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Main features of a Monetary and Credit Policy

Analysis of the instruments of the monetary and credit policy is presented in the article. Central banks use these instruments for the purposes of monetary and credit regulation within the economy in order to provide stability, efficiency and growth of the local market. Central banks in their activity choose main priorities of the monetary and credit policy aiming to establish a price stability, an effective level of money supply and circulation, as well as a payment system development. Regulation of the financial system and its participants can be considered as an additional task for the central banks.

From one hand, if the world market have positive movements, instruments of the monetary and credit policy issued by the central bank, stimulate and push the economy to the further growth. From other hand, in aggressive economic environment, these measures support and protect an internal market from a negative influence arising in present or coming in future.

Key words: Monetary and credit policy, central bank, money market, inflation, interest rate.

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Ақша-кредит саясатының ерекшеліктері

Мақалада ақша-кредит саясатының құралдары және орталық банкінің қызметі қарастырылған. Ақша-кредит саясаты жөніндегі іс-шаралар жиынтығы болып табылады. Ақша-несие реттеуші іс-шаралары орталық банк арқылы жүзеге асырылады. Ақша-несие реттеушінің ең маңызды мақсаты – бұл экономикадағы өсу мен тұрақтылығы. Орталық банктер баға тұрақтылығын, валюталық реттеу мен ақша айналымы саласында төлем жүйесінің қалыптасуы мен дамуы функциялары мен тапсырмаларын орындайды. Қаржы жүйесін реттеуші іс-шаралары орталық банктің қосалқы функциясы болып жүзеге асырылады.

Әлемдік нарықта жалпы оң үрдістердің аясында ақша-кредит саясаты экономиканы ынталандыру және ынталандыруға мүмкіндік береді. Экономикалық жағдайдың төмендеу үрдісі кезінде ақша-несие реттеуі теріс әсеріне қарсы болып ішкі нарығын қорғайды және оған көмектеседі. Сондықтан ақша-кредит саясатының мәселелері елдің дамуына үлкен әсер етеді.

Түйін сөздер: ақша-несие саясаты, орталық банкі, ақша нарығы, инфляция, пайыздық мөлшерлеме.

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Особенности реализации денежно-кредитной политики

В работе рассмотрены инструменты денежно-кредитной политики, которые используются центральными банками для регулирования денежно-кредитного обращения. Денежно-кредитная политика является комплексом мер, направленных на сферу денежно-кредитного обращения в стране с целью обеспечения экономического роста и стабильности. Определение приоритетов денежно-кредитного регулирования и использование соответствующих инструментов относятся к исключительным компетенциям центральных банков, которые выполняют функции и задачи в области обеспечения стабильности цен, регулирования денежной массы и денежного обращения, формирования и развития платежной системы, в отдельных случаях и финансовой системы, а также других направлений. На фоне общих положительных тенденций на мировом рынке умело подобранный Центробанком набор инструментов позволяет стимулировать и подтолкнуть экономику страны к дальнейшему росту. В свою очередь, при ухудшении экономической конъюнктуры внутри государства и за его пределами такой набор направляется на защиту и предупреждение негативного воздействия на экономику страны как в настоящем, так и в будущем.

Ключевые слова: денежно-кредитная политика, центральный банк, денежный рынок, инфляция, процентная ставка.

**MAIN FEATURES OF
A MONETARY AND
CREDIT POLICY****Introduction**

Instruments of the Monetary and credit policy are used by central banks aiming to realize their functions in the sphere of money and credit circulation, as well as to form sustainable and competitive financial market. In conditions of globalization and integration, first tier banks improve their policies and measures according to tendencies in partner countries and on the world market. The monetary and credit policy has direct influence on the economic development of every country. If global market experiences negative movements and crises stress including currency, money and credit markets, all measures used for stabilization should follow interests of households and business units in order to be protected from aggressive environment.

When money surplus indicates central banks use different instruments in order to decrease unnecessary amount of liquidity in short-term, mid-term and long-term period. If these measures are not enough or estimated as inefficient the economy needs deep reforms and modernization of the monetary and credit system.

Experimental part

Theoretical and methodological basics of the monetary and credit policy represented in the works of different economists, investigators and practitioners, among them are Vitor Constancio, Esteban Vesperoni, Cravcova G.I., Tarasov V.E., Pochtarev and others. Whereas the policy has practical meaning, main analytical and informational data are included into the reports and strategic documents of the central banks. Key data published by the World Bank, IMF and UN concerning the problem are considered in the article.

The following methods were used in the research – modeling, analysis, synthesis, deduction, induction, classification, observation.

Results and discussions

Monetary and credit policy is a complex of measures used for money and credit regulation as well as for economic growth and sustainability. Central banks choose main priorities in the sphere of money and credit circulation. They being monetary and financial

authorities use different instruments to provide price stability, effectiveness of payment system, development of the financial system.

Positive tendencies on the world market provide fruitful conditions for internal growth, in these cases central banks implement the policy that supports business units and stimulate them to prosper. Otherwise, if economic environment declines all measures direct on protection of the internal market.

There are two critical points of the policy. The first one is expansion strategy, the second one is restriction strategy. They are opposite to each other. In last decade global economy was shocked by serious financial threats resulted with decline in global GDP's growth.

Due to high level of sensitiveness global financial market suffer from different threats appeared locally or regionally. The main reasons are integration and

globalization process in national economies. In these circumstances the monetary and credit policy is one of the most important priorities that help to avoid negative fluctuations.

There are several indicators, which estimate external and internal environment. The most important are the level of inflation and exchange rate.

According to the Reports «World Economic Outlook. October 2016», issued by IMF the rate of inflation in most countries decreased reaching the record low levels from 1990-s.

The main reasons are decrease in prices for goods, commodities and services. Rate of inflation below zero is a rather new phenomenon called disinflation. From other hand emerging and unstable market experience high level of in inflation, despite of overall decrease in prices.

The Rate of inflation is presented in the Table 1.

Table 1 – Level of consumer prices, %

Country/ group of countries	1998-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 forecast	2017 forecast
USA	2,6	3,8	-0,3	1,6	3,1	2,1	1,5	1,5	0,1	1,2	2,3
Euro-zone	2,0	3,3	0,3	1,6	2,7	2,5	1,3	0,4	0	0,3	1,1
Japan	-0,2	1,4	-1,4	-0,7	-0,3	-0,1	0,3	2,8	0,8	-0,2	0,5
CIS	19,7	15,4	11,1	7,2	9,7	6,2	6,4	8,1	15,5	8,4	6,3
Russia	21,2	14,1	11,7	6,9	8,4	5,1	6,8	7,8	15,5	7,2	5,0
Kazakhstan	8,3	17,1	7,3	7,1	8,3	5,1	5,8	6,7	6,5	13,1	9,3
Kirgizstan	9,7	24,5	6,8	7,8	16,6	2,8	6,6	7,5	6,5	1,1	7,4

Basing on «World Economic Outlook. October 2016» issued by IMF [3].

According to the data in 2016 Kazakhstan experiences the highest level of inflation among CIS countries including Russia and Kirgizstan. In developed countries, the rate of inflation decreases reaching negative data in some countries for example in Japan.

Analyzing Kazakhstani practice restriction policy tends to slow down inflation expectations an stabilize internal market but this measures have negative affect on the business activity of local producers and households.

From other hand high level of devaluation and “weak” tenge lead to loss of confidence to the national currency and monetary authority. In 2015 individuals converted the most of their deposits into foreign currency. Banks and other institutions made many transactions with foreign currency that

led to growth of speculations and drop of exchange rate of the national currency. Restrictions made by the Central Bank and reforms in monetary and credit policy resulted with decrease in volumes of transactions on KASE's Forex market.

Indeed all liquidity from Forex retransformed fully on the short-term money market increasing volumes of trades of repo operations – Table 2.

According to data total volume of trades grew up till 10 % within nine months in 2016 comparing to nine months of 2015. Forex had a considerable drop in 22 trillions of tenge at this period. Conversely, repo market increased on 29 trillions at this period. All this evidence about problems with liquidity especially in banking sector because banks are the largest players of the exchange.

Table 2 – KASE volumes of trades (nine months)

Sector	Bln tenge					
	1-9, 2016		1-9, 2015		Trend	
	Volume	%	Volume	%	Volume	%
Foreign currencies	27 349,0	37,4	49 454,8	74,4	-22 105,8	-44,7
– spot market	7 945,9	10,9	8 188,7	12,3	-242,8	-3,0
– swap market	19 403,1	26,5	41 266,1	62,1	-21 863,0	-53,0
State debt securities of Kazakhstan	415,8	0,6	396,5	0,6	19,2	4,8
– initial market	218,2	0,3	389,6	0,6	-171,4	-44,0
– secondary market	197,5	0,3	7,0	<0,1	190,6	2 736,5
Equity	132,8	0,2	875,4	1,3	-742,6	-84,8
Corporate bonds	381,5	0,5	840,7	1,3	-459,2	-54,6
Repo operations	44 892,7	61,4	14 931,7	22,5	29 961,1	200,7
Securities of the investment funds	0,5	<0,1	0	0	0,5	-
Securities of the International Financial organizations and derivatives	<0,1	<0,1	0	0	<0,1	-
Total volume of trades	73 172,4	100,0	66 499,2	100,0	6 673,2	10,0

According to Kazakhstan Stock Exchange's data [5]

Thus, extra liquidity in national currency lead to serious problems in financial sector resulting with growth of inflation and devaluation of national currency.

Conclusion

There are different measures, financial and nonfinancial measures that central banks implement

in their activity for realizations of the monetary and credit policy. From one hand, the optimal and effective monetary and credit system should be supported to ensure its further prosperity. From other hand, in crisis monetary and credit policy establish priorities to support and protect national economy. Unfortunately not every measure can follow main interests of the households or the business units.

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