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Forming Segments of the Financial Market at the Present Stage of Kazakhstan's Economy Development

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Abstract: The value of financial market is especially relevant under conditions of market relations, since ensuring continuity of financial resources formation, their effective investment and purposeful usage is made possible due to financial market functioning. All this defines the role and importance of financial market in the country economy as a whole. The financial market is an organized system of trading in financial instruments of various markets: monetary, deposit, credit, currency, funds, insurance, pension, real estate, precious stones and metals. The main function here is performed by financial institutions directing money flow from owners to creditors, where payment tools and securities act as goods. As any other market, the financial market is aimed at establishing direct relations between financial resources, buyers and sellers.

Key words: Financial market · Financial instruments · Segmentation of financial market · Real-estate market · Market of precious metals and stones

INTRODUCTION

Under the conditions of modern national economy development, as well as the emerged trends of financial market globalizations, Kazakhstani financial market segmentation issues, organizations of financial intermediaries' activities considering the urgency of domestic financial market development become particularly relevant.

Financial market is a key component of national economy. It is the most important mechanism in the formation of sources of economic growth and development. Efficiently functioning financial market is to accumulate available usable funds, transform them into investments to ensure the distribution of financial capital between the different sectors of the economy and, ultimately, contribute to the economic growth of the government. Nowadays under conditions of globalization and economic systems integration of countries, the financial market is a very complex mechanism which hasn't been described fully by any theory yet. The matters of formation and structural conversion of Kazakhstani modern financial market, its formation of infrastructural features require upgrading methods of organizing the Republican financial market functioning taking into account the actual tendencies of national economy development.

The concept "financial market", as well as its structuring is treated in different ways which is due to the current international practice and specific development of each state's economy. Financial market structuring is a division into respective individual segments based on the nature of the financial instruments that are traded in this financial market segment. Each segment has its own specific characteristics of functioning, its own rules and conditions of trading in financial instruments.

The concept "financial market" is treated differently caused by prevailing definition of scientists-representatives considering the specific development of each state economy. Thus, according to the definition used in the IFRS: financial instrument is any contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity [1]. Financial instruments are different forms of financial liabilities, both long-term and short-term which are the subject of purchasing and selling in the financial market [2]. Russian scientists under the term of financial instruments understand various forms of short-and long-term investments that are traded in the financial markets [3].

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MATERIALS AND METHODS

Article applied methods for the determination of concepts, inductive method, the methods of theoretical analysis.

Main Body: It is known that the financial market is a system of movement and redistribution of monetary capital between market participants through various types of financial instruments within the limits of supply and demand. The basic role here is played by financial institutions that send money from owners to borrowers where the commodity is different financial instruments. Like any other market, the financial market is intended to establish links between buyers and sellers of financial resources. This reallocation is becoming available by the functioning of financial instruments which provide a connection between the segments and financial market participants. Exactly they serve the tool, which makes it possible to provide continuity of the process of redistribution of financial resources.

The concept "financial market" is treated differently caused by prevailing definition of scientists-representatives considering the specific development of each state economy. Above were considered the main definition of "financial instrument". Despite the different definitions, however, they all agree that the financial instrument is a means of redistribution of monetary capital. Without financial instrument there is a termination of link between the representatives of the financial market as well as between its segments.

In our opinion, all financial instruments can be divided into monosegmentive and oligosegmentive ones (Figure 1). It is this factor that allows strengthening the relationship between the structural components of the financial market.

Monosegmentive financial instruments appear and as a rule have circulation in one particular segment of a financial market. Oligosegmentive financial instruments are circulated in several segments of a financial market. In other words, they are financial instruments of several markets. For example, a deposit certificate occurs directly in the monetary market, but it can also be financial instrument in the securities market, as it becomes the object of purchase and sale as a security. Share is a financial instrument only of securities market, because it is only issued in this segment of the financial market. It should be noted that the majority of financial instruments, particularly in the context of financial markets globalization are oligosegmentive.

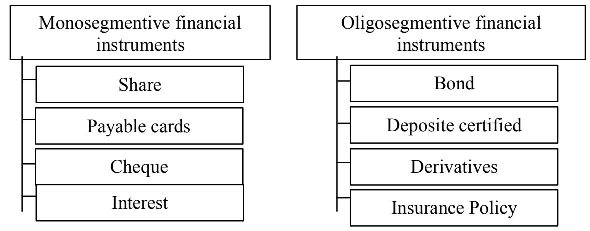

Fig. 1: Types of financial instruments

Each country has its own characteristic structure of the financial market that reflects its content and features. Functioning conditions of financial markets create prerequisites to their definite structuring, in other words, to the selection of individual functioning by their rules on the financial market. Depending on the specific development of individual segments of the financial market in certain countries there are different approaches to the financial market structuring.

Here, first of all, we have to pay particular attention to the separation of the concepts "financial market" and “financial markets." In modern economic literature, many scientists and economists are inherent in the use of these concepts as identical. However, in our opinion, considering the theoretical aspects of these concepts we should distinguish the semantic content of defining these concepts. The concept «financial market" and its structure imply general character of the system as a whole and its allocation in individual markets. The concept "financial markets" implies some structural elements (segments) of the total system (i.e., the credit market, the stock market, foreign exchange market, etc.), but bearing in itself all its defining characteristics.

In foreign economic literature there is a popular approach according to which the concept "financial market" includes all the markets in financial system. Also for Western economists it is typical that the structure of financial markets includes insurance markets, pension funds and mortgage markets and financial market can be divided into: money market and capital market. The need for mortgage markets provision in the capital market which is typical for developed countries is connected with a set of circumstances. Firstly, mortgage loans are always provided in the form of a real guarantee of land or buildings (apartments, houses, etc.). If the borrower fails to meet its debt obligations, the property rights are transferred to the mortgage lender. Secondly, the mortgage loans do not have standards (various denominations, maturities, etc.) and, therefore, are hardly realized on the secondary market. This is evidenced by the fact that the volume of the secondary mortgage market far below the volume of secondary market of securities allocated on long-term capital markets. Thirdly, the mortgage markets, in contrast to other long-term capital markets in developed countries are strictly regulated by special acts of state authorities.

Fundamentally the most general division of financial markets for the monetary and capital markets is based on the maturity of the corresponding financial instruments [4]. In the practice of developed countries it is considered that, if maturity of the financial instrument is less than a year, then it is an instrument of monetary market. Long-term and medium-term instruments are related to the capital market. In various countries, the division of financial instruments in the short, medium and long term is different. In Kazakhstan, mostly short-term financial instruments are classified as monetary market instruments and the medium and long term instruments are attributed to the capital market. Thus, the boundary between short-term and long-term financial instruments, as well as the boundary between monetary and capital markets cannot be clearly cut. However, this division makes profound economic sense. Money market instruments are used primarily to provide liquidity to government organizations and business areas, while capital market instruments are associated with the process of saving and investing. Examples of money market instruments are drafts, acceptances, checks, bills, payment cards and other. Capital market instruments, for example, include bonds, stocks, medium-and long-term loans. A similar opinion is shared by economists such as J.M. Mirkin [5] and E.F. Zhukov [6] V.V. Kovalev [7] and so on.

There are modern and unique approaches to the structuring of financial markets by Russian and Soviet scientists and economists. Particularly, in the work of V.I. Kolesnikov, V.S Torkanovskyi in addition to the monetary market and capital market the securities market is separated [8]. This segmentation of the financial market, in our view, is not correct, because the securities market acts as the part of the monetary market and the part of the capital market.

Borozdin P.Y. identifies the financial market only with capital market [9]. Similarly, the financial market cannot be limited only by treatment with medium and long-term financial instruments, as the financial market also includes the circulation of payment instruments, short-term securities, etc.

Alekhin B.I. considers financial market as bank loans and securities market [10]. Loan market, certainly, is an important element of the financial market, but in the structure of the financial market, in our view, there are elements that don’t relate to the market of loan capital directly, though indirectly they refer to. However, in our opinion, such structuring is also very limited. Limiting the financial market only by loans circulation and securities is too narrow. In addition to bank loans and securities, the financial market covers insurance, foreign currency, payment instruments and etc.

Thus, as shown by the analysis, common and generally accepted in the modern economic literature, especially Kazakhstani one, opinions about the structure and segments of the financial market do not exist nowadays.

Differing from "classical" approaches which have been considered above, for the Republic of Kazakhstan, in our opinion, it is typical to have a slightly different structure of the financial market, established on the basis of Kazakhstani economy characteristics. As it is known the financial market structure describes the conditions of the country`s economy, therefore, more accurate segmentation has an important and essential value for the development of Kazakhstan.

In general, the financial market structure of the Republic of Kazakhstan can be considered in terms of two aspects: the institutional and instrumental. Institutional aspect allows us to represent the structure of the financial market as a set of institutions that ensure the smooth reallocation of monetary capital: regulatory bodies, financial intermediaries, professional participants. Instrumental aspect allows segmenting the financial market as a set of financial instruments circulating in this financial market segment. The current structure of Kazakhstani financial market as a whole can be represented as follows (Figure 2).

The presented structure is determined by taking into account the financial market development features of the Republic of Kazakhstan at the present stage, as well as the specifics ofthe financial instruments circulating in the selected segments.

Since the basics of finance are funds (money resources), monetary market is becoming a priority. Money in various forms of existence serves the entire circulation of committed transactions in the market and is becoming the primordial substance of any financial market.

In Kazakhstani market the part of the operations are performed in tenge and the other part - in foreign currency. Similarly, financial instruments can circulate in tenge and in foreign currency. Exchange rate operations also play an important role. The circulation of these financial instruments specifies the functioning of the currency market.

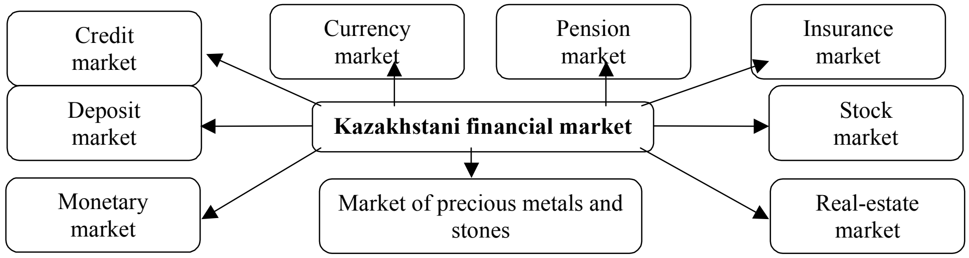

Fig. 2: Segments of Kazakhstani financial market

There is no doubt, that, the stock market belongs to the structure of financial market. Any security has its underlying asset, either way it is funds. Securities are mobile means of redistributing the money resources. For example, deposit will be further circulated, if the bank certificate is executed to the deposit. To increase the working capital it is not necessary to resort to a credit, which also cannot be transferred to another person without a new contract. It is enough to issue the bonds, which are also debt obligations and the debtor shall pay the interest on these bonds. For the insurance of financial risks there exist derivative securities the underlying assets of which are the primary securities. Thus, a security promotes a free redistribution of money resources.

Nowadays, in Kazakhstan pension funds and insurance companies are the major financial institutions, carrying out their activities on the market of the country.

The inclusion of the above mentioned segments to the structure of Kazakhstani financial market has no doubt and has been investigated earlier by the authors and described in the published textbook "Financial markets and intermediaries" [11]. Therefore, more attention should be paid to the two relatively young segments of the financial market, which are being formed in the country.

Real estate market includes the housing market, the market of land for construction or agriculture, market of exploitation of natural systems, the commercial real estate market. For the Republic of Kazakhstan, this segment of the financial market is relatively new. Currently, there is an issue of reasonability to include the real estate market in the structure of Kazakhstan financial market [12]. The majority of economists are inclined to think that the real estate market is the part of the commodity market, not financial. However, today in Kazakhstan there are processes in the real estate market, causing the development of its financial aspects. The acquisition of the property with a view to let it on lease, as well as resale after investing some money to improve the property has been developed. Moreover, there is a big development in equity participation in the construction and mortgage certificates.The real estate market is a mechanism of interaction between market participants to exchange existing rights for property to cash or other assets. Real estate transactions contain all elements of the investment process and require the determination of the term of investment, its size, shape and the level of risk it is associated with. Investments in real estate are made at the market price, which is equilibrium between the interests of buyers and sellers. All these facts cause the consideration to the financial aspect of the real estate market and, accordingly, its inclusion to the financial market [13-15].

Specific segments of the real estate market are characterized by the type of property usage, location, potential revenue brought in by the typical characteristics of the tenants, investment motivation and other features characteristic of real estate exchange process (Figure 3).

All this suggests the need to considering the real estate market as an integral segment of the financial market and requires a mandatory inclusion in the structure of the financial market.

The rise of world gold prices and other precious metals has made it an attractive asset, reviving the interest of investors in Kazakhstan market, too.

The market of precious metals and stones can be defined as a system of economic relations that arise between the parties of transactions with precious metals, precious stones, as well as papers, quoted in gold. The latter include gold certificates, bonds and futures. This market includes a set of relationships between the various actors of the market at the stage of exploration, mining, processing and so on, to the final production of precious metals and stones. This market also includes the purchase and sale of investments, risk insurance, speculation and purchase of required currency for international payments (Figure 4).

The interbank market is developing as the most active one in the structure of the secondary market, the subjects of which are the commercial banks and the National Bank of Kazakhstan and the object is - precious metals in the form of ingots and coins. Here, with the usage of metals the different types of transactions can be made: cash (current) operations, emergency operations, like “swap”,

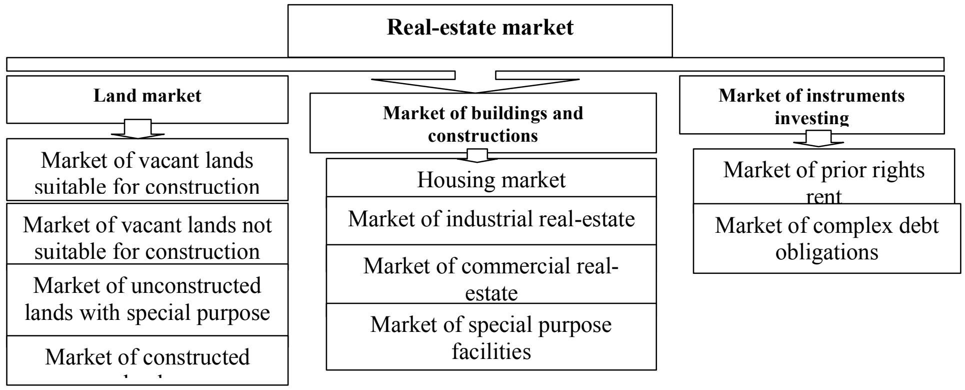

Fig. 3: Real estate market structure

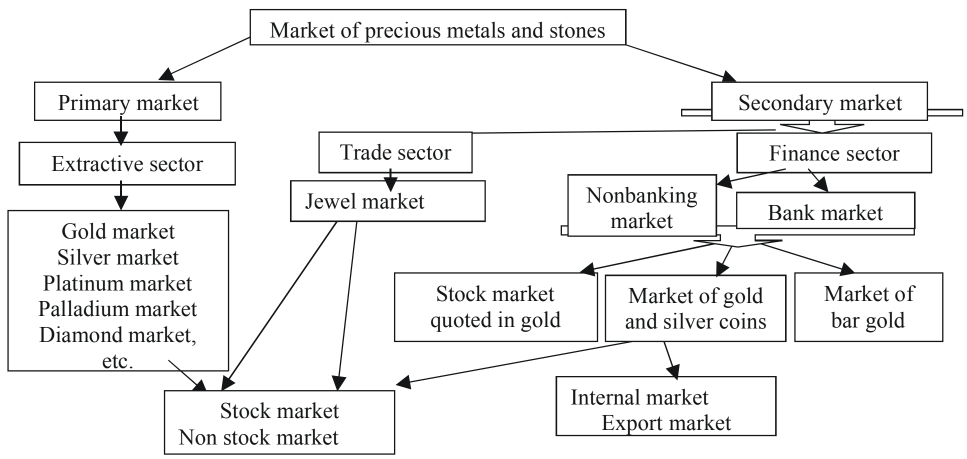

Fig. 4: Structure of the precious metals and stones market

deposit operations and etc. Development of such operations with metals can directly include the market of precious metals and stones to the structure of the Kazakhstan financial market.

Currently in Kazakhstan with the usage of metals different types of transactions can be conducted: buying of physical metal ingots or metal coins, cash (current) operations, emergency operations, the operation like "swap", deposit operations, investments in non-cash form, there is an opening in the bank of special "metallic" account.

CONCLUSION

Thus, the development of operations with a variety of financial instruments makes it necessary to include new segments in the structuring of Kazakhstani financial market. Today, we have identified nine major segments of the financial market of the country, which are formed and being evolved: cash, deposit, credit and currency markets, the stock market, pension and insurance markets, the real estate market and the market of precious metals and stones.

Findings: So it was given to the author's definition of "financial instrument", clarified the concept of "financial market", the analysis of current approaches to segmenttsii financial market, which is presented on the basis of the author's approach to the segmentation of the financial market of Kazakhstan now.

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