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**PROBLEMS AND PROSPECTS OF STABILITY
OF THE NATIONAL CURRENCY OF KAZAKHSTAN**

This article will consider the national currency of Kazakhstan for the last 5 years and what is the situation at the moment.

The purpose of the study is to consider the currency policy of the National Bank of the Republic of Kazakhstan; theoretical and methodological substantiate the stability of the currency, as well as to analyze the factors affecting the fluctuations of the national currency.

The methodological basis is the fundamental provisions of modern economic science. During the research works of foreign and domestic scientists and experts were analyzed. The laws of the Republic of Kazakhstan, resolutions of the National Bank of the Republic of Kazakhstan, official policy documents on currency regulation were used as a methodological basis.

Originality / value—the Research findings are aimed at intensifying the search for new ways to further improve the system of state regulation in the field of monetary policy.

Conclusions—the analysis of the current economic situation in the foreign exchange market, as factors affecting the exchange rate of the country, led to the conclusion of the study that the stability of the currency, which is a sign of the essence of money, is an adequate expression of their social work, which is expressed in value.

The policy of free-floating exchange rate of the National Bank of Kazakhstan added credibility eased the pressure on tenge and allowed reducing interest rates. But the market process of identifying the equilibrium price is still not efficient enough, and the market price is able to deviate from the equilibrium price for a long time without any manifestation in the financial markets.

Key words: Exchange rate, the purchasing power of money, stability, inflation, market price, devaluation, dollarization, a policy of the National Bank, the ratio of foreign exchange rates.

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**Қазақстанның ұлттық валюта тұрақтылығының
мәселелері мен перспективалары**

Бұл мақалада Қазақстанның ұлттық валютасы соңғы 5 жылда және қазіргі кездегі жағдайы қарастырылатын болады.

Зерттеудің мақсаты – Қазақстан Республикасының Ұлттық банкінің валюта саясатын қарастыру, валюта тұрақтылығын теориялық және методологиялық негіздеу, сонымен бірге ұлттық валюта бағамының ауытқуына әсер етуші факторларды талдау.

Әдістеме негізін, заманауи экономикалық ғылымның іргелі тұжырымдамалары құрайды. Зерттеу барысында шетел және отандық ғалымдар мен сараптамашылардың еңбектері талданды. Әдістемелік негізі ретінде Қазақстан Республикасының Заңдары, Қазақстан Республикасының Ұлттық банк қаулылары, валюталық реттеу бойынша ресми бағдарламалық құжаттар пайдаланылды.

Түпнұсқалық/құндылық – Зерттеудің ғылыми нәтижелері валюта саясаты саласында мемлекеттік реттеу жүйесін ары қарай жетілдірудің жаңа жолдарын табуды белсендіруге бағытталған.

Қорытындылар – Валюта нарығының ағымдағы экономикалық жағдайын және еліміздің валюта курсына әсер етуші факторларға талдау келесідей зерттеу тұжырымын жасауға мүмкіндік берді, ақшаның мәні белгісіндегі валюта тұрақтылығы құндық белгідегі қоғамдық еңбектің балама бейнесін білдіреді.

Қазақстан Республикасының Ұлттық банкінің қалқымалы айырбас курсы саясаты сенімділікті арттырып, теңгеге қысымды азайтты және пайыздық ставкаларды төмендетуге мүмкіндік берді деп айтуға болады. Десе де тепе-тең бағаны айқындаушы нарықтық үрдіс әлі де жеткілікті тиімді емес және нарықтық баға қаржы нарықтарындағы қандайда бір көрініссіз ұзақ уақыт бойы тепе-тең бағадан ауытқуға қабілетті.

Түйін сөздер: Валюта курсы, ақшаның сатып алу қабілеті, тұрақтылық, инфляция, нарықтық баға, девальвация, долларизация, Ұлттық банк саясаты, шетел валюталары курсының арақатынасы.

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Проблемы и перспективы стабильности национальной валюты Казахстана

В данной статье будет рассмотрена национальная валюта Казахстана за последние 5 лет и ситуация на данный момент.

Цель исследования – рассмотреть валютную политику Национального банка Республики Казахстан, теоретически и методологически обосновать устойчивость валюты, также проанализировать факторы, влияющие на колебания курса национальной валюты.

Методологической основой являются фундаментальные положения современной экономической науки. В ходе исследования были проанализированы труды зарубежных и отечественных ученых и экспертов. В качестве методической основы использованы Законы Республики Казахстан, постановления Национального банка Республики Казахстан, официальные программные документы по вопросам валютного регулирования.

Оригинальность/ценность – научные выводы исследования направлены на активизацию поиска новых путей дальнейшего совершенствования системы государственного регулирования в сфере валютной политики.

Выводы – анализ текущей экономической ситуации на валютном рынке, а также факторов, влияющих на валютный курс страны, позволил сделать вывод, что устойчивость валюты, являющаяся признаком сущности денег, заключается в адекватном выражении ими общественного труда, находящего свое выражение в стоимости.

Политика свободно плавающего обменного курса Национального банка Республики Казахстан добавила убедительности, ослабила давление на тенге и позволила снизить процентные ставки. Но рыночный процесс выявления равновесной цены все еще остается недостаточно эффективным, и рыночная цена способна длительно отклоняться от равновесной без какого-либо проявления на финансовых рынках.

Ключевые слова: валютный курс, покупательная способность денег, устойчивость, инфляция, рыночная цена, девальвация, долларизация, политика Национального банка, соотношение курсов иностранных валют.

Introduction

Currently, money is the main binding element of market relations, the stability, and sufficiency of which largely depends on the efficiency of the reproduction process in the economy. Therefore, in all countries, the state is actively influencing the exchange rate of the national currency, trying to maintain it at a level that meets the objectives of economic policy.

The broad liberalization of the currency sector, of course, has its advantages. However, in order to move to full convertibility of the national

currency, a reliable stabilization of the economy, Finance, monetary circulation, credit system, a sufficient amount of gold and foreign exchange reserves and political stabilization of the country are necessary

Acquiring more scientific and practical, General economic and sociopolitical importance, the problem of the functioning of the national currency for the first time seriously faced the country with the acquisition of its state independence and has not yet been subjected to systematic research. According to its content, it is new, complex and requires urgent scientific development to justify effective ways

of development of Kazakhstan in the context of globalization.

The higher the levels of integration of a country into the world economy, the more open its economy, the more important it is to maintain the stability of the exchange rate of the national currency for anti-inflationary purposes. Undoubtedly, ensuring the stability of the currency in the modern economy is a global problem. The stability of the currency can be judged by its functioning in an ever-changing environment.

The study formulated conclusions and recommendations, the most significant of which can be considered as the following: identified trends in the depreciation of the national currency, analyzed the changes and changes in the foreign exchange market over the past five years; disclosed the impact of fixed and floating exchange rate on the main macroeconomic indicators; studied the impact of monetary policy on the development of the economy in the formation of a fixed and floating exchange rate.

Literature Review

Our paper is directly related to the literature on international trade and national currency, including Martin and Rey (2004), Rey (1999), (Flandreau et al., 2009) and (Geromichalos et al., 2014; Zhang, 2014).

In particular, our paper is more closely related to contributing the exchange rate literature by investigating Cornett et al. (1995), Ranaldo (2009), Breedon and Ranaldo (2013) and Harvey and Huang (1991).

A great contribution to the development of the problems of the foreign exchange market, exchange rate, and monetary policy was made by the works of such Russian scientists as E.F. Zhukov (2008), N.P. Belotelova and Zh.S. Belotelova (2013), and M.V. Romanovsky (2007).

N.P. Belotelova (2013) among the main exchange rate factors include the rate of economic growth (growth of gross domestic product, industrial production), inflation and inflation expectations, the state of the balance of payments of the country, the level of interest rates and profitability of securities, the degree of use of the currency in the world market. And according to L.P. Naumova (2017) «under any circumstances, the most significant factors are the dynamics of GDP, inflation, money supply and balance of payments»

In this work, the materials of the Law «on the National Bank of the Republic of Kazakhstan», The

Agency of the Republic of Kazakhstan on statistics and the Committee on statistics of the Ministry of the national economy for different years were used for comparative analysis. Also, analyze the official policy documents on currency regulation. Regarding information on internal macroeconomic indicators for the article were used data from the reports of the National Bank of Kazakhstan, the Ministry of the national economy. Assessing the degree of development of the problem as a whole, it should be noted that, despite the research, the problems of ensuring the stability of the national currency are insufficiently studied, there are no theoretical generalizations and objective assessment of practical achievements of recent years. The issues of formation of a stable exchange rate of the national currency with increasing openness of the economy are insufficiently investigated. The degree of state participation in the regulation of the foreign exchange market has not been determined. All of the above has determined the choice of topic, goal, and objectives of the study.

The object of the study is the national currency of the Republic of Kazakhstan. The study used the principles of a systematic approach, methods of statistical and comparative economic analysis, expert evaluation.

Material and methods

What grounds can affect the national currency and the reason for such a situation, as well as their consequences?

In this section, we present a two-country model to guide our empirical study. This model builds on Martin and Rey (2004), and we make two modifications to determine the pattern of currency exchange. First, we introduce a cash-in-advance constraint and transaction cost to necessitate the use of money, following Rey (1999). Second, we add searching friction to capture the degree of economic integration between countries: agents in each country have a probability of traveling abroad for investment. This is a popular assumption in recent literature (Geromichalos et al., 2014; Zhang, 2014) and has considerable support from empirical studies (Flandreau et al., 2009). The searching friction also helps separate each agent's choice on investment and currency holding

There are two periods and two countries (A and B) in the world, which are populated with n_A and n_B units of risk-averse agents, who are respectively endowed with w_A and w_B units of a numeraire good for consumption or investment.

Country $i \in \{A, B\}$ has a set of risky projects that pay dividend d_i if a certain state occurs, and 0 otherwise. Dividend returns are the only source of consumption in the second period. Agents can make direct investments or buy shares of a risky project. Investment in a risky project must be financed by the host country's home currency. At the beginning of the first period, each country's government issues its own currency, and agents have access to an internationally integrated Foreign Exchange (FX) market. The shock is then realized regarding whether an agent would stay at home to invest in the home asset or travel abroad to purchase a foreign asset. Afterward, a regional over-the-counter (OTC) market opens for agents willing to pay a transaction cost and readjust their currency holdings. Everyone then constructs their portfolios and receives a dividend in the second period. The timing of our model is shown.

We adopt the linear utility function in Martin and Rey (2004) so that agents maximize the expected utility

$$EU = C_1 + \beta E \frac{C_2^{1-1/\sigma}}{1-1/\sigma}$$

where C_t is the consumption level at period t and $\sigma > 1$ captures the degree of risk aversion. Here, we consider a country A agent's optimal decision, and the case for a country B agent would be similar. The agent's budget constraint in the wholesale FX market is

$$C_i + \phi_A m_A + \phi_B m_B = w_A$$

where ϕ_i is the value of country i currency in terms of the numeraire good and m_i is the currency holding. After the shock is realized, agents readjust currency holding and make investment decision, so the cash-in-advance constraint becomes the following.

$$\text{Home: } \phi_A m_A + \phi_B m_B (1 - t_{BA}) + \sum_{k \in Z_A} p_A^k a_A^k \geq f(z_A) + \sum_{i \in S_A} p_A^i s_A^i$$

$$\text{Home: } \phi_A m_A (1 - t_{BA}) + \phi_B m_B + \sum_{k \in Z_B} p_B^k a_B^k \geq f(z_B) + \sum_{i \in S_B} p_B^i s_B^i$$

So, we contribute to the exchange rate literature by investigating the following three hypotheses:

Hypothesis 1 (H1). Currencies tend to depreciate/appreciate within local/foreign trading hours.

Cornett et al. (1995), Ranaldo (2009) and Breedon and Ranaldo (2013), as far as we are aware, are the only studies in the literature that investigate currencies' behaviour during local and foreign trading times. Based on these studies, it is expected that currencies depreciate/appreciate during local/foreign trading hours because market participants tend to be net purchasers of foreign currencies during the trading hours of their own market and vice versa. Cornett et al. (1995) find that foreign currencies tend to appreciate only within the first hour and the last two hours of the US market trading time. Moreover, Ranaldo (2009) studies the same currencies as Cornett et al. (1995) during the period from 1993 to 2005 and finds a significant tendency for the currencies to appreciate (depreciate) during foreign (local) trading hours. In addition, Breedon and Ranaldo (2013) study these patterns for six

cross currencies and find that the currencies tend to depreciate only during local trading hours; they find no significant pattern during foreign trading hours. Therefore, there are conflicting views in the literature and a lack of conclusive empirical evidence regarding time-of-the-day effects with respect to currency returns. Moreover, this strand of the literature focuses on statistical analysis and provides no practical implications. Thus, we investigate these effects from a different perspective; that is, we provide evidence on the possible beneficial implications for the participants of the currency market.

Hypothesis 2 (H2). The opening, closing, and trading hours of the major global markets affect the behavior of currency returns.

According to the transaction hypothesis (Cornett et al., 1995), firms in all countries around the world prefer to conduct foreign exchange transactions during their local trading hours, which lead to excess demand for US dollar in those regions and excess demand for foreign currencies in the US.

This affects the intraday movements in exchange rates. Consequently, it is expected that the US dollar will appreciate during periods when the US market is closed and other markets are actively trading. This motivates our second hypothesis that intraday patterns can be explained by the activities (i.e., opening, closing, and trading hours) of the major global markets. This hypothesis allows us to uncover whether these patterns (i.e., opening, closing, and trading hours) can be taken as evidence of the presence of time-of-the-day effects in the currency market.

Hypothesis 3 (H3). The overlapping trading times between the major markets affect the behaviour of currency returns.

Harvey and Huang (1991) note distinctive features of the currency market which may cause different intraday patterns than those documented for other markets, such as the equity market. In

particular, they argue that availability of electronic trading during the overlapping business hours of different markets has resulted in high volume of transactions (demand for currencies) within these specific times of the day. This inspires us to explore a new factor, namely, the overlapping trading times between the major markets, which can potentially affect the intraday patterns of exchange rate returns. Therefore, we hypothesize that the overlapping trading times between the major global markets influence the behavior of currency returns.

Consider the situation of fluctuations in the national currency of Kazakhstan over the past 5 years. As we know, in 2007-2008 there was a global economic crisis and it definitely affected the tenge. In early February 2009, there was devaluation and the value of the dollar in the exchange offices was from 120 to 150 tenges, and the Euro from 161 to 223tg per roll.

Table 1 – The official exchange rates of foreign currencies in 2009

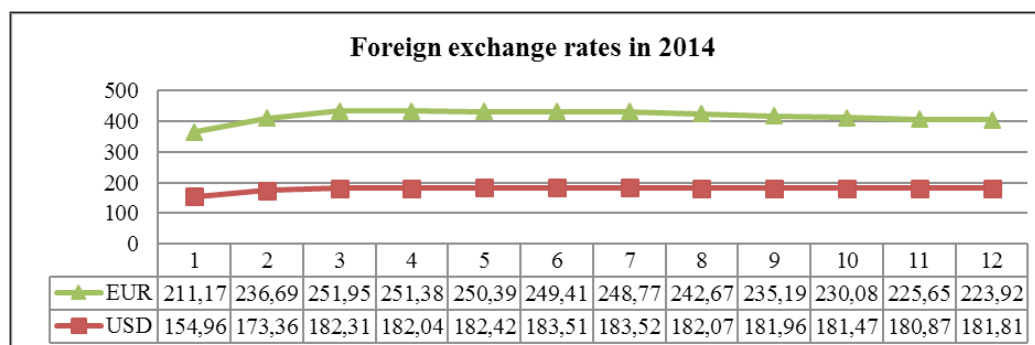
2009	1 quarter			2 quarter			3 quarter			4 quarter		
usd/eur	138,97/180,88			150,46/204,75			150,76/215,52			149,8/221,55		
month	1	2	3	4	5	6	7	8	9	10	11	12
USD	121,27	144,9	150,73	150,71	150,34	150,34	150,62	150,78	150,87	150,79	149,92	148,69
EUR	161	185,47	196,15	198,81	204,7	210,73	212,266	214,83	219,49	215,52	223,35	223,57
Source: official Internet resource of the NBK												

The reasons for the devaluation of the national Bank pointed to the decline in world oil prices and the devaluation of national currencies against the dollar in the trading partner countries of Kazakhstan. At the end of December 2003, the price of one barrel in the world markets was \$30.72, on July 7, 2008; it reached a peak of \$143.19. Since that day, oil prices began to fall sharply, and on February 16, 2009, fell to \$41.61. We know that foreign exchange reserves of the National Bank were used to maintain the exchange rate at that time. However, in the same February 2009, oil prices again crept up, and by the end of 2009, the barrel began to cost \$77.34. Along with Kazakhstan to other post-Soviet States, for example, in Russia from the beginning of 2008 to January 2009, the devaluation was 44%, in Belarus 28%, in Ukraine 53%, in the Eurozone 13%. As another reason for the devaluation of the tenge, the national Bank explained the need to

preserve the gold and foreign exchange reserves of the regulator.

In February 2014, Kazakhstan announced the third devaluation of the tenge in the history of the country. The dollar against tenge rose from 154.9 to 183.5 tenge.

Here, among the main reasons are the poor economic situation in the BRICS countries, the inflow of capital from developing countries and the free formation of the exchange rate of the Russian ruble. In the first quarter of 2014, there was a sharp acceleration in quarterly inflation, mainly as a result of the exchange rate adjustment in February 2014. Inflation for this period was 3.3% (1.9% in Q1 2013). The formation of inflation in January-March 2014 was influenced equally by all major groups of the consumer price index. And food prices have increased by 3.3% (1.1% in Q1 2013). Non-food products and paid services rose in price by 3.2% (0.6% and 4.0%, respectively).

Table 2 – The official exchange rates of foreign currencies in 2014

Source: official Internet resource of the NBK

The deep deterioration of the terms of trade and the weakening of the ruble in 2014 reduced the dollar revenues of the economy and the budget by almost half, worsened the balance of payments, led to a loss of competitiveness of domestic producers. The tenge, whose exchange rate remained fixed, strengthened in real terms. Resulting imbalances required a rapid and fundamental reorientation of monetary policy, and in particular, the abandonment of the fixed exchange rate regime, which prevented the most rapid adjustment of the economy to external shocks, amplified their negative effects on the real sector and thus made the protection of the exchange rate at an overvalued level unconvincing. The loss of confidence in the national currency led to demonetization, dollarization, and deterioration of credit conditions and increased the threat of using non-market instruments to maintain demand for tenge, including regulatory instruments (Voloshin, 2015).

Results and discussions

Summing up the review of indicators, we note that the transition to the regime of inflation targeting and the revision of exchange rate policy laid the potential for the restoration of competitiveness and increased the adaptability of the economy to external shocks. Against the background of the slowdown in the global economy, as well as the uncertainty in the financial and commodity markets, there are still risks associated with the negative impact of external factors on the Kazakh economy.

On February 11, 2015, the National Bank announced the prevention of one-time devaluation; the currency adjustment was carried out smoothly. Due to the aggravation of devaluation expectations in Kazakhstan, on July 15, 2015, the National Bank decided to expand the corridor of fluctuations of the exchange rate of tenge against the dollar. Thus, the corridor became 180-270 tenge for one dollar.

Table 3 – The official exchange rates of foreign currencies in 2015

2015	1quarter			2quarter			3quarter			4quarter		
usd/eur	184,64/208,32			185,86/205,25			216,20/240,90			300,22/328,73		
month	1	2	3	4	5	6	7	8	9	10	11	12
USD	183,70	187,92	185,31	185,73	185,8	186,04	186,8	203,62	258,17	275,54	302,27	322,84
EUR	213,89	210,16	200,92	199,9	207,32	208,44	205,72	226,72	290,26	309,89	325,16	351,13

Source: official Internet resource of the NBK

The last devaluation occurred in August 2015 after the National Bank announced the introduction of the free exchange rate of tenge. At that time, the reform was faced with several main tasks: to

stabilize inflation and switch to market exchange rate formation, which will be determined by supply and demand. After adjusting the exchange rate in August 2015, prices of imported goods jumped

sharply. This led to an increase in domestic inflation, as well as an expected decrease in purchasing power and real incomes of the population. For industrial production, 2015 was a difficult year, as the cheapening of production in the first half of the year was accompanied by a rise in labor costs compared to competitors. The loss of competitiveness was manifested in the fact that in the 1st quarter of 2015 industrial production decreased by 38.7% in value terms, the debt of industrial enterprises increased.

2016 was a difficult year for the economy of Kazakhstan. In January 2016, the price of oil fell to multi-year lows Brent oil reached \$27 per barrel. Started escape from tenge into foreign assets. As a result, the tenge rate fell to a record level of 385 tenge per us dollar. The market has a liquidity deficit in the national currency; the cost of financing in tenge has increased significantly. KazPrime-3M indicator reached the level of 22%. The National Bank had to raise the base rate to 17%, and the maximum recommended interest rate on deposits of individuals in tenge up to 14% (14.9% of the GES)

to reduce the pressure on tenge. Towards the end of the first quarter, the situation began to stabilize along with a 52% increase in oil prices. And the range of motion tenge was 327-385 tenge per U.S. dollar. In 2016, tenge strengthened against the dollar by 2%, weakened against the ruble by 18%. The price of oil for 2016 reached \$57 per barrel. This is due to the agreement of the OPEC and non-OPEC member States on the reduction of oil production, starting from January 2017. OPEC's countries agreed to reduce production by 1.2 million barrels per day up to 32.5 million, and non-OPEC countries by 600 thousand barrels per day.

Starting from 2016, the national Bank finally switched to the policy of interest rate management and refused to control the exchange rate.

In 2017, the average price of Brent crude oil was 61.5 us dollars per barrel (figure 1). In comparison with the previous quarter, the price increased by 18% and compared to the corresponding quarter of 2016 by more than 25%. (official online resource of the national Bank of Kazakhstan)

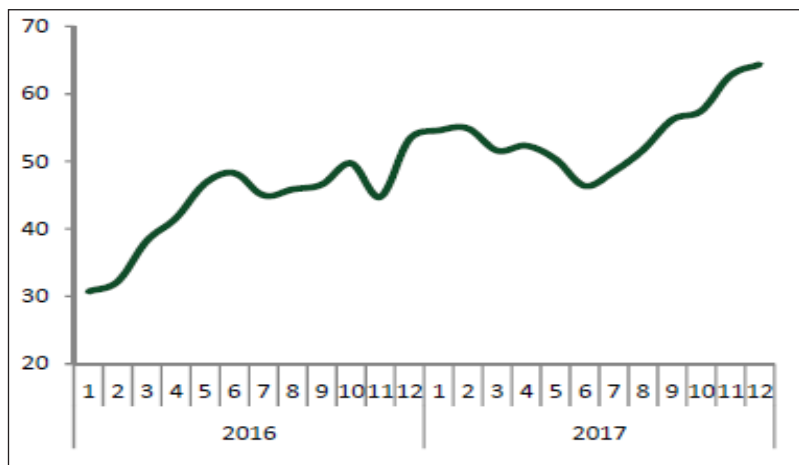


Figure 1 – The price of Brent crude oil, US dollars per barrel on average per month
Source: US energy information Administration (EIA)

The formation of oil prices was influenced by a prolonged shortage of oil, accompanied by high demand and low supply from the producing countries.

Despite the fact that the currency market experienced high volatility at the beginning of the quarter of 2017, further improvement of the situation in foreign commodity markets and gradual stabilization of devaluation expectations created conditions for reducing the amplitude of fluctuations in the exchange rate of tenge and strengthening the

tenge against foreign currencies. Tenge against us dollar changed in the range of 330, 00 – 345, 00. At the end of the quarter, the exchange rate of tenge against us dollar strengthened to 332.33 or 2.6%.

Against the background of a gradual decrease in the devaluation expectations of the population and professional participants of the foreign exchange market, there was a decrease in demand for foreign currency. Dollarization of deposits decreased from a peak of 72% in 2016 to 48% at the end of 2017 due to the transition to a floating exchange rate.

The transition helped to increase the credibility of the tenge and reduce devaluation expectations. The main factor of further de-dollarization is to

increase confidence in the national currency in the framework of the implementation of the policy of inflation targeting.

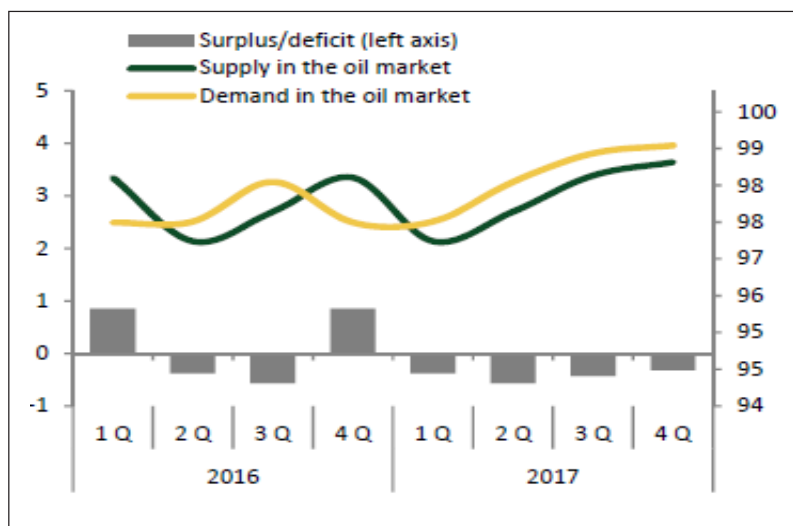


Figure 2 – Supply and demand in the world oil market, million barrels per day
Source: US energy information Administration (EIA)

At the end of 2017, inflation was at 7.1%, corresponding to the middle of the target corridor of 6%. The reduction of external inflationary pressure, stabilization of the situation in the foreign exchange market and the trend to strengthen the tenge during 2017 against the background of positive dynamics of the situation in the world commodity markets, the stability of prices for the main commodity positions in foreign agricultural markets contributed to the slowdown of inflationary processes. Continue of the price shock in the energy market, the impact of which weakened only by the end of the quarter prevented a greater decline in inflation. Core inflation continued to show a steadier decline.

Monetary conditions remained neutral. The situation in the monetary and credit markets was influenced by the implementation of the program to improve financial stability, which led to a limited expansion of lending to the economy. The base rate in October and November 2017 remained unchanged at 10.25%. In January 2018, the rate was reduced to 9.75%, in March to 9.50%. The exchange rate of tenge against us dollar varied in the range of 330, 00 – 345, 00 tenge per us dollar, against the Euro-in the range of 385, 00 – 405, 75 tenge per Euro, against the Russian ruble-in the range of 5, 52 – 6, 00 tenge per ruble.

In February 2018, inflation was 0.7%, from the beginning of this year 1.3% (in January-February

2015 -1.8%). Annual inflation was 6.5% and is within the target corridor of the National Bank at the end of 2018, 5-7%. In the structure of inflation, prices in annual terms for food products increased by 5.3%, for non-food products and paid services by 8.4% and 6.2%, respectively. In December 2018, the exchange rate of tenge changed in the range of 369.35-384.20 tenge per us dollar. The exchange rate of tenge to us dollar amounted to 384.2 tenge per us dollar, weakening by 3.4 for the month.

On figure 3 you can see the exchange rate of the US dollar – tenge from 2014 to January 2019. The above chart data confirms the level of annual inflation in 2017-2018. Annual inflation at the end of 2018 was at the level of 5.3% (for 2017 -7.1%), remaining closer to the lower limit of the target corridor of 5-7%. The slowdown in price growth was observed for all components of inflation. The increase in food prices amounted to 5.1% (in 2017 -6.5%). Prices for non-food products increased by 6.4% (in 2017 -8.9%), for paid services by 4.5% (in 2017 -5.9%).

Submitted by the Committee on statistics of the Ministry of the national economy of the Republic of Kazakhstan, in January 2019, inflation was 0.5% (in January 2018 -0.6%). Annual inflation has developed at 5.2% and is within the target corridor of the National Bank at the end of 2019 4-6%. In the structure of inflation, prices in annual terms

increased for food products by 5.8%, for non-food products and paid services by 6.4% and 3.4%, respectively.

Basically, the dynamics of quotations in the foreign exchange market was formed by the influence of the following factors. The significant strengthening of US dollar in global markets, associated with us policy to support economic growth and US Federal Reserve policy to raise

key interest rates, has significantly affected the pricing of financial instruments in the world. On 26 September, the basic interest rate, the fed was once again raised by 0.25 percentage points up to 2-2.25% per annual. This led to an outflow of capital from developing countries and a significant weakening of their national currencies, including the main trading partners of Kazakhstan. In this regard, the exchange rate of tenge showed high volatility.

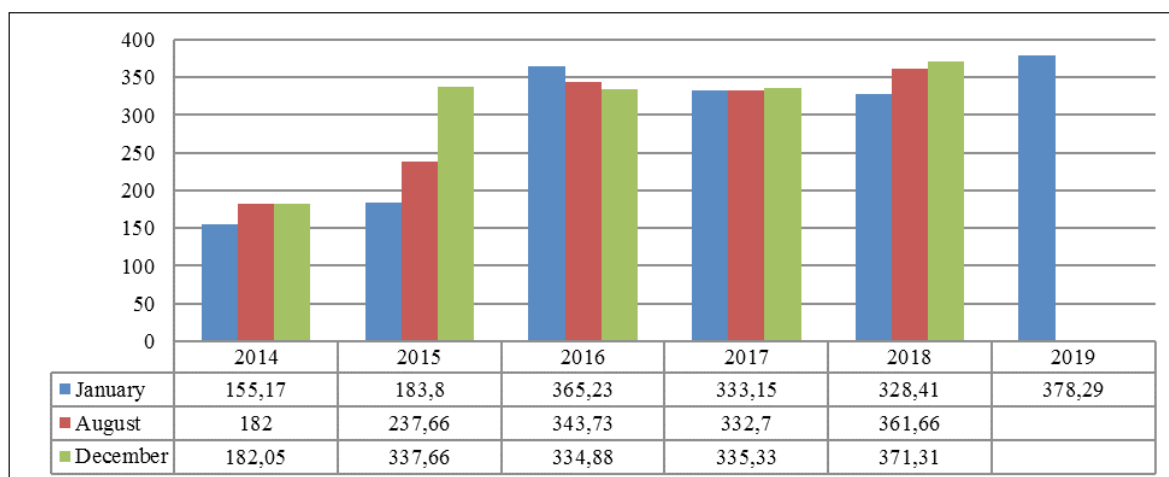


Figure 3 – The exchange rate of the US dollar to tenge

Note – compiled by authors on the basis of the statistics Committee of the Ministry of National economy of the Republic of Kazakhstan, GfK Kazakhstan

Conclusion

The results of the study showed that among modern economists there was no consensus about the importance of certain factors affecting the exchange rate of the national currency. Among the most significant course-forming factors, the authors indicate a variety. So, D.P. Udalichev names the following factors: demand and supply of currency, inflation, interest rate levels and securities, the balance of payments.

The likelihood of deterioration in external monetary conditions has also not changed significantly. However, the US Federal reserve's tougher rhetoric about the prospects for raising the key rate, as well as the preservation and development of trade tensions between the world's leading economies (the US, China, the EU) can lead to an outflow of financial capital from developing countries, devaluation of their national currencies and acceleration of inflation (Mankiw, 2013).

If we talk about import inflation, the prices rise for all imports from Europe and the United States,

not from Russia. The reason is the fall of the ruble to the dollar, and our economy is tied to the dollar no less than to the ruble, if not more since almost half is still dollarized. The objective need is to change the priorities of the economic policy, which should be aimed at the radical modernization of the Kazakh economy. From our point of view, the post Keynesian flow of economic thought is able to indicate ways to solve the problems that Kazakhstan faces on the way to creating a new type of economy. It can become a theoretical basis for the economic policy of active impact on economic growth, the priority of which is the real sector of the economy.

According to the National Committee (2019), there is a risk of import of external inflation in the conditions of acceleration of Russian inflation due to the weakening of the ruble against the possible introduction of sanctions and an increase in the VAT rate in 2019. As well as due to the increased risks related to the oil market, it becomes more realistic to develop a pessimistic scenario involving a drop in the price of oil to \$40 US per barrel. In case of implementation of this scenario, devaluation and

inflation expectations will significantly increase, and inflation may exceed its target values in 2019-2020, and the GDP growth rate will fall to 2.1% in 2019.

The reaction of the National Bank may be a tightening of monetary policy, and the conditions of monetary policy will change from neutral too restrictive. In the future, when assessing the risk balance, the National Bank will take into account not only the external and internal factors described above but also the success of the structural reforms of the Government to diversify the economy, which can have a significant impact on economic growth and inflation processes in Kazakhstan.

In 2016-2017, the annual inflation corridor of 6-8% was the target of the National Bank. 2017-2018 are 5-7%. Starting in 2018, the target parameters are reduced as part of the strategy to achieve the medium-term inflation target.

Inflation targets for the end of 2019 are set at the following level: 4-6 % lower, but close to 4% at the end of 2020 and subsequent years.

The stability of the currency allows increasing the efficiency of production in the changing economic conditions while maintaining the purchasing power of banknotes. From the point of view of expanded reproduction, the stability of the currency is a prerequisite and a result of sustainable and dynamic economic development. Therefore, first of all, the stability of the national currency depends on the economic growth of the country. Based on the above, we can conclude that the main factor affecting the stability of the national currency is the state's own potential, which is able to meet the needs of the national economy in hard currency without external

assistance, that is a fundamental factor. Speculative and monetary factors are derivatives caused by the weakness of the national economy, unable to solve the problem of the stability of the national currency. To improve the stability of the currency, the following can be identified: changing the vector of financial and monetary policy in order to form an innovative economy, raising the living standards of the population; improving the efficiency of production; implementation of national interests in foreign economic activity.

However, without structural changes in the economy, changes in the relative competitiveness and productivity of industries and optimal fiscal policy decisions, raising interest rates to contain inflation in the long term is ineffective. The main Bank of the country should soften the directly proportional drop of tenge to the dollar after the ruble, as far as possible, so as not to cause devaluation expectations. In an import-dependent economy, devaluation inevitably leads to inflation sooner or later.

In our paper's purpose of the study was to consider the currency policy of the National Bank of the Republic of Kazakhstan; theoretical and methodological substantiate the stability of the currency, as well as to analyze the factors affecting the fluctuations of the national currency.

In conclusion, want to mention that the currency is usually depreciated or appreciated during local and foreign trading hours. Second, the opening, closing and trading hours of major global markets affect the behavior of foreign exchange earnings. And third, Overlapping trading periods between major markets affect the behavior of foreign exchange earnings.

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