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THE IMPACT OF MONETARY POLICY ON CENTRAL BANK ASSETS: THE CASE OF THE NATIONAL BANK OF KAZAKHSTAN

Abstract. Currently, central banks do not engage in direct lending to the government in most cases, and in Kazakhstan there are legal restrictions on the National Bank's right to provide loans to the government to finance budget deficits, to buy government securities at primary offering and to conduct banking operations with non-banking institutions. The central bank's issuing activity is mainly determined by the objectives of monetary policy, rather than profitability considerations. Central banks primarily perform the functions of the so-called financial agent of the government, that is, they keep accounts of the treasury and manage special funds and public debt.

Keywords: tenge, currency, finance, money, trade, commodity, exchange, credit, bank, securities.

Central banks in any country occupy a key place in the financial and credit system. The significance of a Central bank is manifested in its responsibility for monetary policy and the stability of the banking system as a whole. A monetary policy tool refers to operations and methods by which a Central bank can alter bank reserves, money supply, and lending to the economy. In general, this set of tools includes: 1) open market operations; 2) refinancing of banks and interest rates on Central bank operations; 3) reserve requirements; 4) deposit operations; 5) direct quantitative restrictions.

Based on the above, the main objectives of the National Bank of Kazakhstan are maintaining price stability, protecting and ensuring the stability of the national currency – Tenge, assisting the development of national economy sectors and ensuring financial stability. These objectives of the National Bank are determined by its task as a principal bank of minimizing the negative socio-economic consequences of liquidity loss by banking and credit organizations. Fulfilling this task is about preventing a systemic banking crisis. The solution of these problems depends not only on the procedures for regulating financial and banking organizations, but also on the general economic conditions of their business activities, which is especially important in the modern context. Historically, since its inception, central banks have raised resources to lend to the government for its expenditure. The government received seniorage revenue from the central bank's monopolistic exclusive right to create money.

Currently, central banks do not engage in direct lending to the government in most cases, and in Kazakhstan there are legal restrictions on the National Bank's right to provide loans to the government to finance budget deficits, to buy government securities at primary offering and to conduct banking operations with non-banking institutions. The central bank's issuing activity is mainly determined by the objectives of monetary policy, rather than profitability considerations. Central banks primarily perform the functions of the so-called financial agent of the government, that is, they keep accounts of the treasury and manage special funds and public debt. One of the key questions is the extent to which responsibility for the performance of all functions should lie with one institution. By and large, any operation of the central

bank can be considered as an instrument of monetary policy, since it is endowed with such powers that any of its actions can affect the situation in financial markets.

Therefore, monetary policy reference points may be different. It is a question of monetary theory as to what fully meets the strategic policy objectives: money supply, interest rate or inflation targeting. Therefore, for example, targeting an interbank interest rate refers to the central bank purchasing and selling open market securities in amounts sufficient to maintain the interest rate on interbank loans at a given level. Monetary policy instruments usually refer to operations and ways in which a central bank can change the volume of bank reserves, money supply, and lending to the economy. Such instruments include: 1) open market operations; 2) refinancing of banks and interest rates on central bank operations; 3) reserve requirements; 4) deposit operations; 5) direct quantitative restrictions. In practice, there are some basic principles underlying the application of these tools. The main one is the principle of efficiency, which refers to the ability to accurately and quickly obtain results that meet the intended goals. One could also point out the principle of equal treatment of all financial market participants regardless of their size, which is achieved by standardizing the rules and procedures for conducting transactions [1-3].

The principle of consistency refers to not changing the rules and procedures of monetary policy frequently, and the principle of reliability requires minimizing financial and operating expenses. The cost of operations should be minimal for both parties. Purchases on the open market are paid by the Central bank by increasing the seller's bank reserve account. The total reserves of the banking system are increasing, which, in turn, leads to an increase in the money supply. Accordingly, selling by the central bank of open market securities will have the opposite effect: the total reserves of banks decrease, and the money supply decreases all other things being equal. Selling of securities on the open market in this case is used to sterilize excess money supply. Since the Central bank is the largest player in the open market, increasing the volume of operations for the purchase and sale will lead to a change in the price and yield of securities.

This way the national bank can also influence interest rates as well. Under certain conditions, the central bank can change both short-term and medium to long-term interest rates and thereby affect the level of economic activity. The effectiveness of this tool is somewhat reduced by the fact that the expectations of market participants are not quite predictable. Inflationary expectations will lead to higher interest rates and less business activity. Nevertheless, in our opinion, open market operations are the most effective monetary policy tool. The main advantages are that: 1) the central bank can control the volume of transactions; 2) through the transaction, it is possible to change bank reserves by an acceptable predetermined amount; 3) the speed of transactions is very high due to market liquidity. On the open market, central banks use two main types of transactions: direct transactions and repurchase agreements. Direct transactions refer to the purchase and sale of securities with immediate delivery. Such transactions do not have a maturity date. Interest rates are set at auction. Repo transactions are based on a repurchase agreement. Direct repo transactions mean the purchase of securities by the central bank with the obligation to repurchase them back after a certain period of time. With reverse REPO transactions, the central bank sells the securities and undertakes to repurchase them from the dealer after a certain period.

Open market operations are classified into two types: dynamic and defensive. Dynamic open market operations are aimed at changing the level of bank reserves and the monetary base. They are permanent, and they are used in direct transactions. Defensive operations are carried out mainly to adjust the reserves in case of unexpected deviations from a given level, i.e. aimed at maintaining the stability of the financial market and bank reserves. For such operations, repo transactions are used. The mechanism of currency intervention involves the purchase and sale of foreign currency in the domestic market to increase or sterilize the money supply. The sale of currency reduces bank reserves, while the purchase increases them. Foreign exchange intervention affects the national currency rate against the US dollar. The sale of dollars by the National Bank will lead to an appreciation of the tenge, and the purchase will result in its decrease. Therefore, the National Bank can adjust the short-term fluctuations of the tenge. If the Central Bank conducts foreign exchange interventions only to correct short-term exchange rate fluctuations, it weakens its control over bank reserves and money supply.

Therefore, in our opinion, the National Bank, in addition to currency interventions, should use currency swaps, which allows adjusting the liquidity level of the currency market without creating additional pressure on the tenge rate. By buying foreign currencies from banks in the form of a swap, the

National Bank actually credits banks. Bank refinancing is another effective monetary policy tool. When the Central Bank extends a loan to a bank, the correspondent account of this bank with the central bank is credited. The liability part of the central bank's balance sheet increases, as do the total reserves in the banking system, while the central bank's assets increase by the amount of the loan issued.

Thus, an increase in the volume of refinancing increases the volume of borrowed reserves in the banking system, the monetary base and the money supply, while a decrease reduces those. In practice, the National Bank can set one or several interest rates on various types of operations: the refinancing rate which plays the role of the National Bank's base rate, the rate on repo transactions, the Lombard rate, and overnight loan rates [4-8].

The consolidated statements of financial position of the National Bank of Kazakhstan for the period 2015-2017 clearly indicate the place and role of various monetary policy operations and instruments and their impact on the assets and liabilities of the principal bank. The assets of the National Bank for 2017 increased by 6% (800 billion KZT), from 13.3 to 14, 1 trillion KZT. The main share of assets is accounted for by financial assets available for sale - 36.8%, or 5.2 trillion KZT, followed by gold - 29.4%, or 4.2 trillion KZT. Despite a 17.9% reduction in accounts, loans and deposits in banks and other financial institutions account for a significant 23.7%, or 3.4 trillion KZT. In total, the share of the three mentioned assets accounted for 89.9%, or 12.7 trillion KZT.

The assets of the National Bank have grown annually over the last 4 years, from 9.1 to 14.1 trillion KZT. The largest increase was accounted for by the gold item in 2017, due to the rise in prices for precious metals. This resulted in an increase in the share of gold in the official foreign exchange reserves, the volume of which already amounts to 12.8 billion dollars, or 12.8% of the reserves. This testifies to the increasing monetary role of gold in the official foreign exchange reserves of leading countries. On the other hand, as we see it, the rise in gold prices is not related to the factors of economic growth, but largely to speculative reasons. Due to the absence of the official price of gold, its market price does not reflect the real physical volumes of the gold itself, which is in government reserves. Hence the dilemma: without gold, there can be no stability of the international monetary system, however, the monetary use of gold in modern conditions is not possible. Thus, the world price for gold, according to the London association of the precious metals market, increased by 11.9% from 1159.1 US dollars per troy ounce on December 30, 2016, to 1296.5 US dollars per troy ounce on December 29, 2017. In this regard, the CIS countries are actively increasing their gold reserves, which indicates that gold is capable of acting as world money, a real and acceptable means of interstate payments. As of 01.01.2017, the assets of the National Bank under the item "Accounts, loans and deposits in banks and other financial institutions" amounted to 3,353,700,0 million tenge and decreased by 17% compared to 2016 due to the reallocation of monetary resources to other financial instruments.

As of December 31, 2017, the National Bank had accounts and deposits in one counterparty bank, which exceeded 10% of the capital. The total amount of this account is 1,071,828 million tenge. As of December 31, 2017, the nostro accounts in the amount of 2,818 million tenge opened with banks belong to the subsidiaries of the National Bank of Kazakhstan. As of December 31, 2017, there are no overdue loans or deposits at banks. As of that date, loans issued to second-tier banks include loans, the terms of which had been changed and which otherwise would have been overdue or lost value, in the amount of 35,000 million tenge. The purpose of these changes was to manage relationships with banks, and maximize the amount of returned debt. Taking into account the credit risk on loans issued to banks, the National Bank of Kazakhstan regularly assesses these loans for signs of impairment.

Provisions for impairment of such loans are made at the rate of the difference between the carrying amount of the loan and the present value of expected future cash flows discounted at the original effective interest rate of the loan. During 2017, a reserve of 40.118.0 million tenge was created for loans provided to banks, and the asset was written off later on in connection with the decision to suspend the licenses of certain banks to conduct banking and other operations. Within the item "Financial assets available for sale", as of December 31, 2017, the Ministry of Finance bonds with a market value of KZT 296876 million (31.2016; 34947 million tenge) acted as collateral for repos. Principally, financial resources are invested in securities of foreign issuers, in particular: Treasury obligations of the US Government - 2560168 million tenge, Great Britain - 119299 million tenge, Australia - 86533 million tenge and others, overall in government bonds of 11 countries and debt securities of international financial organizations

with a high credit rating. In general, within this line-item in 2017 there was an increase of 16.2% from 2016. The “Other assets” line-item shows an increase of 35.2% from 2016, as a result of the growth mainly in other receivables.

Given the quality of assets of the National Bank of Kazakhstan, the net loss for 2017 amounted to 1.2 trillion tenge, while the net interest loss amounted to 169.2 billion tenge, 33.3% up from the loss of 2016 - 127 billion tenge. Net commission income amounted to 25.7 billion tenge, which is 69.4% up from 2016. The main expense items that affected the loss are expenses for the recuperation of banks amounting to 585.6 billion tenge and the cost of disposal of a subsidiary – 507.5 billion tenge (uncompensated transfer of common shares of the Distressed Loans Fund) [9-11].

Thus, to summarize the above, it can be stated that the monetary policy pursued by Central banks directly affects their consolidated financial statements and the quality of their assets, which requires a careful study and analysis of each operation associated with an offer of liquidity and removal thereof from the banking system.

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ОРТАЛЫҚ БАНКТЕРДІҢ АҚША-КРЕДИТ САЯСАТЫНЫҢ ОЛАРДЫҢ АКТИВТЕРІНЕ ӘСЕРІ: ҚАЗАҚСТАН РЕСПУБЛИКАСЫ ҰЛТТЫҚ БАНКІНІҢ МЫСАЛЫНДА

Аннотация. Қазіргі уақытта орталық банктер үкіметке тікелей кредит берумен айналыспайды және Қазақстанда Ұлттық Банктің бюджеттік тапшылықты қаржыландыру үшін Үкіметке кредиттер беру, оларды бастапқы орналастыру кезінде мемлекеттік бағалы қағаздарды сатып алу, сондай-ақ банк ұйымдары болып табылмайтын мекемелермен банк операцияларын жүргізу құқығына заңнамалық шектеулер бар. Орталық банктің эмиссиялық қызметі негізінен табыстылық ұғымымен салыстырғанда ақша-кредит саясатының мақсаттарымен айқындалады. Орталық банктер негізінен үкіметтің қаржы агенті деп аталатын функцияларды орындайды, яғни қазынашылық шоттарын жүргізеді және арнайы қорлар мен мемлекеттік борышты басқарады.

Түйін сөздер: тенге, валюта, қаржы, ақша, сауда, тауар, айырбас, несие, банк, бағалы қағаз.

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ВЛИЯНИЕ ДЕНЕЖНО-КРЕДИТНОЙ ПОЛИТИКИ ЦЕНТРАЛЬНЫХ БАНКОВ НА ИХ АКТИВЫ: НА ПРИМЕРЕ НАЦИОНАЛЬНОГО БАНКА РЕСПУБЛИКИ КАЗАХСТАН

Аннотация. В настоящее время центральные банки почти не занимаются прямым кредитованием правительства, и в Казахстане существуют законодательные ограничения права Национального банка предоставлять кредиты правительству для финансирования бюджетного дефицита, покупать государственные ценные бумаги при их первичном размещении, а также проводить банковские операции с учреждениями, не являющимися банковскими организациями. Эмиссионная деятельность центрального банка в основном определяется целями денежно-кредитной политики, нежели соображениями доходности. Центральные банки выполняют в основном функции так называемого финансового агента правительства, то есть ведут счета казначейства и управляют специальными фондами и государственным долгом.

Ключевые слова: тенге, валюта, финансы, деньги, торговля, товар, обмен, кредит, банк, ценные бумаги.

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