Deposits of Population in the Republic of Kazakhstan

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Abstract

Search opportunities investing temporarily free monetary funds is one of the most important issues faced by not only management companies, but also individuals. In terms of economic instability possibility of saving savings and guaranteed capitalization is becoming increasingly important. Therefore, the purpose of the article was to consider an alternative to bank deposit with a structured product. Method of research is a comparative analysis of the market of bank deposits and structured products based on the law and according to one of the financial and credit institutions. According to the study results a brief conclusion was formed that inherently structural product can to some extent be attributed to the asset management services.

Keywords: Republic of Kazakhstan; Banking System; Cash; Deposit Market

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INTRODUCTION

Economic instability complicates the task of getting a guaranteed return. The recent financial crisis has shown that the indicator of the level without risk of interest rate tends to zero, since absence of risk in this cannot be fully provided by any of asset. There is a need for new approaches to the investment of funds not only for businesses but also individuals. Of course, there are several alternative approaches, but in each the contributor has a great responsibility for the choice of the object of investment. In addition to the conservatism of most Kazakhstan depositors, low share of alternative investment options may be due to an insufficient level of financial literacy and complexity of integrated banking products that are actively being developed to attract active citizens [1,2].

Banking processes are defined external toward the banking system of macroeconomic factors. In turn, the negative trends that obstruct the work of banks and lead to a breach of financial stability have a direct impact on economic growth and can cause serious disturbances in the industrial sector, leading to prolonged stagnation. An example of how the banking crisis escalated into a global financial, are the events of 2007-2008 [3]. Last global crisis continues to define the state of the economy, including the state of the banking systems of most countries. The crisis and the ongoing recession has significantly worsened performance of the banking system of Kazakhstan, Russia and the European Union. The banks especially arose an acute issue question about the formation of stable resources sufficient to preserve the stability of the banking system in the context of financial turbulence and stagnation of production, as well as to ensure sustainable economic growth. For Kazakhstan, this task has become even more urgent.
in view of the lack of internal sources of funds and limited access to external sources [4].

In the mechanism of economic growth important role belongs to the banking institutions, the implementation of functions which consistently leads to the accumulation and transformation of businesses and assets of the population in the bank resources and investments in the economy. The complexity of the formation and management of bank resources is reflected not only in the process of adaptation of resources involved in lending and investment banks' investments, but depends on the confidence of depositors in banks. Therefore, the study questions for stable banking resources in the global macroeconomic instability are of particular relevance [5-7].

Thus, a more detailed study of the stability analysis of bank deposits in times of crisis and instability of the economy, has been identified as a target of the study [8].

The banking system reflects the financial and economic condition of the country, the first response to economic growth and to its impending recession, which in turn increases the volatility of bank resources, including deposits. At the same time, elements of instability in the activities of banks may slow economic growth and change in general the economic outlook. These two processes are organically connected and interdependent [9].

A special feature of the global financial market in recent years is to follow the demand for financial services. Kazakhstan in this context develops in line with the global trend. As a result, every year on the market a huge amount of new types of structured financial products emerges. However, as the experience of the formation and development of Kazakhstan market showed, structured financial products, the vast majority of products created and brought to the market, were at a loss for investors. It is necessary to take into account the fact that these products are primarily intended for individuals, in connection with which their structure should not be unnecessarily complicated [10-12].

MATERIALS AND METHODS

The financial institutions and some agents offer the public a wide range of financial instruments in the financial market today. It so happened that the leading position among all financial market instruments accounted for bank deposits. One of the important factors of a deposit in the domestic market is the historical factor, also the state guarantee of the safety of deposits and the lack of competition in bank deposits.

The historical factor: There was the historical background, the establishment and formation of the banking system before the independence of our Kazakh state. The formation and development of Kazakh banking system took several decades.

The state guarantee of deposits: A key factor of the general interest to this instrument is its safety. So, there is the Deposit Guarantee Fund of the deposits of individuals in
our Republic, members of which are all second-tier banks. This factor increases the competitive advantage of deposits, which is decisive during a slow-down.

**Lack of competition:** The monopoly position of bank deposits is affected by the underdevelopment of other financial market instruments. Alternative deposits are the securities and shares of investment funds. The Kazakhstan securities market goes through stages of activation, but securities transactions still take an imponderable share among private investors.

**RESULTS**

The main area of trading shares and corporate stocks is the Kazakhstan Stock Market. 77 issuers of shares with 98 ordinary and preferred shares have passed listing, but the main trading is by 6 corporate issuers.

A pessimistic picture is also observed in the market of unit funds (Table 1). If the bank rate on KZT deposits is 10% per annum, then the increase in the share is 4% which doesn’t inspire investors to invest in this risky tool. In this case, in our opinion, the incompatibility of profitability to the level of risk will continue to repel investors from buying the instrument.

**Table 1:** Rating of unit funds in 2014.

<table>
<thead>
<tr>
<th>N</th>
<th>Name of fund</th>
<th>Name of the management company</th>
<th>Share for 31.12.13</th>
<th>Share for 31.01.14</th>
<th>Gain, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Center Credit – smart balance</td>
<td>BCC Invest</td>
<td>1,87</td>
<td>1,95</td>
<td>4,08</td>
</tr>
<tr>
<td>2</td>
<td>Fund of Euro stocks</td>
<td>Central Securities</td>
<td>868458,4</td>
<td>895683,9</td>
<td>3,13</td>
</tr>
<tr>
<td>3</td>
<td>ASSYL-EXPERT</td>
<td>ASSYL -INVEST</td>
<td>1588,44</td>
<td>1625,87</td>
<td>2,36</td>
</tr>
<tr>
<td>4</td>
<td>Treasury</td>
<td>Central Securities</td>
<td>289488,83</td>
<td>293528,01</td>
<td>1,4</td>
</tr>
<tr>
<td>5</td>
<td>Damu Invest</td>
<td>ORDA Capital</td>
<td>15828,19</td>
<td>15928,74</td>
<td>0,64</td>
</tr>
<tr>
<td>6</td>
<td>Favorite</td>
<td>REAL ASSET MANAGEMENT</td>
<td>345993,72</td>
<td>345684,35</td>
<td>-0,09</td>
</tr>
</tbody>
</table>

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There are 38 second-tier banks in Kazakhstan, but the situation on deposit has the misdistribution which is confirmed by the Table 2.

The status of bank, its history and branch network in the Republic affect the rating of the bank. Halyk Bank of Kazakhstan and Kazkommertsbank have the most extensive branch network in the country, as well as an excellent reputation among the population, which affects the population’s demand for products of banks. Two large conglomerates have 36.13% portion of the deposits.

**Table 2:** Rating of banks on deposits of individuals.
<table>
<thead>
<tr>
<th>NO</th>
<th>Name of banks</th>
<th>Unit weight, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Halyk Bank of Kazakhstan</td>
<td>20.38</td>
</tr>
<tr>
<td>2.</td>
<td>KazKommertzbank</td>
<td>15.75</td>
</tr>
<tr>
<td>4.</td>
<td>Bank Center Credit</td>
<td>7.51</td>
</tr>
<tr>
<td>5.</td>
<td>Sberbank of Russia (Kazakhstan)</td>
<td>6.74</td>
</tr>
<tr>
<td>6.</td>
<td>BTA bank</td>
<td>6.35</td>
</tr>
<tr>
<td>7.</td>
<td>Tzesna bank</td>
<td>6.13</td>
</tr>
<tr>
<td>8.</td>
<td>Zhilstroysberbank</td>
<td>5.62</td>
</tr>
<tr>
<td>9.</td>
<td>ATF bank</td>
<td>5.28</td>
</tr>
<tr>
<td>10.</td>
<td>Bank Yevrasijskij</td>
<td>3.78</td>
</tr>
<tr>
<td>11.</td>
<td>Other banks</td>
<td>13.10</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Comments written by the author based on www.investfunds.kz

Table 3: Comparative analysis on time deposits of individuals in 2013-2015.

<table>
<thead>
<tr>
<th>Name</th>
<th>01.01. 2013</th>
<th>Share, in %</th>
<th>01.01. 2014</th>
<th>Share, in %</th>
<th>Rate of increase to 2013, %</th>
<th>01.01. 2015</th>
<th>Rate of increase to 2014, %</th>
<th>Share, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time deposits of individuals,</td>
<td>2974.4</td>
<td>100</td>
<td>3301.6</td>
<td>100</td>
<td>11.00</td>
<td>3727.8</td>
<td>12.91</td>
<td>100</td>
</tr>
<tr>
<td>KZT billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incl. in exchange, KZT billion</td>
<td>1276.9</td>
<td>42.9</td>
<td>1608.7</td>
<td>48.72</td>
<td>25.98</td>
<td>2774.2</td>
<td>72.45</td>
<td>74.42</td>
</tr>
<tr>
<td>Incl. in national currency, KZT billion</td>
<td>1697.5</td>
<td>57.0</td>
<td>1692.9</td>
<td>51.28</td>
<td>-0.27</td>
<td>953.6</td>
<td>-43.67</td>
<td>25.58</td>
</tr>
</tbody>
</table>

Comments – is written by the author based on www.investfunds.kz

In the competition between banks there is the requirement to attract many customers, depositors whose funds are the source of replenishment of bank resource base.

The problem of attracting free funds of individuals is one of the most actual for today as for an individual bank and for the banking system as a whole, which should be based on the interests of depositors, to maximize an interest in keeping their funds in bank
accounts. Attracted assets of the bank cover 80-90% of the needs for financial resources for the implementation of active operations.

Deposits of the population in the Republic on 01.01.2015 are KZT 4,442.5 billion. Table 3 provides with an analysis on time deposits of individuals. We excluded non-fixed deposits and conventional deposits to make an analysis, as the time deposits show us the real picture.

Over the past 3 years there is a raised deposits trend of individuals in second-tier banks. If the increase in 2014 was 11%, in the current year this indicator was 12.91%, higher than the by 1.91 points in comparison with the previous parameter.

Figure 1 shows us the situation by currency preferences.

Figure 1: The analysis of time deposits of population by currency for 2012-2014 years.

The time deposits of population in national currency for 2012 and 2013 exceeded the level of deposits in foreign exchange. But the devaluation in 2014 affected the investment preferences of people, and the deposits in foreign exchange exceeded the level of deposits in KZT.

Despite the good offer of interest on KZT deposits, as shown in Figure 2, the demand for exchange deposits has a progressive trend.

Figure 2: Bank rate of interest on the deposits for individuals.
The most attractive rates for deposits in Euro and RUB are 3%. The interest rate is 4% for deposits in USD.

Discussion and Conclusion: The analysis shows us that the annual interest rate on deposits hasn’t a good role in the investment preferences of investors. The devaluation in February 2014 changed the preferences of investors, yielding deposits in exchange. Changes in exchange rates over the last year are shown in Figure 3.

![Figure 3: Dynamic of exchange rate of USD, EURO and RUB to KZT.](image)

Because of falling oil prices the exchange rate of the USD to KZT increased by 18.61% compared to last year.

The analysis of the deposit market confirmed that the demand for bank deposits has a positive trend, and the rumors concerning the coming crisis did not discourage investors from savings in banks. However, the devaluation of KZT in the previous year affected the currency preferences of investors – more and more investors are investing money in foreign currency. It will last probably this year too, which will worsen the situation on the currency market. To stabilize this effect the Government is required to combine monetary and fiscal instruments that would solve the problem.

In our opinion, the Kazakh deposit market has the potential for further quantitative and qualitative development. The actual questions are the formation of commercial bank deposit policy, taking into account a variety of factors, with a guide to improve the profitability of a commercial bank. So, the volume of loans is going down by hard credit
policy of commercial banks, reducing the profitability of deposits.

There are the questions what kind of the bank's deposit policy should be, what factors should be considered by forming deposit policy, how far deposit policy must be mobile, etc.

Recommendation: The last global financial crisis has shown that even large banks are susceptible to the risks and may lose liquidity and become bankrupt, so the deposit insurance system remains relevant in order to maintain stability of the national financial system. However, in times of crisis the deposit insurance system should be combined with appropriate regulatory supervising structures that adequately control the level of liquidity in the banking system. At present, almost all countries have expanded coverage of deposits guaranteed by the insurance systems or have announced that all outstanding deposits will be refunded if necessary. All measures taken have achieved the main goal to bring down the panic and mass withdrawal of deposits from commercial banks that maintain a relatively stable financial system. However, the crisis has revealed that the existing deposit insurance system is somewhat outdated, because it is not always consistent with the new financial innovation and sometimes is not coordinated with other national deposit insurance system. Significant differences across countries in the united Europe had to eliminate matter of urgency in crisis conditions, because decisions taken by one country caused problems to other countries. We will continue to follow our scientific pursuits on this matter.

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