

## SECTION 3. MONEY CIRCULATION

### 1.3.1. The meaning of money circulation

Money plays an exclusively important role in the market economy. Market is impossible without money and money circulation. *Money circulation is a monetary movement in an internal business volume in cash or non-cash basis which serves to the goods realization and also to non commodity payments in business.*

Money circulation mediates the gross national product turnover including the incomings of different classes. Money circulation maintains the movement not only of the goods but of loan and fictitious capital.

In the conditions of commodity-money relations in the processes of trading in a commodity, rendering of services and also execution of various commitments in monetary form the payments and settlements appear. The whole complex of all the money payments forms a money turnover the bigger part of which the wire transfers of enterprises for the realized goods and services consist. Such payments also mediate a part of money incomes and expenses of population.

Money turnover represents a complex of cash-in-hand flow and cash wire movements. There is a tight fit between them both: money constantly transfers from a cash form into a cashless and otherwise. The correlation of these two constituents changes as settlement relations develop and improve.

With the commodity circulation and settlement relations development the structure of monetary stock and correlation between the cash and cashless spheres of money turnover changes. If to the end of XIX<sup>th</sup> century the cash settlements prevailed in a money turnover of any country but nowadays in the developed countries the vast majority settlements are made in cashless order.

The cashless money circulation prevails which is served by cheques, credit cards by means of transfer of sums against the invoices of banks and savings banks, electronic translations. Thanks to the settlements computerization drawn on the accounts money easily transfers from cashless into cash money circulation. Besides the money turnover is completed by the treasure bills, obligations, certificates which confirm bank inpayments of a definite sum or gold.

The different instruments of the bank current accounts and deposits usage appeared. Among them are credit cards of “now” accounts for payments against the orders of writing off of amounts from saving accounts, of accounts for money transfers to third persons, etc.

### 1.3.2. Cash-in-hand flow and its organization

**Cash-in-hand flow** is a cash money movement in the sphere of turnover and its performance of two functions: of the mean of payment and of the mean of circulation. Cash money is used for payments of goods, services and works; for settlements which are not connected with movement of goods and services (payment settlements of salaries, bonuses, allowances, stipends, pensions, their revenues, social payments, for housekeeping needs, for business trips, for representational expenses, for agricultural products purchases, etc.).

The cash money movement is performed by means of different types of money: banknotes, metal coins, other credit instruments (bills of exchange, cheques, credit cards). The emission of cash money is performed by the Central (as a rule State) Bank.

As was mentioned before in Kazakhstan it is the National Bank which issues cash money and withdraws it in case of its worn-out state and changes money onto the new samples of notes and coins either. There are the following normative legal documents which take a control of a cash money circulation in our country:

- The board of directors of the National Bank of the Republic of Kazakhstan decision dated from March 3, 2001 №58 “The regulation of cash and safe deposit transactions

conducting in regard to an encashment of banknotes, coins and real values in the second-tier banks and enterprises which perform the separate types of bank transactions of the Republic of Kazakhstan”.

- The board of directors of the National Bank of the Republic of Kazakhstan decision dated from October 10, 2002 №401 “The rule of licensing and regulation of activities of an encashment of banknotes, coins and real values of the juridical entities excluding banks”.
- The board of directors of the National Bank of the Republic of Kazakhstan decision dated from May 28, 2007 №56 “About the confirmation of an instruction on security and rooms arrangements of the second-tier banks”.

The division of cash money onto paper and metal is determined by practical considerations of the money circulation convenience. For example in USA about 10% of money is considered reasonable to keep in small coins. Consequently bypassing a simplification of settlement mechanism and a tendency to electronic money development the commodity production cannot avoid the cash money usage.

It keeps meaning:

- 1) for disadvantaged population;
- 2) in the conditions of crisis when a quest of cash money increases;
- 3) for an illegal economic activity, evasion of property taxes, because cheques, credit cards, transactions are used by judicial authorities in evidence of different offenses.

Nowadays a retail trading in Kazakhstan basically consists of cash-in-hand flow. The majority of population is not served in banks and paid in cash. The clients who have banking accounts prefer to withdraw cash and use it for all their expenses.

For tax authorities it is almost impossible to trace and control the taxpayers revenues on the markets with cash-in-hand flow domination. The main part of cash money is spent on small purchases. Just according to these small payments on retail trading market the different types of production and import supporters can distribute a considerable volume of an unaccounted goods and the State at that faces a problem of tax collection

Many people nowadays work without an appropriate registration and as a salary is paid in cash it is quite difficult to collect the taxes between an employer and an employee. Today the state doesn't have any mechanisms allowing to register a real volume of consumption of the population and estimate a business situation in the sphere of indirect taxation.

The money owner needs a transparency and is forced to count constantly the available sums of money. Thus he prefers to keep it in a wallet. If he could see the rest of sum every time he wants and his money in some manner would secured from inflation thus surely he wouldn't refuse to keep money in bank and to have an access to it by means of payment cards usage.

The National Bank of Kazakhstan specifies the requirements of cash services organization for banks and their clients and also of cash money holding, shipment and accounting. Under the law of RK dated from June 29, 1998 №237 (“Ведомости парламента РК”, 1998 №11-12, article 177) the settlements between the juridical entities on a sum exceeding 4 000 monthly calculation indexes are made only by bank transfers.

## 2. The structure of monetary stock in the Republic of Kazakhstan \*

Year	Monetary stock (M <sub>3</sub> )					
	Total		Including:			
			Cash money in circulation (Mo)		Cashless monetary means	
	Billion tenge	%	Billion tenge	%	Billion tenge	%
1	2	3	4	5	6	7
1993	8,2	100	2,3	28	5,9	72
1994	55,4	100	20,3	36,6	35,1	63,4
1995	115,8	100	47,9	41,4	67,9	58,6
1996	134,9	100	62,8	46,9	71,1	53,1
1997	172,9	100	92,8	54	79,2	46

1998	148,7	100	68,8	46,2	79,9	53,7
1999	273,8	100	103,5	37,8	170,3	62,2
2000	397,1	100	106,5	26,8	290,6	73,2
2001	569,1	100	131,2	23,1	437,9	76,9
2002	764,9	100	161,7	21,1	603,2	78,9
2003	970,5	100	231,1	23,8	739,4	76,2
2004	1564,9	100	345,7	22,1	1219,2	77,9
2005	1999,2	100	385,7	19,2	1613,5	80,7
2006	3608,0	100	599,3	16,6	3008,7	83,4
2007	4596,1	100	677,4	14,7	3918,7	85,3
2008	5970,4	100	714,1	12,0	5256,3	88,0
2009	7386,5	100	913,5	12,4	2130,2	87,6

The data of Table 2 shows that in Kazakhstan the dynamic fluctuation of the monetary stock volume is observed. In the monetary stock total volume the cash money took more than 20% till 2005. It was related to the economic situation changes in the country while in modern conditions the share of cash money in the total monetary stock volume is not big especially in the industrially developed countries (for example in USA it amounts about 8%).

Beginning from 2005 the share of cash money in circulation decreases and on 2009 it came to 12,4% what is very good rate. It improves the structure of monetary turnover, widens the payment cycle and thus the circulation expenses decrease.

There is a tight fit between the cash and noncash circulations: money constantly transfers from one sphere of circulation into the other, it forms a total monetary turnover where the unified money acts.

In the national economic the cashless settlements prevail performed through the banks.

### 1.3.3. Cashless money turnover and its forms

**Cash wire movements** is a value transaction without cash money participation. The share of cashless settlements in Kazakhstan on January 1, 2009 takes 88% of monetary stock. A high level of cashless settlements in any country shows a right and proper organization of the whole money turnover.

A noncash money turnover is performed by means of cashless settlements which are made without the usage of cash money by means of money medium transfers against the invoices in the loan institutions and by means of mutual claims offsets. Such settlements have an important economic value in the turnover acceleration, cash money decrease required for circulation, cost improvement on cash money issue and transportation.

Settlement relations include the following elements:

- the settlements' members – supplier and consignee, buyer and recipient;
- the objects of settlement transaction (operation) – commodity and material valuables, rendered services, performed works, financial requirements and liabilities and also money and currency resources;
- the authorities which execute the settlements – banking system (commercial banks and cash settlement centres and also clearing agencies);
- the settlement intermediary agents – factoring companies and firms and guarantors either.

In accordance with the banks pattern of participation the settlements are divided onto the extrabank which are made by cosignatories passing the bank, onto the intrabank – between the cosignatories which have their accounts in one bank and onto the interbank which involve the money movement between different commercial banks.

For money medium holding and settlement transaction conducting each business entity opens a settlement / current / credit / deposit or any other account in the commercial bank depending on the enterprise's status, kind of activity and source of financing.

The principles of cashless settlements were based in the period of credit reform in 1930-1932. The system of cashless settlements which existed in our country from the 30s till 1993 was suited for the cost-intensive mechanism of economic management and conformed to the administrative command methods of economic management.

Cashless settlements are organized according to a definite system under which the body of principles organization of cashless settlements, demands placed to their organization, determined by the concrete conditions of management and also forms and means of settlements and the involved documents flow are understood.

*The first principle* of cashless settlements in the market economy environment implies in their performance according to bank accounts opened for clients who'd like to hold and transfer money.

In a competitive business environment a settlements performance via banks should be determined by an economic efficiency, go with economic independence of the market participants and with their activity financial responsibility.

*The second principle* is that the accounts' settlements should be conducted by banks to the order of their owners in accordance with determined subordination of payments and within the account balance. This principle includes the market participants' right of their own determination of payments' subordination from their accounts. It provides a significant move on the way toward the real economic independence of economic executives' confirmation.

The main demand placed in this case by bank to market practitioner as a settlement participant is to make payment within the outstanding balance of funds deposited in accounts.

*The third principle* is a principle of market participants' free choice of cashless settlements forms and their consolidation in commercial agreements under the banks' noninterference into the contractual relations. This principle is also directed onto the economic independence confirmation of all the market participants (irrespective of the form of ownership) in the organization of contractual and settlement relations and on their financial responsibility raising for the efficiency of these relations. Bank plays role of a representative in payments.

Recently a tendency of a payer's transformation into the main subject of payment transaction is observed because in all the forms of cashless settlement the payment initiative is taken by payer. This fact corresponds to the market relations of our country's economics.

In order to make a cashless settlement and money transfer it is necessary to use a payment instrument by means of which the payment initiates and on the basis of which money transfers.

Settlements are made with consent of a buyer or by order of a payer; the basis for transfer of sums is financial payment documents (payment orders, clearing house cheques, agreements). Under the violation of the agreement's clauses there is a possibility of full or partial denial of payment in accordance with "The rules of payment documents usage and cashless settlements and money transfers performance on the territory of the Republic of Kazakhstan" dated from April 25, 2000 №179.

In Kazakhstan in accordance with mentioned before rules determined that the settlements enterprises under their commitments and also between the entities and persons for the commodity and material valuables are performed in cashless form via banking institutions.

There is a quite wide legal basis developed in our country which regulates the terms, organization and conducting of cashless settlements:

1. The Law of the Republic of Kazakhstan dated from June 29, 1998 №237-I "About the payments and money transfers".
2. The board of directors decision of the National Bank of RK dated from April 25, 2000 №179 "About the regulations adoption of payment documents usage and cashless settlements and money transfers performing on the territory of the Republic of Kazakhstan".

3. The board of directors decision of the National Bank of RK dated from October 13, 2000 №395 “About the regulations adoption of cashless settlements and money transfers performing on the territory of the Republic of Kazakhstan without the bank account opening”.
4. The board of directors decision of the National Bank of RK dated from August 24, 2000 №331 “About the regulations adoption of payments performing by means of direct debiting of bank account”.
5. The board of directors decision of the National Bank of RK dated from December 5, 1998 №266 “About the regulations adoption of cheques application on the territory of the Republic of Kazakhstan”.
6. The board of directors decision of the National Bank of RK dated from April 25, 2000 №178 “About the regulations adoption of operations with the documentary letters of credit conducting of the Republic of Kazkhstan”.
7. The board of directors decision of the National Bank of RK dated from August 24, 2000 №331 “About the regulations adoption of plastic cards issue and usage in the Republic of Kazakhstan”.
8. The board of directors decision of the National Bank of RK dated from November 25, 2000 №433 “About the regulations adoption of cashless settlements performing between the client and serving him bank”. Registered by the ministry of justice of the Republic of Kazakhstan dated from January 5, 2001 №1352.
9. The rules for conducting of the operations with bills of exchange and promissory bills by the second-tier banks approved by the National Bank of the Republic of Kazakhstan board of directors decision dated from November 15, 1999 № 397.
10. The rules of bills discounting by the second-tier banks of the republic of Kazakhstan approved by the National Bank of the Republic of Kazakhstan board of directors decision dated from November 15, 1999 № 396.

On the territory of our state the cashless settlements are performed by means of the following payment documents:

- bank transfer order;
- collection order;
- payment request-order;
- payment card;
- cheque;
- bill of credit.

While the concrete form is stated in the agreement between supplier and buyer and determined by mean and place of payment, document flow character and types of documents.

Payment documents should contain the following requisite details:

1. name;
2. number, date (day, month, year) of issue;
3. full name including legal entity form or surname, first name, patronymic of private person – money sender, his individual identification code;
4. full name including legal organizational form of the bank – money sender, its bank identification code (near the name could be stated its brand-name);
5. full name including legal entity form or surname, first name, patronymic of private person – beneficiary, his individual identification code;
6. full name including legal organizational form of a beneficiary bank, its bank identification code (near the name could be stated its brand-name);
7. purpose of payment and also its coded name stated by the laws and regulations of the National Bank;
8. sum of payment denoted by figures and letters;

9. surname, first name, patronymic and signatures of the persons entitled of payment and/or money transfer initiator and (if available) its seal impression (for documents drawn up on paper);

10. taxpayer registration number of a beneficiary and money sender (hereafter – TRN).

Payment documents could be rendered as in electronic form and in hard copy. Electronic payment instruments are formed in accordance with set formats for electronic payment messages transfers and sent to bank by electronic communication and telecommunication channels.

Payment document of a sender in hard copy should contain signatures of the sender's entitled persons and his seal impression in accordance with signature and seal impression forms. Whereby if the signature and seal impression forms contain the persons who have a right of first and second signatures as the persons who are authorized to manage a bank account their signatures presence on this document is obligatory.

All the payment instruments could be divided on two groups:

- credit;
- debit.

*To the credit group* belong the transfers performed by means of payment order.

The performed analysis of the settlements usage made by different types of payment documents showed that in the IV<sup>th</sup> quarter of 2009 the second-tier banks and Kazpost JSC with the usage of shown in Table 3 payment instruments conducted the transactions in amount of 44 514.0 thousand of documents for the value of 26 073.3 billion tenge. Compared with the same period of the previous year the quantity increased on 12.9% and the sum of payments decreased on 6.9%.

The total amount growth of the represented payment instruments basically was caused by the operations quantity growth by means of payment cards on 4 387.5 thousand transactions.

The volume of payments decrease basically was caused by the fall of payments volume made with the usage of payment orders on 1 937.7 billion tenge.

Still the most widely spread on the territory of Kazakhstan payment instruments are payment orders and payment cards. Whereby the average sum of one payment order for the IV<sup>th</sup> quarter of 2009 amounted 2.2 million tenge and decreased in comparison with the analogue period of 2008 on 17.9%. At the same time the high relative share of payment cards according to the quantity and low according to the volume of payments is characterized by the usage of this payment instrument basically for low sums encashment (the average sum of one transaction of the IV<sup>th</sup> quarter of 2009 amounted 22.9 thousand tenge).

In the IV<sup>th</sup> quarter of 2009 the less used payment instruments became the payment request-orders and collection orders. The inconspicuous part of these instruments usage in the whole quantity and amount is related to their specification.

The rest payment instruments include the cheques for the purchased commodities and services settlements, direct debiting of bank account and honored letters of credit.

### 3. Payment data in view of payment instruments for the II<sup>nd</sup> quarter of 2009

(Q – quantity in thousands; A – amount in billions of tenge)

Payment instrument	The IV <sup>th</sup> quarter of 2008		The IV <sup>th</sup> quarter of 2009		Difference
	Absolute	% of the total volume	Absolute	% of the total volume	
Payment orders	9 643,0	24,5	10 878,1	24,4	12,8%
	26 247,0	93,7	24 309,3	93,2	-7,4%
Payment request-orders	96,2	0,2	62,0	0,1	-35,6%
	54,3	0,2	95,1	0,4	75,1%
Collection orders	205,8	0,5	94,3	0,2	-54,2%
	46,6	0,2	60,4	0,2	29,4%

Payment cards		27 763,7	70,4	32 151,2	72,2	15,8%
		657,0	2,3	735,6	2,8	12,0%
Other instruments		1 728,9	4,4	1 328,4	3,0	- 23,2%
		1 014,9	3,6	872,9	3,3	- 14,0%
<b>Grand total</b>		<b>39 437,6</b>	<b>100,0</b>	<b>44 514,0</b>	<b>100,0</b>	<b>12,9</b> <b>%</b>
		<b>28 019,7</b>	<b>100,0</b>	<b>26 073,3</b>	<b>100,0</b>	<b>-6,9%</b>

*Payment order* is an order of money sender to his serving bank to withdraw a defined sum of money from his bank account for the following transfer in favor of beneficiary. Payment orders as was mentioned before are the most widely used payment instruments in the Republic of Kazakhstan. They take the biggest share of all cashless settlements in the payment system and constitute 23.8% according to the quantity and 90.2% according to the volume of payment documents to July 1, 2009.

Money sender presents to a serving receiving bank a payment order on a pre-printed set form.

By means of payment orders the following money transfers could be done:

- for the goods delivered, works performed, services rendered;
- for purposes of advanced payment for the goods (works, services);
- to the budgets of all levels and non-budget funds;
- for credits reimbursement and their interests payment;
- in favor of private persons (including without the account opening);
- other payments as provided for in the legislation or agreement.

By means of payment orders the settlements in order of *billing payments* could be conducted. Such settlements are applied in case of regular supplies of goods (for example the supplies of bred or milk factories to the trade enterprises, etc.) when payment of each separate dispatch is more convenient to change on periodical funds transfers from the buyer's account to the supplier's account in specified terms and sum.

Under these settlements the supplier and the buyer approximately determine the total cost of the all planned (in specified terms) goods dispatches and divide it on several billing payments running a check against the actually dispatched goods cost with transferred money sums. In case of deviations disclosure the next billing payment increases or decreases accordingly.

Bank accepts payment order for performance only if correspond value is available in the buyer's account. The receiving bank accepts a payment order for money transfer within ten calendar days with stated there date of issue. Beside a payment order or a transfer order the money sender is obliged to present the documents which prove payment's reasonability upon a receiving bank demand in accordance with legislation of the Republic of Kazakhstan.

A payment order acceptance by a paying bank means that it is obliged to perform a payment order of a sender and that a bank's right to withdraw the sum of money from bank's account in amount of accepted payment order and costs for its performance appeared. Before the bank's acceptance of a payment order his sender should provide his bank account with a required sum of money for the payment order realization after its acceptance by the bank.

The provision of a required sum of money could be done by means of a paying bank loan granted to a sender or by means of a day loan by a sender's bank account if it is covered by an agreement between them.

Payment order is considered accepted by a paying bank if one of the following conditions is provided:

1. bank sent to a sender a notification of acceptance or a notification of cash money acceptance as a payment of a payment order;
2. bank withdrawn money (debited an account) of a sender on the basis of his payment order;

3. sender didn't receive a bank notification of acceptance or non-acceptance within three working days of the day of receipt of a payment order by bank (automatically);
4. in other cases as provided for in the legislation of RK or in an agreement between receiving bank and paying bank.

*Debit transfers* in Kazakhstan are performed by means of the following payment documents:

1. cheque;
2. payment request-order;
3. collection order (including a collection order of the Department of Revenue Services and the Customs bodies);
4. direct debiting of a bank account;
5. bill of credit.

Payments and transfers of the debit transfers are performed on the basis of a payment document presented by a beneficiary for payment. Application of bills of credit and cheques as the means of payment on the territory of the Republic of Kazakhstan are governed by the correspondent laws, statutes and regulations of the National Bank about the circulation of bills and cheques application.

In order to receive payment on the basis of payment request-order or collection order an initiator have a right to present them to a beneficiary bank or to the bank of money sender.

Initiator including a beneficiary sending a payment request-order or a collection order to the beneficiary bank entrusts this bank to receive money according to this payment document and perform all the operations connected in accordance with an agreement between them.

Beneficiary bank accepting a payment request-order or a collection order takes the obligations of a collecting banker which in connection with acceptance of a payment request-order or a collection order for collection can appear only on the basis of an agreement concluded with a beneficiary or of all applicable laws.

Whereby a collecting banker undertakes the commitments of:

1. the following presenting of a payment request-order or a collection order to payment or acceptance;
2. the transfer to an initiator including a beneficiary a notification of payment or acceptance refusal, a payment request-order or a collection order return to its sender;
3. the initiator notification including beneficiary of a payment request-order or a collection order loss.

Undertaking the obligations according to the clause 95 of the mentioned before regulations a collecting banker performs the correspondent actions not later than the next transaction day after a payment request-order or a collection order receipt from an initiator. A payment request-order or a collection order receipt by a collecting banker from an initiator for collection is made within a transaction day of a collecting banker.

In case of a collecting banker receipt of the mentioned before payment documents for collection all the copies of the documents are stamped with the date and time of their receipt. Either a paying bank stamps a payment request-order or a collection order with the date and time of their receipt.

*Payment request-order* is a beneficiary's claim to a money sender to pay the delivered goods, performed works, rendered services presented on the basis of the documents which confirm the aforementioned requirements.

On July 1, 2009 the payment request-orders constituted 0.1% from the total amount of cashless transactions and 0.6% according to the sum, i.e. the one of the smallest value from the all forms of cashless payments.

Beneficiary has a right to present the payment request-orders to a beneficiary bank or to the sender's bank directly on a pre-printed set form. In case of several payment request-orders presentation by a beneficiary to a beneficiary bank they are completed with the attached payment request-orders list-register on a pre-printed set form.

In a column “purpose of payment” of a payment request-order a beneficiary is obliged to enter the requisite details of the documents on the basis of which a payment request-order is presented. It along with the list-register is presented to a beneficiary bank which verifies the correctness of all the requisites filling and sends it to a money sender’s bank.

Payment request-order and attached list-register could be presented by a beneficiary to a beneficiary bank or to a money sender’s bank within 30 calendar days from the date of their issue. Whereby the dates of payment request-order and list-register should be same.

A money sender’s bank will perform a payment request-order only if an acceptance of money sender presents excluding a payment request-order to which an acceptance is not required. In case of lack of space on the front of a form for the mark of acceptance of a money sender this record is drawn on the back.

Acceptance of a payment request-order by a money sender means his agreement to pay it according to the requested requirements.

Not later than three working days from the moment of receipt should take for the following payment request-order’s acceptance or refusal of acceptance by a money sender.

A money sender accepts a payment request-order and sends a copy of a payment request-order with a mark of acceptance to the bank.

A money sender has a right to refuse to accept a payment request-order on the grounds provided for in the legislation of the Republic of Kazakhstan and in an agreement between him and beneficiary. Whereby a money sender sends a notice of rejection to the bank which should obligatory contain reference to a relevant clause of an agreement stipulating a money sender’s right to refuse to accept a payment request-order specifying a refusal motive or any other legally justified reason. Banks do not adjudicate disputes in principle of nonacceptance.

A money sender’s bank accepts a payment request-order only on the basis of a money sender’s acceptance by means of debiting his account. And either performs an accepted payment request-order by a beneficiary’s account or beneficiary bank’s correspondent account crediting for the following money transfer in his favor.

Upon a payment request-order receipt a money sender’s bank marks each copy of this payment document with the date of receipt. Either the bank registers all the received payment request-orders in a registration log. The form, methods of log keeping and requisites of the payment request-order which are indicated in the log are determined by the bank itself.

Not later than a working day which follows the day of a payment request-order receipt a bank transfers a copy to a money sender in hard copy or in electronic form.

In case of non-receipt from a sender of a non-acceptance or of an accepted payment request-order upon the expiry of thirty calendar days from the date of the document receipt by the sender’s bank the last has a right to return a payment request-order to the sender with a notification of the return reasons.

A money sender’s bank pays an accepted by a money sender payment request-order according to the terms of an agreement between them.

In case of payment of a payment request-order which doesn’t require an acceptance a money sender’s bank has a right to withdraw money from his bank account without acceptance.

In the absence of or lack of required for a payment request-order or a collection order performance sum a money sender’s bank is obliged to maintain records of the accepted by it documents and to keep them till the moment of money receipt on his correspondent account for the following payment or money transfer. Whereby the bank is obliged to pay to a sender a penalty and/or a delay interest in amount stipulated in an agreement between them.

*Collection order* is a settlement document applied for money withdrawal from the sender’s bank accounts without his agreement in cases stipulated by the legislative acts which is presented on a pre-printed set form and either is a collection order of the Department of Revenue Services and the Customs bodies.

On July 1, 2009 the volume of operations performed by means of collection orders in Kazakhstan constituted 0.3% from the total amount of cashless transactions and 0.5% by the total volume of payments.

A money claimant presents to a money sender's bank a collection order with an attachment of the originals of the enforcement orders or decrees issued by the decisions, resolutions, rulings and acts of courts or by the judicatory civil order of money recovery which confirm its reasonability or with an attachment of their copies certified by the court's seal.

Collection order has a purpose of payment nota bene with a reference to a legislative act stipulating the right of withdrawal (recovery) of money (its date and number) from a sender's bank account without his agreement.

Collection orders are presented to the sender's bank in quantity not less than three copies and to the beneficiary bank – not less than four copies.

The sender's bank accepts the collection orders by means of money sender's bank account debiting. Whereby the bank transfers money in favor of beneficiary and sends a collection order marked with paid stamp.

The enforcement documents of money withdrawal from the sender's bank account without his allowance are presented to the sender's bank within the legislated limitation period. Expiry of this term is the basis for bank refusal to accept a collection order.

Money withdrawal stoppage or stay is performed only:

1. by the decision of the authorized government body or public individual who delivered a judgement of money withdrawal;
2. on the basis of a corresponding court decision;
3. by the law enforcement agencies' decision on grounds of initiation of criminal case;
4. on the basis of the beneficiary's written direction;
5. in other cases as provided for by the legislative acts of the Republic of Kazakhstan.

Listed decisions, regulations, orders or statements are accepted by banks to performance only in case of the date, number, seal impression and public individual's signature presence.

In the absence or deficiency of enough sum required for collection order performance the receiving bank is obliged to accept and keep received documents in a tickler file till the moment of money proceeds to the bank account.

Accepting the collection orders the receiving bank is obliged not later than the next working day to send a notification to the beneficiary bank of these payment documents receiving in the tickler file excepting the cases when the receiving bank is also a beneficiary bank.

If in the bank accounts of a taxpayer the required sum in tenge is absent the debts recovery of taxes, penalties, fines and delay interests is performed from the bank accounts of foreign currencies on the basis of the tax authorities' collection orders to these accounts with the usage of set by the National Bank currency exchange rates on the date of payment.

In case of deficiency of the sum required for the Department of Revenue Services' collecting orders performance the receiving bank is obliged to perform a partial money withdrawal according to the money proceeding by the receiving bank in favor of money sender.

An acceptance of the partially performed collection orders of the Department of Revenue Services is made by stamping "partial payment" on its front. On the back side of all the copies the record of date, sum of partial payment and remaining amount is made. The record is certified by the signatures of the entitled persons of the bank.

The receiving bank performs an accepted collection order of the Department of Revenue Services by means of a payment order issue of the partial payment sum. In the column "purpose of payment" the receiving bank should indicate the requisites of the collection order for the performance of which this payment order is issued.

Under the partial payment of the collection orders the receiving bank makes payment of money proceeding to the sender's bank account within the transaction day of the receiving bank. The partially paid collection orders are kept in a tickler file till their full payment.

Collection order of the Department of Revenue Services of the creation of tax charges which proceed to the accounts of an outstanding debtor according to their demand to the debtors is sent in four copies to the bank which serves an outstanding debtor.

Such order is registered in a separate book of complaints to the outstanding debtors. In the book the date of collection order receipt, name of issued it tax administration, number of the document, date of issue, sum of debt and the name of outstanding debtor are indicated.

After the full payment of a collection order by an outstanding debtor the second copy is marked with a record under the bank's officer signature: "The proceeded sum in tenge \_\_\_\_\_ " \_\_\_\_\_" \_\_\_\_\_ transferred to the budget to the order of the Department of Revenue Services dated from " \_\_\_\_\_" \_\_\_\_\_ No \_\_\_\_\_.

The copies of a collection order after the payment are distributed by the following way:

1. the first copy is placed to the day documents;
2. the second copy is sent to a receivable of an outstanding debtor along with his account statement;
3. the third copy is sent to the Department of Revenue Services;
4. the fourth copy to an outstanding debtor.

*Direct debiting of the bank account.* Payment by means of direct debiting of the bank account is made on the basis of an agreement between the money sender and his bank according to which the sender agrees with money withdrawal from its bank account on the basis of a beneficiary's demand for the delivered goods, performed works or rendered services with an attachment of the relevant documents to the mentioned before agreement.

The rights and obligations of the money sender and his bank during the payment under the direct debiting of the bank account appear from the moment of the relevant agreement conclusion.

According to this agreement the bank is obliged to perform the demands of the third persons which are specified to the client's bank account up to the amount of money and (or) term period, mentioned in the agreement.

Cheques, bills of exchange and plastic cards are not only the instruments of cashless settlements, but also the representatives of credit money (they were already discussed in detail in the theme "Credit money").

Settlements between the commercial banks are performed only by opening of the correspondent accounts in each of the bank or through the Kazakhstan's Center of the interbank payments of the National Bank of the Republic of Kazakhstan (KCIP NB RK).

Settlement transactions of the commercial banks of the correspondent accounts (passing KCIP) are based on the correspondent relations establishment appearing between the banks for the mutual performance of the transactions. Banks which establish such relations are called correspondent banks.

Correspondent relations usually are accompanied by the account opening (relations with the account) on the mutual basis (in the each bank) or on an ex parte basis (only in one of the partners as a rule in the big bank). Correspondent account is an account of one bank opened in the other bank where the payments are reflected which were made by the last by means of order and at the expense of the first bank on the basis of concluded between them correspondent agreement.

Either the relations between the correspondents without any account are possible when the mutual settlements are performed via the accounts opened by them in the third loan institution (usually in the big center of the interbank payments).

One more type of correspondent relations is established via the clearing centers where the clearing accounts are opened. Whereby the equal financial claims and liabilities are discharged and the balance is written off (debit) or charged (credit) to the main correspondent account.

#### **1.3.4. The payment service of Kazakhstan**

The required elements of the business entities activity are the payments and money transfers. Payments excluding their cash forms are made by the second-tier banks. The banks in their turn are connected by the monetary relations with the National Bank. Thus the complicated monetary relations appear between the business entities, second-tier banks and National Bank. The mechanism which allows realizing these relations and includes the complex of hardware and software is called *payment service*.

The efficiency and fast operation of the payment transactions and payment service are the first-order conditions of the commodity and financial markets functioning success. From the speed of money transfer depends the stability of the financial condition of each business process participant, treasury revenues and accordingly economic and political stability of the State in whole.

The works on automatic paying systems creation in Kazakhstan began from July of 1993 from the KUBAZH system implementation in the National Bank which was intended for the bank information processing automation covering all the National Bank activities and supporting settlements between them. From 1993 till 2003 four versions of this system were developed and implemented.

In 1995 the first in Kazakhstan clearing organization (the Almaty clearing housing) was established in the National Bank which worked on the method of multifeature mutual settlement. The banks made final settlements once in the end of a transaction day by net position of each participant. That time there were no “electronic documents” and the clearing member banks had to make an exchange of payment orders in hard copies in the end of the day.

Gradually in the National Bank regional branches the clearing houses were established which performed the interbank clearing of the intraregional payments.

In 1996 the meaning of “electronic payment order” was normatively fixed and the formats of electronic messages were developed and implemented for the information exchange about the payments between the payment service participants which were oriented on SWIFT.

This predetermined the single payment service establishment in the Republic. As a result the Almaty clearing housing was reorganized into the Kazakhstan center of interbank settlements (KCIS) which was provided with all the outlying from the central bank functions of settlements organization throughout the country.

One of the most important events in the payment service of Kazakhstan development became in August of 1996 the creation of the gross settlement system (GSS) on the basis of KCIS processing the electronic payment orders and performing the settlements on gross basis.

For money transfers GSS used the correspondent accounts of the participants. From December of 2000 the system was reorganized into the interbank system of money transfers (ISMT).

Nowadays the Kazakhstan center of interbank settlements (KCIS) is the operator of payment services the system of which includes the interbank system of money transfers (ISMT) and the automated system of retail payments (SRP). These systems provide the urgent and faultless performance of the interbank settlements in electronic format, lead the correspondent accounts of the second-tier banks and all the financial organizations rendering the separate types of bank servicing.

In whole via the payment service of Kazakhstan (the interbank system of money transfers and the system of interbank clearing) in 2008 24.4 billion transactions in amount of 141 853.3 billion tenge (or 1 179.2 billion US dollars) were held. Against 2007 the quantity of payments in the payment service increased on 3.6% (on 844.2 thousand transactions) under the amount of payments decrease on 1.1% (on 1 601.1 billion tenge).

***Interbank system of money transfers*** (ISMT) is the gross settlement system in real-time mode which performs the money transfers on the accounts of ISMT users in the National Bank of Kazakhstan. The gross settlement system implies the money transfers of the each individually processed payment document. Whereby the transfer passes in the limits of available sender’s means.

In case of money lack the payment messages are placed into the queue till the moment of receipt of monetary funds. The conclusion of payment happens on the same day. By means of ISMT the gross and high-priority settlements are made. The gross settlements system provides banks with an irrevocable and final execution of settlements. The sum of one payment in ISMT is not limited.

*System functioning.* Using the specialized terminals the participants directly send the payment orders to the system. The sent to the ISMT payment orders should be only electronic. Using SWIFT the ISMT provides the payment service participants with all the types of communication channels: communal, dedicated lines, Internet, X.25, DialNet and the user is free to choose the channel himself.

Here happens the division of responsibility between the NB RK, the ISMT and the rest users of the system. Whereby the NB guarantees that net settlements of the users in the ISMT will be reflected in the account books of the NB RK in the end of transaction day.

ISMT is responsible for the settlements processing received from the system's users and for the money transfer from one user to another. The users are responsible for the electronic payment documents correctness and truthfulness.

In case of money lack in the bank for the settlements performance the possibility of overdraft (credit) receipt from the National bank in the ISMT is provided. The basic terms of overdraft are the following: the credit is provided to the bank within the set limit; term of payment – within the transaction day but not later than 18.00.

In case the overdraft stays uncovered till 18.00 its cost is reorganized to credit overnight on the respective conditions which should be paid till 15.00 of the next day.

If the liability to the National Bank stays uncovered thus it has a right to block a bank account and recover the required sum for the overnight credit and interests payment.

Transaction day in the ISMT begins at 08.00 and finishes at 20.00. In the transaction day closure the payment orders which stayed in a queue by the reason of strain on liquidity on the ISMT user's account are canceled and in this case the user receives a notification.

From this point of view the ISMT could be characterized as a prepaid system. Unlike the correspondent accounts the funds deposited in the ISMT accounts couldn't be blocked by the National Bank.

The cost of services in the ISMT changes depending on the time of payment performance and applied as a stimulating mechanism for the effective process of the payments performance.

As was mentioned before the ISMT makes settlements in real-time mode (RTGS). For any country the RTGS system has a highest priority in the financial sphere. This system presence characterizes the stable functioning of the state bank system.

In 2008 via the ISMT 9.6 million transactions on amount of 139 558.5 billion tenge (1 160.1 billion US dollars) were conducted. Against 2007 the quantity of payments increased on 12.8% (on 1 087.2 thousand transactions) and the amount of payments decreased on 1.1% (on 1 590.0 billion tenge).

In average for the day via the ISMT in 2008 38.5 thousand transactions passed on amount of 560.5 billion tenge that is higher the level of 2007 in quantity on 4.5 thousand transactions (on 13.2%) and lower in amount on 4.1 billion tenge (on 0.7%). Whereby the average sum of one payment document in the ISMT in 2008 was 14.5 million tenge and decreased against 2007 on 12.3% (on 2.0 million tenge).

According to the main intension the ISMT users send to the system basically gross and urgent payments of the financial sector transactions. Thus in 2008 usually via the ISMT the settlements of operations with foreign currencies and precious metals performed (21.5% from the total volume of payments of the ISMT) with the paper holdings of the Kazakhstan residents (29.4%) and also with the interbank deposits and transfers of the own banks' and their clients' funds (24.7%).

Whereby via this system-relevant payment service of the country in 2008 98.4% were processed from the total volume of wire transfers in the country and 39.3% from the total volume of all the payments what shows the ISMT's important role of the gross and urgent payments.

The quantity of ISMT users on January 1, 2009 amounted 51 including 36 second-tier banks and the Development Bank of Kazakhstan JSC, the Treasury Committee of the Ministry of Finance of RK, six organizations which perform the separate types of bank operations (Kazpost JSC, the Kazakhstani Mortgage Company JSC, the Central Securities Depository JSC, the Kazakhstan Stock Exchange JSC, the Financial Industrial Company TIMEY LLP, the clearing organization of the KCIS); three accounts for the State Center for Pension Payment; the Interstate Bank and the Eurasian Development Bank; the National Bank of RK and the custodian bank of the State Pension Savings Fund (UUMO NBCH).

**System of retail payments (SRP).** The mechanism of work of the SRP is based on the clearing settlement system. In Kazakhstan the functions of clearing organization performs the Kazakhstan's Center for Interbank Settlements licensed by the National Bank of RK. This is so called net settlement system which doesn't require the advance money reservation.

Money is required on the moment of final settlement in amount of formed net cash debit balance. The payment system based on net settlements under the banks' payments and transfers performance allows accepting the received payment messages by the system 24 hours a day.

The payment documents acceptance finishes in the end of transaction day and the banks' offsetting of counter-claims and obligations is performed and the net position settlement of each user thereafter following the results of settlements the money transfer to the ISMT occurs.

In the quality of clearing system the SRP needs the funds required only for the net position coverage in the end of transaction day. The net positions calculation of the SRP participants is lead by KCIS after 15.00. After that the net positions are sent and settled via the ISMT.

After the money transfer conclusion according to the results of clearing the KCIS sends to a participant a notification of the money transfer conclusion according to the net position of this participant.

If the ISMT basically performs the settlements on large amounts but the SRP has a limitation on a maximum sum of one payment of three million tenge. The SRP uses only credit transfers. All the payments submitted to the system are not final and could be recalled by the money sender within the transaction day.

For this system users the services are cheaper (9-22 tenge for one payment order) unlike the ISMT services. The positive moment of the clearing system is the possibility to work with the date of valuation (the payments formation with the date of settlement on three days ahead). The electronic clearing system serves all the regions and financial institutes of Kazakhstan.

In the modern conditions the banks, business entities and population are provided with a wide range of payment means (payment instruments) in compliance with the terms of obligations fulfillment, bank services costs, and regional and industry characteristics. For this purpose the laws and regulations of the National Bank of RK are developed and constantly improve which regulates issue and circulation of the cheques, bills of exchange, payment cards, documentary letters of credit, direct debiting order of the bank account, payments performance without the bank account opening.

In the sphere of retail payments the payment orders are the most widely spread mean of payment in Kazakhstan. The debit payment instruments such as cheques and direct debiting are not very popular. The sphere of payment cards including credit and debit cards conquers a market progressively.

As on January 1, 2009 in the system of interbank clearing the quantity of participants amounted 36, where 29 were the second-tier banks, the Treasury Committee of the Ministry of Finance of RK, the National Bank, the custodian bank of the SNPF (UUMO NBCH Custodian), three accounts for the State Center for Pension Payment, Kazpost JSC.

In 2008 the retail payment flows constituted 14.8 million documents on amount of 2 294.8 billion tenge (19.1 billion US dollars). Against 2007 the quantity of documents in the clearing

system decreased on 1.6% (on 243.0 thousand documents), whereby the sum of payments decreased on 0.5% (on 11.1 billion tenge).

In average for the day through the clearing system in 2008 passed 59.6 thousand documents in amount of 9.2 billion tenge what is less the level of 2007 in quantity of payments on 0.7 thousand transactions (on 1.2%) and in amount of payments on 7.5 million tenge (on 0.1%). Whereby the average sum of one payment in the interbank clearing system constituted 154.6 thousand tenge what in comparison with 2007 is more on 1.1% (1.8 thousand tenge).

In the clearing system the biggest share of payments in 2008 fell on the payments in favor of budget (payment of taxes and other obligatory payments) and the payments at the expense of budget (share in the total volume of payments in the system constituted 27.9%) and the payments of business entities as per settlements for the commodities and non-inventory properties (share – 29.0%) and for the rendered services (25.8%).

At the same time in the system of interbank clearing intended for making payments which are not of high-priority and not exceeding 5 million tenge 60.7% from the total quantity of cashless settlements were made and 1.6% from their total amount that also shows the clearing system's intension of a considerable quantity of small payments making.

In the Republic of Kazakhstan the main organ which regulates the payment service is the National Bank of the country the role of which is determined in the Law "About the National Bank of the Republic of Kazakhstan".

The National Bank in the quality of the Central Bank determines the order, system and form of making payments and money transfers in Kazakhstan, organizes the payment service functioning. The Law "About the banks and bank activity" and other legal acts regulate the second-tier banks' work which participate in the payment service and the securities settlement system.

The main legal act regulating the relations under the payments and money transfers making in RK is the Law "About the payments and money transfers" dated from June 29, 1998.

The types, handling and operating procedures of the payment documents under the cashless payments and money transfers, rights, obligations and responsibilities of the payments' and money transfers' participants determine "The rules of payment documents application and cashless payments and money transfers making on the territory of the Republic of Kazakhstan".

The services of cashless money transfers rendered by the Kazakhstan's Center for Interbank Settlements are regulated by "The rule of money transfers in the interbank system of money transfers" and "The rules of clearing making in the Republic of Kazakhstan".

### ***The comprehension questions***

- 1. Explore the meaning of cash turnover.*
- 2. What is money circulation?*
- 3. What payments are made via the system of the ISMT (interbank system of money transfers)?*
- 4. Describe the mechanism of work of the SRP (system of retail payments).*
- 5. What main types of cashless settlements are used in the economic relations in the country, why?*