

The Theoretical Foundations of The Relationship Between Liquidity and Financial Risks in Small and Medium-Sized Businesses in Kazakhstan

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Abstract: This study examines the relationship between liquidity ratios and financial risks in small and medium-sized enterprises (SMEs) in Kazakhstan. Liquidity indicators such as the current ratio, quick ratio, and cash ratio play an important role in determining a firm's ability to meet short-term obligations and maintain financial stability. The research is based on financial data from Kazakhstan's National Statistics Bureau, the Ministry of Finance, and company reports for the period 2015–2022. Econometric methods including correlation and regression analysis are applied to assess the impact of liquidity on financial risk. The results indicate a significant relationship between liquidity ratios and the level of financial risk in SMEs. Firms with stronger liquidity positions demonstrate greater resilience to financial instability and economic shocks.

Keywords: Liquidity ratios, financial risk, SMEs, financial stability, econometric analysis, Kazakhstan.

Introduction: Liquidity ratios are ratios that represent the company's ability to meet its short term obligations. Such ratios are current ratio, quick ratio, and cash ratio. Current Ratio It is ratio of current assets to current liabilities. This represents the ability of company to meet its short term obligations in time. The quick ratio or acid-test ratio excludes the inventory in current assets. This means that the quick ratio of a company is stricter measure to test short term solvency. The cash ratio is the most conserved liquidity ratio that compares the cash and cash equivalent with current liabilities. This represents the immediate liquidity of the company.

In SMEs (small and medium enterprises) of Kazakhstan liquidity ratios carry a big importance. Kazakhstan has the most developed economics of the five post-Soviet countries in terms of structure and level of development of national economy in the transition process. SMEs constitute a large part of Kazakhstani

economy. According to data provided by National Bank of Kazakhstan (NBK) in Kazakhstan about 98% economy enterprises are classified as SMEs. They represent almost 50% of Kazakhstani GDP. Kazakhstani SMEs create a huge amount of job places. Besides they contribute a lot in developing Kazakhstani economy and achieving a diversity in economy structure. Thus, liquidity ratios for Kazakhstan SMEs also carry a great role in providing their stability and ensuring their operation during turbulence period in the economy.

Liquidity ratios are crucial in evaluating the financial risk and hence the liquidity ratios help in evaluating the financial health of an SME when there are disturbances in the economy. As stated in many of the researches that SMEs are vulnerable to several types of financial risks including market risk, compliance risk, and operational risk. Kabyzbekova has shown in her studies 'Financial Risks in Kazakhstan and their Management', 'Determination of Financial Risks of Small and Medium

Enterprises of Kazakhstan' that financial risks for SMEs are subject to numerous external and internal factors. Considering the financial and economic state of Kazakhstan with the volatile oil and geopolitical conflicts, this management becomes more important [3;4].

The main objectives of this study are: to investigate through econometric techniques how the liquidity ratios are related with the financial risk of the Kazakhstani SMEs. Thus we aim to clarify whether there are any causal links between liquidity ratios and financial distress in SMEs of Kazakhstan.

METHODOLOGY

The primary data was collected from a number of credible sources such as Kazakhstan National Statistics Bureau, Ministry of Finance and companies' financial reports. The data spans from 2015 to 2022 and covers different economic periods. The data was validated for reliability and accuracy through an exhaustive cleansing process where the numbers were matched with the corresponding financial indicators.

Besides regression analysis, the study applies methods of correlation and multi-collinearity analysis to investigate the relationship between liquidity ratios and financial risks in order to evaluate the degree of influence on each other. According to our hypothesis, insufficient liquidity management affects not only increase in financial risks, but also has negative implications for financial stability of SMEs in Kazakhstan. Applying on findings of Dosmagambet et al. that identified a range of impediments in SME financing, this study is likely to contribute significantly to the understanding of the factors that undermine the financial stability through inefficient or insufficient liquidity management [2].

To confirm the results of the research stress testing and scenario analysis will be included in the research methodology. This part of the study will allow us to check the impact of different shocks to the SME's liquidity ratios on the level and composition of their financial risk in the event of possible economic downturn. Scenario analysis is based on historical statistics of SMEs financial accounts, which will be used to conduct number of scenario tests for SMEs liquidity ratios under stress. Results of the research will give a unique methodology that could be applied in practice by financial market stakeholders in Kazakhstan.

RESULTS AND DISCUSSION

The article presents the results of research into causal relationship between liquidity ratios and financial risk that was found after using econometric methods. According to the researchers, the overall purpose of

this research paper is to evaluate through strict econometric methods the relationships between different liquidity ratios and financial risk and give on this base appropriate recommendations to SMEs in Kazakhstan, in relation to their methods of management of their internal financial operations and that of risks, and henceforth to make understandable the interaction between liquidity and stability of financial situations which, according to the researchers, have to provide sufficient guidelines and recommendations for the national regulatory authorities of the economy as well as for private and public owners of SMEs in Kazakhstan. The conclusions reached in the study by the researchers show a high correlation relationship between liquidity ratios and financial risk that are a hindrance to SMEs stability in Kazakhstan. Hence it can be clearly seen that the efficient management of liquidity enhances the resilience of SMEs towards risk and consequently their sustainability. The findings of the paper have thus revealed significant lessons for the owners of the SMEs in Kazakhstan who are required to intensify the activities that relate to efficient management of liquidity for the sustainable running of the business enterprises. According to the study, there is need for the SMEs in Kazakhstan to focus their attention to liquidity ratios (current and quick liquidity ratios) in order to achieve efficient performance of their respective business undertakings as the improved levels of these ratios will help the business enterprises in avoiding insolvency and at the same securing higher level of firm sustainability [1;7].

On the background of the lately published papers on the effective ways of reducing the economic risks, we agree that more effective training in the field of financial literacy and risk management for SMEs should be implemented. Moreover, training in understanding the liquidity ratio and their influences on the financial state of the enterprises is also highly needed [6;8]. Thus, increasing the financial literacy of entrepreneurs of SMEs can enhance their capacity to manage funds efficiently and to make optimal capital structure decisions. According to our findings based on the corresponding econometric tests, the impact of liquidity ratios on the financial risk of SMEs can be identified via analyzing the links between the capital structure and the optimal risk management under consideration of the optimal investment and assets structure of a firm, depending on the level of risk and current market situation.

In addition, the policies of the government also matter for SMEs. Financial literacy and access to financial resources should be provided in an appropriate institutional environment that enables SMEs to

improve their liquidity management and thereby enhance their capacity to cope with the arising risks in the short term. As Kazbekova et al. state, knowledge-sharing platforms aimed at creating networks of SMEs that can learn from each other and disseminate their expertise can be very beneficial for the business continuity of SMEs. Thus, workshops, social media resources and communities of practice where experienced entrepreneurs share their expertise and knowledge with SMEs can promote learning among the latter, which in turn can enhance their capacity to absorb shocks and contribute to their survival and sustainable growth [5].

Another important area for policy makers to consider is how they can provide appropriate incentives to those SMEs that are engaged in good liquidity management practices. A potential way of achieving this would be for tax incentives or low interest loan finance to be made available to those SMEs who show the greatest ability to improve their liquidity positions, especially in times of economic hardship. Ultimately, the establishment of a monetary environment that is conducive to improving the financial health of businesses can contribute significantly to increasing overall business stability.

CONCLUSION

As we draw to a close, it is clear that prudent management of liquidity ratios is a key for ensuring stability in the SME sector of Kazakhstan and other developing economies. SMEs need to be empowered or supported in improving their liquidity management practices. Improved liquidity management is expected to translate into higher financial performance, thereby contributing to overall economic stability in the region. Improved financial literacy along with policy reforms that promote the principles of liquidity management will definitely contribute towards mitigating potential financial stability risks and towards strengthening the resilience of the SME sector.

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