Deepening of Reforms and Improvement of Investment Activities of Transition Economies

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ABSTRACT
In this article said about deepening of pension system reforms and development of investment activities in transition economies, also there are conclusions and suggestions related to current pension system reforms of transition economies and deepening of these reforms as well as development of investment activities.

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Introduction.
It is important to consider difficulties of transition period and financial restrictions when reforming pension insurance system of transition economies, follow a sequence when carrying out reforms and obey special principles in formation and distribution of insurance funds.

Former Soviet Union Countries have chosen different ways of reforming social insurance system and are in the different stages of its implementation.
Majority of transition economies use general principles of social insurance of 1980s years: including, in these countries still operate pension system, which is fully financed by government. Although there is not high rate of pension supply, amount of pension didn’t differ hugely from an average salary in the countries’ economy because of free utilities, transportation and medical services.

There are following reasons that require reformation of pension system:

- Changes of political, economic and social relations;
- Demographic factors: According to current demographic situation government pension system based on the principle of the solidarity of generations was not capable of providing future generation of pensioners only with payments of future employees. In all transition economies retirement age was low (for women 55 years, for men 60 years of age);
- In the many transition economies of Europe economic crisis and decreasing of birth rate in the middle of XX century’s 90s years and beginning of XXI century will lead to the drop of working-age population by 2020-2025 years.
- Financial factors. As a result of equalization policy, low rate differentiation of pension appeared. The amount of salary earned during service year did not affect (excluding limited number of “privileged” pensioners) amount of payable pension.
- There were huge number of privileged pensioners and people who had right to get pension before the normal retirement age.
- Due to high inflations state social guaranties and pensions devaluated.
- Regular actuarial calculations and investment planning were not used in regulating pension fund.
- Institutional factors. Necessity of equally allocating social responsibilities and obligations by regional and institutional aspects.
- Absence of necessary organizational, financial and monitoring infrastructure. Because of the usage of government social security instead of social insurance, it is required to form new social insurance system: In transition economies institutional mechanism providing security of whole country’s population was constructed for completely other economic system. Existing institutions and practices in social sector were not suitable for basic mechanism of market economy and pension system was not ready to the pressure that was about to put in market economy. Because of that it became much weak and in transition period occurred lots of changes.
- Changes of social support and promotion system, encouraging entrepreneurship and growth of personal responsibility.

New pension system in transition economies was based on general principles and had similar form, except some distinctions.

Pension system of transition economies consist of following mutual features: Continuance of process of pension system reforms and consequently, advancement of their legislation, three-stage, namely government, insurance and accumulative pension system; establishment of mandatory and voluntary pension insurance fund (governmental, private and mixed) according to the form, formation of unique, private pension accountant sheet.

Pension insurance reforms of transition economies was directed to solve following problems:
1. Pension reform is full, and its complete accomplishment requires much expenditures. So that in the period of economic crisis this reform costs a lot to the state budget and citizens. Particularly, if in 1999 year (first year of pension reform) there were 10 billion zloty government dotation to the Poland pension fund (budget revenue was 138 billion zloty), by 2002 it exceeded 28 billion zloty (while budget revenue was 194 billion zloty).

2. There was created private system of accumulative insurance. Therefore, it required much effort and attention from local authorities to organize and control over activities of new structures (non-governmental pension funds, heads of companies, special deposits and etc.)

However, inadequate provision of pension reform with information was its main disadvantage. Russian, Poland and Kazakhstan experience show that passivity of citizens in social activities explains their unawareness about functions of pension reform, its directions and results, mechanisms and configurations of new accumulative pension system.

Delivery of information about reforms was not provided. Behaviors of process of transition to accumulative pension system, rights and duties, its positive and probable negative changes were not explained to the insured.

Reason for such shortcoming in information sphere was an urgent implementation of modern pension system. For example, distribution period of information about selection methods of controlling Russian accumulative pension funds and accomplishment of such selections has been changed several times.

3. Macroeconomic factors – inflation, unemployment, methods of calculating barter system. And this, in turn, does not allow to provide financial freedom of state pension fund.

4. In Poland and Kazakhstan several privileged pensions were annulled and again reestablished, In Russia’s new pension system old privileges were monetized. Consequently, Pension system that based on accumulative principle was not fair in practice. Moreover, these systems were financially unstable, because they broke saving principles of pension insurance.

Because there was not additional dotation from state budget, burden of providing privileged pensioners was on whole population. Nowadays, limited number of pensioners get pension of general insurance fund.

On the other hand, people who work as entrepreneurs, farmers, military, judges are left out of range of pension system.

5. Later amendments in legislations that are basis of pension system didn’t correspond fully in all cases of pension reform. Often, government’s decision, directed to increase amount of pension, or changing basis of pension reform was dominant. For example, In Poland, Senate put forward suggestion about moving date of assigning privileged pension from state pension fund and date of early retirement for miners to 2012 year. In such situations, if had sufficient years of service, more than 800 thousand people gained the right of early retirement. However, amendments made in law about payable pension from social funds caused sharp increase in amount of pension payments, therefore stabilization of Poland pension system might last until 2050, also by 2030 deficit of state pension fund might reach 50 billion zloty.

6. Poor development of national financial market and state pension fund, including existence of restrictions on formation of private pension funds and their usage, absence of regular actuarial calculations and monitoring on implementation of pension reform seriously affected on efficiency of reforms.
7. There are some defects at current pension legislation. For example, this condition in Kazakhstan expressed with absence of exact designation of mechanisms of future pension payments, not existence of observation on transection of money to pension funds on time, inexactitudes on preferred pension and professional pension system.

Problems that related with reforming pension insurance will be foundation of making right decisions about deepening and developing reforms, for example:

1) changing primary rules of pension insurance system at the condition of exceptions;
2) developing legislation, informational, methodical bases and implements of pension reformation. Investment attractiveness of accumulated pension system will be implemented by giving complete and open information about mission and tendency of reforms of citizens, its investment attractiveness is related to existence of reliable and profitable investment tools.

3) achieved by the basis of inspiring private pension funds by privileged taxes and existence of state guarantees.

Basic causes of problems of reforming pension insurance in Russia, Poland and in Kazakhstan are following; firstly, effectiveness of reforms of crucial factor is their consistency and complexity: it is expressed in aspiration to tendencies of pension insurance together.

If approach and tendencies to reforms are changed regularly, their purpose also will become unclear and effectiveness of results will be inferior. We can see successful and consistent pension insurance experiences in the pension system of Kazakhstan. Usually this success is compared with achievements of Chile pension reform.

Secondly to establish and control insurance funds must be attended to tendency of insurance. It is required in social insurance to identify to tendency of insurance. In Kazakhstan accumulative pension system based on tendencies of insurance non-governmental pension funds are based on not only financial side but also organizational side.

It is crucial for insurance funds to designate group of payers and group of funding recipients accurately - nowadays they are not proportional to each other and sometimes funds are performing duty of state social provision, still privilaged pensions are being used.

In this direction we should set up proportionality of responsibility and financing between state, employer and employee for social result which come because of old age of employee. Government must guarantee the lowest rate of social standards. In lower condition of social provision, the performances of social privatization must be done carefully. In this situation, in other words, in social protection of population of state mast not be made any declining.

Thirdly, required to control and coordinate, to be guaranteed the lowest rate of standards, to desire development of competition between performers (intermediates) in the field of social insurance.

To sum up briefly, in transition economy countries to reform social insurance successfully is not considered social or economic and not related with the transition period directly. The first and the second factors are explained with political condition and level of stability, the second tendency is interpreted by organizational and financial elements directly. No doubt, offered tendencies are not limited with bellows but, they can express condition and results of social insurance together with other conditions.

At the beginning of XXI century in transition economy countries happened several alterations by institutions of commodity market funds and by the base of development of commodity market. In
transition economy countries assets that managed by institutional investors will increase significantly by the effect of accumulation of pension deposits and by popularity of mutual funds. Low rates of development of insurance business helps increase of assets that are being managed by insurance companies. All of them affect positively to development of internal financial market. However increasing of coordination from normal rate and not existence of experience of investors bring serious problems and affect negatively to development of stability and effectiveness of internal market.

Decreasing of internal pension funds limit of investing for foreign countries, on the first side, brings to the weakness of controlling on going out of capital to foreign countries, from another side it will compel intensify its activity to avoid from unpleasant macroeconomic results. Several transition economy countries’ experience shows that to transfer main part of money of pension funds to foreign countries altogether brings to inflation of national currency.

To sum up briefly, in transition economy countries, increase on assets of pension funds adapt value of assets by the basis of current market prices and shows importance of improvement of internal institutional investors structure. Particularly, such countries’ internal investors should decrease designated limits for foreign securities for diversification of portfolio of assets of private pension funds.

Base words: pension insurance, pension system, pension fund, transition economy, pension reform, portfolio, to invest, social insurance.

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