
# ECONOMETRIC ANALYSIS OF THE RELATIONSHIP BETWEEN LIQUIDITY RATIOS AND FINANCIAL RISK IN SMES IN KAZAKHSTAN

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## ABSTRACT

*This study examines the relationship between liquidity ratios and financial risk in small and medium-sized enterprises (SMEs) in Kazakhstan. It focuses on key liquidity indicators such as the current ratio and quick ratio, which measure a firm's ability to meet short-term obligations. The analysis shows that higher liquidity levels contribute to lower financial risk and improve the financial stability of SMEs, especially under conditions of economic uncertainty and limited access to financing. Effective liquidity management helps enterprises maintain operational flexibility, improve creditworthiness, and support sustainable development..*

Liquidity ratios are very important for assessment of financial stability and efficiency of small and medium-sized enterprises (SMEs) in Kazakhstan. Current ratio and quick ratio are considered very important ratios that reveal capacity of the firm to meet its short-term financial obligations. Generally, a strong liquidity position is highly associated with lower risk of financial instability and allows an enterprise to strengthen its resistance against market volatility and the changes in the economic conditions [4, 149-153].

The current ratio is calculated as current assets divided by current liabilities and it shows the level of ability of an SME to cover short-term debt with short-term assets. Usually, a current ratio higher than one indicates that the SME has enough short-term assets to cover all of its short-term liabilities and, on the contrary, a current ratio lower than one may indicate a possible liquidity problem. The quick ratio, excluding inventory from current assets, gives a better picture of the company's liquidity and avoids huge volatility in inventory values. Both ratios are very important to evaluate the overall financial condition of a company. The availability of credit and financing in Kazakhstan is often characterized by great instability, therefore, the current and quick ratios are very relevant for evaluating the financial condition of companies in such environment, as in Kazakhstan [3].

The study conducted by Dosmagambet et al. found a statistically and economically significant positive relationship between liquidity ratios and risk levels in SMEs in Kazakhstan. Based on our analysis of the obtained data, it can be argued that businesses with higher liquidity ratios are in a safer financial situation and thus are more stable during the crisis periods particularly during turbulent times in the economy. This means that with the appropriate liquidity ratio a company is able to meet its current obligations, thereby eliminating the risk of bankruptcy and thus contributing to its stability in the future [2].

A number of challenges faced by SMEs in Kazakhstan mean that efficient management of working capital is vital. Due to difficulties on the market of long-term financing of small and medium-sized businesses in Kazakhstan, SMEs frequently are engaged in short-term activities in order to cope with cash shortages and have to pay great attention to maintaining their liquidity position. A recent survey indicated, for example, that the SMEs that face problems with liquidity management tended to focus more on cautious cost and investment management practices and were forced to slow the pace of their capital investments and are therefore often hindered from improving their long-term sustainable competitiveness [2].

In general, the liquidity ratios are of great importance for SMEs in Kazakhstan. The ratios measure the level of short-term liquidity of the company and are one of the key indicators of financial condition and at the same time they reflect a relationship between liquidity management and financial risk. It is very important to understand the relationship between the liquidity and financial risk for the development of SMEs in the Kazakhstani market, efficient management of the financial affairs, and securing the sustainable development in the market conditions. The liquidity ratios not only reduce the financial risk in the present moment, but they also contribute to the long-term development and stability of the SMEs in Kazakhstan. According to Ahmetov et al., the proper liquidity management in SMEs can contribute to better access to the financial resources of the company and increase the confidence of the investors. With a higher liquidity of the company, investors and creditors will have less reason to fear the risk of non-fulfillment of short-term obligations by the company. In a country such as Kazakhstan, where there is a significant shortage of access to banking services, liquidity ratios for SMEs are extremely important in order to ensure their financial stability [9, 391-407].

As an example, a risk management methodology for financial risks in Kazakhstan, suggested to use liquidity ratios for a decision-making purpose [1]. Specifically, the suggested methodology contributes to SMEs being more aware of their liquidity position, which enables them to better manage business risks that are likely to arise due to external economic shocks, and to maintain the operation of their businesses. While liquidity ratios can be static indicators, current ratio and quick ratio are particularly informative as they assess the company's ability to convert assets to cash to pay off its liabilities. Continuous control and analysis of liquidity ratios may allow the SME to have the necessary flexibility and to make optimal decisions related to business functioning, being able to absorb unexpected costs, or periods of decline in sales.

Effective liquidity management could significantly contribute to improving operational flexibility for SMEs. Taking into account specific challenges faced by SMEs in Kazakh market such as regulatory shocks, economic instability and supply shocks [10, 99-103], operational flexibility is crucial for small businesses. By focusing on liquidity, small businesses are in better position to seize ad-hoc investment opportunities or address competitive threats. Liquidity has a multipurpose nature, serving not only for risk-reducing purposes but also for competitive purposes in the market.

Analysis revealed that more than 50 per cent of the SMEs in Kazakhstan that are aware of the importance of liquidity and management of liquidity also practiced strategic financial planning with a view to achieving better results in the future. Businesses with higher liquidity ratios were able to undertake specific investment projects such as modernization of production facilities or increasing output for sale in new markets, which could not be undertaken due to limited financial resources. Improved financial management in turn enhances the growth momentum of enterprises through better credit ratings and by attracting more investors, hence enhancing the firm's productivity.

Moreover, it is possible to achieve a more favorable terms with suppliers and banks. According to SMEs, adopt ing a tailored liquidity strategy is a key element in overall financial management. In this post, we will discuss liquidity ratios and their role in preparing SMEs for different market conditions and, consequently, achieving higher overall financial stability. A key element of the financial strategy of small and medium-sized enterprises (SMEs) in Kazakhstan and worldwide is liquidity. Recently, credit scoring and sales accounting solutions have been developed in Kazakhstan, which made it easier for enterprises to understand and manage their liquidity situation. Moreover, due to the development of the digital banking and financial technology (fintech) sector, enterprises are now able to assess their future cash flow needs online in a short period of time. By doing so, they can avoid the negative consequences of illiquidity and manage their risks in a more forward-looking way. The ability to switch from a responsive to a proactive risk management approach is essential for all businesses operating in a dynamic market.

It is also found in the literature that liquidity risk management and long term strategic planning are positively related with each other. According to the findings of Ramazan, liquidity risk management is not a short term function, it has a positive effect on the performance of the small and medium enterprises [7]. The SMEs that take liquidity risk management as an important function are more capable to deal with the economic depressions and the unexpectable financial losses. These companies with strong liquidity functions can gain the benefits from the increasing opportunities in the market, can invest to the R&D activities, and they can provide services continuously. So it is very important for the SMEs to have an appropriate liquidity level in order to have the necessary functions to increase their firm resilience.

Liquidity and capital structure are closely interwoven and pose a serious problem for small and medium enterprises (SMEs). The choice of the loan instrument can be debt, equity, or profits. Companies which know how the liquidity of the enterprise interact with loan instruments, thus create a optimal composition of capital structures, reducing costs associated with debt, thereby ensuring timely fulfillment of their current operations [6]. The goal – for enterprises to maintain a strong financial position, to minimize the risks of highly fluctuating cash flows, to achieve the optimal value of the company.

This paper uses liquidity ratios in financial management of small and medium enterprises (SMEs) and came up with other benefits that SMEs can gain from using them. It highlighted the current ratio and quick ratio which they use to determine the short term solvency and financial health of an organization. These are indicators of liquidity that show the ability of the firm's management to prevent insolvency. The use of liquidity ratios in SMEs will assist in eliminating the financial risks that occur as a result of poor performance of the management in the firm's management, and this will help in achieving sustainable development.

**Conclusion**. Overall, it is essential to understand and use liquidity ratios for efficient activity of SMEs in Kazakhstan. It should be taken into account that SMEs constantly face rather complex financial situation and therefore need to manage liquidity efficiently in order to guarantee security in the face of uncertainties and also to make optimal use of development opportunities arising in the course of the activity development. Discussion of the issues of liquidity management is highly relevant for the development of SMEs, as the latter seek to build up a stable financial state in the face of the existing economic difficulties, thereby to ensure the protection of their competitive ability in the market.

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