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**THE OBJECTIVES OF MONETARY POLICY AND
THE CENTRAL BANKS' ACTIVITY**

This article deals with the revision of the main targets of monetary policy. Monetary instruments of regulation become main factors that influence on the economic entities and ensure conditions for their investment and economic activity. Central banks, being responsible for monetary policy, provide daily struggle against inflation, market volatility and financial system's instability. Central banks in their activity choose main priorities of the monetary policy aiming to establish a price stability, an effective level of money supply and circulation, payment system development etc.

High level of inflation in Kazakhstan; weakness of tenge; exchange rates' unpredictable behavior; price volatility of financial instruments on the internal market; instability of local banking system; as well as business units and households suffering from "expensiveness" of money – evidence about deep problems in financial system and on money market. Stated problems specify the relevance of the research and determines scientific interest to monetary policy in Kazakhstan and in foreign countries. Main purpose of the research is to clarify core principles of monetary policy and adopt them to the needs of national economy.

Key words: monetary policy, central bank, exchange rate, inflation, interest rate.

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Ақша-несие саясатының нәтижелері және орталық банктердің қызметі

Мақалада ақша-кредит саясатының негізгі мақсатты көрсеткіштері қарастырылады. Монетарлық реттеу құралдары экономикалық субъектілердің қызметіне әсер ететін негізгі факторлардың бірі болып табылады, олардың инвестициялық және экономикалық қызметінің жағдайын анықтайды. Ақша-кредит саясатын жүзеге асыруға уәкілетті орталық банктер инфляцияны басқару бойынша күнделікті жұмыстарды жүргізеді, құбылмалылық пен тұрақсыздық жағдайында қаржы нарығының және қаржы жүйесінің тұрақтылығын қамтамасыз етеді. Орталық банктер өз қызметінде бағалардың тұрақтылығын, ақшаны жеткізудің және айналымның тиімді деңгейін белгілеуге, сондай-ақ төлем жүйесін дамытуға бағытталған ақша-кредит саясатының негізгі басымдықтарын айқындайды.

Қазақстанда инфляцияның жоғары деңгейі; теңгенің тұрақсыз айырбас бағамы; ішкі нарықта қаржы құралдарының бағасының құбылмалылығы; отандық банк жүйесіндегі тәуекелдердің артуы; сондай-ақ несиелік ресурстарға жоғары пайыздық мөлшерлемелер мен теңгенің

девальвациясы, шаруашылық жүргізуші субъектілер мен үй шаруашылықтары бойынша туындаған шамадан тыс борыштық жүктеме – осы бәрі қаржы жүйесіндегі және елдегі ақша нарығындағы елеулі проблемаларды көрсетеді. Бұл зерттеулердің өзектілігін және Қазақстандағы және шетелдегі ақша-кредит саясатының мәселелерін ғылыми тұрғыдан зерттеу қажеттілігін анықтайды. Зерттеудің негізгі мақсаты отандық тәжірибеге озық тәжірибені енгізу мақсатында қазіргі кезеңде ақша-кредит саясатының негізгі принциптерін анықтау болып табылады.

Түйін сөздер: ақша-кредит саясаты, орталық банк, валютаның бағамы, инфляция, пайыздық мөлшерлеме.

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Целевые индикаторы денежно-кредитной политики и деятельность центральных банков

В статье рассматриваются основные целевые индикаторы денежно-кредитной политики. Инструменты монетарного регулирования становятся одними из ключевых факторов, которые влияют на деятельность экономических субъектов, определяя условия их инвестиционной и экономической активности. Центральные банки, уполномоченные за реализацию денежно-кредитной политики, осуществляют повседневную работу по управлению темпами инфляции, обеспечению устойчивости финансового рынка и финансовой системы в условиях волатильности и нестабильности. Центральные банки в своей деятельности определяют основные приоритеты денежно-кредитной политики, направленные на установление стабильности цен, эффективного уровня денежного предложения и обращения, а также развития платежной системы.

Высокий уровень инфляции в Казахстане; неустойчивый обменный курс тенге; ценовая волатильность финансовых инструментов на внутреннем рынке; повышенные риски в отечественной банковской системе; а также чрезмерное долговое бремя, вызванное высокими процентами на кредитные ресурсы и девальвацией тенге, субъектов бизнеса и домохозяйств – свидетельство о серьезных проблемах в финансовой системе и на денежном рынке страны. Указанное определяет актуальность исследования и необходимость в научном исследовании вопросов денежно-кредитной политики в Казахстане и за рубежом. Основная цель исследования – выявить основные принципы денежно-кредитной политики на современном этапе с целью внедрения передового опыта в отечественную практику.

Ключевые слова: денежно-кредитная политика, центральный банк, обменный курс, инфляция, процентная ставка.

Introduction

Monetary policy is one of the key priorities in implementation of effective state strategy. Monetary instruments of regulation become main factors that influence on the economic entities and ensure conditions for their investment and economic activity. It assumes a complex of measures targeting on a money and credit market as well as on a money circulation in economy.

Core postulates of monetary policy and regulation are considered in works of Keynes Jh. M., Friedman M., Fisher I., Mundel R., and other outstanding scientists and economists.

Modern views are presented in the researches of such scholars and practitioners as Woodford M., Drechsler I., Savov A., and Schnabl P., Issakahu H., Harvey S., Abor J., Österholm P., Carney M., McCafferty I., Miron J., Barroux Y., Su M., Hildreth W. etc.

Theory and practice of monetary regulation has a long history; scientists, economist and policymakers have developed a system elaboration applicable almost for any predictable and unpredictable conditions.

Nevertheless, prompt behavior of money and stock markets; critical movements of the economic environments in the conditions of uncertainty and instability make some taken efforts unreasonable and nonproductive. Simple samples are financial crises in national and regional economies arising spontaneously on different continents and random resulting like a global collapse.

In most cases, central banks, being responsible for monetary policy, provide daily struggle against inflation, market volatility and financial system's instability. At the same time, price stability remains a central issue for the activity of central banks and, thus, it is a main purpose of monetary policy

(European Central Bank, Bank of England, Bank of Russia, National Bank of Kazakhstan, etc.).

Currently problems of monetary policy continuously concern every developed and developing country or integration union.

High level of inflation in Kazakhstan; weakness of tenge; exchange rates' unpredictable behavior; price volatility of financial instruments on the internal market; instability of local banking system; as well as business units and households suffering from "expensiveness" of money evidence about deep problems in financial system and on the money market.

Stated above specify the relevance of the research and determines scientific interest to the problems of monetary policy.

Main purpose of the research is to clarify core principles of monetary policy. The subject of the study considers theory and practice, methodology and methods of monetary instruments' usage. The object of the research touch experience and achievements in the implementation of the monetary policy.

Materials and Methods

The analysis of monetary environment and main approaches of monetary policy was carried out using basic methods.

The methodological basis includes scientific methods and methods of scientific knowledge.

There was used observation of the main information sources and journals in Finance and Economics – Wiley publishing content, Scopus Indexed Journals, Springer publishing issues and others.

The empirical data was collected from official statistics established by central banks, international organizations, analytical reviewers, stock exchanges.

Stages of study and research are following – 1) references review; 2) scientific theories and methodology study; 3) collecting statistic data; 4) data analysis; 5) overview of key recommendations established by foreign and Kazakhstani economists and practitioners; 6) making content analysis; 7) resuming main issues of the research.

Research topics touch main problems of the Kazakhstani economy and money market stated above.

The novelty represents research analysis of the foreign scientific results in the sphere of monetary policy making them applicably to the problems of the national economy. Existing reviews and designed recommendations have in most analytical and practically oriented basis for the decision of main items, connected to devaluation and inflation.

Research hypothesis bases on existing problems and global threats that lead to distress on the money and credit markets; many economies suffer from price instability, – thus, there is a critical need for reforming of views on monetary policy in national economy.

Research results include scientific approach in the investigation of the problems emerging on the global and local money and credit market, in order to observe and to issue recommendation basing on foreign advanced experience that can be used for the local market needs.

References review

Development of monetary policy historically connected to the evolution of thoughts on money and credit. Various theories and views on money and credit (mostly in a form of usury) as a part of Economics were designed from ancient times till now. Shortcuts of some theories and views on money are presented in Table 1.

Table 1 – Evolution of economic thoughts on money and credit

Civilization/ school	Shortcuts on money and credit/usury (Resource /thinker, period/year, place)
I. Ancient East	Prevention the uncontrolled growth of loan operations and debt slavery (Ipuwer Papyrus, around 1250 BC, Ancient Egypt)
	For untimely payment of debts do not deprive of land plots The term of debt is not more than three years The limit of a monetary loan can not exceed 20%, in real subject – 33% of its original amount (Hamurabi's Code, about 1754 BC, Vavilone)
	Gold as a measure of the calculation of state resources State regulation of bread prices Components of wealth are gold, pearls and other material goods, because they have commodity essence (Treatises «Guan Tzu», IV-III centuries BC, Ancient China)
	Money was invented by people so with their help commodity circulation and accumulation of wealth could be effected, but not for enrichment (Xenophon, 431-354 BC, Ancient Greece)
	Functions of money in display the measure of value and means of circulation are related to the sphere of the economy, and the use of money as usurious capital – to the sphere of chrematistics (Aristotle, 384-332 BC, Ancient Greece)

II. Middle Ages	The role of money must be fulfilled by full-fledged coins from the two metals created by God – gold and silver (Ibn-Khaldun, 1132-1406, North Africa)
	The reason for the emergence of money was the expression of the peoples' will to possess the surest measure in trade and turnover (Aquinas F., 1225-1274, Italy)
III. Mercantilism	Only money (gold, silver) and treasures personify the wealth of a nation and a state
	A fixed ratio is established for the circulation of gold and silver coins (the system of bimetallism) The government, as a rule, is engaged in spoiling the national coins, reducing their value and weight (Nominalistic theory of money – Early mercantilism, XV-early XVI centuries)
	The value of money is inversely proportional to their number; the price level is directly proportional to the amount of money; the growth in the supply of money increase demand on them, facilitates trade (The Quantitative theory of money – Late mercantilism, 2nd half of the 16th-17th centuries)
IV. Classical school	Money – spontaneously released in the commodity world of goods; money is a technical tool, a thing that exaggerates the process of exchange
	Gold and silver vary in price not only in comparison with all other goods, but also in relation to each other, depending on their greater or lesser abundance (Turgot A., 1727-1821, France)
	Money is a great wheel of circulation (Smith A., 1723-1790, Scotland)
	The value of the money itself «varies inversely with the amount of money: any increase in quantity lowers their value, and any decrease increases it in exactly the same proportion (Mill J.S., 1806-1873, England)
V. Economic Romanticism	Liquidation of money and introduction instead of them of circulation bans; destruction of interest through the organization of a free (interest-free) loan (Proudhon P., 1809-1865, France)
VI. Marginalism	Recognition of the main functions of money – means of circulation, measures of value or units of account, savings, savings or means of preservation of value (from 70-s of XIX century)
	Exchange is not only a benefit, but an economic sacrifice caused by an exchange transaction that takes away «a part of the economic benefits that can be extracted from the existing exchange relationship (Menger K., 1840-1921, Austria)
VII. Neoclassicism	The exchange equation $MV=PQ$ Money as what is generally acceptable in exchange for goods The purchasing power of money is indicated by the quantities of other goods which a given quantity of money will buy (Fisher I., 1867-1947, USA)
	To the extent that the liquidity of money will take place, there will be an adequate price adjustment (Pigou A., 1877-1959, England)
VIII. Keynesianism	The system of market relations is by no means perfect and self-regulating, the maximum possible employment and economic growth can provide only active state intervention into the economy The state will have to exert its guiding influence on the propensity to consume in part by the appropriate system of taxes, partly by fixing the rate of interest and, possibly, in other ways (Keynes J.M., 1883-1946, Great Britain)
IX. Neo-Keynesianism	The concept of the dependence of character and dynamics on economic processes on the proportions between investments and savings, namely: the outstripping growth of the former – the reason for the increase in price growth, and the second – the reason for under-loading of enterprises, part-time employment (Harrod R., Kaldor N., Robinson J., Domar E., 50's of the XX century)
X. Monetarism	The re-emergence of the priority value of money, money supply and money circulation in economic processes Inflation is not always and everywhere is a phenomenon of money (Friedman M., 1912-2006, USA)
Composed basing on (Yadgarov J.S., 2009: 48-363), (Fisher I., 1911: 25), (Keynes J., 1936: 10)	

Development of the theories and views on money and credit provided forming of existing understanding the necessity of monetary regulation through legal framework, open market operations, influence on interest rates and money circulation.

Monetary policy becomes one of the basic components of the governmental policy to insure economic stability (Friedman M., 1962: 39).

Currency issue is provided by a central bank that maintains payment system and affects on supply (Mundell R., 1961: 658).

Interest rates and cash correspond between each other; moreover, interest rates correspond to employment (Keynes J., 1936: 128-130). Interest rates consider as an instrument to provide achievement of monetary targets, however in some cases their adjustment can be ineffective (Woodford M., 2011: 1).

Unpredictable behavior or outcome in realization of monetary measures usually caused by uncertainty. The last leads to fail in realization of the proper policy (Keynes J., 1936: 129) and ineffectiveness of used measures (Sauter O., 2014: 6).

It is very important to clarify main purposes of monetary policy and the central banks' activity that presented below.

The Governor of the Bank of England in one of his speech provided definition – “monetary policy is the ultimate limit on money creation because it directly influences the price of money and other financial assets and therefore the demand for the money created by the private sector” (Carney M., 2018: 5).

US Federal Reserve presents following definition: monetary policy is a part of the central bank activity to provide availability and cost of money and credit for achievement of national economic purposes.

According to the Bank of England, the main purpose of the monetary policy is a price stability providing a low level of inflation, therefore, supporting economic purposes of the Government including economic growth and employment. EU Central Bank offers the same definition.

Islamic finance has some differences in running financial principles, however using sample of Qatar Central Bank there are similar views and tools that are used for running monetary policy. Qatar Central Bank provides monetary strategy of targeting the exchange rate.

National Bank of Kazakhstan defines monetary policy as is a part of state economic policy, running by the central bank to affect on the money quantity and money cost in circulation. Basing on legal issue main purpose of the National Bank is to provide price stability.

The informational and analytical source Erewise determines that monetary policy is realized by a central bank for money supply regulation. The main

tasks are to reach specific purposes such as decrease of inflation, an exchange rate support, improvement of employment and economic growth.

Thus, the term «monetary policy» is a monetary mechanism, developed to establish macroeconomic results and stable monetary system, which respects the level of economic development. By managing of money supply and market participants' activity central banks provide sustainability of the money market and the financial system.

Considering purposes and tasks of the monetary and credit policy, in most is price stability, using measures to regulate inflation. Currently, it is the hot point that critically discourage Kazakhstani economic development. In further part of the article, offered analysis of scientific views on modern problems of the monetary policy.

Results and discussions

From one hand, monetary policy is run by central banks to provide a stable and competitive financial market. On other hand, to fulfill main activity with regulation of a monetary circulation. Globalization and integration encourage bank of banks to take measures, taking into account situation in partner countries or arising globally.

Not always using instruments have good influence on economic entities. Nevertheless, main purpose of the central bank is to support economic growth and employment. Thus, there is a need in equilibrium to stay against aggressive competitive environment and to follow interests of economic entities and households.

When signals appear various tools, which can have short-term, medium-term and long-term effects, are possible to establish monetary regulation of direct or indirect impact. In severe conditions, deeper reforms are required.

Determination of priorities for monetary regulation and the use of appropriate instruments are the exclusive competence of central banks that perform functions and tasks in the field of ensuring price stability, regulating the money supply and money circulation, the formation and development of the payment system, in some cases, the financial system, and other directions.

The implementation of effective monetary policy interconnects with risks that arise globally or regionally – on capital, goods, raw materials, labor markets. It has influence and depends upon key economic issues like the level of national income and output, unemployment, oil and commodities prices, economic expectations of citizens, exchange trade volume, investment activity, etc.

In most cases, level of inflation becomes the main indicators for assessing the situation and macroeconomic issues. According to the World Economic Outlook, issued in October 2016

by the IMF, the inflation rate has significantly decreased in many economies in recent years, reaching record values from the 1990s to 2016 (table 2).

Table 2 – 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

Source: «World Economic Outlook. October 2016» issued by IMF

For Kazakhstan, situation with inflation rate is contrary to the global one – 2015-2016 are the most cruel years, estimating from the beginning of 2000-s. In November 2015 rate of inflation reached 13.6 %, in July of 2016 – 17.7 %.

Following to the research made by Woodford M. the economist gives comments of some economist (DeGrauwe P., Leijonhufvud A., Giavazzi F. and Giovannini A.) that have serious doubts regarding the usage of the inflation targeting as a key point of central banks' activities. Nevertheless, Woodford M. believes “that it is appropriate for a “flexible inflation targeting” central bank to endeavor to balance financial stability objectives against both its price stability objective and its concern for output-gap stabilization, when choosing among alternative short-run paths for the economy at a given conjuncture” (Woodford M., 2011: 1-8).

Sharp change of monetary policy's regime in our country – from exchange rate targeting to inflation

targeting led to decline in business activity and price grow.

According to Monetary Policy of the Republic of Kazakhstan to 2020 – in 2000-s about 20 per cent of the industrialized countries use inflation targeting regime. The amount of the considered states decreased the usage of the exchange rate targeting from 70 % at the beginning of 1990-s till 10 % at the beginning of 2010-s. More than 50% of the countries from in 2000-s and early 2010-s aimed to have other targets of their monetary policy based on “long-term goals (stable growth of the economy, high employment, low inflation)”. In mid 2010-s National Bank of Kazakhstan started introduction of inflation targeting regime. Unfortunately, this transition have been holding in critical period for Kazakhstani financial sector and whole economy.

Analyzing the key money and foreign currency exchange market, we can follow extra short-term liquidity (table 3).

Table 3 – Volume and structure of the Kazakhstan stock Exchange's market, 2016-2017, USD mln

	1-12, 2017		1-12, 2016		Trend	
	Volume	%	Volume	%	Volume	%
Stock market	10,575.7	2.3	3,843.4	1.4	6,732.3	175.2
Shares	828.9	0.2	744.1	0.3	84.8	11.4

– primary market	23.8	<0.1	2.3	<0.1	21.4	918.0
– secondary market	805.1	0.2	741.8	0.3	63.4	8.5
Corporate bonds	3,482.5	0.7	1,489.8	0.5	1,992.6	133.7
– primary market	2,611.8	0.6	1,246.7	0.5	1,365.1	109.5
– secondary market	870.6	0.2	243.2	0.1	627.5	258.0
Kazakhstan GS*	6,137.2	1.3	1,607.8	0.6	4,529.3	281.7
– primary market	5,368.2	1.1	603.2	0.2	4,765.0	790.0
– secondary market	768.9	0.2	1,004.6	0.4	Ī	Ī
IFO** bonds	124.0	<0.1	0	0	124.0	-
Investment funds securities	3.2	<0.1	1.6	<0.1	1.6	101.5
Foreign currency market	37,726.3	8.1	30,622.6	11.1	7,103.7	23.2
Money market	419,318.3	89.7	241,804.3	87.5	177,514.0	73.4
Repo operations	226,545.8	48.4	167,563.9	60.7	58,981.9	35.2
– «nego» repo on GS	0	0	0	0	0	-
– autorepo on GS	209,945.0	44.9	166,517.1	60.3	43,427.9	26.1
– «nego» repo on CS***	678.0	0.1	45.0	<0.1	633.0	1,405.1
– autorepo on CS	15,741.2	3.4	1,001.7	0.4	14,739.5	1,471.5
– repo with netting	181.6	<0.1	<0.1	<0.1	181.5	369,176.9
Currency swap transactions	192,772.5	41.2	74,240.4	26.9	118,532.1	159.7
– USD	192,772.5	41.2	74,240.4	26.9	118,532.1	159.7
– euro	0	0	0	0	0	-
Derivatives market	66.2	<0.1	<0.1	<0.1	66.2	1,219,425.3
Futures	66.2	<0.1	<0.1	<0.1	66.2	1,219,425.3
TOTAL trade volume	467,686.5	100.0	276,270.3	100.0	191,416.2	69.3
* GS – government securities **IFO – международные финансовые организации *** CS – corporate securities Source: Kazakhstan Stock Exchange						

According to the table, volume of trades increased up till 175 % in 2017 in comparison with 2016. Up going trend mostly was caused by 1) jump on currency swap transactions' market on 159 % – 1-2 days swaps USD-tenge; 2) repo operations grow up on 35 %.

Short-term money market presented by repo reached 57 trln tenge in 2016 and exceeded 3.7 times the total volume of the credit portfolio of Kazahstani second-tier banks and 43 times volume of money, held in stocks – corporate and government securities. Moreover, interest rates for credit resources for business and households exceed 15-20 % per year

(excluding those offered by state programs). All these cause additional risks providing defaults in return payments.

Presented results can lead to assumption of over liquidity in financial sector that does not provide mid- or long-term investments for national economy and potentially causes inflation threats to money market. Financial crises are spread, first of all, through the capital markets – monetary sectors are most exposed to shocks. The short-term money market is very sensitive to external influences, including changes in the interest rate, the exchange rate of the national currency and the corresponding changes in the volume

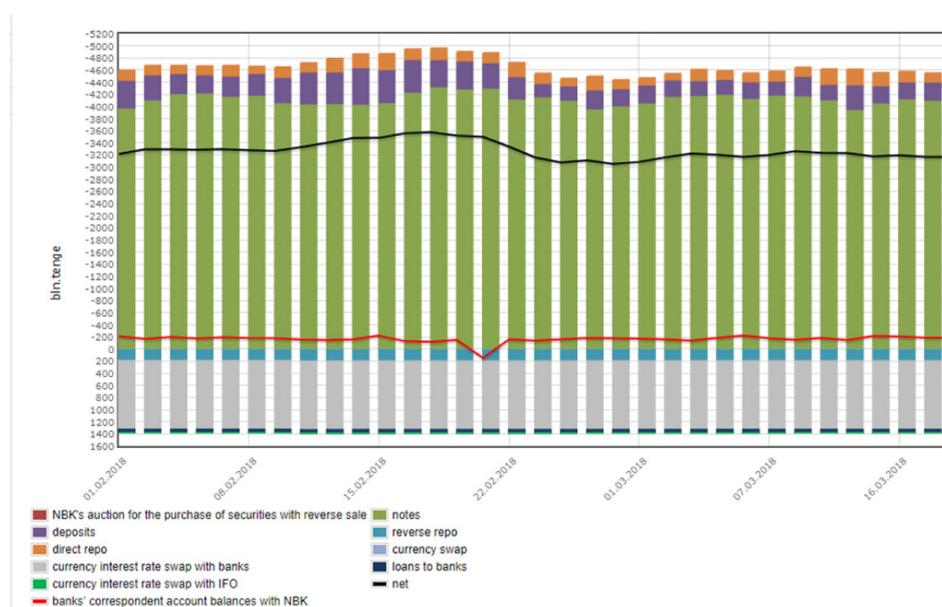
of supply and demand. The presence of speculative and arbitrage transactions on the one hand increase the liquidity of the markets, on the other hand, they contribute to the growth of risks.

Despite the changing monetary targets local central bank continue its interventions into internal foreign exchange market. Spot deals with USD were converted into currency swaps running between the central bank and financial organizations. The achieved advantage is that national reserves are kept more safety comparing to previous periods.

According to current foreign researches, some economists offer theories of existence additional

currency risk factors that influence on local markets and, therefore, need to be considered by the central banks in realization of monetary policy. These factors correspond to interaction between interest rates and exchange rates – “country-specific interest rate difference” and to interaction “between the U.S. dollar and all other currencies” (Verdelhan A., 2018: 375).

Considering activity of the central bank in our country, it is very important to analyze used instruments. The great interest have open positions in different financial instruments that it holds to support local market (picture 1).



Source: National Bank of Kazakhstan

Picture 1 – Open position of the National Bank of Kazakhstan's operations, February-March 2018, bln tenge

According to the picture at about 1 trln tenge is a debit position held by the central bank as a currency interest rate swap with banks in each month. More than 4 trln tenge were carried out as extra liquidity by issuing notes – as a monthly credit position in treasury notes. Some of the used measures have aim to decrease the volume of money in circulation or money supply. However, some economists consider that such monetary instruments, issued to manage inflation, not always truly can help to solve these financial problems (Gridko N., 2013: 39)

Interest rates on short-term market are almost equal or even higher to the long-term ones used by financial organizations in transactions and funding operations (table 4).

As short-term instruments are more liquid and low risky comparing to long-term ones, there is no sense for the market players to take higher risks in long-term period. However, long-term instruments play a valuable role in providing real investments for economic entities and economy in whole.

Some economist consider a Model of Monetary Policy and Risk Premia assuming that “a low nominal rate leads to a low liquidity premium, a relationship that has strong empirical support. In turn, a low liquidity premium decreases the cost of taking leverage and hence increases risk-taking, which reduces risk premia and the cost of capital in the economy” (Drechsler I., 2018: 317).

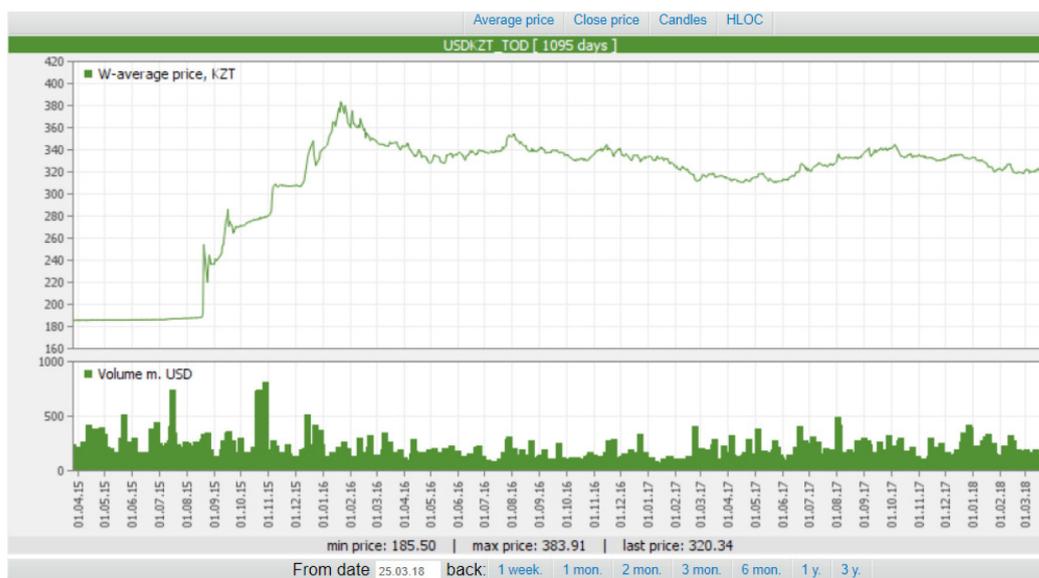
Table 4 – Interest rates of some financial instruments traded on Kazakhstan Stock Exchange, March 2018

Instrument/ indicator	Interest rate, % annual	Maturity
Government securities MEUKAM	7.68	15 years
KazAgro Holding corporate bonds	8	10 years
National Bank's discount notes	7.45	364 days
Currency swap USD-KZT	8.47-8.65	1-2 days
TONIA (repo)	8.51	1 day
TWINA (repo)	8.57	7 days

Source: Kazakhstan Stock Exchange

Another indicator is exchange rate. Volatility of tenge's exchange rate remains unpredictable last years (picture 2). In one-year period exchange rate fluctuated between minimum level at 310

tenge per one USD and maximum level at 345 tenge per one USD – more than 10 %. In two years, it is at about 17 % from 383 in Jan. 2016 till 320 in March 2018.



Source: Kazakhstan Stock Exchange

Picture 2 – Tenge/USD exchange rate, April 2015 – March 2018

Another indicator is Balance of Payments that resulted negatively in 2015-2017 in Kazakhstan – mostly due to negative outcomes of the financial and current accounts.

Not all measures have a favorable effect on the activities of entities, the social sphere or contribute to economic growth. Therefore, tools can have both positive and negative effects. Taking into account local samples, economy experience follows next results: when managing inflation – prices remain

stable, but economic activity slows down; devaluing national currency – the gold and currency reserves are kept, export of domestic products increases, but leads to distrust of the national currency; rising interest rates up – reduce inflation, but increase capital cost and decrease money availability in economy.

Despite the overall stabilization of consumer prices, there is certain evidence about deep problems on the money and foreign currency markets. All

these needs to overview existing monetary policy in order to strengthen national economy and financial system.

Inflation targeting, that have been chosen as the priority of monetary policy, need to be reforming from short-term to long-term effects aiming to solve main difficulties in Kazakhstani economy.

Russian strategy in realization of monetary policy is also very important for Kazakhstan, because both countries are valuable partners and core members of Eurasian Economic integration. Inflation targeting strategy is implemented by Russia and fits current needs. Employing this approach, the central bank seeks to ensure domestic economic stability, primarily, price stability and predictability of interest rate movements. This model of the monetary policy is largely consistent with the task of creating favorable internal conditions conducive for economic development. Exchange rate of two countries' national currencies correspond to trade turnover and payments provided by counterparties. International processes touch economic and financial spheres of Russia and Kazakhstan, including mutual efforts run by central banks.

Conclusion

This paper shows that state monetary policy needs reforming following basic needs of national economy. There are some serious problems that can not be solved by daily transactions used for implementation current monetary strategy.

Sharp change of monetary policy's regime in our country – from exchange rate targeting to inflation targeting led to decline in business activity and price grow.

Analysis of the local money and foreign currency exchange market provided assumption of over short-term liquidity in financial sector. These moneys do not provide mid- or long-term investments for national economy and potentially cause inflation threats for money market. On of the reasons are interest rates – interest rates on short-term market are almost equal or even higher comparing with long-term ones. As short-term instruments are more liquid and low risky, financial organizations in transactions and funding operations do not take higher risks connected with long-term investments. Leading to disproportions in funding of the economic units.

Volatility of exchange rates, instability in interest rates level on financial resources, weakness of national currency create additional risks in financial system.

Foreign experience shows variety of approaches and instruments that are to be used in crises and post crises periods to improve negative movements on the money market. Models issued by outstanding economists and modern views on the problems of monetary policy need to be taken into account when running monetary regulation and using instruments.

Monetary regimes that central banks choose as a strategic direction in many cases provide a comprehension of monetary policy's contribution to economic growth and employment as a main purpose for central banks' activity.

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