



KAZAKHSTAN'S MONETARY POLICY: ANALYSIS OF RECENT DEVELOPMENTS

Monetary policy is one of the main directions of economic policy of any state, which is conducted by an authorized organization, such as a central bank, in order to ensure the stability of the economy and the balance of money in circulation. Such a role in our country is performed by the National Bank of the Republic of Kazakhstan, the purpose of which is to implement monetary policy aimed at providing the economy with necessary monetary resources and maintaining an acceptable level of economic growth and inflation. An effective implementation of monetary policy is needed for the achievement of goals set in the national development strategy and for Kazakhstan's joining the 50 most developed countries in the world. At the same time, one of the most important tasks of the state for the sustainable economic development is the creation of conditions and the adoption of appropriate measures to reduce the inflation rate in the country.

The Law of the Republic of Kazakhstan No. 2155 "On the National Bank of the Republic of Kazakhstan" adopted on March 30, 1995 expressly states that the main goal of the bank is to ensure the price stability in the country. Along with the progressive development of Kazakhstan, the law was amended and supplemented in accordance with the government's monetary policy. It should be noted that in achieving a sustainable and efficient monetary policy, the country has gone through a number of major stages, reflecting key macroeconomic trends over the past 27 years. For each period, relevant measures and tasks of the National Bank's monetary policy were identified, the fulfillment of which was dictated by the need to reduce inflation and ensure the stability of the national currency.

Every year, the National Bank develops a document containing the results of monetary policy for the past year and the main directions of development for the coming period. In the past three years, the National Bank has set targets for annual inflation rates. For example, in 2017, inflation in the country remained within the target corridor of 6-8% set by the National Bank, amounting to 7.1%, which is lower

than in 2016, when inflation was 8.5%. Since 2018, these parameters have been gradually decreasing as part of the strategy for achieving the medium-term inflation target. The Resolution of the Board of the National Bank No. 242 of November 29, 2017 approved the main directions of the monetary policy of Kazakhstan for 2018, under which the bank continued to follow the principles of inflation targeting. The regulator adopted the transition to these principles on August 20, 2015. It should be noted that inflation targeting, as shown by the experience of advanced economies, has established itself as an effective regulatory tool in slowing down and stabilizing inflation.

At the end of 2018, the Board of the National Bank approved the main directions of monetary policy for the upcoming 2019. The document also contains a report on the implementation of monetary policy in 2018. One of the main achievements of the past year was the slowdown of inflation processes. The target inflation rate for 2018 was set within 5-7%, and by the end of the year, the National Bank managed to keep inflation closer to the lower boundary of the corridor at 5.3%, which is 1.8% lower than in 2017. This reduction was facilitated by a number of effective measures, such as maintaining monetary conditions at the proper level, as well as limited imports of inflation. Another factor in the rapid decline in inflation was the positive growth rate of consumer lending. Along with inflation targeting, the National Bank continued to adhere to the free-floating regime of the national currency. The tenge rate was formed independently throughout 2018, and the intervention of the regulator was minimal. As a result, the slowdown in inflation occurred against the background of the devaluation of the national currency, which depreciated by almost 12% in a year.

It can be argued that in 2019 the National Bank will continue to implement monetary policy in accordance with the principles of inflation targeting. As part of this strategy, the inflation target corridor for 2019 has been reduced by 1%. Consequently, one of the main goals is to maintain the inflation rate within the corridor

of 4-6% to reduce inflation to 4% by the end of 2020, and maintain it at that level in subsequent years. When making decisions on monetary policy, the regulator will monitor and control the influence of external and internal factors that may adversely affect the economic situation in the country. Oil prices and the dynamics of the Russian ruble will remain the main external factors. In case of adverse external influences, the National Bank is ready for a tighter monetary policy.

Over the past three years, the National Bank has taken a number of measures aimed at improving the stability and competitiveness of the country's banking sector and a stable growth of the entire economy as a whole. It should be noted that the work initiated in 2017 to improve the effectiveness of the mechanism of minimum reserve requirements, both in terms of the structure of reserve liabilities and assets and the level of standards, was completed in 2018.

It can be argued that the main tasks of monetary policy for the coming period are set out. Ensuring price stability and low annual inflation remain a main task of the National Bank this year, as well. The regulator will focus on improving monetary policy instruments. The National Bank will continue to adhere to the principles of free-floating of the national currency, and it will conduct currency interventions to smooth out destabilizing fluctuations of the exchange rate. The base rate will remain a key instrument, the size of which will be determined depending on the actual and projected inflation rates in the country and other parameters. The National Bank has determined that in 2019 decisions on the base rate will be made eight times, four of which will be based on the results of the bank's analysis and forecasting system, developed as part of the transition to a floating exchange rate and the introduction of inflation targeting. At the same time, the base rate will be maintained at a level comparable to the long-term potential rates of economic growth. The National Bank plans to increase the transparency and predictability of its work, in order to increase monetary policy credibility and restrain inflation expectations.

Politics, Foreign Affairs, and Security

- Turkey is poised to enhance humanitarian cooperation with Uzbekistan and Kyrgyzstan as Turkish President Recep Tayyip Erdogan ratified the agreements on cooperation in the field of culture with Uzbekistan and on cooperation in the fields of sports and culture with Kyrgyzstan. Both agreements were signed in April 2018.
- Kazakhstan's Ministry of Foreign Affairs and security services held a special humanitarian operation evacuating 47 Kazakh citizens, including 30 children, from Syria. These people who were held hostage by militant groups will undergo a month-long adaptation and receive medical care. President Nazarbayev pledged to continue work on the return of children who had been taken to Syria against their will.
- Foreign ministers of India, Afghanistan and the five Central Asian states participated in the first meeting of the India-Central Asia Dialogue that took place in Samarkand. Noting historical links between India and Central Asia, the parties reaffirmed their commitment to engage in dynamic and mutually beneficial cooperation in various spheres at bilateral and multilateral levels to ensure security, stability and sustainable development in the region.
- Speaking at the government meeting on the country's socio-economic development, Belarussian President Alexander Lukashenko stated that the unification of Belarus and Russia into a single state was not on the agenda. He emphasized that a union of the two countries could only form on an equal and equitable basis and should be driven by the will of both nations.
- According to Foreign Policy, Belarus has lifted a cap on the number of U.S. diplomats allowed in the country, which was introduced in 2008 after the United States imposed sanctions on Belarus for human rights violations. At that time, the last U.S. ambassador posted to Minsk and 30 out of 35 diplomats serving in the country were expelled.
- The delegations of Azerbaijan's State Border Service and Iran's Border Troops held a meeting in the Iranian city of Bilasuvar to address border security issues, including the fight against cross-border crime and international terrorism. The parties also discussed necessary procedures to organize reliable control of people, vehicles and cargo at their respective border checkpoints.
- A new border crossing called Babatag will open on the Tajik-Uzbek border in the near future. It will operate in the daytime and only serve nationals of the two countries connecting Tajikistan's Hisor district and Uzbekistan's Uzun district. The two countries reopened 14 border crossings in 2018, and three to 15 new crossings are expected to be launched in 2019.

Economy, Finance, and Energy

- Bilateral trade between China and Russia reached \$97.24 billion in the first 11 months of 2018, or 27.8% higher compared to the same period of 2017, and exceeded \$100 billion by mid-December 2018. This marks a record high in the history of Sino-Russian economic relations and trade as China remains Russia's largest trading partner.
- The European Bank for Reconstruction and Development invested more than €360 million in 21 projects in Belarus in 2018, which is the highest amount since 1992 when the bank began working in the country. The areas financed by the bank include water treatment, solid waste management, road reconstruction, furniture production, agriculture, pharmaceuticals, banking services, energy efficiency of residential buildings, and renewable energy.
- The Asian Development Bank approved a \$4.5 million technical assistance grant to support an increase in regional power trade and explore potential reconnection of Turkmenistan to the Central Asia Power System and its further expansion to Afghanistan. The energy volume traded among the Central Asian countries declined dramatically in 1990-2016 – from 25.4 billion kWh to 2.1 billion kWh.
- Tajikistan plans to increase electricity exports to Afghanistan and Uzbekistan in the spring-summer season of 2019. According to Tajik energy industry officials, there is plenty of snow in the country's highlands and the newly commissioned energy capacities allow increasing electricity production. It is expected that preliminary negotiations on this issue will be held in the first quarter of 2019.
- At their trilateral meeting in Baku, the government representatives of Azerbaijan, Afghanistan and Turkmenistan responsible for communications and information technologies discussed prospects for laying a fiber-optic cable line through the Caspian Sea and providing Afghanistan with internet through Turkmenistan. The parties decided to create a relevant working group consisting of experts from the three countries.
- According to the 2018 Global Gas Outlook released by the Gas Exporting Countries Forum, Eurasia is expected to expand its natural gas output by 300 billion cubic meters (bcm) by 2040 and maintain its position as the world's second largest gas producing region after North America. In 2017, the region produced a total of 849 bcm of natural gas.
- According to the Global Economic Prospects report of the World Bank, Georgia will register a steady economic growth of 5% each year during 2019-2021. In the bank's Europe and Central Asia country forecasts for 2019, only three countries are ahead of Georgia – Tajikistan (6%), Turkmenistan (5.6%) and Uzbekistan (5.1%). Georgian officials believe that such an assessment will positively affect the flow of investments into the country.

Society and Culture

- Kyrgyzstan and Uzbekistan were included in the list of top 40 holiday destinations by the Guardian newspaper. Kyrgyzstan is described as a mountainous and landlocked country that has "huge tracts of pristine wilderness, where semi-nomadic peoples still hunt with golden eagles", while Uzbekistan is depicted as a reforming country famous for its hospitality, impressive architecture and Silk Road legacy.
- According to Azerbaijan's State Migration Service, more than 2.84 million foreign nationals and stateless persons visited the country in 2018, or 6% more compared to 2017. In addition, the Heydar Aliyev International Airport in Baku set a new record for passenger traffic having served a total of 4.43 million passengers, or 9% higher than in 2017.
- According to Kazakhstan's Civil Aviation Committee, the Kazakh airlines transported about 7.8 million passengers in 2018, which is 7% more than in 2017. The number of passengers served at the country's airports also increased reaching more than 14 million people. The number of transit passengers in 2018 grew by more than 40% to 900,000 people, compared to 620,000 transit passengers in 2017.
- In 2018, the number of visitors to the Khorgos International Center of Boundary Cooperation in Kazakhstan reached 1.22 million people growing by 8% compared to 2017 (1.13 million visitors). The area of the cargo terminal was increased from 900 to 3,500 square meters, and 12 companies invested in the construction of facilities with a total area of 193,000 square meters.
- Starting February 1, 2019, Uzbekistan will introduce a 30-day visa-free regime for citizens of additional 45 countries in order to promote the development of tourism in the country. The previous simplification of the visa regime and the rules of stay in Uzbekistan has led to a twofold increase in the number of foreigners visiting the country – from 2.6 million in 2017 to 5.3 million in 2018.
- The new law that came into force in Turkmenistan prohibits trade entities from selling alcohol on non-working holidays (except for the provision of catering services) and memorable days. Starting January 2021, retail sales of alcohol will be prohibited on Saturdays and Sundays. The law also bans any advertising of alcohol and its sale to persons under the age of 21.
- For the first time in the history of space exploration, China launched more rockets into orbit in a year than any other country. In 2018, China made 39 orbital launches outnumbering Russia, the European Union and India combined, while the United States ranks second with 34 launches. China has also become the first nation to land a probe on the far side on the moon.