

Macroeconomic Stability as a Factor of Competitiveness: Case of Kazakhstan

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Submitted: Oct 17, 2013; **Accepted:** Nov 16, 2013; **Published:** Nov 23, 2013

Abstract: Purpose- analyze key monetary policy and balance of payments indicators including monetary policy measures of Kazakhstan, which shows the influence of macroeconomic stability. Methodology- methodologies used in the paper are the observations and analogies, a method of economic analysis and comparison. Originality/value- provisions formulated in the paper have practical value and can provide a basis for further investigation of regularities and features of the functioning of the monetary policy of the National Bank of Kazakhstan. Findings- the results can be used to develop the state foreign exchange policy and the monetary policy.

Key words: Monetary policy % The National Bank of the Republic of Kazakhstan % Competitiveness % Macroeconomic stability % Inflation

INTRODUCTION

Since 2010 the Kazakh economy has been demonstrating fairly high growth rates. According to the operative data, real growth of GDP during 2012 accounted for 7.5%. In 2012 such sectors as agriculture, trade and communication became the leaders in terms of growth rates of the physical volume (Figure 1) [1].

Pricing environment in the global commodity markets in 2011-12 fostered the growth of Kazakhstani exports. The relatively high level of commodity prices mitigated the negative impact of the global financial crisis of 2008-2009 on Kazakhstan's economy and helped to maintain the high rates of economic growth in 2010-2011 (Figure 2) [2].

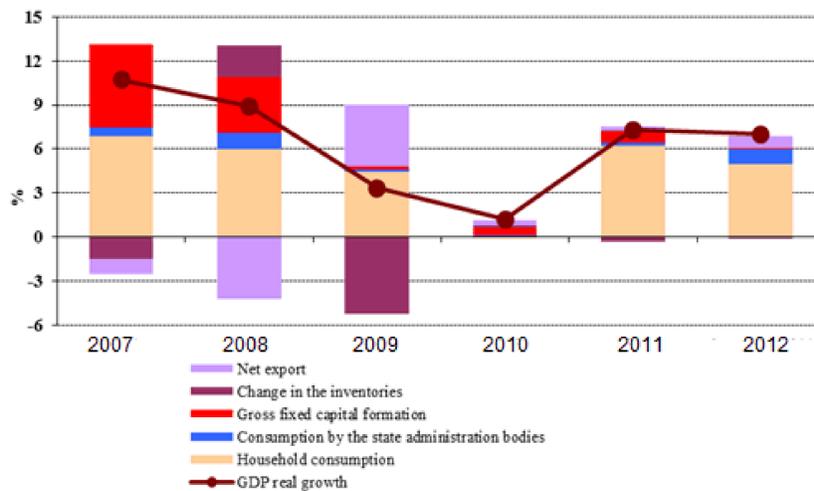


Fig. 1: Contribution of the aggregate demand components to the GDP growth (in% on YoY basis).

Source: Agency of Statistics of Kazakhstan, National Bank calculations.

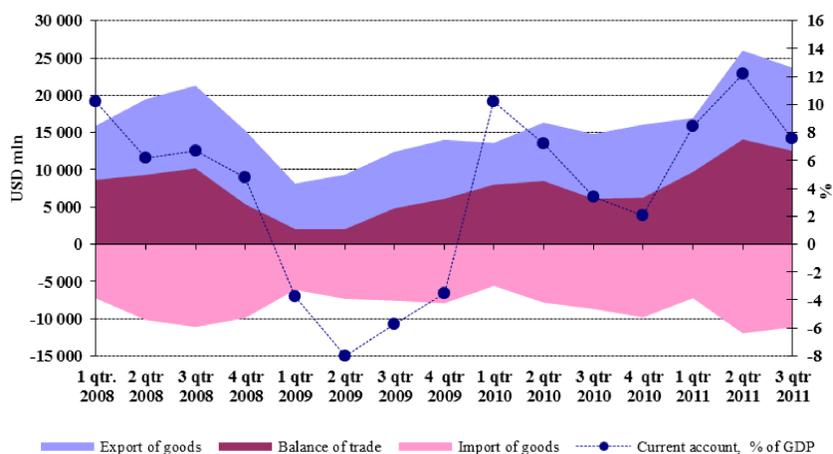


Fig. 2: Dynamics of export and import.

Source: National Bank of Kazakhstan

Table 1: Forecast of Kazakhstan's economy growth.

	2012	2013
International Monetary Fund	6.5%	5.6%
European Bank for Reconstruction and Development	7.0%	6.0%
Eurasian Development Bank	7.0%	5.5%
Ministry of Economic Development and Trade	7.0%	7.0%

Source: IMF, EBRD, EADB, MEDT.

At the same time, the forecast implementation relating with slowdown of the global economy growth in 2013-2014 could lead to decline the commodity prices and impact on Kazakhstan's economy, including the indexes of competitiveness.

It is necessary to note that a number of the following factors were the major reasons of growth of inflation in 2012:

- C Unstable situation in the world commodity markets;
- C Growth of the world prices for the raw materials and food;
- C Inefficiency of the mechanism of pricing;
- C Low competition on separate commodity markets and services.

Structural disproportions of the national economy and lack of clear price competitive advantages make vulnerable "non-oil" export of Kazakhstan.

A protracted global slowdown, in particular if it affects China and Russia, is the main external risk, as it could affect Kazakhstan through trade, finance and investment channels [4].

It should be noted that according to the international financial organizations forecasting the growth rates of Kazakhstan's economy will slow down, whereas the Ministry of Economic Development and Trade (MEDT) has expected higher level (Table 1).

The Main Part of Research: In these conditions ensuring macroeconomic stability and sustained economic growth¹ at the planned level are defined as main directions of economic policy in 2013.

It is necessary to note that by the Statement of the Government and National Bank as the main directions of economic policy are also defined:

- C Increase of competitiveness of the human capital and implementation of social obligations;
- C Further development of regional policy;
- C Continuation of integration processes within Common Economic Space;
- C Modernization of public administration system.

However within this article the attention will be concentrated on ensuring a macroeconomic stability.

Macroeconomic stability will be provided through the coordinated monetary and fiscal policies² and controlling a rate of inflation within the planned corridor of 6-8%.

The monetary policy of Kazakhstan is constructed (by the National Bank, in coordination with the Government) on scenario forecasts for the next three years.

¹ For ensuring sustained economic growth the diversification through the forced industrialization and the state support of industrial and innovative activity will be continued.

² Fiscal policy will be directed to the effective realization of the developed measures of a state policy and ensuring the balanced growth of economy.

Table 2: Development scenario of a macroeconomic situation depending on the oil price

	2013			2014			2015		
	I	II	III	I	II	III	I	II	III
Oil price, US Dollars per barrel	40	90	100	40	70	100	40	70	100

Table 3: Scenario One of macroeconomic development situation

	2012	2013	2014	2015
	actual	-----forecast-----		
Inflation,%	7.4	6.0-8.0	6.0-8.0	6.0-8.0
Official Refinancing Rate,%	7.5	6.0-8.0	6.0-8.0	6.0-8.0
Reserve Money, KZT bln.	2 836	2 970	3 143	3 362
Money Supply, KZT bln.	9 751	9 821	10 356	11 049
Deposits of Residents, KZT bln.	8 385	8 502	8 964	9 561
Credits to the Economy, KZT bln.	8 781	7 873	8 283	8 731
Monetization of the Economy,%	35.7	36.4	39.4	39.3

Given the extent of impact on the Kazakh economy, an annual average level of the world oil prices was determined as a key criterion for distinguishing between scenarios when formulating the monetary policy for 2013-2015. Three scenarios for the development of macroeconomic situation were reviewed, which assume the following oil prices (Table 2) [5].

In 2013-2015 the inflation background is expected to remain unchanged. As before, the major risks of acceleration of inflation are:

- C Underdeveloped domestic competitive market environment,
- C High monopolization of the market,
- C Poorly developed trade infrastructure,
- C Unstable situation in the global commodity markets.

As for the global commodity markets, economic interests of Kazakhstan are primarily dependent on the world oil prices and, accordingly, fuel and lubricants. The latter have a double impact on the inflation rate- both indirect impact through prices for fuel and lubricants and through prices for other goods and services whose costs invariably include the cost of fuel and lubricants.

At the same time, the impact of monetary factors on the buildup of inflationary processes in the Republic of Kazakhstan will be minor in 2013-2015. This will be ensured by maintaining the money supply at an adequate level by the National Bank of the Republic of Kazakhstan.

In the implementation of all scenarios concerning the development of the Kazakh economy in 2013-2015 the main objective of the National Bank of the Republic of

Kazakhstan is to ensure the price stability, which implies that the inflation will be kept within the band of 6.0-8.0%. [3]

Scenario One: Assumes pessimistic projections in case of deterioration of the situation in the global commodity and financial markets in the mid-term (Table 3).

With the implementation of this Scenario, an insignificant contraction of the Kazakh economy is expected in 2013 with subsequent recovery in real growth of the economy to 2% in 2015.

Under this Scenario, the reduced business activity, contracted aggregate demand, deteriorated balance of payments performance and decreased money supply are anticipated.

In 2013-2015 the overall balance of payments deficit will be at 2.5% of GDP, which will allow preserving international reserves at an adequate level to finance the import of goods and services.

The decreased money demand in the economy will be accompanied by reduced money supply in 2013. In 2014-2015 money supply will slightly increase however, its growth rates will be limited.

Multi-directional dynamics of money supply would be conducive to some decrease in the degree of monetization.

According to the estimate made by the National Bank of the Republic of Kazakhstan, a probability of this scenario's implementation is rather low.

Scenario Two assumes certain stabilization of the situation in the global commodity and financial markets.

Table 4: Scenario Two of macroeconomic development situation

	2012	2013	2014	2015
	actual	-----Forecast-----		
Inflation, %	7.4	6.0-8.0	6.0-8.0	6.0-8.0
Official Refinancing Rate, %	7.5	6.0-8.0	6.0-8.0	6.0-8.0
Reserve Money, KZT bln.	2 836	3 451	3 778	4 226
Money Supply, KZT bln.	9 751	11 525	12 633	14 149
Deposits of Residents, KZT bln.	8 385	9 995	10 959	12 277
Credits to the Economy, KZT bln.	8 781	9 233	10 082	11 283
Monetization of the Economy, %	35.7	36.8	40.0	40.0

Table 5: Scenario Three of macroeconomic development situation

	2012	2013	2014	2015
	actual	-----forecast-----		
Inflation, %	7.4	6.0-8.0	6.0-8.0	6.0-8.0
Official Refinancing Rate, %	7.5	6.0-8.0	6.0-8.0	6.0-8.0
Reserve Money, KZT bln.	2 836	3 559	3 968	4 464
Money Supply, KZT bln.	9 751	11 891	13 326	15 014
Deposits of Residents, KZT bln.	8 385	10 316	11 571	13 045
Credits to the Economy, KZT bln.	8 781	9 212	10 263	11 532
Monetization of the Economy, %	35.7	39.9	40.1	40.2

Should the *second scenario* be realized, oil prices would be higher as compared to the first scenario but lower than the actual price level of 2012. As a result, growth rates of the Kazakh economy in 2013-2015 will slow down as compared to 2012.

The rates of expansion in the money supply will be adequate to the growth rates of nominal GDP in 2013-2015. Alongside with that, a more favorable macroeconomic situation supported by positive dynamics of the economic growth will promote the growth in the level of monetization.

Under *Scenario Three*, the economic growth rates in Kazakhstan in 2013-2015 are expected at a higher level as compared to the preceding scenarios.

The demand for money will also appear to be higher as compared to the preceding scenarios. Since in 2013 significant growth in real and nominal GDP is expected whose growth rates will stabilize in 2014-2015, the dynamics of money supply will be somewhat ahead of the dynamics of nominal GDP thus ensuring the growth in monetization in the forecast period (Appendix 1).

The National Bank of the Republic of Kazakhstan believes that the third scenario of the development of the Kazakh economy is most likely to be implemented.

CONCLUSIONS

Based on these assumptions, monetary policy measures for 2013 have been developed. Due to unstable developments in foreign markets as well as given a short-term nature of the monetary policy implemented by the

National Bank of the Republic of Kazakhstan, the decision was made to formulate the monetary policy of the Republic of Kazakhstan for 2013 only. Key monetary policy and balance of payments indicators including monetary policy measures for the subsequent years will be specified based on the performance in 2013.

Ensuring the price stability i.e. maintaining a low rate of annual inflation adequate to the macroeconomic assumptions will remain as a top-priority area in the activity of the National Bank of the Republic of Kazakhstan in its monetary policy implementation in 2013.

Despite the fact that the National Bank of the Republic of Kazakhstan determined the price stability as the main monetary policy objective, the transition to the inflation targeting principles is postponed to a longer-run horizon. In the near-term the main efforts will be made to improve and enhance the efficiency of monetary policy instruments and to further increase the impact of taken measures on the condition of the money market.

The National Bank of the Republic of Kazakhstan while implementing the monetary policy of the Republic of Kazakhstan will take measures for flexible regulation of money supply in the economy. In the event of short-term liquidity squeeze in the money market, the National Bank of the Republic of Kazakhstan will increase the volume of liquidity operations.

At the same time, the National Bank of the Republic of Kazakhstan will be striving to maintain the monetary component at the optimal level and ensure that it doesn't put additional inflationary pressure.

In 2013 the National Bank of the Republic of Kazakhstan continues to improve the mechanism of minimum reserve requirements in terms of increasing the efficiency of its application.

The foreign exchange policy of the National Bank of the Republic of Kazakhstan is intended for providing a balance between the domestic and foreign competitiveness of the Kazakh economy. When implementing its exchange rate policy, the National Bank of the Republic of Kazakhstan will not allow significant fluctuations in the real exchange rate of the domestic currency that could have negative impact on the competitiveness of the domestic output in the ever-changing global market environment.

The exchange rate policy will be adequately responding to changes in world prices and terms of foreign trade thus establishing the foundation for the development of domestic economy. The country may tap into the accelerated development path by strictly adhering to this policy in combination with such factors as the use of new technologies and equipment and improved quality of labor.

Depending on an economic situation, the National Bank of the Republic of Kazakhstan will strive to further reduce its involvement in the foreign exchange market with a view to strengthen flexibility of the exchange rate of the Tenge.

In case of a cardinal change in the economic situation, dramatic and significant drop in the world energy prices and their retention at such level for a long period of time as well as the currency devaluation in the countries- major trading partners of the Republic of Kazakhstan, a dramatic change in the exchange rate of the Tenge is possible.

Irrespective of the economic development scenario monetary policy measures will be aimed at keeping the annual inflation rate within 6-8%. The increase in

excessive money supply that boosts the inflationary pressure will be adequately offset by the growth in sterilization operations of the National Bank of the Republic of Kazakhstan.

The National Bank of the Republic of Kazakhstan will be applying any given monetary policy measures and foreign exchange policy measures taking account of integration processes occurring as part of the Common Economic Space.

According to the latest annual competitiveness rating of world economies the World Economic Forum has ranked Kazakhstan 51st, up 21 places compared to last year. This improvement reflects progress in a number of areas, but most importantly in macroeconomic stability, where the country ranks 16th.

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