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**THE NEED FOR MONETARY POLICY COORDINATION OF THE  
MEMBERSTATES OF THE EURASIAN ECONOMIC UNION**

**Abstract.** Theoretical and practical aspects of monetary policy and monetary regulation for both developed and developing countries have been and remain particularly relevant, causing a lot of controversy. Moving the focus toward practice or using monetary policy concepts without linking to the characteristics of the transition economy can have negative consequences. The question of the goals and objectives of monetary policy, as we have already noted, is one of the initial ones that determine the disagreements and discussions in this area. In this regard, we should agree that «one of the most important problems, without which it is impossible to form an effective financial and credit policy is the configuration of the objective function. This means the paramount importance of selecting goals, indicating priorities and their sequence».

In general, it should be noted that despite the general similarity of monetary policies, each of them has significant differences that reduce the effectiveness of coordination of central banks.

When managing the process of forming a single monetary policy within EAEU, it is necessary to build a model that will strengthen the development of the national credit markets of the countries of the Union, stimulating their interaction provided that the negative consequences of systemic risks are minimized.

**Keywords:** monetary policy, exchange rate policy, monetary policy regimes, monetary regulation instruments, the central bank.

**Introduction.** The creation of unified Eurasian economic union is an important step in ensuring, first of all, the macroeconomic stability of the participating countries through deepening the integration of their economies.

Naturally, the opportunities and mechanisms of such coordination are largely determined by the regime of the exchange rate and, in general, monetary policy of the EAEU member states.

Theoretical and practical aspects of monetary policy and monetary regulation for both developed and developing countries have been and remain particularly relevant, causing a lot of controversy. The well-known Russian economists in this field note that «this phenomenon was not temporary or accidental, but was conditioned, firstly, by the specific methodology of the concepts of monetary regulation, secondly, by the logic of their historical evolution, thirdly, by the objective patterns of the current stage economic development» [1].

In our opinion, Professor Lavrushin O.I. characterized the situation very accurately: «In the world, monetary policy is not estimated as a science, but as an art. Economic science, as practice often says, does not provide precise tools for decision-making, so it's best to focus on your own experience and intuition. Academics like to criticize the heads of central banks for the lack of any complete doctrine of monetary policy based on proven hypotheses. But regardless of changes in the monetary theory, the management of the central bank is still an art» [2].

In our view, mutual accusations from theorists and practitioners are justified. However, shifting emphasis to practice or using monetary policy concepts without linking to the characteristics of a transition economy can have negative consequences. Therefore, close interaction of science and practice is needed to develop an effective monetary and credit policies.

**Methods.** Insufficient elaboration of the theoretical foundations of the monetary policy of the National Bank of Kazakhstan has also become an obstacle to ensuring its appropriate effectiveness. To date, along with the conceptual approaches to monetary policy and their methodological foundations,

many issues of an applied nature arise, especially for countries within the framework of a common economic union, in particular the EAEU.

In general, each of the regulatory schemes used in the Keynesian and monetarist approaches has its adherents. At the same time, practice shows that monetary policy relies on different theories, not only on Keynesianism, monetarism, but also on neoclassical synthesis, institutionalism and others. They are implemented in the respective stabilization programs of different countries. The specific choice depends on the system of scientific and methodological preferences chosen by the respective governments and their consultants. This is often given a certain political connotation, distorting in many respects the essential features of each of the theoretical schools. Consequently, the strategic problem of modern economic theory is to determine the optimal correlation between «state» and «market» in these historical circumstances. All the economic concepts that replaced one another during the XX century were distinguished by a change in priorities between the «state» and the «market» principles of the economy. In countries with developed market economies, the theory of state regulation of the economy continues to improve and is widely used in economic practice. Thus, today in the theory of monetary regulation there is no model of state participation, acceptable in the current economic conditions, in regulating economic processes. Neither Keynesianism nor monetarism, as shown above, can be recognized as effective models of state regulation.

In our opinion, in addition to forming the theoretical foundations of monetary policy, it is necessary to build a qualitatively new model of monetary regulation that takes into account the nature of the modern economy, which incorporates the elements of Keynesianism, monetarism and the theory of rational expectations [3]. Accordingly, this will allow us to use the conceptual approaches of Keynesianism, strengthening the role of state regulation in the conditions of unstable economic development, to conduct a restriction course in the period of revival and recovery, based on the positions of monetarism and in any situation take into account the behavior of market subjects to prevent inflationary expectations. In our opinion, only in this case, we will be able to ensure sustainable development of the economy with moderate inflation rates.

**Results.** Many experts agree that the structural theoretical foundations of monetary policy, as we know it today, were laid by the first Nobel laureate in economics, Jan Tinbergen. It is believed that Jan Tinbergen first introduced the concept of «monetary policy target». By it, he meant a fixed quantitative indicator, which monetary policy should strive to achieve by selecting the values of policy instruments or instrumental variables [4]. The great contribution of Jan Tinbergen to the construction of models of monetary policy is invaluable. He demonstrated the need for the number of policy instruments to be equal to the number of goals. As a result, Tinbergen's rule appeared in economic theory. The approach to monetary policy, proposed by Jan Tinbergen, was expanded and significantly supplemented by Henry Taylor in the late 1950s - early 1960s.

The question of the goals and objectives of monetary policy, as we have already noted, is one of the initial ones that determine the disagreements and discussions in this area. In this regard, we should agree that «one of the most important problems, without which it is impossible to form an effective financial and credit policy is the configuration of the objective function. This means the paramount importance of selecting goals, indicating priorities and their sequence» [5].

Summarizing the views on the objectives of monetary policy, we came to the conclusion that the objectives for each time period are correspondingly different, although the ultimate goals of monetary policy should be immutable. At present, the set of numerous judgments and views proceeds from the fact that the ultimate goals of monetary policy should be defined as follows: economic growth; full employment; price stability; balanced balance of payments.

Thus, the above facts indicate that the choice of goals is a very difficult problem, since it must be carried out taking into account the internal and external economic situation in the country, priorities for final purposes, and also depending on the degree of change in demand for money and the velocity of their circulation, the reaction of economic variables to the dynamics of the interest rate. At the same time, as practice shows, some of the intermediate goals are closer to the final ones, but less subject to the influence of the central bank, while others are under its control, but far from general economic targets. So, the central bank is able to manage the monetary base, but it can not control the money multiplier and the velocity of money circulation, that is the demand for money.

The main goal of the monetary policy of the EAEU states is to achieve macroeconomic stability and sustained low inflation. As is known, during 2016 almost all EAEU states adhered to moderately strict monetary and credit policies. This is due to the desire for a long-term reduction in medium-term inflation expectations.

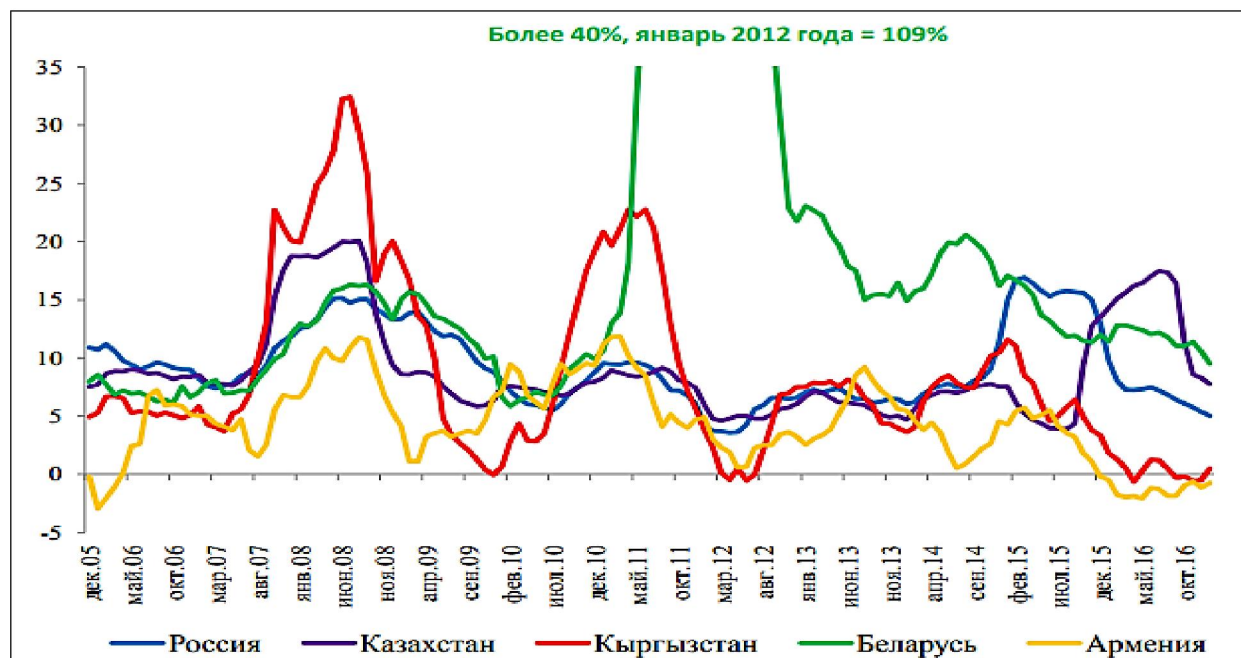


Figure 1- Dynamics of inflation in the EAEU countries, y/y in%

Due to the different approach of monetary policy to new external conditions and the different sensitivity of domestic prices to the influence of external inflation factors during 2015-2016, the inflation rates in the EAEU states differed widely with respect to each other. This indicates the continuing differences in the structures of the economies of the EAEU states and a strong exposure to external shocks.

Table 1 - Instruments used in the national monetary policy of the EAEU member states

Name	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Refinancing rate (key rate)	+	+	+	+	+
Required reserve requirements	+	+	+	+	+
Open market operations	n/d	+	+	+	+
Establishing guidelines for the growth of money supply	n/d	+	-	-	+
Direct quantitative restrictions on bank operations	n/d	-	+	-	+
Issuance of bonds on its own behalf and provision of loans	n/d	-	+	+	+
Currency Interventions	+	+	+	+	+

Note: Source[6]

The Central Bank's policies, according to EEC estimates [7], were characterized by the maintenance of positive real interest rates. At the same time, as inflation declined and confidence in national currencies

was strengthened, the Central Bank of the majority of the EAEU countries gradually lowered interest rates. The adjustment of the monetary regulation of the EAEU states in 2016 was aimed at increasing the efficiency of the percentage channel.

Table 2 - Rates of national (central) banks (in percent, at the end of the year)

	2012	2013	2014	2015	2016
Armenia	8.00	7.75	8.50	8.75	6.25
Belarus	30.00	23.50	20.00	25.00	18.0
Kazakhstan	5.50	5.50	5.50	5.50(16.00) <sup>(1)</sup>	5.50 (12.00) <sup>(1)</sup>
Kyrgyzstan <sup>(2)</sup>	2.64	4.17	10.50	10.00	5.00
Russia	8.25(5.50) <sup>(3)</sup>	8.25(5.50) <sup>(3)</sup>	8.25(17.00) <sup>(3)</sup>	8.25(11.00) <sup>(3)</sup>	10.00 <sup>(4)</sup>
1) the base rate is indicated in parentheses. 2) discount rate. 3) the key rate is indicated in parentheses. 4) The value of the refinancing rate of the Bank of Russia from 01.01.2016 is equal to the value of the key rate of the Bank of Russia on the relevant date.					
Note: Compiled from data of central banks of the EAEU countries					

At the same time, different situations with bank liquidity has developed in the EAEU countries. In Russia, the liquidity deficit, which is highly likely, could go into a surplus in 2017, given the low growth in lending and the improved availability of liquidity provided by the Central Bank. In other EAEU countries, on the contrary, there was a liquidity surplus, where the Central Bank seized liquidity from the market through operations for its absorption.

Against the background of a gradual decrease in regulators' discount rates, rates on the credit and deposit markets of the EAEU countries also decreased. Deposits in foreign currency tended to decline due to the preservation of positive interest rates on deposits in national currency, as well as a reduction in demand for loans in foreign currency and the formation of excess liquidity in foreign currency. The share of deposits in national currencies increased. At the same time, in conditions of low real incomes growth rates, high credit risks, prudential measures taken by the Central Bank to limit credit risks taken by banks, the growth rates of loans in the EAEU states were low.

Central Banks of the EAEU countries used non-traditional mechanisms to support economic activity. In order to maintain economic growth and expand lending to the real sector, the National Banks of Kazakhstan and Kyrgyzstan provided loans to commercial banks with preferential interest rates. In 2016, the Central Banks continued to adhere to the declared regime of a floating exchange rate and the refusal of the participation of the central bank in interventions. The Central Bank of Russia formally did not conduct currency interventions, but carried out currency RE transactions to regulate the demand for foreign currency. At the same time, the Central Bank of other states of the EAEU allowed entering the market with interventions. In the case of Kazakhstan, they were episodic. Interventions in Armenia and Kyrgyzstan were used by central banks to smooth out sharp fluctuations in the exchange rates of national currencies.

Thus, as can be seen, along with the existence of prerequisites for strengthening the integration of the EAEU countries, significant differences remain, including the financial and banking sphere, restraining the possibility of convergence of approaches to the harmonization of the key parameters of the monetary policy.

According to the research, the problems of high dollarization, inflationary and devaluation expectations, poorly developed financial sector, the existence of a shadow economy, dependence on remittances of labor migrants and shocks in foreign markets impede the implementation of an effective monetary policy in the EAEU countries. Accordingly, without the elimination of these barriers, the possibilities for harmonizing the monetary policy of the EAEU member states remain limited.

As the National Bank of Kazakhstan notes, the countries took decisive steps to strengthen the foundations of the macroeconomic policy. In the area of monetary policy, most of the member states of the EAEU have passed or announced the transition to an inflation targeting regime in conducting monetary policy. During 2015-2017, the elements of the new regime were implemented. In connection

with the transition to a new policy regime, central banks announced quantitative inflation targets and the intentions of monetary authorities to achieve these targets [8].

This conclusion is very favorable for using close target inflation targets within the framework of the EAEU in order to coordinate the monetary policy of the member countries.

**Discussion.** As a consequence, the following measures can be proposed:

- reduction of inflation in the EAEU member countries to the established target level and its subsequent maintenance within the established target;

- decrease in the level of dollarization;

- Improving coordination of fiscal and monetary policy in the EAEU member states;

- creation and use of special funds with the purpose of rendering support to the partner state of EAEU experiencing financial problems;

- cooperation for development - the creation (or expansion of use) of international financial organizations in order to promote economic well-being in less developed member states, promote regional integration and expand trade between participating countries.

Without progress in these areas, the possibilities for coordinating monetary policy remain limited.

One of the important issues in the discussion of the strategy for the formation of a unified monetary policy by the member states of the EAEU is also the search for the most optimal tools for further use and their indicators. So, it is necessary to determine the indicator that will be used under the concept of refinancing rates (key rate) - for the participating countries it has different meanings.

The size of the required reserves also need to be determined, but it must be borne in mind that the requirements to them have a direct impact on the stability of national banking systems.

Another important factor of influence on credit markets is direct quantitative restrictions on bank operations, as the level of development of banking systems in countries varies significantly and can give a competitive advantage to the banks of one of the member states of the EAEU. This issue will also be relevant in the process of discussing the strategy.

Within the framework of ensuring the formation of a single monetary policy to the member states of the Eurasian Economic Union and the Eurasian Economic Commission as the body responsible for regulating this integration association, it is necessary:

- to achieve the fulfillment of the basic macroeconomic indicators established by the agreement on the Eurasian Economic Union in order to ensure a certain level of integration processes within the framework of the integration association;

- to create special working groups consisting of representatives responsible for the monetary policy of national regulatory authorities;

- to conduct an in-depth study of the national monetary policy and identify key issues on its harmonization;

- to develop a system of indicative indicators that will allow to react in a timely manner to changes in the monetary and economic sphere with the aim of observing monetary policy;

- to harmonize national regulatory legal documents in the sphere of monetary policy;

- after the formation of a single financial market by 2025, all functions and powers should be transferred to a specially created supranational regulator in order to fully coordinate all issues in this area.

In general, it should be noted that despite the general similarity of monetary policies, each of them has significant differences that reduce the effectiveness of coordination of central banks.

When managing the process of forming a single monetary policy within the framework of the EAEU, it is necessary to build a model that will strengthen the development of the national credit markets of the countries of the Union, stimulating their interaction provided that the negative consequences of systemic risks are minimized.

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### **ЕАЭКЕЛДЕРІНДЕ МОНЕТАРЛЫҚ САЯСАТТЫ ҮЙЛЕСТІРУДІҢ ҚАЖЕТТІЛІГІ**

**Аннотация.** Монетарлық саясат және ақша-несиелік реттеудің теориялық және практикалық аспектілері дамыған елдер үшін де, сонымен бірге дамып келе жатқандары үшін де ерекше өзекті болып саналады және сәйкесінше көптеген пікірталастар туындатады. Практика жағына акцентті аудару немесе өтпелі экономиканың ерекшеліктерімен үйлестірілмей ақша-несиелік саясаттың тұжырымдамаларын қолдану жағымсыз салдарға алып келуі мүмкін. Біздің байқауымызша ақша-несиелік саясаттың мақсаттары және міндеттері туралы сұрақ, осы аумақта қайшылық және пікірталасты анықтайтын негізгілердің бірі болып табылады. Осымен байланысты келесімен келісу қажет, яғни «маңызды мәселелердің бірі мақсатты функцияны конфигурациялау болып саналады, оны шешпейінше ықпалды қаржылық-несиелік саясатты құру мүмкін емес. Бұл мақсатты таңдаудың, басымдықтарды анықтаудың және оларға жетудің кезектілігін таңдаудың бірінші деңгейдегі маңыздылығын білдіреді».

Жалпы алғанда келесіні ескеру қажет, яғни ақша-несиелік саясаттық жалпы ұқсастығына қарамастан, олардың әрқайсысы айтарлықтай ерекшеліктерге ие болады, ол сәйкесінше орталық банк қызметі үйлесімділігінің тиімділігін төмендетеді.

ЕАЭК аясында бірінші ақша-несиелік саясатты құру үдерісін басқару кезінде келесідей модель құру қажет, яғни ол жүйелік тәуекелдердің жағымсыз салдарын төмендету шарттары кезінде олардың өзара әрекетін ынталандыра отырып, Кеңес елдері ұлттық несиелік нарықтарының дамуын күшейтуі керек.

**Түйін сөздер:** монетарлық саясат, бағамдық саясат, ақша-несиелік саясаттың тәртібі, ақша-несиелік реттеудің құралдары, орталық банк.

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### **НЕОБХОДИМОСТЬ КООРДИНАЦИИ МОНЕТАРНОЙ ПОЛИТИКИ В СТРАНАХ ЕАЭС**

**Аннотация.** Теоретические и практические аспекты монетарной политики и денежно-кредитного регулирования как для развитых странах, так и для развивающихся были и остаются особо актуальными, вызывающими при этом множество споров. Перенос акцента в сторону практики или использование концепций денежно-кредитной политики без увязки с особенностями переходной экономики может иметь негативные последствия. Вопрос о целях и задачах денежно-кредитной политики, как мы уже замечали, выступает одним из исходных, определяющих разногласия и дискуссии в данной области. В этой связи следует согласиться, что «одной из важнейших проблем, без решения которой невозможно формирование действенной финансово-кредитной политики является конфигурация целевой функции. Это означает первостепенную важность выбора целей, определения приоритетов и очередности их достижения».

В целом следует отметить, что, несмотря на общую схожесть денежно-кредитной политики, каждая из них имеет существенные отличия, которые снижают эффективность координации деятельности центральных банков.

При управлении процессом формирования единой денежно-кредитной политики в рамках ЕАЭС необходимо построить такую модель, которая усилит развитие национальных кредитных рынков стран Союза, стимулируя их взаимодействие при условии минимизации негативных последствий системных рисков.

**Ключевые слова:** монетарная политика, курсовая политика, режимы денежно-кредитной политики, инструменты денежно-кредитного регулирования, центральный банк

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