

Currency Strategy of Constructivism in Kazakhstan*

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ABSTRACT. The strategy of constructivism is one of the most efficient ones for the countries which stand at the intersection of interests of large players in the global economy. The modern currency reformation and principles of positioning of Kazakhstan could be a bright example of how the internal policy should be implemented to ensure the interests of a socially oriented state, including definitions of the currency mechanism. All measures and actions of the central bank and the government have always been weighted, consistent and foreseeable: the logic and economic substantiation have always been adhered to in the exchange rate policy at simultaneous liberalization of the foreign exchange market.

KEYWORDS. Currency strategy, constructivism strategy, currency mechanism, liberalization of foreign exchange market, currency regulation.

Introduction

Combination of the currency mechanism instruments in various terms of the global economy for the purpose of ensuring national economic interests brings out currency strategies based on fundamental factors at the first place, the factors being as follows: level of economic capacity (through the expansion of access to the global commodity markets), financial (through the presence of convertible national currency and significant amounts of assets) and political power, availability of the sufficient level of international reserves for maintaining the stabilization field, etc.

Still, the countries which can only watch the great players change «the rules of the game» in the global economy and feel their results upon themselves attempt to protect themselves from the effect of serious fluctuations of the external factors and thus stand up for their economic interests. Respectively, the strategy they choose is constructivism, based on clear succession of usage of currency mechanism instruments according to the development of macroeconomic processes. The example of the country which uses the constructivism strategy in the most effective way is Kazakhstan.

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Main Part

The global crisis of 2008-2009 confirmed that the chosen political, social, economic and foreign political model of the country development adopted in 1997 on the basis of the Strategy of Development of Kazakhstan till 2030 proved to be effective². During the years after the moment of adoption of the Strategy-2030, the state entered the top five list of countries which develop in the most dynamic way.

According to the results of 2012, Kazakhstan entered the top 50 list of the largest economies of the planet by GDP rate. Starting from 1997, the rate of the national economy grew from 1.7 trillion tenge to 28 000 billion tenge in 2011. GDP of the country grew by more than 16 times. Since 1999, the annual GDP growth rate of Kazakhstan has made 7.6 % and outstripped the leading developing countries. GDP per capita grew by more than 7 times – from USD 1 500 in 1998 to USD 12 000 in 2012 (see Figure 1).

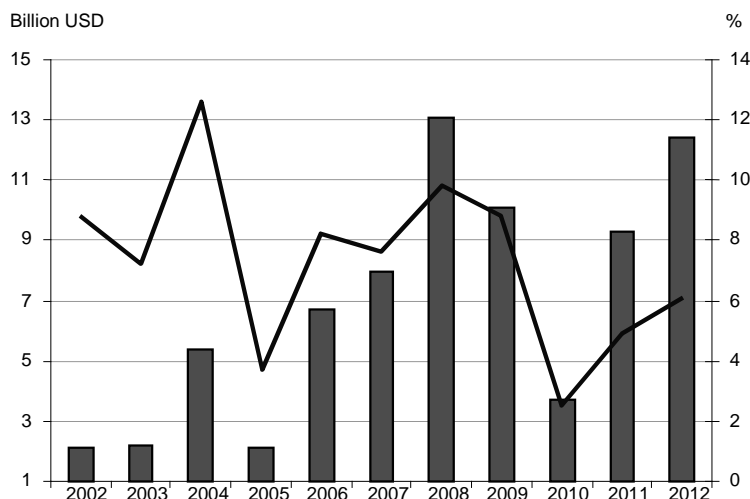


Fig. 1. Foreign direct investments, net – flow (billion USD) and their % to GDP

Source: National Bank of the Republic of Kazakhstan [Electronic resource]. – Access mode: <http://www.nationalbank.kz/?&switch=kazakh> [In Russian].

² Message of the President of the Republic of Kazakhstan — leader of the nation N.A. Nazarbaiev to the people of Kazakhstan. Strategy «Kazakhstan-2050. New political course of an established state — 2012» [Electronic resource]. — Access mode: <http://www.adilet.gov.kz/ru/taxonomy/term/293> [In Russian].

From the very beginning, Kazakhstan has become the leader among the CIS countries by the rate of attracted foreign direct investments per capita – in 2012 it made USD 9 200.

In 2012, Kazakhstan already clearly realized the threat of a new global destabilization. The Message of the President of the Republic of Kazakhstan stated that «the global economic system can malfunction seriously in 2013-2014 and cause collapse of global prices on raw materials. Such a scenario is extremely undesirable for us. Possible recession in the EU and/or the USA can lead to reduction of the needs of developed countries in raw material resources. Potential default of at least one state of the Eurozone can provoke «the domino effect» and question preservation of our international reserves and stability of our export supplies. Reduction of currency reserves enhances the pressure of exchange rates and inflation, which, again, can affect the social and economic situation negatively». «The economic policy of the new trend is the comprehensive economic pragmatism built on the principles of profitability, investment return and competitiveness. ...Considering the unfavourable situation in the global economy, we need to ensure protection of profits of each Kazakh and maintain the level of inflation acceptable for economic growth. This is not just macroeconomic matter, this is the matter of the social security of the country. And this is also the main matter of work of the National Bank and the Government starting from the year 2013». Along with this, «the promotion of national interests and consolidation of regional and global safety», and the task, again, is «diversification of foreign policy, development of economic and trade diplomacy for protection and promotion of national economic and trade interests» on the principles of pragmatism³.

An important role in this system is taken by currency mechanisms of ensuring interests of the state. According to Article 56 of the Law of the Republic of Kazakhstan «On the National Bank of the Republic of Kazakhstan», the National Bank of Kazakhstan establishes the official exchange rate of the national currency of the Republic of Kazakhstan to foreign currencies according to the list defined by the Board of the National Bank of Kazakhstan. At that, according to resolution No. 21 of the Technical Committee of Monetary and Credit Policy of the National Bank of the Republic of Kazakhstan of May 23, 2003, as well as Press-release

³ Message of the President of the Republic of Kazakhstan — leader of the nation N. A. Nazarbaiev to the people of Kazakhstan. Strategy «Kazakhstan-2050. New political course of an established state — 2012» [Electronic resource]. — Access mode: <http://www.adilet.gov.kz/ru/taxonomy/term/293> [In Russian].

No. 013 «On Mechanisms of Establishing the Official Exchange Rate of Tenge to Foreign Currencies» of June 06, 2003, starting from June 9, 2003, the market exchange rates established by an order/resolution shall also be the official exchange rates of the National Bank of Kazakhstan according to the authorities specified in Article 56 of the Law of the Republic of Kazakhstan «On the National Bank of the Republic of Kazakhstan».

Thus, currently the official exchange rate of tenge does not differ from the market exchange rate determined according to the procedure stipulated by an order/resolution and shall be published at the informational website of the National Bank as the official (market) exchange rate.

Besides, due to the enforcement of the new Tax Code, the market exchange rate shall be determined according to the procedure established by order No. 36 of the Ministry of Finance of the Republic of Kazakhstan of January 28, 2009, and resolution No. 4 of the Board of the National Bank of the Republic of Kazakhstan of January 26, 2009 «On Establishing the Procedure of Determination and Application of Market Exchange Rate».

Nevertheless, in the period of introduction of the national currency – tenge, there was a historical deficit of gold and exchange reserves. The policy of fixed exchange rate of the national currency would not be able to resolve the problem of maintaining the internal stability of tenge and restrain the rates of its devaluation in the terms of rapidly growing demand on foreign currency which arose due to the certain degree of distrust of the population to tenge.

For the purposes of formation of a liquid foreign exchange market and maintenance of convertibility of tenge into other foreign currencies, starting from January 1994, mandatory sale of 50 % of receipts from export of goods (works, services) was introduced temporarily for all the enterprises. The given procedure did not cover the newly-established enterprises with foreign capital. This norm was reduced to 30 % from June 10, 1995, and abolished completely from August 4, 1995. The reason for this was simultaneous reduction of tenge devaluation rates compared to the US dollar, growing trust to tenge and introduction of new more profitable financial instruments. In these conditions, a decision was made on transition to the mode of regulated floating exchange rate with the purpose of further reduction of inflation decrease and devaluation expectations.

The consequences of the Russian financial crisis of 1998 led to acceleration of tenge devaluation rates and especially sharp tenge exchange rate fluctuations at the market of foreign currency cash.

At that, the significant devaluation of national currencies in the countries which are trading partners of Kazakhstan and, first of all, in Russia caused rise in price of tenge in real value and reduction of competitive positions of Kazakhstan export.

The introduction of the free floating exchange rate of tenge to foreign currencies in April 1999 caused the need to maintain balanced condition of the financial market, and thus the National Bank repeatedly applied the practice of establishing obligations for exporters on mandatory sale of 50 % of receipts from export of goods (works, services). Along with this, measures were taken to preserve deposits of natural persons in tenge in commercial banks as well as preservation of tenge assets in the pension funds.

In the end, all this facilitated the increase of foreign currency offer at the foreign exchange market and crisis overcoming, which, along with the accompanying favourable conditions at global commodity markets, allowed cancellation of the requirement on sale of a part of export currency receipts in November 1999.

At the same time, other administrative control measures are still effective for the operations related to the use of foreign currency, as established by legislation in the sphere of currency regulation and control. The law of the Republic of Kazakhstan «On Currency Regulation» adopted in 1993 determined the list of current foreign exchange operations which were performed without limitations. All other operations were referred to the operations related to capital flows under which the National Bank was entitled to introduce restrictions.

The currency regulation system, in its turn, is based on the Constitution of the Republic of Kazakhstan and consists of the Law of the Republic of Kazakhstan «On Currency Regulation and Currency Control» and other normative and legal acts of the Republic of Kazakhstan.

Stabilization of the post-crisis situation allowed rising attention to the extension of foreign currency regime liberalization. In particular, special attention was paid to the Concept of currency exchange regime liberalization (approved by Resolution No. 369 of the Board of the National Bank of the Republic of Kazakhstan of September 11, 2002) initiated by the National Bank of the Republic of Kazakhstan, in which step-by-step liberalization of the foreign exchange regime was offered, stipulating total cancellation of currency restrictions on capital flow and transition to full convertibility of tenge in current and capital operations till 2007.

Preservation of restrictions on capital export by residents would cause imbalance of capital flows in the economy and could lead to a number of negative consequences:

— at preservation of the policy of free floating exchange rate, possible exceeding offer of foreign currency would apply pressure upon the exchange rate to force it back to its nominal value, meaning real rise in price. In other equal conditions, it will affect competitiveness of processing industry enterprises negatively;

— deterioration of competitiveness of non-raw material sector of the economy will lead to increase of branch concentration of the economy which, in the end, would make the economy of Kazakhstan even more vulnerable before the effect of external pricing shocks and would create additional complexities at achievement of long-term goals of the economic policy;

— at preservation of stable real exchange rate of tenge, the purchase of exceeding amount of foreign currency by the National Bank at the domestic foreign exchange market would lead to increase of monetary stock. This would result in either complication in the maintenance of low inflation rates, unless the increase of money offer would be compensated by the growth of real demand on it, or the National Bank would suffer losses in servicing of debt instruments with the help of which monetary stock would be sterilized.

Achievement of relative stability of payment balance in the medium-term perspective allows switching the focus of the currency regulation policy from strict control over capital outflow to the task of efficiency increase in attracting and using financial funds, with the help of resolving the following matters:

1. Establishment of conditions for diversification of investment portfolio with the purpose of achieving optimal profitability and diversification of investor risks requires extension of the list of instruments and possibilities for investments, including investments in foreign assets.

2. Extension of economic potential of the republic at the expense of direct investments in foreign commercial companies with the purpose of production and economic activity, which has to facilitate the increase of production base of domestic companies, penetration at new promising markets and reduction of transaction costs.

3. Development of domestic stock exchange and appearance of new, more complex instruments of investment is impossible from more active participation of non-residents.

4. Attraction of currency funds by non-financial sector has to be substantiated by not only the need in borrowed funds but also

the ability of the enterprise to service its external debt in time, i.e. its solvency.

5. Establishment of the mechanism of control and restraining speculations from the part of non-financial organizations – large players of the foreign exchange market, and non-residents, with further cancellation of current restrictions on purchase of foreign currency at the domestic foreign exchange market.

6. Reduction of administrative restrictions and requirements regarding foreign trade operations of non-residents, along with simultaneous growth of efficiency of control over their honest performance.

Gradual liberalization of the currency regime will greatly reduce transaction costs at performance of economically important operations and establish conditions for performance of such operations by a wider circle of residents.

The long-term purpose of liberalization was in facilitation of achieving stable economic growth by means of gradual abolishment of existing restrictions of the currency regime⁴.

According to the Programs of currency regime liberalization in the Republic of Kazakhstan in 2003–2004⁵ and 2005–2007⁶, as of January 1, 2007, Kazakhstan implemented the principles of full convertibility of national currency: licensing of capital flow operations and opening of accounts in foreign banks was abolished, restrictions on conversion operations of legal entities at the domestic foreign exchange market were removed, and the new scheme of control over the fulfilment of currency repatriation requirement was introduced.

Along with this, considering the present risks of external shocks, the Law of the Republic of Kazakhstan «On Currency Regulation and Currency Control» of June 13, 2005, stipulated the mechanism of effective reaction in case of threats to the economic security of the Republic of Kazakhstan and stability of its financial system.

In particular, if the situation cannot be resolved by other economic policy measures, the Law stipulates the possibility of

⁴ Concept of currency regime liberalization in the Republic of Kazakhstan — Approved by Resolution No. 369 of the Board of the National Bank of the Republic of Kazakhstan of September 11, 2002. — [Electronic resource] — Access mode: www.nationalbank.kz [In Russian].

⁵ Program of currency regime liberalization in the Republic of Kazakhstan for 2003–2004, approved by Resolution No. 103 of the Government of the Republic of Kazakhstan of January 29, 2003. — [Electronic resource] — Access mode: www.nationalbank.kz [In Russian].

⁶ Program of currency regime liberalization in the Republic of Kazakhstan for 2005–2007, approved by Resolution No. 705 of the Government of the Republic of Kazakhstan of June 25, 2004. — [Electronic resource] — Access mode: www.nationalbank.kz [In Russian].

short-term introduction of individual currency restrictions within the frameworks of a special currency regime, such as:

1) requirement to open banking deposit without payment of fees in the amount determined as percentage from the amount of currency transaction, in the authorized bank or the National Bank for the established term;

2) requirement to obtain a special permit of the National Bank to perform a currency transaction;

3) requirement of mandatory sale of foreign currency received by residents of the Republic of Kazakhstan;

4) restrictions on using accounts in foreign banks, establishment of the term of foreign currency receipts return and limits on the rates, amount and currency of settlement in currency operations.

A special currency regime can be introduced by the President of the Republic of Kazakhstan after joint consulting with the Government and the National Bank, for not more than one year. Until now, the given defensive mechanism has never been applied by the Republic of Kazakhstan.

So, according to the norms of the Law of the Republic of Kazakhstan «On Currency Regulation and Currency Control» which entered into force on January 01, 2007 (as amended and supplemented as of December 24, 2012), the following changes were made:

— currency repatriation requirement was abolished in export-import operations within the established term, and the repatriation term is determined based on contractual terms and conditions;

— the mode of licensing in operations related to capital flows, opening accounts abroad, investments abroad and operations with securities was abolished, and requirements were established on provision of information within the frameworks of registration and notification mode;

— a new simplified scheme of export-import currency control was introduced, in which the procedures of certification of foreign trade agreements were simplified and excessive administrative barriers and elements of bureaucracy were excluded;

— restrictions on purposes of purchase of foreign currency by legal entities-residents were lifted.

From the beginning of 2007, currency control has been exercised by the following main trends:

1. Control of adherence to the procedure of settlements and money transfers in currency operations on the basis of information produced at currency settlements and money transfers

through authorized banks, for the purposes of financial monitoring.

2. Control of repatriation of currency receipts from export and unused advance payments in import operations (export-import currency control) within the terms established by the exporter or importer independently based on foreign trade contract terms.

3. Control of timely and accurate provision of information within the frameworks of currency regulation – registration and notification – for the purposes of obtaining information about the nature of fulfilled agreement.

It should be noted that in Kazakhstan the main provisions of the Law «On Currency Regulation» mostly coincide with the provisions of normative acts of other CIS countries. This refers mandatory performance of operations with foreign currency through authorized banks (and other financial institutions) and mandatory accrual of foreign currency obtained by the resident to accounts in authorized banks. Nevertheless, the distinct peculiarities include recalls on regulation of bank net FX position. The established limits of net FX position, on the opinion of the Financial Supervision Agency of Kazakhstan, are the measure on restriction of FX risk of banks, and reduction of FX position limits is one of indirect instruments that restrict growth of risks related to the increase of foreign borrowing. The Financial Supervision Agency believes that, being a supervisory agency, it is entitled to intrude in the foreign borrowing policy for the purposes of forecasting and prevention of probability of systemic crises occurrence, including those related to liquidity loss risk. This means that, if the bank takes short-term funds, for instance, up to three years, and provides credits for long-term projects – for instance, mortgage loans are granted for 10 to 20 years – then this is the main sign for the regulator. It is going to take regulating measures against banks if even the negative gap is 10 %. The monitoring of FX liquidity will enable the Financial Supervision Agency to analyze and assess the cumulative positive or negative FX gap (in case of excess of FX obligations over FX assets). The International Monetary Fund and the World Bank thought the limited FX positions in Kazakhstan were too high, that's why their reduction is a natural and necessary process.

New legislative rules adopted in 2007 created conditions to make tenge a free convertible currency. In the terms of growth of pressure upon the exchange rate of the national currency in 2006-2009, the National Bank made considerable efforts to ensure stability of the exchange rate and preserve the hidden exchange rate

band within 117–123 tenge for 1 USD (120 tenge + / -2 %). This allows provision for the economic and financial stability. Still, the need to preserve the current level of gold and exchange reserves and maintenance of competitiveness of domestic manufacturers required National Bank revision of approaches to the currency policy.

From February 4, 2009, the National Bank stops supporting tenge in the current hidden band, and the new exchange rate band is at the level of 150 tenge per 1 USD with + / -3 % or 5 tenge fluctuations.

The main reasons for adjustment of the FX band were:

— Decrease in oil prices. Oil takes about 60 % of all Kazakhstan export and serves as the main source of FX receipts at the financial market. The drop in oil value by more than 3 times in the second half of 2008 forced revision of exchange rate landmarks. Naturally, in case of restoration of oil price increase or the growth of pricing levels, the adequate change of national currency exchange rate was stipulated in the direction of consolidation.

— Devaluation of national currencies in the countries-trading partners of Kazakhstan and in the countries where economy depends on raw material export. For example, from the beginning of 2008 till January 2009, devaluation of national currencies compared to the US dollar made 44 % in Russia, 28 % in Belarus, 53 % in Ukraine, 38 % in Great Britain, 13 % in Eurozone, 28 % in Norway, 31 % in Brazil, 27 % in Australia and 26 % in Canada. As a result of that, in 11 months of 2008, the consolidation of real efficient exchange rate of tenge to currencies of trading partner countries made 13 %, and including the data of January 2009 – 16 %. From 2000 till 2008, consolidation of the real tenge exchange rate made 30 %. To provide for competitiveness of domestic commodity manufacturers, respective exchange rate adjustment is necessary. The experience of Kazakhstan in 1998 and beginning of 1999, as well as other countries which came across deterioration of competitiveness, certified the inefficiency of other means of commodity manufacturer support, besides national currency devaluation. The level of single-moment tenge devaluation did not exceed 23 %, which is lower than the average level of national currency devaluation in other countries of the region. On the one hand, this allowed renewal of competitiveness, and on the other hand, it served as an additional factor restricting further weakening of tenge exchange rate.

— Second-level banks which have the largest load in servicing external debt in the current years received real state support and have to operate without violating prudential norms. Moreover, the

state takes strict measures on reduction of foreign assets of the banking system which are located abroad, to ensure fulfilment of obligations concerning external debt of the banking sector.

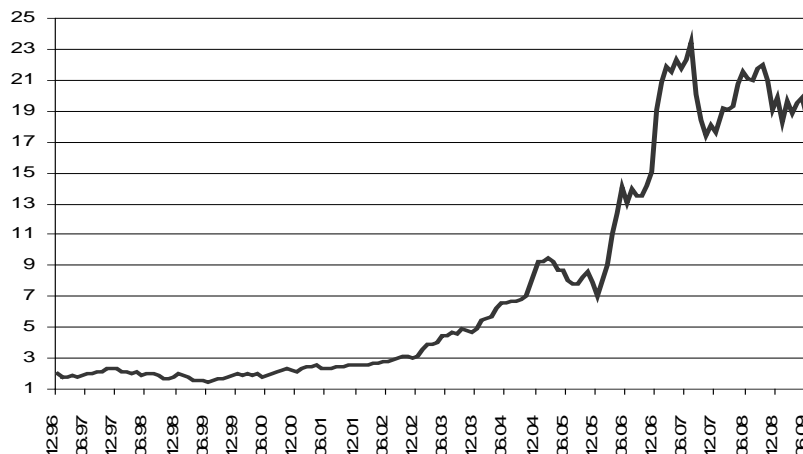


Fig. 2. Gross international reserves, in billion USD,
as of the end of period

Source: National Bank of the Republic of Kazakhstan – [Electronic resource] – Access mode: www.nationalbank.kz [In Russian].

— Preservation of gold and exchange reserves of the National Bank (Figure 2). Starting from the IV quarter of 2008 till February 4, 2009, the National Bank spent USD 6 billion to provide for stability at the FX market and support of the exchange rate in the current range.

The implementation of liberalization program in the republic led to reduction of costs of foreign economic activity participants related to fulfilment of currency legislation requirements, stimulation of Kazakhstan capital expansion abroad, more active use of instruments to hedge risks related to exchange rate fluctuations, changes of commodity prices and interest rates.

From July 01, 2010, the Customs Code of the Customs Union entered into force, changing the rules of importing goods from abroad to the Customs Union countries. On January 30, 2012, the Law of the Republic of Kazakhstan «On Ratification of Agreement on Procedure of Transfer of Cash Funds and/or Cash Instruments across the Customs Frontier of the Customs Union by Natural Persons» under No. 389 (hereinafter referred to as «Agreement») entered into force. The Agreement signed by Heads of States-members of the Customs Union on July 05, 2010

in Astana establishes a unified procedure for import or export of cash funds and/or cash instruments by natural persons across the frontiers of the Customs Union member states to other countries. For the citizens of the Republic of Kazakhstan the adopted Agreement provided the following advantages compared to the current procedure: the threshold of mandatory currency declaration was increased to the equivalent of USD 10 thousand, transfer of cash funds, travel checks and securities between the Customs Union member states is performed without restrictions, no submission of documents confirming legality of origin are required at export of foreign currency in cash for the amount of over USD 10 thousand to other countries.

Kazakhstan is also an active member of the Common Economic Space (hereinafter referred to as «CES»). Within the frameworks of CES, the new currency policy was approved which was aimed at consolidation of the national currencies of Kazakhstan, Belarus and the Russian Federation. Within the frameworks of formation of CES legal base, Kazakhstan, the Russian Federation and Belarus developed the draft tripartite agreement on coordinated principles of the currency policy approved by the government of Kazakhstan. It was expected that the implementation of the currency policy increase the efficiency of mutual settlements in national currencies, increase trust and ensure enhancement of the national currency role and further growth of liquidity of national foreign exchange markets. Still, it was realized that there was a potential threat which might arise in the course of implementation of such agreement – «loss of sovereignty in realization of currency policy in the future»⁷.

In particular, the agreement determines the principles which ensure phasing convergence of approaches to the formation and implementation of the currency policy. The agreement consists of four main blocks, the first one is coordination of the exchange rate policy including such notions as direct and mutual quotation of national currencies, creation of conditions for extension of national currency usage in mutual settlements, creation of conditions to allocate central bank reserves in the currencies of CEP countries. The second block includes harmonization of currency regulation and currency control requirements. The third block of the agreement refers to the interaction of governmental agencies performing currency control, including information exchange; and the fourth block refers to the possibility of temporary introduc-

⁷ Approved currency policy of common economic space will consolidate the national currencies of Kazakhstan, Belarus and Russian Federation — National Bank of the Republic of Kazakhstan — 07/12/2010. — [Electronic resource]. — Access mode: <http://economy/20101207/974692.html> [In Russian].

tion of currency restrictions in case of problems in the payment balance and other threats to the economic security.

At the meeting of the Board of the National Bank on February 25, 2011, a decision was made on cancellation of the tenge exchange rate fluctuation band and return to the mode of controlled floating tenge exchange rate starting from February 28, 2011⁸. Refusal from the currency band in favour of controlled floating allowed consolidation of tenge at a balanced level comfortable for the economy, growing of gold and exchange assets and ensuring long-term stability at the FX market.

The FX band introduced as a temporary measure aimed at stabilization of the situation at the FX market and reduction of devaluation expectations of the population, in the terms of enhancement of the trend to tenge consolidation, lost its relevance. It was caused by favourable pricing structure for the main positions of Kazakhstan export at global markets and the payment balance status.

From September 02, 2013, the National Bank of Kazakhstan moved to the use of national currency fixation mechanism to the multi-currency basket consisting of USD, Euro and Russian rouble. The reason for such measure was the transition to flexible exchange rate formation and inflation targeting mode (Figure 3).

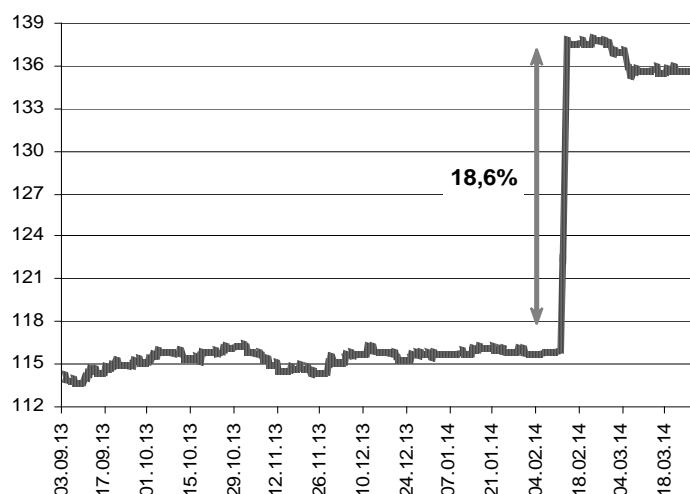


Fig. 3. Dynamics of multi-currency basket

Source: National Bank of the Republic of Kazakhstan – [Electronic resource] – Access mode: www.nationalbank.kz [In Russian].

⁸ Kazakhstan rejected the exchange rate band for tenge — February 28, 2011. — [Electronic resource]. — Access mode: <http://www.vestikavkaza.ru/news/33524.html> [In Russian].

The multiple currency basket structure is determined in the following proportions: the USD share is 70 %, Euro – 20 %, Russian rouble – 10 %. The value of the multi-currency basket is calculated as the average weighted geometric index of the tenge exchange rate value to USD, Euro and Russian rouble as of the given date, i.e. according to the following formula:

$$MCB = USD^{0.70} * EUR^{0.20} * RUB^{0.10} \quad (1)$$

where USD – tenge exchange rate to US dollar;

EUR – tenge exchange rate to Euro;

RUB – tenge exchange rate to Russian rouble.

To calculate the official value of the multi-currency basket expressed in tenge, the average weighted foreign exchange rate of tenge to US dollar is used, established at the morning (main) session of the stock exchange as of 11 am, and the tenge to Euro and Russian rouble exchange rate are calculated using the cross exchange rate to US dollar as of 15 pm. The value of multi-currency basket as an operation orientation point is calculated on regular basis every day and according to the results of each trade session at KASE.

According to the updated information, gross domestic product of the country grew by 6.0 % in 2013⁹. The economy growth was ensured at the expense of domestic sources – rates of investments in the main capital grew by 6.5 % (the highest index in the post-crisis period). The growth rate of consumption by domestic households of over 16.1 % was noted (according to the results of 9 months of 2013), which caused a favourable effect upon the development of the servicing sphere. The growth in the servicing sphere made up 107.6 %, which caused the contribution of service production to the growth rate of gross domestic product reaching the level of about 65 %. Deficit of the republican budget made up 2.1 % of the gross domestic product. Inflation made up 4.8 %, which is 1.2 % less than the level of 2012 (Figure 4).

⁹ Statement of the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan on the main trends of economic policy for the year 2014. — [Electronic resource] — Access mode: <http://www.nationalbank.kz/?docid=1211&switch=russian> [In Russian].

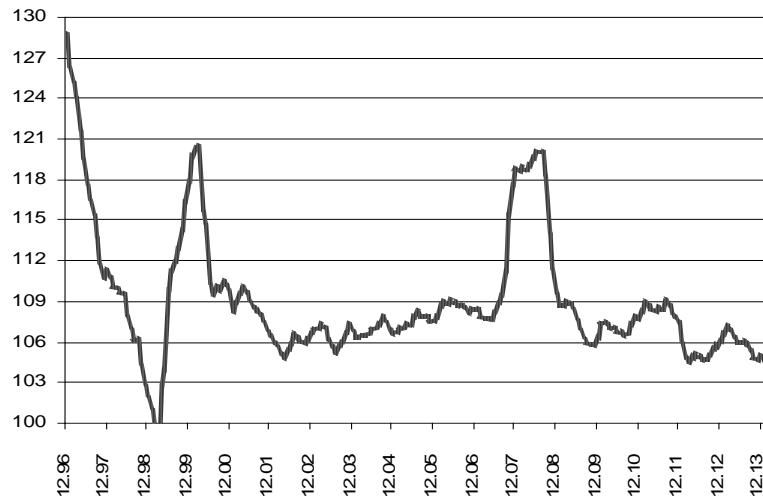


Fig. 4. Consumption price index year on year, %

Source: National Bank of the Republic of Kazakhstan – [Electronic resource] – Access mode: www.nationalbank.kz [In Russian].

The financial sector indices also improved. The rates of economy crediting in 2013 grew by 13.4 %, deposits increased by 12.2 %. In 2013, Standard & Poor's confirmed sovereign credit ratings of Kazakhstan at the BBB + / A –2 level, the forecast value is «Stable».

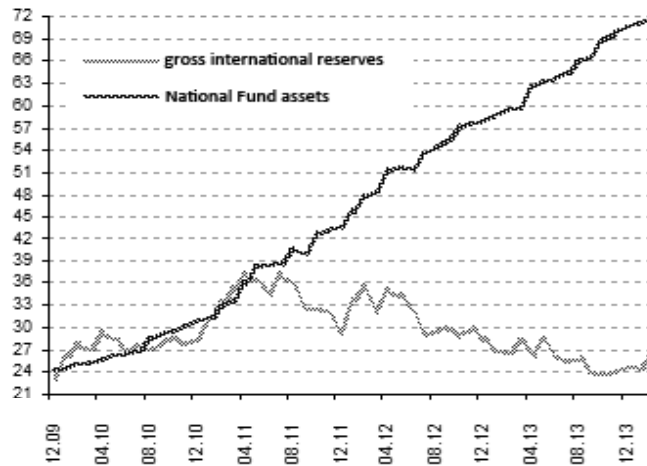


Fig. 5. Gross international reserves and assets of the National Fund, billion USD as of the end of period

Source: National Bank of the Republic of Kazakhstan – [Electronic resource] – Access mode: www.nationalbank.kz [In Russian].

In 2013, the international reserves of the country grew by 10.5 % and made up USD 95.2 billion, including the National Fund assets in foreign currency which grew by 21.8 % to USD 70.5 billion (Figure 5).

In 2013, foreign trade circulation reduced by 1.1 %. According to the results of the year and preliminary assessment of the National Bank, the profit of the payment balance current account made up USD 117.6 million.

At the same time, at the beginning of 2014 there was a one-time devaluation of Kazakh tenge by 20 %. The pressure on the tenge exchange rate began in the middle of 2013 as a result of weakening of the Russian rouble. Accordingly, such devaluation was forced and also served as a preventive measure of the National Bank and the Government of Kazakhstan as a reaction upon the situation at the global financial and commodity markets, as well as in the trading partner countries. The economy of Kazakhstan is closely integrated in the global economy. And the events which occurred during the whole year of 2013 and the beginning of 2014 created a macroeconomic background which could negatively affect the competitiveness of Kazakhstan.

First, there was a considerable consolidation of the US dollar in 2013 related to currencies of a number of countries, such as Argentina, Turkey, Brazil, Chile, Russia, Belarus, Indonesia and SAR. On the background of reduction of quantitative mitigation programs in the USA, this caused capital flow from the developing countries to the developed countries, and from the beginning of 2014 the trend of US dollar consolidation increased even more.

Second, there was an uncertainty regarding the Russian rouble exchange rate. The change of approaches of the Central Bank of Russia to the exchange rate policy in 2013 resulted in weakening of the Russian rouble by 7 % related to the US dollar. In January 2014 this trend continued.

Third, the payment balance status caused certainly the alarm for Kazakhstan. Despite the fact that the current operations account remains positive, there was a notable growth of import. Mostly it occurred at the expense of consumer goods. As a result of that, the current payment balance account in 2013 reduced by USD 0.5 billion and the profit made up USD 118 million compared to USD 640 million in 2012.

Fourth, further maintenance of the tenge exchange rate in the context of growing devaluation expectations would lead to significant reduction of gold and exchange assets. As it was said above, the pressure upon the tenge exchange rate began in the middle of 2013 as a result of the Russian rouble weakening. The

first alarm was noted in July and August 2013, when the central bank was forced to enter the market with interventions, having spent about USD 2.7 billion of reserves. Another billion dollars was sold in October 2013. In January 2014, the forcing trend continued, the national bank sold USD 2.2 billion. If devaluation never occurred, the National Bank of Kazakhstan would be forced to sell two more billion dollars in February.

Maintaining the exchange rate in the former range, Kazakhstan started approaching the safety threshold for the financial system. In 2013, the gold and exchange reserves of the National Bank reduced by 12 %. And the only option, besides devaluation, would be to use all the gold and exchange reserves. This gave rise to the need in adjusting the exchange rate of the national currency aimed at bringing it in line with the level adequate to the current economic conditions, which would facilitate further economy growth. That's why the National Bank, starting from February 11, 2014, made a decision to refuse from the exchange rate maintenance at the former level – 155 tenge for USD 1. The tenge exchange rate band will be about 185 tenge for USD 1 with ± 2 tenge fluctuation. At that, the amount of international reserves was preserved at a relatively stable level.

Still, the most important factor for such devaluation was the global uncertainty, weakening of currencies of the developing countries, although, for Kazakhstan, extremely pessimistic forecasts regarding the economic growth in the trading partner countries (EU, Russia and China) are even more important. Today, experts are pessimistic about the overcoming of the creeping recession of the previous years by the Eurozone countries. The EU covers 51 % of foreign trade. The published forecasts and reports contain a great pessimism regarding high growth rates in China as well. Finally, there are analytical assessments proving that the economy of Russia suffers difficulties, although the economies of Russia and China, with their great level of international reserves, have much higher safety margin than Kazakhstan.

The opponents of such solution state that the one-time rapid devaluation leads to large losses for a significant part of the population. Sure enough, there are two devaluation models – creeping and one-time. In this context, Kazakhstan is often compared to Russia. In 2009, Kazakhstan already performed a one-time devaluation, and the Russian Federation had a creeping one, and it is not expedient to discuss where a more accurate decision was made. Each country has its own suitable model. On

the other hand, the smooth strategy approach aimed at adaptation of the population to the new exchange rate creates even larger psychological expectations of devaluation, as only very experienced players can adequately react in such conditions. For the majority of inexperienced citizens, it is practically impossible to understand what the exchange rates will be in the future. To sum it up, such a powerful pressure upon the exchange rate leads to deeper devaluation. This means that the FX market participants, including natural persons, start buying foreign currency «just in case», driving the exchange rate growth even more. For instance, in 2009 it reached 40–50 % in Russia, while in Kazakhstan it was necessary to perform a one-time devaluation of 26 %.

Also, attention is always paid to the fact that the savings of the population (where savings were kept in tenge) reduced by 20 % as a result of devaluation at recalculation according to the new dollar exchange rate. But these are conditional losses because salaries, utility payments and taxes are paid in national currency. And it is not the exchange rate difference that serves as an index, but the price growth for goods and services. Accordingly, the government and the National Bank have to adopt a complete set of measures to prevent rapid price growth. Naturally, the prices are hard to hold, but based on the experience of 2009 it is quite possible. Constant monitoring of prices has been hosted in all regions, and the strictest measures shall be applied to those who speculate on such economic situation. This refers both the currency exchange transactions and sales of goods and services. The newly-established multi-currency basket is expected to function for quite a long period of time.

The adjustment of the exchange rate performed by the National Bank would provide an additional impulse of growth, first of all, for the Kazakhstan exporters, oil, mining and metallurgic companies. They are the main bearers of gold and exchange reserves in the economy of Kazakhstan.

Expansion of the domestic demand from the part of traditional economy branches would cause a positive effect upon the growth of other sectors, first of all those in which small and medium businesses operate. This, in its turn, will lead to acceleration of GDP growth rates, increase of employment level and incomes to the state budget. The GDP growth is also positively influenced by the improvement of foreign trade balance as a result of export growth and import reduction. The competitive terms for domestic manufacturers who work in import substitution economy branches will be improved as well.

According to the calculations of the central bank¹⁰, at preservation of the former exchange rate at the level of 155 tenge for USD 1, the goods and services import growth in 2014 would be more than by 10 % compared to 2013. Due to the new exchange rate, import is expected to hold at the level of 2013 in the year of 2014. This would allow more efficient import substitution policy, which would facilitate development of new productions, economy growth and employment of the population.

To prevent speculation in the operations with foreign currency cash by currency exchange outlets of authorized banks and organizations, the Board of the National Bank approved the Resolution «On Establishment of Limits of Deviation of Purchase Rate from Sale Rate of US Dollars and Euros for Tenge in Operations Performed in Currency Exchange Outlets» on February 11, 2014. According to this resolution, the difference between the purchase and sale rates of a foreign currency unit in tenge established for currency exchange outlets shall not exceed 2 tenge for US dollars and 3 tenge for Euros. The established limits of purchase rate difference from the sale rate for foreign currency are effective from February 11, 2014, till December 31, 2014, inclusive. In case of detecting violations, the National Bank of Kazakhstan shall apply sanctions to the currency exchange outlets, as stipulated by legislative acts of Kazakhstan.

The plans for the year 2014 specify that in monetary and credit policy implementation only short-term tenge liquidity shall be regulated at the monetary market. The main efforts will be aimed at increasing the efficiency of applied instruments. Measures shall be taken to improve the percentage channel and gradual reduction of the FX channel role within the frameworks of the given work.

The National Bank shall begin the next stage of realization of the new transmission mechanism of the monetary and credit policy. This stipulates measures on determining the interest rate band of the National Bank, introduction of new instruments on liquidity provision (permanent mechanisms) and further improvement of the mechanism of minimal reserve requirements and exchange rate policy¹¹.

¹⁰ Kelimbetov K. Smooth devaluation creates strong pressure on exchange rate. — February 20, 2014 — [Electronic resource]. — Access mode: <http://itar-tass.com/opinions/interviews/1966> [In Russian].

¹¹ Statement of the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan on the main trends of economic policy for the year 2014 — [Electronic resource]. — Access mode: <http://www.nationalbank.kz/?docid=1211&switch=russian> [In Russian].

Conclusions

Thus, from the moment the republic has become independent and the foreign exchange market has been formed, important steps have been made in the achievement of the main goals of currency regulation, stability of the national currency and development of domestic foreign exchange market. Today Kazakhstan has a liberal currency mode without any restrictions regarding the freedom of capital flow, in no way preventing performance of commercial activity in the Republic of Kazakhstan. The system of currency regulation has been formed through the complete abolishment of currency restrictions upon capital flow, which allowed building an informative and static, and analytical monitoring over the currency operations as the base for making economic policy decisions. Such experience is quite attractive for the developing countries as it reflects clarity and gradualness of performed measures for the purposes of achieving long-term goals.

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