, especially budgetary, policies on Kazakhstan's Modernization-3, through financial instruments regulating the economy: public spending, budgetary credits and models for the effective use of financial government resources.

3. Results

1. At all stages of economic modernization there are many challenges: irrational use of budgetary funds, discrepancy between the actual and planned performance of budget investment projects, as well as a lack of a qualitative methodology for assessing their effectiveness.

2. The problem of increasing the effectiveness of budget expenditures, including budget investments spent on the implementation of government development and innovative industrialization programs, is also quite complicated and urgent. In this regard, it is important to redistribute funds from inefficient programs to programs that support the Third Modernization objectives. It is also important to simplify the budgetary procedures for faster and more efficient budget funding flow to the real economy.

3. It is important to carry out an ongoing oversight and evaluation of the current diversification policy, reducing corruption in the allocation of budgetary investments, and of the efficiency in selecting investment projects, as the cost of diversification is very high and failures can affect not only the budget policy, but also the macroeconomic situation as a whole.

4. It is necessary to increase the role of public audit bodies, as well as their responsibility for the implementation of tasks to ensure transparency in the use of budget funds, the effectiveness of their use and the strengthening of financial discipline.

5. Along with this, given the government's limited financial resources, it is necessary to ensure the development of additional sources of financing for the new industrialization. In particular, the following is advised:

- issuance of infrastructure bonds so that entrepreneurs can use "long money";
- while implementing the second five-year plan under the Government program of industrial and innovation development (2015-2019), the model of public-private partnership should be applied more actively, i.e. providing private businesses with the opportunity to render services (produce goods) on the basis of government infrastructure;
- to improve venture financing, to use the world experience, including the USA and the European Union, in the use of venture investments in high-tech and innovative companies when introducing and developing innovations in Kazakhstan.

4. Discussion

A key feature in the development of a modern national economy is its close integration and interdependence from the development of the world economy, which requires a deep analysis of the external economic environment and its impact on the development of the national economy in order to develop an effective coordinated fiscal and monetary policy.

Although the theory of economic modernization was formed in the middle of the last century, it has the greatest relevance in the context of globalization, when inequality in the development of states linked to the universal integration processes is more evident. "The modernization phenomenon" currently underlies the economic policies of many countries that are striving to build a competitive economy. At present, the term "modernization" has become almost the most frequently used in discussions on the strategy of post-crisis economic development. Attention to the theories of modernization and catch-up development has significantly increased with the realization of the low chances for a jump-like transition of a raw material exporting economy to an innovative development path without an intermediate preparatory stage of building up the organizational, technological and production potential. Since the emergence of the theory of modernization and catch-up development, several stages of interdisciplinary integration have taken place. Initially, they were developed in line with the theory of economic growth stages and a linear transition to the path of industrialization. The theory of modernization that arose in the 1950s was the product of a complex synthesis of bourgeois and Marxist theoretical views. The theoretical origins of the "early" concept of modernization are found in the writings of W. Rostow, A. Lewis, J. Tinbergen, P. Bauer, C. Clarke and other scholars.

Following the principles of a systematic approach is an important condition for successful modernization. From the methodological point of view, the systemic approach refers to the principle of systematicity, and, in general, the theory of systems, a common scientific methodology for qualitative research and modeling of various objects and processes as systems.

The economic growth of Kazakhstan in the 90s of the XX century was provided mainly due to the accelerated growth of the oil-extracting sector. The raw material model of the economy made it possible to conduct a rapid stabilization of the economy and in 1996 the economy showed its first growth after a five-year decline. The second stage of modernization refers to the adoption in 1997 of a long-term Strategy titled

Kazakhstan-2030, the first in the post-Soviet area, where the goal was to become one of the 50 developed countries in the world and seven main priorities for its implementation were charted out: national security; domestic political stability; economic growth; health, education and well-being of citizens; energetic resources; infrastructure, especially transport and communications; a professional government. During this period, the long-term Strategy for Industrial and Innovative Development of Kazakhstan for 2003-2015 was launched, the National Welfare Fund and financial development institutions were created to provide state financial support to the development of priority sectors of the economy. In order to diversify and modernize the economy, the Government Program for the Forced Industrial and Innovative Development of Kazakhstan for 2010-2014 (the First Five-Year Plan) (State program of forced industrial-innovative development of the Republic of Kazakhstan for 2010 - 2014. www.zakon.kz), the Industrialization Map, and the Business Road Map-2020 (BRM) were adopted. At present, the government program Nurly Zhol, the Government program of industrial and innovative development for 2015-2019 (the second five-year plan) (State program of industrial and innovative development of the Republic of Kazakhstan for 2015 - 2019. www.zakon.kz) are being implemented. During the implementation of these programs, large-scale investments were made in priority economic sectors and, above all, in the development of a manufacturing industry.

As a result, for the first time in the newest history of Kazakhstan, the manufacturing industry began to grow faster than the mining industry. Its real growth in 2015 compared to 2008 exceeded 24%, while in the mining industry it was 17%. Thus, in terms of these indicators Kazakhstan outstripped all its partners in the Eurasian Economic Union (Speech of the President of Kazakhstan N.Nazarbayev at the presentation of the Industrialization Map projects and the awards ceremony for the winners of the competitions "Altyn Sapa", "Paryz". December 6, 2016 [..http // akorda.kz](http://akorda.kz)).

In 2012 Kazakhstan achieved the goal set in Strategy-2030, entering the club of 50 competitive economies of the world. Kazakhstan today exports 2,500 items of various products worth more than 46 billion dollars to 119 countries. Large-scale investments allowed Kazakhstan to establish the production of more than 500 new products (14) previously not made in Kazakhstan: freight and passenger cars, electric locomotives, trucks, cars and buses, transformers, X-ray units, LED lamps, titanium ingots and slabs, medicines, dairy products, etc. Kazakhstan for the first time began to export railroad cars, motor oil, turkey meat, chilled cattle meat, rapeseed oil, clothing, glassware, traffic lights, cartridges, equipment, carpets, remote earth sounding services. This is the main result of the first five-year plan of innovative industrialization, aimed at diversifying and modernizing the Kazakh economy.

In general, the Industrialization Program played a stabilizing role in the economy. In 2010-2014, the projects under the Industrialization Map and the Business Road Map accounted for about 10% of the total industrial production. With the escalation of the crisis, it can be seen that these projects demonstrate greater stability, as they are more modernized.

Owing to the focused financial support, the manufacturing sector has become more attractive to investors. Investments in fixed assets under the projects of the Industrialization Map and BRM for the first five-year period amounted to KZT 6.5 trillion, or 24% of the cost of fixed capital throughout the economy, while in 2015 this figure increased to 28% (KZT 1.9 trillion). It is very important that in 2015, nearly 34 000 new permanent jobs were created through financial support under the Government program of industrial and innovative development - almost every third of all new jobs. It is also important that industrialization is also being carried out in rural areas - with the

involvement of rural people, especially young people. On many projects local personnel are trained. Thus, 401 projects were implemented in rural areas and small towns (KZT 1.7 trillion were invested, 36.3 thousand permanent jobs were created) (In 2015, the second five-year plan for industrialization began. The site of the Ministry of investments and development of the RK. June 21, 2016.).

The country has done much to create a favorable investment climate, as evidenced by the fact that Kazakhstan, according to the World Bank's "Doing Business" report, climbed from 51st to 35th spot in just one year in 2016 (Speech of the Head of State at the solemn meeting dedicated to the 25th anniversary of independence of the Republic of Kazakhstan. 15.12.2016. [http // akorda.kz](http://akorda.kz)).

On December 14, 2012, in the President's Address to the people of Kazakhstan, the Head of State announced a new Strategy - "Kazakhstan-2050" (Message of the President of the Republic of Kazakhstan Nursultan Nazarbayev to the people of Kazakhstan dated January 31, 2017 "Third modernization of Kazakhstan: global competitiveness" (Hanna, 2011). Transforming Government and Building the Information Society. Challenged and Opportunities. New York: Springer) to further modernize various spheres of government activity. It defines 7 areas of modernization: management, energy, ecology, knowledge-based economy, human capital, urbanization and international integration, outlining its goals and objectives. By 2050, Kazakhstan is expected to be among the 30 most developed countries in the world. Small and medium-sized businesses are to produce at least 50% of the total GDP. Presently, under the Nation Plan favorable conditions for doing business are being created, infrastructure is being modernized and investments in human capital are expanding. The growth of the national economy will be ensured by an increase in labor productivity. It will increase fivefold in 33 years from 25 thousand to 120 thousand dollars per employee. A transition to an innovative development model will be ensured. Expenditures on research and development will increase to 3% of GDP. This will bring Kazakhstan closer to the level of countries with a knowledge-based economy. The energy intensity will decrease twofold.

Cities and villages will be connected by high-quality roads, fast and safe routes of all types of transport. For this purpose, the government program "Nurly Zhol" is being implemented in Kazakhstan, which will link Astana to all regions in a radial manner. About 7 thousand km of highways will be built and reconstructed, the railway network will be expanded and electrified, airports and seaports will be reconstructed (Speech of the Head of State at the solemn meeting dedicated to the 25th anniversary of independence of the Republic of Kazakhstan. 15.12.2016. [http // akorda.kz](http://akorda.kz)).

According to the Ministry of Investment and Development, under the Industrialization Map, in total, 898 projects with investments of KZT 3.8 trillion were put into operation, including 128 projects worth of KZT 815 billion in 2015. 80% of those projects are the ones to create new businesses for 85 thousand jobs, 20% are aimed at the modernization and expansion of existing enterprises. A total of 6.3 trillion KZT in output was produced. One third of GDP growth in 2015 was obtained from the projects of the Industrialization Map (0.39% of 1.2%) (In 2015, the second five-year plan for industrialization began. Results of GPIIR. Ministry of Investment and Development of the Republic of Kazakhstan. It is posted on the Ministry's website on 21.06.2016.).

The share of innovative enterprises in 2015 increased twice compared with 2010 and amounted to 8.1%. From 2011 to 2016, Kazakhstan improved its ranking in the "Innovation potential" by 44 positions taking the 72nd place, and in the "technological readiness" by 26 positions, reaching the 61st place. Among the main tools of financial support to give a boost to production are innovation grants. In 2015, a record number of applications was received - 462 applications for grants, of which 51 projects were approved for a total of KZT 1.6 billion. The largest activity was in the information technology sector - 110 applications, in machine building (including the use of new materials) - 104 applications and in the agro-industrial complex - 62 applications.

To accelerate the technological modernization of the economy significantly and increase the country's competitiveness, colossal financial resources are needed.

Meanwhile, over the past ten years, Kazakhstan has endured the impact of two global financial and economic crises of 2007-2009 and 2014-2016. Today, the economy of Kazakhstan is negatively affected by a number of external factors caused by a collapse in oil prices on world markets. In these conditions, the vulnerability of the domestic economy to external shocks increases. In particular, in 2009 and 2015 there was a sharp decline in GDP growth rates to 1.2% as a result of the fall in world oil prices to 35 dollars per barrel in 2009 and 2015 (from 111 dollars in 2012 g.) (The main socio-economic indicators of Kazakhstan. Statistical Yearbook. Agency of the Republic of Kazakhstan on Statistics. - Astana, 2011-2016. - <http://www.stat.kz>).

As the world practice shows, economic crises serve as an incentive for accelerating modernization in all areas.

The current stage is characterized by a cyclical development of the economy, in which new challenges arise for Kazakhstan:

- the absence of oil super-profits as a result of a decline in world oil prices;
- decrease in demand for Kazakhstani export products as a result of slowing growth in the world economy.

Export of Kazakhstani products in 2015 alone fell by 38% or by \$ 31 billion compared to 2014 (from \$ 79.0 billion in 2014 to \$ 48.8 billion in 2015), mainly due to the export of fuel and energy materials.

These challenges create serious problems for the whole economy. In particular, in 2015-2016, the macroeconomic situation in the country worsened and the GDP growth rate decreased (table 1):

Table-1. GDP growth in the Republic of Kazakhstan in 2010-2017*

	2010	2011	2012	2013	2014	2015	2016	2017**
Real GDP	7,3	7,5	5,0	6,0	4,3	1,2	1,1	3,4

* Note: figures taken by the author from the data of the Statistics Agency of the Republic of Kazakhstan (19)

** Estimate of GDP growth in 2017 according to the data of the Ministry of Energy (1).

GDP growth in Kazakhstan declined from 7.3% in 2010 to 4.3% in 2014, 1.2% in 2015 (The main socio-economic indicators of Kazakhstan. Statistical Yearbook. Agency of the Republic of Kazakhstan on Statistics. - Astana, 2011-2016. - <http://www.stat.kz>.) and 1.1% in 2016, which is explained by a significant slump in world oil prices, starting in 2014 .

Decrease in prices for raw materials led to the depreciation of the Russian currency at first - to 66 rubles or more per dollar, and then of the Kazakhstani currency - Tenge almost twice (from KZT 150 to KZT 300 per 1 dollar), which led to a significant outflow of capital from the country and increasing risks in the financial sector. Of course, the devaluation of the Tenge brought about an increase in inflation as a result of the Tenge exchange rate adjustment in February 2014. Imported inflation increased to 7.4% by the end of 2014, 2.6% above that of 2013 .(Message of the President of the

Republic of Kazakhstan Nursultan Nazarbayev to the people of Kazakhstan dated January 31, 2017 "Third modernization of Kazakhstan: global competitiveness" [http // akorda.kz](http://akorda.kz).Nagy Hanna (2011)) (In 2015, the inflation rate increased to 13.6% (GDP growth in Kazakhstan in 2017 will be 2.5% - the forecast of the Ministry of Economy. [http // seosait.com / gdp - kazarstana-2015,2016,2017](http://seosait.com/gdp-kazarstana-2015,2016,2017)).

In January 2016, oil prices reached a record low of \$ 27.7, global metal prices also fell, causing the country's GDP to fall to 1.1% in 2016. Inflation in 2016 decreased by 5.1 percentage points and reached 8.5% (GDP growth in Kazakhstan in 2017 will be 2.5% - the forecast of the Ministry of Economy. [http // seosait.com / gdp - kazarstana-2015,2016,2017](http://seosait.com/gdp-kazarstana-2015,2016,2017)).

Outflow of investments from developing countries continues worldwide. While in 2010 investment in developing countries was at \$500 billion, in 2015, its outflow amounted to \$ 750 billion (In 2015, the second

five-year plan for industrialization began. The site of the Ministry of investments and development of the RK. June 21, 2016).

In accordance with the Global Competitiveness Report 2016-2017, Kazakhstan ranks 53rd out of 138 countries. Unfortunately, according to this indicator, Kazakhstan dropped by 11 positions in comparison with the ranking of 2015-2016 - 42nd place (Results of the rating of the GEF WEF for 2015-2016. Kazakhstan, 2016.). The largest drop occurred due to the "Macroeconomic environment" factor - from 25 to 69, i.e. by 44 positions, which is due to the increased growth rates in the following indicators in 2017:

- inflation to 8.5%;
- budget deficit to 5.1% of GDP (over 1 KZT trillion);
- government debt - up to 21.8% of GDP.

In addition, there are a number of other serious internal problems in Kazakhstan's economy. To date, the wearout of fixed productive assets is continuing in the country: the degree of depreciation has increased by more than 50% and in some industries is at a critical 80-90% (18). In comparison with the economies of developed countries, the volume of investments in fixed assets of the industrial sector in Kazakhstan is unacceptably small. The reasons for the low investment activity of domestic enterprises are diverse. The leading factor limiting investment activity has been and still is a lack of financial resources within enterprises, and also a high interest on borrowing. The urgent need in the renewal of fixed assets has to do with the established technological backwardness of the industrial sector.

It is no accident that in the President's Address of January 31, 2017, the task set was to implement Kazakhstan's Third Modernization and create a new model of economic growth in order to ensure global competitiveness. The first and most important priority is the accelerated technological modernization of the economy. By 2050, Kazakhstan must fully renovate its production assets up to the latest technological standards (9). Undoubtedly, to fulfill this priority activity, enormous financial resources will be required.

Our analysis for the period from 2010 to 2015 (Table 2) showed that investments in Kazakhstan from all financing sources increased over these six years 1.5 times (from KZT 4.8 trillion in 2010 to KZT 7,02 trillion in 2015).

Table-2. Dynamics and break-down of funding sources for fixed capital in Kazakhstan in KZT billion

Funding sources	2010		2013		2014		2015		2015 to 2010	
	amount	share, %	amount	share, %	amount	share, %	amount	share, %	amount	share, %
Investments in fixed assets	4773.2	100,0	6 072,7	100,0	6 591,5	100,0	7 024,7	100,0	+2251,5	147,2
Republican Budget (RB)	829.9	17,4	759,8	12,5	945 ,3	14,3	951, 6	13,5	+121,7	114,7
Local budget (LB)	177.3	3,7	263, 9	4,3	393, 3	6,0	349,4	5,0	+172,0	197,1
Equity capital	2 190.4	45,9	3 139, 8	51,7	3 746 ,6	56,9	4 048, 8	57,6	+1858,4	184,8
Foreign investment	1 165.2	24,4	909,3	15,0	1130,9	17,2	1234,7	17,6	+69,5	106,0
Debt	410.4	8,6	999,9	16,5	375,4	5,6	440,2	6,3	+29,8	107,3

Note: The Table is drawn up based on the Statistical Bulletin "Investments in fixed capital of the Republic of Kazakhstan" for 2010-2015. www.stat.gov.kz (18)

At present, the largest share - over 57% of all sources of financing investments in fixed assets - is the equity funds of enterprises, firms, companies, various economic entities. Over the last six years, their share has increased from 45.9% in 2010 to 57.6% in 2015, ie by 11.0%.

In recent years, there has been a trend towards an increase in the share of local budgets in the fixed assets investment from 3.7% in 2010 to 5.0% in 2015. The rate of investment growth through local budgets increased almost twice, while investment growth through equity capital rose 1.8 times. This is a good trend, which indicates that the center of gravity of innovative industrialization is largely transferred from the center to the regions. The regions began to actively develop the real sector of the economy, produce consumer goods and foodstuffs, perform construction work, develop the production and transport infrastructure, which ultimately contributes to the employment of the population and to the improvement of people's quality of life. Only strong high-tech regions can in the long term ensure Kazakhstan's sustainable development.

At the same time, there are undesirable trends such as the decline in the share of foreign investment in sources of fixed capital financing, which rank second in the break-down of funding sources. In recent years, their share has been sliding and quite significantly. While in 2010 they accounted for 24.4% of all investments in fixed assets, in 2015 this share decreased by 6.8% and amounted to only 17.6%, and in 2013-2014 their share was even less: 15 - 17.2%, due to the fact that it was during these years that unfavorable trends in terms of the reduction of foreign investment began. This, in turn, was due to the worldwide trend of outflow of capital from emerging to developed markets as a result of a drop in world prices for raw materials (oil, gas, metals) and depreciation of the national currencies of commodity countries and the growth of the dollar.

The third place in sources of fixed capital financing in 2015 was occupied by the republican and local budgets - 18.5%, although, the share of budgetary sources decreased by 2.6% from 2010. However, this is a good trend, since the government should not interfere heavily in market processes and restrict competition.

The development of Kazakhstan's financial system is unstable and is caused by a number of key problems, many of which are chronic. The stagnation of the financial market over recent years is due to both internal causes and constraints on the part of the real sector, in particular:

1) the priorities of bank lending reflect disparities in the structure of economic growth, which is based on consumer demand, rather than on investment;

2) a limited set of services rendered by banks to large enterprises and the inability of banks to accumulate independently a significant amount of resources necessary to finance large-scale investment projects result in the financing of priority economic development directions, including small and medium-sized businesses, being largely dependent on the resources allocated by the state;

3) the banking system's bias towards retail funding in the actual absence of a market for liquidity redistribution and the underdevelopment of refinancing mechanisms makes the banking system exposed to risks of depositors' "swinging moods";

4) high volume of non-performing loans reduces the ability of the banking sector to respond flexibly to changes in the macroeconomic environment, as well as the situation in individual markets;

5) inconsistency of the structure of assets and liabilities of the banking system by types of currencies, as bank creditors increasingly prefer foreign currency, while borrowers prefer the national currency;

6) low potential of non-bank institutional investors in the private investment market, given that the opportunities of insurance organizations are limited by the transfer of a significant amount of insurance premiums to non-resident reinsurers, and the major priority in the management of pension money by the Unified Accumulative Pension Fund (hereinafter UAPF) is preserving funds by reducing investment risks;

7) supply shortage and unattractiveness of securities market instruments compared to bank deposits and the real estate market for retail investors;

8) as a consequence, the lack of an alternative to the market of banking services that could otherwise be offered by the securities market.

As the experience shows, the budget investment process in Kazakhstan has proven to be effective. Budgetary investments provide stable trends of economic growth and create the necessary conditions for the modernization of the economy (Table 3):

Table 3. The main expenditures areas according to the draft republican budget of Kazakhstan for 2018-2020. Government Program «Digital Kazakhstan»

	Draft Republican Budget					
	2018		2019		2020	
	KZT trillion	% GDP	KZT trillion	% GDP	KZT trillion	% GDP
Total expenditures	9,2	16,5	9,8	16,1	10,2	15,6
Human capital development	4,1	7,3	4,4	7,3	4,8	7,4
% of expenditure	44,5		45,3		47,4	
A new model of economic growth (for the implementation of government programs: Nurly zhol, Nurly zher, Development of the agricultural business, Government Program for Industrial and Innovation Development, Development of transport infrastructure (outside of Nurly Zhol), Energy and ecology, Information and communication development)	1,4	2,4	1,2	2,0	1,0	1,8
% of expenditure	14,8		12,4		10,2	

Note: The table is based on the Forecast of the socio-economic development of the Republic of Kazakhstan for 2018-2022 and the Forecast of the budget parameters for 2018-2020 (Message of the President of the Republic of Kazakhstan - the Leader of the Nation NA. Nazarbayev to the people of Kazakhstan "Strategy" Kazakhstan-2050 ". New political course of the state. " 14 December 2012. [http // akorda.kz](http://akorda.kz)).

As can be seen from the analysis, in 2018-2020 about 60% of all the means of the republican budget are planned to be allocated annually to modernize the economy and develop human capital in order to achieve global competitiveness and improve the population's quality of life.

5. Conclusion

In this connection, there is a need in "resetting" the financial sector:

1. The National Bank should develop a set of measures to improve the banking sector. It is necessary to speed up the work on clearing bank balances of "bad loans" and ensure their additional capitalization on the part of shareholders. The National Bank should take tough measures against banks that violate its regulatory requirements for capital adequacy, liquidity, and solvency.

2. To increase the effectiveness of banking activities, it is necessary to strengthen the responsibility of audit companies for audit results, while it is important to ensure the transparency of shareholders and generally improve corporate governance.

3. To solve the money shortage problems in the economy and high interest rates on loans, the National Bank and the Government need to take a set of measures to ensure affordable medium and long-term funding of banks in Tenge.

Given the limited financial resources for accelerated technological modernization of the Kazakh economy and the inability of the banking system and the financial sector in general to meet these needs, Kazakhstan continues to attract foreign direct investment targeting primarily the following industries: chemical industry, mining and metallurgical plants, the agro-industrial complex, machine building, production of construction materials, information telecommunication technologies, transport and logistics, renewable energy sources and electric power. Such attractiveness is to no small extent supported by a favorable investment climate, stable political environment, traditionally high level of professionalism of the personnel employed in these industries.

Nevertheless, it is important to further improve the investment climate in Kazakhstan and attract private investment with an emphasis on transnational corporations. There is a need in creating a favorable environment for attracting "complex investments".

Currently, as part of the implementation of investment projects, additional financial incentives are being introduced for transnational companies in order to attract foreign investment. Additional financial incentives include:

- Compensation of up to 30% of capital expenditures (investment subsidy) from the government after operational commissioning;

- Exemption from payment of corporate income tax (CIT) for 10 years;
- A long-term guaranteed order for goods and services of investors from national holding companies, national companies and government agencies.

In addition, it provides for the introduction of the "one-stop shop" principle for investors in order to provide all necessary services from a single source. To date, according to "one-stop shop" rule, Kazakhstani investors can get 350 public services.

A favorable investment climate, along with other incentives, will speed up the process of technological modernization of the Kazakh economy and ultimately achieve the ambitious goal of "breaking into the world's 30 most developed countries."

A fourth industrial revolution started around the world, through the automation and robotization of production processes, the creation of fundamentally new industries as a result of the digitalization of the economy. With the onset of a new global technological era, active industrialization becomes a strategic task. Kazakhstan is at the initial stage of industrialization. A key condition for the success of industrial policy is its financing. International experience shows that even the best strategies without due funding are doomed to failure.

As the results of our analysis show, the Government of Kazakhstan has chosen a policy of modernizing the economy through the active participation of the government in the further diversification of the economy by implementing government industrialization and Nurly Zhol programs, as well as priority agro-industrial projects and by supporting small and medium-sized businesses, thus ensuring employment and business activity. In this decision, there are both political and economic aspects.

On the one hand, such a decision was based on the moral choice of the country's leadership for accelerated economic modernization, and on the other hand, on the objective understanding that natural resources are limited, and the manufacturing sectors of the economy are not competitive and not attractive to private capital at the moment. In particular, for the implementation of the Government program "Digital Kazakhstan" significant financial resources will be allocated from the national budget: in 2018 - KZT 6.4 trillion, 2019 - KZT 9.2 trillion, in 2020 - KZT 1.3 trillion (Draft forecast of social and economic development of the Republic of Kazakhstan for 2018-2022 of the Ministry of National Economy of the RK, Minutes No. 34 of August 29, 2017, approved at the meeting of the Government of the Republic of Kazakhstan.).

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