Monetary Policy in Ensuring Sustainable Development of Kazakhstan's Economy

Nursoltanova Alua<sup>a</sup>, Jun-Wen Feng and Xiao-Ling Wang
(Nanjing University of Science and Technology, School of Economics and Management, Nanjing, Jiangsu province, China 210094)
<sup>a</sup>email: alua_29@bk.ru

Keywords: Money Policy, Credit Policy, Inflation Targeting Regime, National Economy.

Abstract. Monetary policy is a set of money policy measures (which primarily governs changes in the money supply) and credit policy (aimed at regulating the volume of loans, the level of interest rates and other indicators of the loan capital market).

At the present stage, monetary policy is one of the methods of the state's indirect regulation of the economy. Analysis of economic literature and actual statistical data on the successful implementation of monetary policy shows that the main directions of monetary policy should be linked with macroeconomic state policy, that is, with the forecast of the country's socio-economic development for the next period, fiscal policy, with foreign economic policy (the forecast of the balance of payments of the country). To this end, the central or national bank interacts with government agencies, commercial banks.

Introduction

As world experience shows, the lag in the development and improvement of monetary policy reduces the competitiveness of the national economy. Representing a complex mechanism, including a complex of various methods and instruments, monetary policy is a kind of link between the population, business entities, commercial banks and the National Bank. The role of monetary policy is to ensure timely and effective management of the money supply in the country, maintain the necessary liquidity of the country and the national currency, and stimulate economic growth. In this regard, the effectiveness of the functioning of financial markets and the banking sector of the economy, economic development largely depends on the monetary policy in force in the country.

Monetary policy is a vital part of the financial system and economy of any country. For Kazakhstan, it has a special significance, since it has become one of the key problems of economic reform in the transition period.

The main objective of the monetary policy of the National Bank of the Republic of Kazakhstan (hereinafter - the National Bank) for the coming periods is to ensure price stability. Achieving this goal is one of the most important conditions for long-term sustainable economic development. In addition, the National Bank, together with ensuring price stability, creates the conditions for maintaining financial stability, mitigating the impact of external shocks on the economy and preventing accumulation of imbalances in the financial system. The actions of the National Bank are part of the overall macroeconomic policy of the state, and only in conjunction with coordinated and coordinated fiscal
policy measures can ensure sustainable economic growth and stability of the financial system.

In international practice, the target parameter is set either by the central bank, or by the government, or jointly by the government and the central bank.

The most common practice is the joint setting of the target by the central bank and the government. The advantage of this approach is to harmonize monetary policy measures with fiscal policy, which is important for achieving the goal.

In a number of countries, the inflation target is set by the central bank (Czech Republic, Poland, Peru, Mexico, Hungary, Colombia). The advantage of this approach is the full responsibility of the central bank for setting and achieving the goal, which characterizes the high degree of independence of the central bank from other government agencies. The disadvantage is that sometimes government measures may not be consistent with monetary policy measures.

The question of setting the inflation target is important in the context of accountability and the degree of responsibility of the central bank for achieving the goal. It should be noted that in the countries that implement the target setting by the government (Great Britain, Norway), the central bank is accountable to the government or parliament.

Within the framework of the inflation targeting regime in Kazakhstan, inflation targets will be set by the Board of the National Bank.

Without an efficient financial system that enjoys the confidence of the population, due to its reliability and stability, the normal vital activity of the real sector of the economy is impossible. And with an inefficient and non-credible monetary policy, even the most common and simple financial transactions can become an incredibly difficult business. In this regard, the organization and availability of a reliable, effective, risk-free and safe monetary policy is the subject of the closest attention from the state.

Monetary policy of Kazakhstan in its development has passed a number of important stages that reflect the key macroeconomic trends over the past twenty years. At present, the objective of monetary policy is price stability, which implies achieving and keeping inflation at a low level. The clear orientation of the National Bank to reduce and stabilize inflation at a low level potentially increases market confidence in the central bank and contributes to sustainable and balanced economic growth. In these circumstances, inflation targeting is the preferred regime for Kazakhstan's monetary policy [1].

The course on modernization of the economy and further improvement of the financial system was voiced by the President of the Republic of Kazakhstan N. Nazarbayev. January 28, 2011 and found its continuation in the Address of November 30, 2015, "Kazakhstan in a New Global Reality: Growth, Reform, Development," in which he noted that "our most important task is to quickly stabilize the financial system, bring it in line with the new global reality" [2].

As is known, at the beginning of the development of tenge, the aim of monetary policy was to ensure internal and external stability of the national currency, and the main goal was to reduce inflation as well as stabilize the exchange rate. Despite the internal economic contradiction of this goal in the period of the formation of the tenge, its choice was justified measure.

To ensure the stability of the tenge in the first years of the national currency, the National Bank pursued a policy aimed at strengthening the payment function and increasing its credibility. Among the measures taken in this direction were: transfer to payment in tenge of export and import duties, customs payments, prohibition of retail trade for foreign currency, prohibition of barter operations by legal entities - residents of the Republic of Kazakhstan.
Consistent implementation of socio-economic reforms, as well as positive trends in the global market environment in 2000-2006, led to the stabilization of the macroeconomic situation in the country [3].

Thus, inflation in these years did not exceed 8.4%, and real economic growth averaged 10.3% per year. The growth of the Kazakh economy was greatly facilitated by the investment activity of domestic and foreign capital. There was a favorable pricing environment for the position of domestic exports (oil, gold, zinc, copper, lead and grain) against the backdrop of domestic macroeconomic stability. During this period, the National Bank began a gradual easing of monetary policy to stimulate the money supply and support economic growth. In this connection, the refinancing rate was gradually reduced from 18% to 7%, which stimulated second-tier banks to provide affordable loans to enterprises and the population, and as a result, led to an increase in the supply of money in the country. The growth in lending volumes averaged 66.8% a year, while the growth in money supply was 37.5%.

In such a situation, an important component of monetary policy should be the restriction of price growth. The National Bank of the Republic of Kazakhstan succeeded in ensuring high inflation rates at a rate of 6.8% per year, after the creation of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations, the main objective of the National Bank was to ensure the stability of the price level.

In these circumstances, the National Bank in August 2015 switched to the inflation targeting regime, as the preferred regime for Kazakhstan's monetary policy, and introduced a regime of a freely floating exchange rate of the national currency, the tenge.

The medium-term goal of the National Bank is to reduce annual inflation to below 3-4% by 2020. To achieve this level, the basic tool for monetary policy, both in terms of providing and withdrawing short-term tenge liquidity, is generally built. However, it is planned to further expand and improve the system of monetary policy instruments [2].

**Tools of the National Bank**

Through instruments, the National Bank regulates liquidity and interest rates of the money market, affects the credit activity of banks and affects the amount of money in circulation (Table 1).

Open market operations are the regular operations of the National Bank in the form of auctions to provide or withdraw liquidity in the money market in order to form a level of interbank interest rates near the base rate. Operations in the open market are carried out on the initiative of the National Bank. When carrying out open market operations, highly liquid and risk-free securities are used as collateral.

Continuous access operations (permanent mechanisms) are monetary policy instruments for adjusting liquidity volumes, which is formed by the results of open market operations. The main goal of constant access operations is to limit the volatility of short-term interest rates of the money market. These transactions are conducted on the initiative of banks.

Minimum reserve requirements are used to regulate structural liquidity, as well as liquidity and rates in the interbank money market. Changing the norms of reserve requirements, the central bank regulates the banks' demand for their reserves and, using their instruments, maintains liquidity of the money market at
a level that allows to keep short-term interbank interest rates in the required corridor.

### Table 1. Instruments of Monetary Policy.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Type of Instrument</th>
<th>Instrument</th>
<th>Collateral</th>
<th>Frequency</th>
<th>Provision / withdrawal duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>liquidity provision</td>
<td>standing facilities</td>
<td>KASE Reverse Repo</td>
<td>government bonds</td>
<td>upon request from commercial banks</td>
<td>1 day</td>
</tr>
<tr>
<td>liquidity withdrawal</td>
<td>open market operations</td>
<td>NBK auction for the purchase of securities with the reverse sale</td>
<td>Lombard List</td>
<td>as needed</td>
<td>7 days</td>
</tr>
<tr>
<td>liquidity withdrawal</td>
<td>standing facilities</td>
<td>NBK Notes Auction</td>
<td>-</td>
<td>in accordance with the schedule of issuance of notes</td>
<td>7, 28, 91, 182, 364 days</td>
</tr>
<tr>
<td>liquidity withdrawal</td>
<td>standing facilities</td>
<td>KASE Direct Repo</td>
<td>government bonds</td>
<td>upon request from commercial banks</td>
<td>1 day</td>
</tr>
<tr>
<td>liquidity withdrawal</td>
<td>standing facilities</td>
<td>NBK Deposits</td>
<td>no collateral</td>
<td>upon request from commercial banks</td>
<td>1, 7 days</td>
</tr>
</tbody>
</table>

Source: National Bank of Kazakhstan

In 2017, the National Bank establishes the target corridor for inflation - 6-8%. This target benchmark reflects the ongoing process of adaptation of the economy to the current conjuncture of commodity prices and free exchange rates, as well as the instability of inflationary expectations of the population and their location at a sufficiently high level.

Achieving and maintaining the target, with other things being equal, will be provided by the National Bank throughout 2017. At the same time, short-term deviations from the target benchmark, including those that do not require the reaction of the National Bank, are possible in case of a significant change in external and internal economic conditions. To achieve the inflation target, the National Bank uses the entire set of monetary policy instruments [1].

In August, the National Bank continued operations to seize excess liquidity. At the same time, the balance of operations of the National Bank (the open position of the National Bank) in the money market declined and as of August 31 it was 1.4 trillion tenge. The bulk of excess liquidity is absorbed by placing short-term notes. The volume of the open position of the National Bank on direct repo transactions amounted to KZT 213.2 billion, reverse repurchase transactions repo - KZT 176.7 billion, bank deposits in the National Bank - KZT253.2 billion.

Formation of the TONIA indicator (the average weighted interest rate on repo opening deals for one business day made on the exchange in the automatic repo sector with government bonds) occurred basically close to the lower boundary of the interest rate corridor of the base rate (Graph 1). The weighted average
The value of this indicator in August 2017 was 9.42% per annum (in July 2017 - 9.60%).

**Chart 1. Dynamics of the Indicator being Targeted, %.*

At the end of 2018, the National Bank sets targets for inflation in the corridor of 5-7%. At the same time, by 2020, the goal is to slow inflation to below 4%.

The increase in budget expenditures by KZT 2.1 trillion for the capitalization of the Problem Loan Fund and the scale of the difficulties identified in the banking sector have exacerbated discussions about the restoration of the two regulators: one with a sphere of responsibility in monetary policy and another focused on supervision, with greater rigidity and with a lesser tendency toward tactical compromises. The main criticism from experts on this issue was based on the need to separate the oversight function and conduct monetary policy by the regulator. The main arguments here are excessive political influence on the institutions, not sufficient in the economy of good projects for investing banks and overall not perfect the market and the economy of the country as a whole. Also, experts see the problem in the formality of the supervision function of the National Bank.

**Conclusion**

The success of the application of the inflation targeting regime depends on the implementation of a set of measures covering the increase in the efficiency of the transmission mechanism of monetary policy, the establishment of targets, the creation of a modeling and forecasting system, the improvement of the central bank instruments, the construction of a decision-making system, etc.

Thus, monetary policy until 2020 will be aimed at implementing a set of measures to move to the regime of inflation targeting. This regime of monetary policy will promote sustainable economic growth and contribute to the achievement of the country's strategic goals for entering the thirty most developed countries in the world.
References

