

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Bachelor Thesis topic:

“Exchange rate as a determining factor of foreign economic activity: case study of the Republic of Kazakhstan”

Author: Vladislav Balaguta

Supervisor: Ing. Josef Abrham, Ph.D

© 2021 CULS Prague

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Vladislav Balaguta

Economics Policy and Administration

Business Administration

Thesis title

Exchange rate as a determining factor of foreign economic activity: case study of the Republic of Kazakhstan.

Objectives of thesis

Achieving the stability of the national currency has important value in the economy of countries, particularly, it ensures price stability and maintain the necessary volume of liquidity in the money market and increase the stability of banks' funding sources.

Objective of thesis is to analyze the exchange rate and reveal its value in international trade, international capital mobility, volatility and dollarization of the economy in the regulation of foreign economic activity and the conduct of monetary policy of Kazakhstan.

Methodology

The work consists of two parts. The theoretical part describes regularities in currency markets, including foreign exchange differences, which are a major problem in the implementation of foreign trade. The impact of the exchange rate is reflected in the price ratios of exports and imports, and this, in turn, causes changes in the domestic economic situation and adjusts the activities of firms working for export and / or compete with imports.

The second part is the practical part, that involves the exchange rate and foreign trade developments in the Republic of Kazakhstan.

The proposed extent of the thesis

35 – 40 pages

Keywords

exchange rate, Republic of Kazakhstan, export, import, PPP, Central Bank, Tenge, GDP, economics

Recommended information sources

Annual Report On Exchange Arrangements And Exchange Restrictions 2016 // International Monetary Fund. ISBN 9781498324571

Aslamov S. V. Currency operations and international settlements: Textbook / Chita: Chitgu, 2008. – ISBN 9785929303333

Currency regulation: a Methodological guide / T. Yu. Teplyakova. – Ulyanovsk: UISTU, 2008. ISBN 978-5-370-02515-0

Current problems of the global economy; Responsible editors: V. N. Pinchuk, I. N. Belova. 2018. – ISBN 978-5-209-08728-1

Dictionary of terms for the course "Finance, money and credit" / comp. V. V. Blekus. – electrical Insulator: GGPI, 2011. ISBN 978-5-7942-0846-7

"Handbook of Exchange Rates" – JESSICA JAMES, IAN W. MARSH, LUCIO SARNO, ISBN: 9780470768839

International monetary and credit relations / Mokeeva N. N., Kazak A. Yu., Veretennikova O. B. – ISBN 978-5-7996-1609-0

Money. Credit. Banks: a textbook / edited by V. F. Zhukov-M.: unity-Dana – ISBN 9781616350116

"The Economics of Exchange Rates" – Lucio Sarno – ISBN 9780511754159

Expected date of thesis defence

2019/20 SS – FEM

The Bachelor Thesis Supervisor

doc. Ing. Josef Abrahám, Ph.D.

Supervising department

Department of Trade and Finance

Electronic approval: 27. 11. 2020

prof. Ing. Luboš Smutka, Ph.D.

Head of department

Electronic approval: 29. 11. 2020

Ing. Martin Pelikán, Ph.D.

Dean

Prague on 29. 11. 2020

Declaration

I declare that I have worked on my bachelor thesis titled “Exchange rate as a determining factor of foreign economic activity: case study of the Republic of Kazakhstan” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 2021

Vladislav Balaguta

Acknowledgement

I would like to thank Ing. Josef Abrham, Ph.D and all other teachers from faculty Economics and Management.

EXCHANGE RATE AS A DETERMINING FACTOR OF FOREIGN ECONOMIC ACTIVITY: CASE STUDY OF THE REPUBLIC OF KAZAKHSTAN

Abstract

The exchange rate has significant impact in different aspects of all countries. The national currency is a symbol of independency and, at the same time, one of the key elements of economic policy.

An effective monetary policy is crucial in the context of globalization and its most important factor is the formation of global financial markets. It means that a stable national currency is a necessary condition for increasing the country's competitiveness and its active participation in the global economy.

The aim in this bachelor thesis is to evaluate, how exchange rate can effect on external and internal relationships of countries, especially in Republic of Kazakhstan.

Keywords: exchange rate, Republic of Kazakhstan, export, import, PPP, Central Bank, Tenge, GDP, economics.

MĚNOVÝ KURZ JAKO STANOVUJÍCÍ FAKTOR ZAHRANIČNÍ EKONOMICKÉ ČINNOSTI: PŘÍPADOVÁ STUDIE KAZACHSTÁNSKÉ REPUBLIKY

Abstract

Měnový kurz má významný dopad v různých aspektech všech zemí. národní měna je symbol nezávislosti a zároveň jedním z klíčových prvků hospodářské politiky.

Efektivní měnová politika je v kontextu globalizace klíčová a jejím nejdůležitějším faktorem je formování globálních finančních trhů. o znamená, že stabilní národní měna je nezbytnou podmínkou pro zvýšení konkurenceschopnosti země a její aktivní účasti na globální ekonomice.

Cílem této bakalářské práce je zhodnotit, jak může kurz ovlivnit vnější a vnitřní vztahy zemí, zejména v Republice Kazachstán.

Klíčová slova: směnný kurz, Republika Kazachstán, export, import, PPP, centrální banka, Tenge, HDP, ekonomika.

Table of content

Introduction.....	10
Chapter 1. Objectives of thesis and methodology	11
1.1. Objectives of the thesis.....	11
1.2. Methodology.....	11
Chapter 2. The theoretical basis of the study of the exchange rate and the mechanism of its formation	12
2.1 The economic content of the exchange rate and methods of its calculation	12
2.2 Forms of monetary policy	18
2.3 Theories of exchange rate formation.....	24
Chapter 3. The impact of foreign economic activity of the Republic of Kazakhstan on the exchange rate	26
3.1 The formation of the foreign exchange market of Kazakhstan and current trends in its development	26
3.2. The main tendencies in the development of foreign economic activity of the Republic of Kazakhstan	30
3.3. Research and forecasting of the exchange rate of the national currency of the Republic of Kazakhstan	35
Conclusion	42
References.....	44

List of figures

Figure 1: Factors, affecting the exchange rate

Figure 2: Currency convertibility

Figure 3: Inflation and expected inflation

Figure 4: Dynamics of net sales of foreign currency in cash by exchange offices

List of abbreviations

IMF:	International Monetary Fund
PPP:	Purchasing Power Parity
GDP:	Gross Domestic Product
MMT:	Modern Monetary Theory
CHEER:	Capital Enhanced Equilibrium Exchange Rate
ITMEER:	Intermediate Term Model Based Equilibrium Exchange Rate
OTC:	Over-the-counter (trading)
OPEC:	Organization of the Petroleum Exporting Countries
AERC:	Applied Economics Research Centre
KSP:	Knowledge Sharing Program
OECD:	Organisation for Economic Co-operation and Development
CIT:	Corporate Income Tax
VAT:	Value Added Tax

Introduction

Nowadays money is the main connecting element of market relations which stability and sufficiency largely determine the efficiency of the reproduction process in the economy. Therefore, in all countries, the government intensively influences the exchange rate of the national currency; try to keep it at the permissible level for the objectives of economic policy. Money is a connecting link that makes it possible to build relations between different States. The trend of trade has been spreading since ancient times and it has developed incredibly, if we talk about the globalization of the market as a whole. At the present time, the country cannot get along without market relations, which means that it must follow the cooperative path of global development of market relations, follow a clearly built path consisting of clearly regulated laws.

The value of the exchange rate plays a significant role for the country's economy, as the currency is a key element of the monetary system of the country and the world as a whole.

“It would be hard to overstate the importance of exchange rates for the world economy. They affect output and employment through real exchange rates. They affect inflation through the cost of imports and commodity prices. They affect international capital flows through the risks and returns of different assets. Exchange rate are justifiably a major focus for policymakers, the public, and, of course, the media” – Handbook of Exchange Rates (2012).

Kazakhstan's currency Tenge has been introduced on 15.11.1993 after 2 years of the collapse of Soviet Union. Tenge is the youngest currency in Commonwealth of Independent States. The tenge exchange rate has changed significantly over the past 17 years for a variety of reasons, since the Tenge is a dependent currency.

Chapter 1. Objectives of thesis and methodology

1.1. Objectives of the thesis

Achieving the stability of the national currency has important value in the economy of countries,

particularly, it ensures price stability and maintain the necessary volume of liquidity in the money market and increase the stability of banks' funding sources.

Objective of thesis is to analyze the exchange rate and reveal its value in international trade, international capital mobility, volatility and dollarization of the economy in the regulation of foreign economic activity and the conduct of monetary policy of Kazakhstan.

1.2. Methodology

The work consists of two parts. The theoretical part describes regularities in currency markets, including foreign exchange differences, which are a major problem in the implementation of foreign trade. The impact of the exchange rate is reflected in the price ratios of exports and imports, and this, in turn, causes changes in the domestic economic situation and adjusts the activities of firms working for export and / or compete with imports. The second part is the practical part that involves the exchange rate and foreign trade developments in the Republic of Kazakhstan.

Chapter 2. The theoretical basis of the study of the exchange rate and the mechanism of its formation

2.1 The economic content of the exchange rate and methods of its calculation

The exchange rate showed up spontaneously in the VII century. BC, when metal money and the first international trading operations appeared.

According to the modern interpretation of the essence of money, they represent the general value equivalent, which reflects the value of any goods sold on the market.¹ Each currency, which we could evaluate, by cash and non-cash national, foreign and international monetary units has its own measure of value, expressed in certain benefits - tons of grain, ounces of gold, barrels of oil, etc. If in ancient time 100 drachmas were given for one bag of grain, and at the same time for 50 staters (ancient coin) were sold for the same bag of grain, then the rate of stater to drachma was 2.²The ratio of the value of different money relative to each other makes up the exchange rate.

In Ancient Greece, 1136 cities had their own currency so trade between them was difficult. That is why moneychangers appeared, which implemented the first currency exchange operations.

The currency exchange market was changing during the development of international trade relations. The appearance of international monetary systems largely determined the exchange rate. The Paris currency system fixed gold as a general resource of payment, and the difference in exchange rates of different countries was the difference in the weight of coins. The exchange rate by the Genoese currency system was calculated by the correlation of one state to gold and several currencies of other states (about 30 currencies), converted into gold. During the Bretton woods system, the exchange rate of national currencies was fixed based on their exchange rate against the British pound sterling and the American dollar, which in turn could be exchanged to gold. The establishment of the Jamaica Accords led to the demonetization of gold and the ability to set exchange rates spontaneously based on their supply and demand in the international market.

¹ Money. Credit. Banks: a textbook / edited by V. F. Zhukov-M.: unity-Dana

² Numismatic dictionary / Zvarich V. V.-Lviv: Publishing Association "Vyscha SHKOLA»

One of the main factors, affecting the exchange rate is inflation. Therefore, it is not always easy to determine which factors affect the exchange rate, since there are a lot of them, and they all act simultaneously. Figure 1 shows the factors affecting the exchange rate.

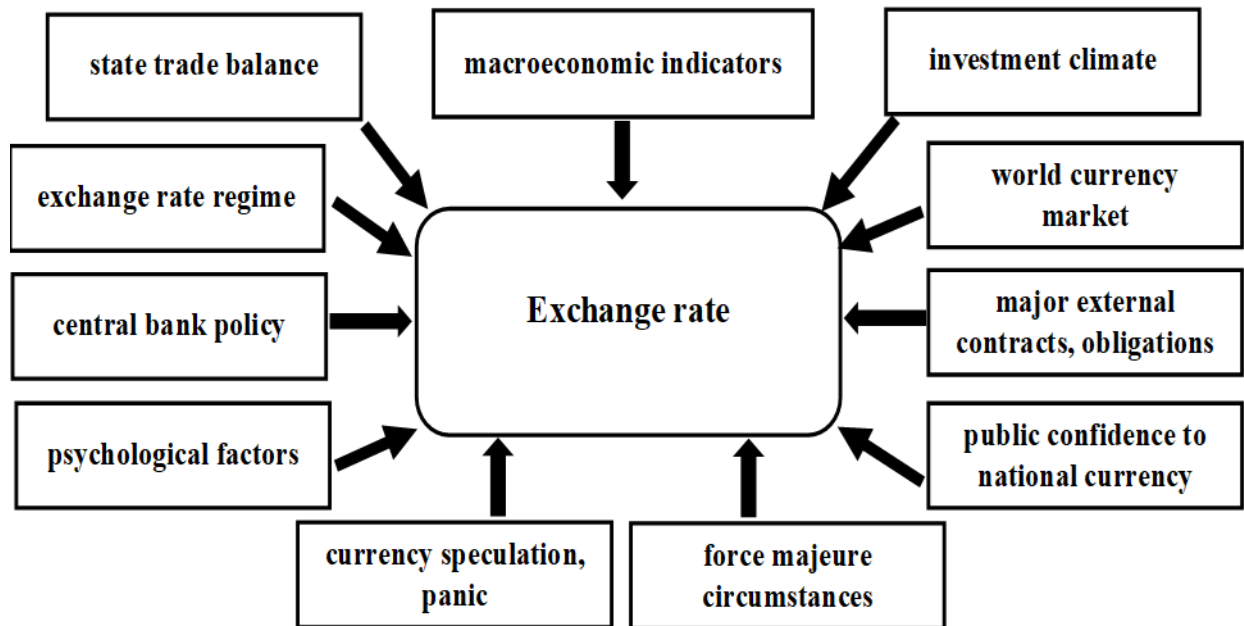


Figure 1 – Factors, affecting the exchange rate³

According to Figure 1, it can be seen that the exchange rate is influenced by many factors, such as: state trade balance (export and import), macroeconomic indicators (GDP, inflation, unemployment), investment climate (the share of investment in fixed assets in GDP), exchange rate regime (floating and fixed exchange rates), policy of the central bank (monetary emissions; foreign exchange interventions; key rate; operations with debt obligations; administrative measures), psychological factors (statements by the president, ministers, representatives of the highest authorities; statements by heads of central banks, reports of their meetings; forecasts of leading analysts (domestic agencies); sentiment in the foreign exchange market associated with the expectations of certain events), the global foreign exchange market (the dollar is growing all over the world), major external contracts and obligations (export contracts, debt flows under international obligations - the national currency is growing; import contracts, debt payment under international obligations - the

³ International monetary and credit relations / Mokeeva N. N., Kazak A. Yu., Veretennikova O. B.

national currency is falling), public confidence in the national currency (the national currency increases when the population trusts it and stores its savings in it, there is no demand for foreign currency), currency speculation, panic (the national currency exchange rate falls), force majeure circumstances (war, military operations; major terrorist attacks; powerful natural disasters; change of president, government, ruling party; revolutions, mass strikes, protests; political scandals).

Currency convertibility is a feature for free exchange. A currency is convertible if residents and non-residents get the opportunity to exchange it without any obstacles to another currency in unlimited quantities or bank metals. This is the connection of the domestic market with the world through a flexible exchange rate set for the national currency in the conditions of existing freedom of trade. In conditions of the gold standard, convertibility is absolute. In different working conditions of the international system, this concept can be characterized as relative, which appeared in the process of direct or indirect exchange of a specific currency of a specified country for the money of other states, but not for gold. Due to this reversibility, there is a huge turnover of capital and goods in the world. Free convertibility of currencies is the absence of restrictions on the performance of various operations on current accounts and also on a variety of operations that are directly related with the movement of any amount of capital. In this case, the authorities do not set separate restrictions for non-residents (foreigners) and residents of the state.

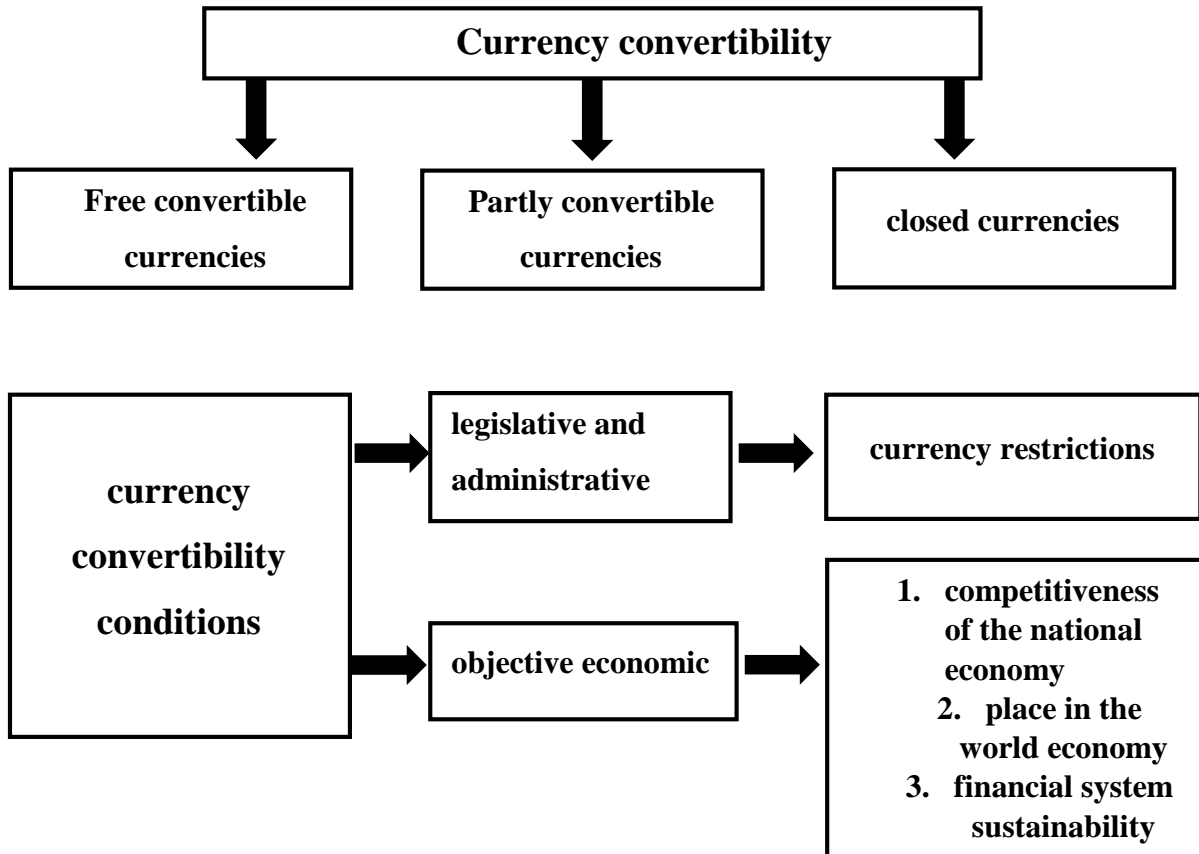


Figure 2 – Currency convertibility⁴

There are two types of currency convertibility – full and partial (with different conditions).

Full convertibility is a guarantee of the absence of any restrictions for national or foreign owners of capital to import it into the territory of the country, transfer abroad at any time, and use it when performing various international and national accounts.

Talking about partial convertibility there can be certain limitations. The range and variety of such restrictions is quite large - it can be individual countries, goods, types of settlements, business entities.

In 1958, there were imposed restrictions on non-residents in Western European countries. Foreign citizens could perform various operations, and national individuals / legal persons were prohibited to do it. It is an **external** (non-resident) convertibility.

⁴ International monetary and credit relations / Mokeeva N. N., Kazak A. Yu., Veretennikova O. B.

Partial **internal** convertibility of a currency is the creation of a situation where national holders (residents) can easily import / export money, to buy foreign currency completely free, without setting any restrictions.

Talking about capitals from current operations (tourism, foreign trade, etc.), convertibility is called commercial. In addition, partial convertibility is often observed within the currency zone, when mutual exchange is allowed only for the countries entering the zone.

The exchange of the national currency provides such benefits for the country: freedom of choice of profitable purchase/ sales markets, expanding the ability to attract investments from abroad, making profitable investments in other countries, stimulating competition for the work of enterprises, performing international accounting in the national financial unit, specialization in industry, etc.

The main condition that contributes to the insertion of convertibility of a financial unit is the balance of current payments of the state. The country should not have a deficit of balance of payments (payments abroad should not be larger than payments from abroad). It is also important to ensure the free movement of goods, determine the level of costs under the impact of supply and demand. A serious factor is the real exchange rate indicators that demonstrate the cost conditions, ratios and proportions of the exchange.

Performing all conditions, it is possible to talk about the full convertibility of the national currency, which is characteristic of more highly developed countries, which occupy a dominant role in the global money, commodity and capital markets. Even though volatility does not directly lead to financial well-being, such countries have a stable foreign trade turnover and supply the larger half of goods to the world market. Together, all this contributes to the high development of the economy.

In general, there are three methods for quoting a currency:

1. Direct quotation;
2. Indirect (reverse) quotation;
3. Cross quotation;

The nominal rate is the relative price of the currencies of two countries. It signifies the price of a unit of foreign currency in units of national currency:

$$e = E_d / E_f, \quad (1)$$

Where e is a nominal exchange rate, E_d – number of national currency units, E_f – units of foreign currency.

The real exchange rate can be calculated through the nominal exchange rate using the following formula:

$$RER = e * P_f / P_d, \quad (2)$$

Where RER – real exchange rate, e – nominal exchange rate, P_f -external price index, P_d - domestic price index.

The real exchange rate depreciation occurs as a result of an increase in domestic prices relative to external prices, or an increase in the nominal exchange rate. It may lead to a rise in the cost of production of the country's export sector compared with the export sector of the outer world. As a result, resources and capital transfer to other countries, which is explained by a higher rate of profitability of production in the outside world compared with production in the country itself. For this reason, besides applying the concept of the real exchange rate, economists also use the concept of the internal real exchange rate. It measures the internal competitiveness of the export sector and it is calculated as the ratio of the prices of export (mainly industrial sector) and non-export (mainly capital construction, services) goods.

$$IRER = I_T / I_{NT}, \quad (3)$$

Where $IRER$ – internal real exchange rate, I_T – costs of exporting goods, I_{NT} – costs' level of non-exporting goods.

The exchange rate is a numerical expression of the monetary unit's value of one currency in monetary units of another currency, which affects the national economy and its individual components. Its occurrence was generated by the emergence of metallic money and world trade. Over time, its value basis has changed from the metal content of gold and silver in

coins to the number of goods and services contained in the nominal value of the monetary unit (purchasing power).

2.2 Forms of monetary policy

In recent years, there has been significant interest in studying the course of national currencies. National currency rates are included in the list of variables that are measured as the most important elements in the process of ensuring equilibrium in the country's domestic and foreign economic activity.

The exchange rate of the national currency is becoming an even more important factor for the economies of countries with small open and developing economies, because large structural changes are taking place in the economies of these countries. These changes are reflected in the behavior of the currency exchange rate, and fluctuations of it, in turn, have an unfavorable effect on both internal and external economic relations.

In the system of modern economic relations exchange rate policy can be defined as a set of measures implemented in the international monetary sphere and in the field of other economic relations (in accordance with the current and strategic goals of the country). Foreign exchange policy is a significant part of the country's monetary policy, which is aimed at the realization of the strategic goals of economic policy, such as ensuring the stability of economic growth, reducing inflation, maintaining the balance of payments, etc.

In this way, monetary policy plays an important role on the path of the country's economic integration into the international economy, since the exchange rate of the national currency makes it possible to strengthen the relationship between the domestic and world markets.

Therefore, the validity of monetary policy and its compliance with other economic policies is a necessary condition for the development of any country.

Monetary policy goals in General traditionally include price stability, prevention of financial crises, and stabilization of exchange rates and interest rates. Note that not all goals are

compatible with each other. For example, the goal of price stability cannot be carried out in parallel with the stabilization of the exchange rate and the interest rate.⁵

The current situation in the world shows that one of the most popular regimes of maintaining price stability is inflation targeting. In contrast to targeting the exchange rate and money supply, which indirectly support a low level of inflation, in this regime the management and regulation of inflation is directly implied. Despite different interpretations of the definition of inflation targeting in the literature, there are two basic components of this mechanism:

1. Inflation Targeting is one of the ways to increase confidence in the country's Central Bank and create clearer inflation expectations. The population is aware that the direction of monetary policy is to maintain inflation at a low level. In addition, the target for annual inflation is more transparent and clear in comparison with others. Therefore, the policy regime under consideration contributes to a more specific understanding and assessment of the country's economic situation than some more complex and opaque mechanisms.
2. Inflation targeting assumes a relatively lower cost if it fails in its implementation. For example, by comparing with exchange rate targeting, the losses from exchange rate targeting can be significant. It includes a strong reduction in foreign exchange reserves, the financial crisis and high inflation. With unfulfilled targeting inflation the expenses will be, primarily, the level of inflation itself, as well as, probably, a decrease in the value of economic growth.

The Central Bank has a responsibility to achieve a predetermined amount of the inflation rate. In addition, this goal is inherently superior to other goals. The process of forecasting the value of inflation becomes an intermediate goal of the Central Bank. Due to the rigidity of prices and wages in the short term, the effect is actually on the expected future level of inflation. The expected value is adjusted by performing operations on the money market.

This type of monetary policy does not imply a strong level of discretion, which can cause restrictions on economic growth. Since it includes the reputation of the Central Bank, success depends on whether the regulatory body is able to build its actions convincingly and consistently

⁵ Annual Report On Exchange Arrangements And Exchange Restrictions 2016 // International Monetary Fund

in achieving its goals. In other words, the Central Bank must show that its obligations to maintain the inflation target are fulfilled through tangible actions. At the first stage of using this mechanism, such a demonstration may lead to quite aggressive measures. Therefore, there is a restriction on policy discretion - the Central Bank is not able to implement policies that contradict the main goal, which leads to a slowdown in economic growth.

There is an opinion that in countries where historically there was a low level of confidence in the Central Bank, the application of this regime will not help to achieve a sufficient level. This is due to the relative freedom to choose the time and ways to change the level of inflation if it deviates from the targeted value, as well as the possibility of making adjustments to forecasts. This type of policy can cause excessive exchange rate volatility, since the Central Bank's main goal is the rate of inflation, not the exchange rate.

The inflation targeting regime may not be successful in countries that do not fit into a certain set of conditions. This is often the case in developing countries. These conditions include:

1. Trust in the actions of monetary authorities.
2. Lack of priority of fiscal policy.
3. Public announcement of medium-term values of the target inflation rate.
4. Availability of developed models of the monetary policy transmission mechanism with high predictive capabilities.
5. High degree of independence of the Central Bank.
6. The floating of the national currency.
7. The ability of monetary authorities to model and analyze the dynamics of inflation.
8. Developed financial and banking systems.
9. Classification of exchange rate regimes.

Today, the choice among possible currency regimes is quite wide. These include fixed, controlled and free-floating currencies. In the latter case, the exchange rate is an exogenous variable for the Central Bank and is fully determined in the market. The class of fixed modes includes the fixed exchange rate itself, as well as its modifications: crawling pegs and currency bands. Controlled exchange rates are also divided into direct and indirect regulation.

With direct regulation, the Central Bank has an obvious goal for the exchange rate, for which it takes an active part in the foreign exchange market by conducting interventions. In this case, the exchange rate depends on the decisions of the regulatory body. It should be noted that, in this case, currency interventions are completely sterilized, so that operations with the purchase/sale of currency do not affect the interest rate. In the second case, the Central Bank controls the exchange rate by changing the interest rate (this type is called "dirty float"). Note that the regulatory body only affects the fundamental component of the exchange rate, allowing the market to perceive new information independently. In this mode, the strategy does not include the implementation of foreign exchange intervention in the market. However, in the case of such operations, currency interventions are not sterilized, since changing the interest rate is the goal of interventions. Each mode has its own advantages and disadvantages. Conducting a float rate of exchange, the exchange rate is an absorbent of external shocks and, therefore, it contributes economic stability and protects it from negative external trends, providing monetary policy with the opportunity to be independent. Under this regime, the regulator faces internal balance issues, while the external balance is taken care of by the exchange rate. Regarding the stability of the economy in free navigation, we can add the following. Under this regime, it is possible to achieve the levels of inflation and unemployment that the Central Bank sets as targets. Therefore, this regime, without importing inflation from abroad, provides protection from unrest in world markets and provides an opportunity to conduct an independent monetary policy. In every open economy, the regulator faces a serious challenge in choosing the monetary policy regime.

After the collapse of the Bretton woods system, many scientists and politicians made a conclusion of adopting a floating exchange rate. The United States switched to a floating exchange rate in 1971 from pegging its currency to gold. Note that the first country among the developed countries that began to accept floating rate of exchange was Canada. This happened back in 1949. The US was followed by most developed countries. Few countries have chosen a floating exchange rate; however, even developed countries have decided to switch it to a managed or dirty floating scheme to reduce market volatility trends. However, these countries have tried to match their local currency with some of the country's base currency (mainly the US dollar, but also the French franc or British pound). An example is "Snake in the Tunnel".⁶ This was an attempt by European monetary cooperation to limit

⁶ Aslamov S. V. Currency operations and international settlements: Textbook / Chita: Chitgu, 2008.

currency fluctuations among its member countries and eventually create a single currency. The mechanism involved managing the volatility of countries' currencies within a narrow corridor against the US dollar.

In general, in addition to the rejection of US dollar parity, the new model implied a broad process of opening a capital account. Moreover, it is not surprising that the new environment pushed the economic authorities to restrictions dictated by the so-called monetary trilemma, or in other words - the "Impossible Trinity". This term refers to the inability to achieve the three contradictory but desirable goals of maintaining an independent monetary policy (to achieve national monetary policy goals) and a fixed exchange rate (to help stabilize trade and growth) while freeing up capital flows (for optimal resource allocation).

According to the trilemma, a small open economy cannot simultaneously achieve all three of these policy goals: in pursuing any two of these goals, it must abandon the third. For example, if a country has an independent monetary policy along with open financial markets, it will also have a flexible exchange rate. Similarly, if the exchange rate in a given country is maintained at a stable level, such a system will be financially closed. In the absence of restrictions on capital flows, policy makers are caught between two rigid alternatives: a «pegged» exchange rate with interest rates determined either by the market or by an independent monetary policy along with a flexible floating exchange rate. In theory, a fixed exchange rate is more optimal when shocks are nominal. When both floating regimes are more appropriate when shocks are real. However, both schemes have shown their shortcomings, and neither of them can be considered ideal for developing countries' economies. Nevertheless, back in the late 80's and early 90's, the fixed scheme gained enthusiasm in academic circles such as the IMF. However, in the mid-90s, this interest suddenly disappeared, and politicians were more supportive of flexible regimes - which was largely pushed by the IMF.

Though, the theory does not exclude that national governments can act in the middle area, as has been empirically observed since the 1970s. Over the past decade, most developing countries have converged towards this middle focus, as policymakers have maintained

moderate levels of monetary policy and financial openness while maintaining higher exchange rate stability.⁷

It is possible to reformulate the above-mentioned "problem" in the following way. Three goals cannot be achieved simultaneously: exchange rate stability, integration of capital markets, and independence of monetary policy. Any two of these components can be implemented by implementing a specific policy, but this requires the abandonment of the third goal. For example:

1. The Goal of achieving free conversion of the national currency and stability of the exchange rate can be achieved by implementing a fixed exchange rate policy. Nevertheless, to achieve this result, the regulator will need to abandon an independent monetary policy. In this case, the Central Bank's interest rate policy will be aimed at maintaining a fixed exchange rate, rather than achieving equilibrium in the domestic market.
2. In addition, the stability of the exchange rate can be achieved with the independence of monetary policy, but then it is obvious that it is impossible to fulfill the condition of free currency convertibility. If there are significant restrictions on the capital market, the relationship between the interest rate and the exchange rate is broken.
3. Free convertibility of the currency and independence of monetary policy can be implemented through a policy of free-floating exchange rate. In this case, there will be exchange rate volatility. The interest rate can vary freely depending on the actions of the Central Bank, which is focused, for example, on reducing the level of inflation, but the exchange rate, nevertheless, will be formed by the market.

⁷ Currency regulation: a Methodological guide / T. Yu. Teplyakova. - Ulyanovsk: UISTU, 2008.

2.3 Theories of exchange rate formation

Purchasing Power Parity (PPP) is the ratio of currencies of different countries, determined by their purchasing power relative to a certain set of goods and services. PPP also refers to the conditional exchange rate of two or more currencies based on their purchasing power.⁸

Official exchange rates differ from theoretical parity rates due to existing restrictions on the movement of money and goods, transport costs, fixed exchange rate policies (in some countries), etc. The basic purpose of the PPP concept is to allow more adequate comparison of personal consumption parameters in different countries than official exchange rates. At the same time, the most popular use of PPP is calculating of absolute indicators and indicators per capita GDP. However, to determine the parity exchange rate in the case of GDP, it is necessary to take into account the difference not only in the cost of goods and services consumed by households, but also in government expenses, capital investment and other components of GDP.

Purchasing Power Parity can only be estimated due to its theoretical nature. International organizations use special complex methods for this purpose, including those with long periods of data collection and processing, so PPP is usually calculated only at the annual level and with a strong actual delay. The most widely used series are PPP estimates from the World Bank and the IMF. At the same time, there are simpler, but indicative methods for comparing the purchasing power of different currencies, such as the "Big Mac index", calculated by the international publication the Economist. PPP is used to estimate the comparable price level or the ratio of PPP to the US dollar exchange rate as a percentage. Thus, in the USA, it is equal to 100, and the rest of the countries can be divided into "expensive" and "cheap", which is important, for example, for international tourists. Therefore, Kazakhstan is a "cheap" country (the parity rate is less than the average annual official rate), which was further strengthened by the devaluation of the national currency.

Interest rate parity is a theory in which the difference of interest rates between two countries is equal to the difference between the forward exchange rate and the spot exchange rate. Interest rate parity plays an important role in currency markets, linking interest rates, spot

⁸ Dictionary of terms for the course "Finance, money and credit" / comp. V. V. Blekus.: GGHI, 2011.

exchange rates, and foreign exchange rates. Interest rate parity is the idea that there is no arbitrage in currency markets. Investors cannot fix the current exchange rate in one currency at a lower price and then purchase another currency from a country offering a higher interest rate. Interest rate parity is covered if a non-arbitrage condition can be satisfied by using forward contracts in an attempt to hedge currency risk. In opposite interest rate parity is considered to be disclosed when a non-arbitrage condition can be satisfied without using forward contracts to hedge currency risk.

The relationship can be seen in two methods that an investor can take to convert a foreign currency into US dollars. One option that an investor can take is to invest foreign currency locally without a foreign risk-free rate for a certain period of time. The investor then simultaneously entered into a forward rate agreement to convert the investment proceeds into US dollars, using the forward exchange rate, at the end of the investment period. The second option is to convert the currency to US dollars at the spot rate, then invest dollars for the same period of time as in option 1, at the local risk-free rate. When there are no arbitrage opportunities, the cash flows from both options are equal.

Modern Monetary Theory or MMT is a monetary theory of the post-Keynesian School. The basis of the theory is the modern monetary system. It is MMT that most accurately describes what modern money is, how it is created and participates in economic life.

The main tool, or model, of the theory is the balance approach. In other words, this is an accounting analysis of the economy based on the principle of double entry. In the language of theory, this is an analysis of stocks and flows (stock-flow consistent approach) and sectoral balances, which consider the cash flows and financial balances of different sectors of the economy.

Using knowledge of the modern monetary system and the balance sheet approach, the theory draws its conclusions and offers recommendations for macroeconomic policy. These conclusions and recommendations are sometimes the opposite of what the mainstream economics prescribes. Because the mainstream comes from a different coordinate system and it is often far from reality in understanding the laws of the monetary system and in building

their models. No wonder, that the MMT's conclusions and recommendations are subjects for criticism from the mainstream.

To manage the economy, MMT suggests using fiscal policy more actively, influencing both aggregate demand and aggregate supply through budget expenditures and taxes. Monetary rate management methods are less effective in achieving full employment and the required inflation.

The CHEER (Capital Enhanced Equilibrium Exchange Rate) model, the initial idea of which put forward by economist R. MacDonald in 1997-2000, makes it possible to estimate the real exchange rate, taking into account the possible effects of macroeconomic indicators in the short and long term. The essence of this model is that if purchasing power parity can be used to explain long-term changes in the real exchange rate, then its short-term fluctuations are determined by changes in the interest rate. In other words, it is based on the theory of purchasing power parity in terms of uncovered interest rate parity.

Another modern model of the monetary approach of the currency exchange rate is ITMEER (Intermediate Term Model Based Equilibrium Exchange Rate). This model also focuses on the idea of uncovered parity of nominal interest rates, taking into account the amount of possible compensation for foreign currency risk. You can also use ITMEER to make short-term forecasts of exchange rate changes.

Chapter 3. The impact of foreign economic activity of the Republic of Kazakhstan on the exchange rate

3.1 The formation of the foreign exchange market of Kazakhstan and current trends in its development

According to the statistics Committee of the Ministry of national economy of the Republic of Kazakhstan, in June 2020, inflation was 0.4% (in June 2019 – 0.2%).⁹ Annual inflation was at the level of 7.0% (in December 2019 at just 5.4%). In the structure of inflation, prices

⁹ Borzenko E. A. Imperatives of the development of financial markets in post-socialist countries. Economic Bulletin of the University. No. 43.

for food products in annual terms increased by 11.1%, non-food products-by 5.4%, paid services-by 3.0%.¹⁰ In June 2020, the quantitative estimate of inflation expected in a year according to the results of the population survey was 5.4%.

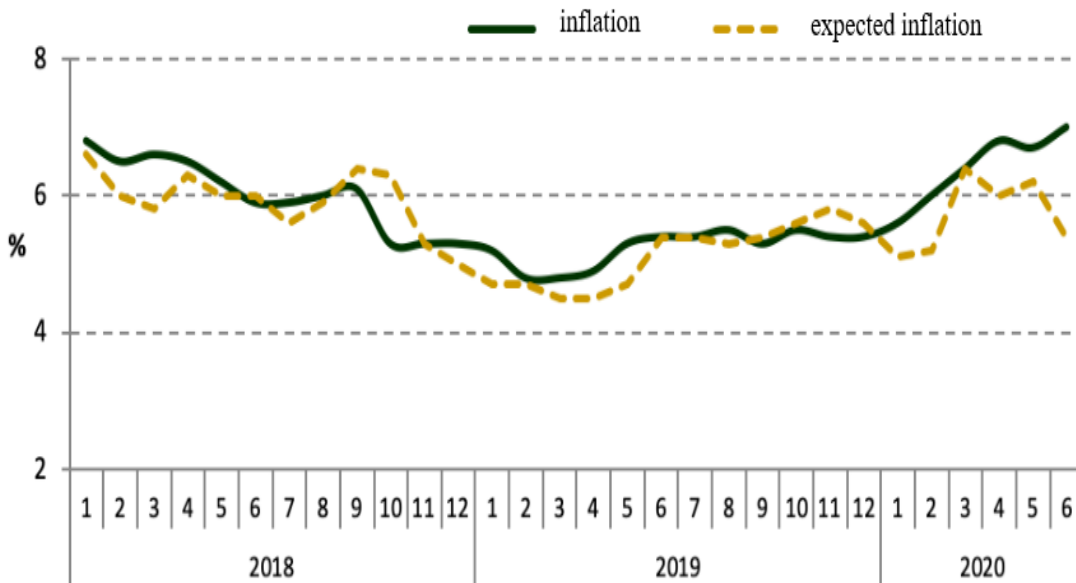


Figure 3 - Inflation and expected inflation¹¹

In June 2020, the exchange rate of tenge changed in the range of 397.27 to 408.56 tenge per us dollar. At the end of June 2020, the exchange rate of tenge to the US dollar was 404.07 tenge per us dollar, having strengthened by 1.8% over the month.

The total volume of operations on the tenge – US dollar currency pair for the month amounted to 11.3 billion US dollars, including the volume of exchange trading on the Kazakhstan stock exchange – 2.1 billion US dollars, the volume of operations on the OTC currency market – 9.2 billion US dollars. In the total volume of operations on the OTC market, the share of one subsidiary Bank was 78.8% or \$ 7.2 billion (in May 2020-72.4% or us \$ 5.3 billion), which was due to its own capital hedging against currency risks. These operations are carried out within the banking group and do not affect the ratio of demand or supply of foreign currency in the domestic currency market.

In June 2020, the population bought on a net basis cash foreign currency in the amount equivalent to 193.4 billion tenge (in May 2020-146.2 billion tenge). The main amount of expenses was spent on the purchase of US dollars-73.2% or 141.5 billion tenge, Russian rubles-20% or 38.6 billion tenge, euros-6.6% or 12.7 billion tenge. Compared to the previous

¹⁰ Cui TS. Historical background and significance of the "one belt, one road" initiative. The student Bulletin.. No. 46-5

¹¹ Mukhametshina G. S. Cooperation of Russian regions with the EAEU countries (on the example of the republic of Tatarstan and Kazakhstan).

month, these expenses increased by 32.2%. By currency type, spending on buying US dollars increased by 29.8%, spending on buying Russian rubles-by 30.8%, and spending on buying euros-by 1.7 times.¹²

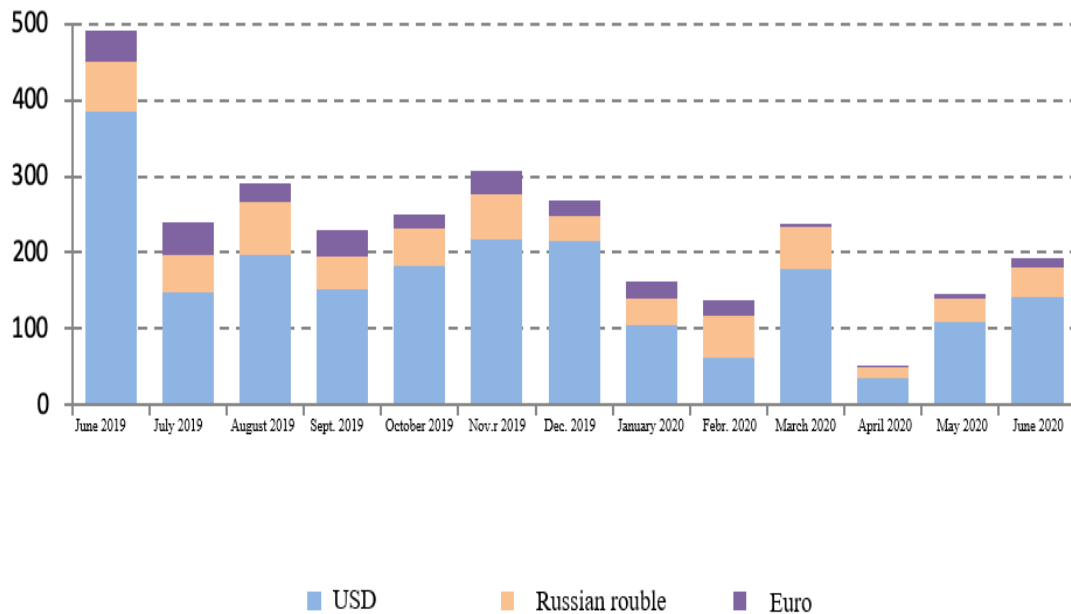


Figure 4 - Dynamics of net sales of foreign currency in cash by exchange offices, billion tenge¹³

Restrictive measures, not always predictable, caused by the current epidemiological situation, certainly affect economic activity, and with a negative effect, and require periodic adjustment of forecasts.

Various international institutions and rating agencies give different forecasts for the growth of the economy of Kazakhstan by the end of 2020. For example, in the updated IMF and World Bank surveys, the country's GDP will be reduced by 2.7% and 3%, respectively. The Asian Development Bank estimates losses at 1.2%, while experts believe that the country's economic growth will decrease by only 0.5% compared to the previous year.

At the same time, the government of Kazakhstan has not yet revised its April forecasts for the dynamics of the country's GDP development and left it unchanged – minus 0.9%, which is nevertheless a record figure for the last 22 years.¹⁴

¹² Turakhankyzy A., Baltabekova Zh. U., Kupeshova B. K. Influence of the main macroeconomic factors on the high interest rate of loans in banks of Kazakhstan.

¹³ Turakhankyzy A., Baltabekova Zh. U., Kupeshova B. K. Influence of the main macroeconomic factors on the high interest rate of loans in banks of Kazakhstan.

¹⁴ Tyulebekova D., Onuchko M., Marmontova T. The importance of forming common markets for gas, oil and petroleum products of the Eurasian economic union for the republic of Kazakhstan; 2019.

One of the main factors in the development of Kazakhstan's economy is the situation on the oil market. At the end of 2019, the country produced the maximum volume of oil and gas condensate – 90.6 million tons. For the current year, this figure was initially supposed to be 86 million tons. However, Kazakhstan's participation in the collective reduction of oil production under the new OPEC+ agreement will reduce production this year to 84.9 million tons. According to AERC's expectations, taking into account the pandemic situation, and most importantly-the agreements within OPEC+, Brent quotes will average \$40.5 per barrel over the year. *“According to various estimates, in April, global oil consumption against the background of the global coronavirus quarantine fell by 20-30 million barrels per day – more than ever in history. And according to some forecasts, the decline in oil consumption may continue”* - opinion of Olzhas Tuleuov, economist and managing Director of AERC.

Against the background of the expected drop in production in oil production, which will provoke a decline in the oilfield services and other industries and transport, the emerging downward trend of investment growth in fixed assets will continue this year. According to AERC estimates, the growth in fixed capital investment at the end of the year will be around 0.1%, becoming the lowest value since 2010.

The average annual exchange rate of the US dollar to tenge (USD/KZT) will be at the level of 417.6 tenge, demonstrating a weakening of the national currency by 9.1% compared to 2019. The current forecast of the national currency exchange rate was improved compared to the April forecast, which predicted a weakening of the tenge against the US dollar by 11%. The strengthening of the tenge was primarily seriously affected by the forecast increase in Brent oil prices-from \$37 to \$40.5 per barrel.

Taking into account the initial basic assumptions, the trade balance of Kazakhstan by the end of 2020 will be positive: the excess of imports of goods over exports of goods will amount to \$6.8 billion. Traditionally negative balance of services of Kazakhstan up to 2020 will be reduced relative to last year from \$3.7 billion to -\$1.9 billion decline in services exports by 5.2% to the previous year, while the reduction of import of services - by 19.0%.

3.2. The main tendencies in the development of foreign economic activity of the Republic of Kazakhstan

Russia and the CIS countries remain one of the main directions of Kazakhstan's foreign policy activities, as a single socio-economic complex, ethno demographic structure, cultural and informational, educational, and scientific space, which were formed over the decades during the Soviet Union, have a decisive influence on the entire internal life of Kazakhstan. In particular, Kazakhstan and Russia, due to numerous economic, political, ethnic, linguistic, demographic, religious, and geographical reasons, are extremely «interconnected» States. Both Akorda and the Kremlin describe their relations as a strategic partnership based on mutual trust, respect for the national interests of both countries, stability and security at the regional and international levels, economic cooperation and political dialogue. In all these areas, Kazakhstan and Russia have similar positions¹⁵. Both countries are also in solidarity in their strategic vision of the future, since the key aspects of the development Strategy of Kazakhstan until 2030 and the Russian development strategy until 2020 overlap, and the vectors and dynamics of ongoing political and economic reforms largely coincide. According to experts, the interests of both countries, especially in economic terms, may not coincide, but they can be resolved through a constructive dialogue, taking into account mutual interests. At the present stage, there is a pragmatic interaction between Kazakhstan and Russia in the fuel and energy complex, transport and space spheres, expanding trade and economic ties, including in border areas, and generally strengthening strategic partnership based on broad integration processes.

According to representatives of Kazakhstan's scientific elite, under any unexpected metamorphosis in the field of international relations, Kazakhstan will not question the need and importance of a strategic dialogue with the Russian Federation. Russia has been and will continue to be a priority in the foreign policy of sovereign Kazakhstan. However, strategic partnership does not mean a complete identity of interests. Therefore, we cannot demand that Kazakhstan break with multi-vector policy and make the so-called “final geopolitical choice”.¹⁶

¹⁵ Ayman B. Foreign economic activity of the republic of Kazakhstan. In the collection: Current problems of the global economy. materials of the XX scientific conference of young scientists of the faculty of Economics.

¹⁶ Mamieva N. S. Evaluation of the effectiveness of the exchange rate regime in Kazakhstan. Student. 2019.

How does the strategic partnership characterize Kazakhstan's relations with its neighbors in Central Asia: Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan? Strengthening all-round ties with the region's neighbors remains an absolute priority for Kazakhstan. One of the key tasks is to strengthen the pace of regional integration within the framework of the initiative of N. Nazarbayev to create the Union of Central Asian States. In our opinion, one of the reasons why Central Asian countries are positioned as strategic partners is the security factor, since Kazakh diplomats often emphasize that over the years of independence, Kazakhstan has formed a belt of «partnership, good neighborliness» along the entire perimeter of its borders. One part of this perimeter consists of Uzbekistan, Kyrgyzstan and Turkmenistan, and the other two strategic partners – Russia and China. Another reason for this positioning may be the energy factor.

Another example of a strategic partnership based on the «multi-vector energy and pipeline policy of Kazakhstan» is the relations of Kazakhstan with Azerbaijan. Kazakh-Azerbaijani relations are developing in accordance with the Agreement on strategic partnership and allied relations signed following the official visit of the President of Kazakhstan to Baku in May 2005. Special attention is paid to strategic partnerships in the energy, oil and gas and transport sectors. 16 Jun 2006 an agreement was signed between the governments of Azerbaijan and Kazakhstan for the promotion and support of oil transportation from Kazakhstan through Caspian Sea and territory of Azerbaijan with the system Baku – Tbilisi – Ceyhan to international markets. Kazakhstan considers Azerbaijan as a fraternal state in the Caucasus region, a promising partner in the implementation of projects in the energy sector, transport and communications, as well as in issues of cooperation and security in the Caspian Sea and countering new challenges. The two countries have broad prospects in the field of transit of energy, grain, and other goods through the territory of both countries using existing oil pipelines and railway lines, highways, and seaports under construction. There is also a definition of Kazakhstan and Azerbaijan as the two most dynamically developing countries in the post-Soviet space.¹⁷

Today, relations with the United States are one of the most important priorities of Kazakhstan's foreign policy. Both Astana and Washington describe them as a strategic partnership based on mutual trust, respect for the national interests of both countries, stability

¹⁷ Saltibus A. K., Akhmetshina T. K., Acebal J. A., Abdikarimov E. N. Features of foreign economic activity of the republic of Kazakhstan. In the collection: Current problems and trends in the development of the modern economy. Materials of the international scientific and practical conference. 2018.

and security at the regional and international levels, Economic Cooperation and democratic dialogue. The most important document for the development of bilateral cooperation is the Charter on Democratic partnership between the Republic of Kazakhstan and the United States of America. Following the official visit of Nazarbayev in 1997, the agreement on the operation of the Caspian oil and gas fields, the program of action for economic partnership between the Republic of Kazakhstan and the United States of America, as well as a number of other important documents were signed. During the visit, Clinton declared Kazakhstan «a strategic partner of the United States in Central Asia». Since then, the strategic partnership between the two countries has been established during all subsequent bilateral meetings. In late January-early February 2012, during the official visit of the minister of foreign affairs of the Republic of Kazakhstan E. Kazikhanov to the United States during a meeting with US Secretary of State H. Clinton, it was decided to create the Kazakhstan-American Commission on strategic partnership (KSP).¹⁸ On April 9-11, 2012, its first meeting was held in Washington. Strategic dialogues on energy, trade and investment began to be actively developed within the framework of the KSP. A special feature of the first meeting of the KSP was the emphasis on such areas of strategic partnership as science and technology, economics and business, on which separate meetings were held. The parties agreed to strengthen cooperation in the field of Information Technologies, Biotechnologies, energy saving on the basis of innovative projects and commercialization of scientific achievements.

Important elements of the strategic partnership between the Republic of Kazakhstan and the United States of America are Cooperation in the areas of Nuclear Non-Proliferation, defense and security, trade and Economic Cooperation, and energy partnership. It is emphasized that both countries share the core values and principles of freedom and equal opportunities, peace and Cooperation, Dialogue and understanding. Kazakhstan supports a number of international initiatives of the United States, including the concept of the «New Silk Road». One of the most important areas is military cooperation: close cooperation between the Armed Forces of the two countries, participation in joint exercises of the military personnel of Kazakhstan and the United States, efforts to stabilize the situation in Afghanistan.

It notes the potential of Kazakhstan to promote integration processes in the region, which, according to the United States, can play a key role in the recovery of the Afghan economy and the development of the entire region as a whole. In this context, since 2011 both sides

¹⁸ Nurlyaminova Z. N., Tskhai, I. B., Tertychna Y. Y. Current state and development trends of the oil and gas industry of Kazakhstan and its export opportunities

are discussing ways to implement the American Initiative «New Silk Road» with an eye to stimulating trade and economic integration between the countries of the region with the involvement of Afghanistan. Consequently, cooperation in the field of regional security and sustainable development in Central Asia has remained a key element of the strategic partnership between the Republic of Kazakhstan and the United States for many years.

It draws attention to the fact that the most consistent definition of strategic partnership by Kazakh diplomacy is used to characterize Kazakh-American relations. The strategic partnership between Kazakhstan and the United States has its own characteristics: for example, here close cooperation around a number of international initiatives of the United States and in the field of Defense and security looks more significant than trade and economic cooperation (although the United States remains one of the leading investors for Kazakhstan) and energy partnership. If the EU declared Kazakhstan its “strategic partner in the region”, taking into account primarily the energy factor, then the corresponding choice of the United States was directed, it seems, by regional security considerations. In our opinion, the interest with which the Kazakh leadership perceived the new US regional policy («New Silk Road») significantly contributed to the transfer of the annual Kazakh-American political consultations to the level of the KSP.

One of the priorities of Kazakhstan's foreign policy is the strategic partnership with the EU. The European Union is a leading trade and investment partner of Kazakhstan. Today, the EU accounts for 50% of Kazakhstan's foreign trade turnover and a third of attracted investments. Kazakhstan's foreign trade turnover with the European Union in the first half of 2011 alone amounted to \$ 25.4 billion. For comparison, in the first half of 2010 – \$18.6 billion). Over the period from 1993 to 2010, the gross inflow of direct investment from EU countries to the economy of Kazakhstan amounted to more than \$ 52 billion. In 2010, the total amount was more than \$ 10 billion. The main investor countries are Great Britain, Italy, France, and Germany. In turn, Kazakhstan has invested more than \$ 10 billion in the EU economy. An important strategic issue of Kazakhstan's cooperation with the European Union, as well as with Russia and China, is the energy factor. Kazakhstan is the third (after Russia and Norway) largest energy supplier to the EU among non-OPEC countries. Currently, Kazakhstan does provide up to 20% of all gas and oil imports supplied to EU countries annually. According to

the statistics agency of the Republic of Kazakhstan, the share in some European countries reaches a very significant level: Italy – 74 %, Great Britain – 11% and Germany – 10 %.¹⁹ The strategic energy partnership is planned to be expanded in such areas as energy efficiency, renewable energy sources, clean coal and CO2 capture technologies, storage issues and further development of energy infrastructure. The EU also supports Kazakhstan's efforts in the field of economic diversification by providing economic experience, as well as helping to prepare for the country's accession to the WTO. Education is a key area of cooperation in the humanitarian sphere. In the eyes of Kazakhstan's elite, highly developed European countries are a source of progressive experience in the classical development of the market structure of life, investment of foreign capital, and reliable, mutually beneficial partnership in trade.

Deepening of the strategic partnership with Japan is one of the priorities of Kazakhstan's foreign policy, which considers this country as one of the key partners in Asia. Japan instead sees Kazakhstan as an important partner in the Central Asian region. The Joint Statement of friendship, partnership and Cooperation signed during N. Nazarbayev's visit to Japan is positioned by Astana as a document on strategic partnership between Kazakhstan and Japan in the XXI century. The basis of constructive cooperation in the international area is the coincidence of the positions of Astana and Tokyo in solving urgent international problems, primarily in the field of Nuclear Non-Proliferation. As for the development of economic cooperation, it is considered that it is the energy partnership that is the basis for appropriate interaction between the two countries with a separate, important role of nuclear energy.

South Korea also occupies one of the leading positions in the system of foreign economic priorities of Kazakhstan, being a major investor, a stable trading partner and a country that occupies one of the leading positions in its region. Six summits in less than four years show that for both countries, strategic partnership is moving from a declaration of intent to a reality of relations. Kazakhstan and the Republic of Korea share common approaches on all key international political issues at the global, regional and bilateral levels; the desire to maintain security and stability in their region and in the world as a whole; economies that complement and do not compete with each other; common cultural and humanitarian values that have roots in antiquity, and the presence of ethnic Koreans who serve as a living connecting bridge.

¹⁹ Kilin V. V. Features of development of foreign trade activity of Russia with third countries in the conditions of the EEU. In the collection: European regionalism: theory and practice. materials of the all-Russian scientific and practical conference with international participation. scientific editor V. I. Mikhailenko; 2019.

India has demonstrated a willingness to strengthen its strategic presence in Central Asia, competing with Russia, the US, the EU and its long – time competitor and partner China. Kazakhstan, in turn, has taken serious measures to strengthen its strategic relations with India, which, along with Russia, the United States, the EU and China, can become the fifth main direction in Kazakhstan's multi-vector foreign policy. India's attempts to gain a foothold in the energy sector of Central Asia are strategic in nature and are designed for the medium and long perspective. The difficulty is the lack of resources to defend energy trade and economic interests, namely, the underdevelopment of the communication system.

According to Kazakh experts, modern India is one of the most dynamically developing countries in the world, being at the same time one of the main global centers of influence. Relations between the people of both countries have ancient traditions and go back to the Great Silk Road. It is believed that the signing of the declaration on strategic partnership in 2009 was an organic continuation of the historical traditions of such relations. Both countries share common views on global and regional processes and cooperate in important areas of multilateral diplomacy. Kazakhstan supports India's desire for permanent membership in the UN Security Council. India, in turn, supported Kazakhstan's candidacy, as a non-permanent member of the UN Security Council in 2017-2019.²⁰ India is a consistent supporter of the conference on interaction and confidence-building measures in Asia, which has become a kind of business card of Kazakhstan on the world political stage, and is actively involved in this process.

3.3. Research and forecasting of the exchange rate of the national currency of the Republic of Kazakhstan

In a broad sense, liberalization is the restriction of state intervention in the economic life of society, the expansion of the sphere of market relations, the narrowing of the share of state property, the opening of markets to competition, the removal of various restrictions on the functioning of the market, the weakening of administrative control over prices, interest, the narrowing of the sphere of centralized subsidies, subsidized loans, etc. Financial

²⁰ Kostenok I. V., Khomenko Ya. V., Efimenko A.V. Security of positions of oil and gas companies in foreign markets: new challenges and evaluation criteria. International trade and trade policy. 2019.

liberalization is clear as any policy that opens up capital markets for foreign investment (or allows domestic residents to use foreign capital markets); a certain degree of integration into the global financial market, which is manifested through capital flows from country to country. The concept of «liberalization of capital flows» is narrower, which includes the absence of any regulatory or other measures that would prevent cross-border capital flows, including transactions underlying capital transactions and related payments or transfers. The EU applies this broad interpretation because it generally prohibits all restrictions on the movement of capital, even if the restrictions do not discriminate the basis of residency. The OECD uses a partly narrow concept focused on eliminating residency-based activities.

According to the IMF, capital account liberalization is the process of removing or lifting restrictions that regulate cross-border capital flows. At the same time, the OECD concept of liberalization concerns only the removal of restrictions based on the principle of residency, while the obligations to liberalize movement capital in the EU functioning Treaty generally prohibit all restrictions on capital movement, even if they do not discriminate by place of residence (both among EU members and between members and third countries).²¹

While some economists recognized the dangers of rapid capital liberalization, most neoclassicists were of the opinion that free capital movement would bring positive results in the long perspective. Various studies have shown a positive correlation between the volume of loans to the private sector and economic development.

Taking into account the financial crises, economists recognize that the free movement of capital can have serious negative consequences for developing countries. Today, in its recommendations, the IMF allows restrictions on the movement of capital if other GDP measures do not work. Even if premature financial liberalization without proper regulation was not the main cause of crises, it still contributed significantly to the emergence of the crisis and its depth. Therefore, the liberalization of capital flows requires having certain conditions so that small shifts towards liberalization do not negatively affect the financial system (since in many developing countries banks are the main intermediaries of capital flows).

²¹ Mukhametshina G. S., Arkhipova A.V., Sabirov I. T. International cooperation of the republic of Tatars tan and Kazakhstan on the example of the automobile industry of PJSC Kamaz Naberezhnye Chelny. In the collection: Cooperation and entrepreneurship: status, problems and prospects. Collection of scientific papers of the III International conference of young scientists, postgraduates, students and students. 2019.

If earlier the main argument in favor of liberalizing the capital account was the assumption that it would contribute to the efficient distribution of savings (capital will move from countries with excess financial resources to countries with low savings), then modern research proves that most countries that managed to achieve high growth rates were lenders, not borrowers. At the same time, most of the capital flows, as before the liberalization policy, pass mainly between developed countries. In addition, the researchers note that countries where capital under control were applied more easily overcame the consequences of the global economic crisis of 2007-2008. It dictated even the IMF to change its long-standing policy and allow the use of capital controls. Although based on theoretical considerations, integrated capital markets should contribute to risk diversification among investors, starting in 2019. IMF researchers have begun to recognize that capital flows carry risks that may be compounded by underdeveloped financial and institutional infrastructure, but the IMF has continued to promote liberalization.²²

The impact of capital reversals and associated macroeconomic risks on developing countries, particularly after recent financial crises, has led to a rethinking of the dominant theoretical postulates about the benefits of capital liberalization. Although capital controls were considered less effective for a long period of time, the risks associated with international capital flows have become more apparent. Consequently, the approach of developing countries that is better if their economies are relatively financially closed has become more relevant. In addition, leading international experts in this context formulated the so-called «Impossibility Theorem», according to which the coexistence of globalization, democracy and the national state in the long term is impossible.

From a theoretical point of view, liberalizing capital flows can benefit from perfect markets and complete information. In particular, liberalization can contribute to risk sharing, accelerate the development of financial markets through greater competition.

Free International Capital Markets enable poor countries to attract investment and avoid shocks, thereby boosting economic growth. In a globalized world, countries with small open economies, due to the impact of financial cross-border flows, do not have monetary autonomy

²² Tereshina E. A. Problems of economic security of states in the system of integration processes in Eurasia (on the example of Kazakhstan and Kyrgyzstan). Bulletin of Economics, law and sociology. 2019.

regardless of the exchange rate regime, and these financial cross-border flows are determined by the economic cycles and policies of the central banks of large states.

Thus, the consequences of the GDP of the world's leading central banks become the main source of actual capital movement volatility. For monetary policy, the problems associated with the free movement of capital are that the supply of money in a country becomes a largely dependent value.

It should be noted that liberalization should be carried out in a non-crisis period. In the early stages of liberalization, it is best if the outflow of private capital can be easily controlled. Residents should be encouraged to diversify their assets through capital outflows. This move may require an active educational campaign about the benefits of international portfolio diversification in order to reduce the existing biased view of investment choice. In addition, household channels for investing in other countries should be more accessible to use. The easiest way is to attract state pension funds and insurance companies to invest more internationally.²³

Brent crude oil prices in the third decade of April this year fell below \$20 per barrel, which is almost 3 times less than the average annual price last year and in general this is the minimum level for the previous two decades. According to my expectations, as the bottom of the fall in demand in April and May 2020 passes, which, according to various estimates, may range from 16 to 30 million barrels per day, and the beginning of a real reduction in raw material production within OPEC+, Brent quotes will receive an impulse to further stabilize at \$32 per barrel, resulting in an average year of oil quotes of this brand will amount to \$37 per barrel.²⁴

At the end of 2019, Kazakhstan produced the maximum volume of oil and gas condensate – 90.6 million tons. For the current year, this figure, as mentioned above, was originally supposed to be 86 million tons. However, Kazakhstan's participation in the collective reduction of oil production under the new OPEC + agreement significantly worsened the prospects for the current and next years.

²³ Umarov N. N. Positive and negative aspects of external labor migration in the context of globalization.

²⁴ Dosmyrza D. On the issue of improving the practice of applying the customs legislation of the republic of kazakhstan. Colloquium-journal. 2020. No. 2-13 (54). Pp. 31-32

Given the «updated» need to reduce oil production in the country according to commitments from May to June of the current year to 1,319 million barrels per day, and from July to December – up to 1,397 million barrels per day, and also taking into consideration the rating on the actual extraction of raw materials in January–April total volume of 30.1 million tons, we expect that by the end of 2020 in Kazakhstan oil and gas condensate will reach 76.2 million tons. This is 16% less than last year and may also be the lowest level since 2008.²⁵

Against the background of the expected fall in economic activity in oil production, which will provoke a decline in the oilfield services and other industries and transport, this year will continue the emerging downward trend of investment growth in fixed assets. According to our estimates, the increase in investment in fixed assets at the end of the year will be around 2%, becoming the lowest value since 2010.

Similar trends will be observed for nominal wages, whose overall annual growth in the analyzed period will slow down to the lowest level since the 1990s – up to 3%.

My opinion on the ruble-tenge exchange rate is based on the expectation that the national Bank of Kazakhstan will not significantly interfere with the floating exchange rate of the tenge, which will be significantly affected by the dynamics of oil quotes and the exchange rate of USD/RUB. At the same time, the average RUB/ KZT exchange rate will tend to balance around last year's level at around 5.9 tenge per Russian ruble.

According to the forecast, the exchange rate of the US dollar to tenge will average around 440 in 2021. The growth of nominal monetary income in Kazakhstan will slow to 3.9% against the background of a similar slowdown in the growth of nominal wages. At the same time, the average annual consumer inflation rate will accelerate to 8.1%, which will be associated with both the depreciation of the tenge and an increase in the level of imported inflation (including inflation from Russia and world food inflation). However, certain limitations for faster rise of consumer prices in Kazakhstan will be the expected fall in the real incomes of the population by 4.9%, and significant decrease of prices in industry is 17%, which in turn will be associated with falling prices of oil and other energy sources.²⁶

²⁵ Duisen G. M., Aitzhanova D. A., Teslya P. N. Is economic integration possible in central Asia? Regional vector of Kazakhstan's policy. Eco. 2020.

Taking into account the acceleration of consumer inflation and the strengthening of industrial deflation, the final GDP deflator in 2020 is projected to be 4.2% against last year's 6.8%.

Household spending on final consumption in Kazakhstan in 2020 is forecast to show a drop of 1.2% after last year's growth of 6.0%. For the first time since 2009, the growth of gross fixed capital accumulation will be in the negative zone at the level of -1.4%.

The volume of real exports of goods and services in the current year, according to the forecast, will show a reduction of 36.3%.

According to forecast estimates, the real volume of imports to Kazakhstan will show a drop of 19.6%.

Thus, due to the fall in domestic demand and exports, as well as taking into account some leveling due to a reduction in imports, the real GDP of Kazakhstan this year, according to AERC forecast will fall by 4.9% – this will be the lowest figure since 1995. The nominal GDP of Kazakhstan by the end of 2020 will amount to 68025 billion tenge, or \$160 billion, which is \$20 billion less than last year.

According to forecasts, the trade balance of Kazakhstan this year may become negative for the first time at the level of \$419 million. The reason for this will be a greater reduction in the value of exports of goods in comparison with the fall in nominal imports. If exports of goods fall from last year's \$57.8 billion to \$23.9 billion, taking into account the fall in oil production and the reduction in external demand and prices, nominal commodity imports are estimated to fall from \$38.7 billion to \$24.3 billion.

Traditionally, the negative balance of services for the year will narrow to - \$ 1.4 billion against the background of a decrease in exports of services to \$6.8 billion and imports of services to \$8.3 billion. The primary income balance, whose constant deficit always negatively affects the current account of the balance of payments of Kazakhstan, is estimated to increase significantly in 2020. Falling prices and oil production volumes will significantly

²⁶ Duisen G. M., Aitzhanova D. A., Teslya P. N. Is economic integration possible in central Asia? Regional vector of Kazakhstan's policy. Eco. 2020.

reduce the amount of income to be paid to foreign investors from last year's \$23.2 billion to \$11.8 billion. At the same time, against the background of falling interest rates and the value of securities in the world, there will also be a decrease in income received from external investments in Kazakhstan - from \$2.4 billion to \$1.3 billion.

If other components of primary income are practically unchanged, the balance of payments will grow from -\$20.8 billion to -\$12.1 billion, thus having a positive impact on the final current account. Thus, the expected noticeable drop in the trade balance, which will be partially offset by an increase in the primary income balance, the current account balance of the balance of payments will be a record negative \$13.8 billion, or -8.6% of GDP.²⁷

The reduction in consumer and investment activity, as well as the contraction of the economy, will affect the reduction of the tax base for corporate income tax (CIT) and value added tax (VAT). According to our forecasts, this year the volume of CPN and VAT charges will amount to 1.7 trillion and 2.4 trillion tenge, respectively, against last year's figures of 1.9 trillion and 2.7 trillion tenge. The slowdown in the growth of nominal wages and monetary incomes of the population will affect the slower growth of individual income tax and social tax revenues to 920 billion and 750 billion tenge, respectively.

A drop in external demand for exchange-traded goods, as well as a reduction in foreign trade, will lead to a decrease in revenues from the use of natural and other resources, as well as taxes on international trade, including export and customs duties. In total, these two types of tax payments to the state budget will decrease from 2.6 trillion tenge (in 2019)²⁸ to 1.2 trillion tenge this year. As a result, taking into account a slight increase in other tax revenues, such as excise taxes, etc., the total amount of tax revenues to the state budget in 2020 will be equal to 7.4 trillion tenge, which is 1.8 trillion tenge less than in 2019.

According to my forecasts, in the current year, the amount of guaranteed transfers from the National Fund to the budget will be increased from the annual \$8 billion to an additional \$4 billion, which together should be used to implement anti-crisis measures. Taking into account the projected exchange rate of the US dollar to tenge, the total amount of transfers to the budget will be 5.1 trillion tenge against last year's 3.0 trillion tenge.

²⁷ Malysheva D. B., Kuznetsov A.V. the Chinese factor in Kazakhstan. Electronic scientific and educational magazine "History". 2019.

²⁸ Sagynbay A. International competitiveness of Kazakhstan: problems of its development. In the collection: Current issues of economic sciences and modern management. collection of articles based on the materials of the XXIX international scientific and practical conference. Novosibirsk, 2019.

Thus, the total amount of state budget revenues in 2020 will amount to 12.5 trillion tenge, which, thanks to the increased transfer from the National Fund, will slightly reduce the volume of 2019 (12.7 trillion tenge).

State budget expenditures, according to my estimates, will grow to 15.0 trillion tenge in 2020, or by 11% compared to last year. Some functional groups may be subject to sequestration, but the focus will be on the social sphere, health, transport and communications. Due to the increase in budget expenditures and the lack of growth in its revenue side, the state budget deficit in 2020, according to estimates, will amount to 2.5 trillion tenge, or 3.7% of GDP.

Conclusion

For Kazakhstan, almost indispensable components of strategic partnership in all areas are:

1. Political interaction and mutual foreign policy support (high level of trust, openness, equality, agreed position on a number of key issues of international policy, for example, on the non-proliferation of nuclear weapons and the situation in Afghanistan, promotion of national interests of Kazakhstan in World structures, recognition of the leading positions of the Republic of Kazakhstan in Central Asia);
2. Economic Cooperation (first of all, Partnership in the investment sphere, significant foreign trade turnover);
3. Cooperation in the energy sector (in particular, transportation of energy resources);
4. Security factor.

Obviously, the Kazakh elite treats the conclusion of a strategic partnership carefully and very pragmatically, attaching great importance to the fact of such relations. At the same time, for the Kazakh side, strategic partnership does not mean complete identity of interests in both the economic and political spheres. Thus, Astana does not consider it appropriate to refuse to cooperate with any of its many partners at the request of a third party, even if this party is one of the key strategic partners. Therefore, it is difficult to single out a higher priority area from these areas – each one fits into the multi-vector pragmatic foreign policy of the Republic

of Kazakhstan in its own way. It draws attention to the fact that the most consistent definition of strategic partnership by Kazakh diplomacy is used to characterize Kazakh – American relations and in recent years for relations between Kazakhstan and the EU, while other definitions can be used for relations with the Russian Federation and China (for example, «allied relations» with the Russian Federation). Strategic partnerships do not have to be bound by relevant treaties and declarations. It seems that in some cases, the existence of basic Treaties of friendship between the two countries or a corresponding oral declaration is considered sufficient for the development of such a partnership.

The current situation in the world affects the economic situation of all countries and the Republic of Kazakhstan is not an exception. This situation is hitting anti-records in many aspects of the economy; the tenge is falling with a certain stability, since Kazakhstan is a developing country, which currency is strongly connected to the Russian ruble. Sanctions against Russia have a negative impact on the tenge. Kazakhstan remains dependent on the export of its natural resources and the prices of these resources directly affect the country's economy. In order for the country to feel comfortable, a high oil price is a prerequisite. The record drop in oil prices at the beginning of 2020 and the logical deterioration in the position of the tenge perfectly show the dependence of Kazakhstan. For residents of the Republic of Kazakhstan, a safer solution is to keep their savings in foreign currencies and hope for an early end of the epidemic situation.

References

1. Annual Report On Exchange Arrangements And Exchange Restrictions 2016 // International Monetary Fund. – 2016. – 90 p. ISBN 9781498324571
2. Aslamov S. V. Currency operations and international settlements: Textbook / Chita: Chitgu, 2008. - 140 p. ISBN 9785929303333
3. Foreign economic activity of the republic of Kazakhstan. In the collection: Current problems of the global economy. materials of the XX scientific conference of young scientists of the faculty of Economics. Peoples ' friendship University of Russia; Responsible editors: V. N. Pinchuk, I. N. Belova. 2018. Pp. 5-7. ISBN 978-5-7996-1609-0
4. Borzenko E. A. Imperatives of the development of financial markets in post-socialist countries. Economic Bulletin of the University. 2019. No. 43. Pp. 80-88.
<https://doi.org/10.31470/2306-546X-2019-43-80-88>
5. Cui TS. Historical background and significance of the "one belt, one road" initiative. *The student Bulletin*. 2019. No. 46-5 (96). 56-59 p.
6. Currency regulation: a Methodological guide / T. Yu. Teplyakova. - Ulyanovsk: UISTU, 2008. - 78 p. ISBN 978-5-370-02515-0
7. Dictionary of terms for the course "Finance, money and credit" / comp. V. V. Blekus. - electrical Insulator: GGHPI, 2011. – 52 p. ISBN 978-5-7942-0846-7
8. Dosmyrza D. On the issue of improving the practice of applying the customs legislation of the republic of kazakhstan. *Colloquium-journal*. 2020. No. 2-13 (54).31-32 p.
9. Duisen G. M., Aitzhanova D. A., Teslya P. N. Is economic integration possible in central Asia? Regional vector of Kazakhstan's policy. *Eco*. 2020. no. 10 (556). 8-33 p.
10. Glazkov M. Ten most powerful currencies in the world [Electronic resource] // URL: <https://www.sravni.ru/text/2016/2/8/10-samykh-silnykh-valjut-v-mire/>
11. Handbook of the Exchange Rates - Jessica James, Ian W. Marsh, Lucio Sarno. 2012. ISBN 9780470768839
12. International monetary and credit relations / Mokeeva N. N., Kazak A. Yu., Veretennikova O. B. 2006. – 273 p. ISBN 978-5-7996-1609-0

13. International monetary and credit relations: textbook / S. A. Lukyanov [et al.]; under the General ed. of N. N. Mokeeva. - *Yekaterinburg: Ural publishing House*. UN-TA, 2015. - 296 p.
14. International monetary and credit relations: textbook for universities / ed. By L. N. Krasavina. - 4th ed., reprint. and additional-M.: *Yurayt Publishing house*, 2014-543 p.
15. Kilin V. V. Features of development of foreign trade activity of Russia with third countries in the conditions of the EEU. In the collection: European regionalism: theory and practice. Materials of the all-Russian scientific and practical conference with international participation. scientific editor V. I. Mikhailenko; Ministry of education and science of the Russian Federation, Ural Federal University named after the first President of Russia B. N. Yeltsin. 2019. Pp. 139-143. ISBN 978-5-7996-2625-9
16. Kostenok I. V., Khomenko Ya. V., Efimenko A.V. Security of positions of oil and gas companies in foreign markets: new challenges and evaluation criteria. *International trade and trade policy*. 2019. No. 2 (18). Pp. 43-62. <http://dx.doi.org/10.21686/2410-7395-2019-2-43-62>
17. Kovalev, V. V. Financial management: theory and practice / V. V. Kovalev. - M.: "Prospect", 2011. - 1024 p. ISBN 978-5-3720-1398-2
18. Malysheva D. B., Kuznetsov A.V. the Chinese factor in Kazakhstan. *Electronic scientific and educational magazine "History"*. 2019. No. 1 (75). P. 27.
19. Mamieva N. S. Evaluation of the effectiveness of the exchange rate regime in Kazakhstan. 2019. *Publisher: Siberian academic book limited liability Company No. 28*. 87-90p.
20. Money. Credit. Banks: a textbook / edited by V. F. Zhukov-M.: unity-Dana. 785 p. ISBN 9781616350116
21. Mukhametshina G. S. Cooperation of Russian regions with the EAEU countries (on the example of the republic of Tatars tan and Kazakhstan). In the collection: Present and future of modern scientific directions. *Collection of materials of the International scientific and practical conference*. 2020. Pp. 19-21.
22. Mukhametshina G. S., Arkhipova A.V., Sabirov I. T. International cooperation of the republic of Tatars tan and Kazakhstan on the example of the automobile industry of PJSC Kamaz Naberezhnye Chelny. In the collection: Cooperation and entrepreneurship: status, problems and prospects. *Collection of scientific papers of the*

- III International conference of young scientists, postgraduates, students and students.* 2019. Pp. 264-267.
23. Numismatic dictionary / Zvarich V. V.-Lviv: *Publishing Association "Vyscha SHKOLA»*, 1978. – 338 p.
 24. Nurlyaminova Z. N., Tskhai, I. B., Tertychna Y. Y. Current state and development trends of the oil and gas industry of Kazakhstan and its export opportunities. In the collection: Modern science as a factor of innovative development of the world economy. *Materials of the international scientific and practical conference.* Responsible editor A. A. Zaraisky. 2018. Pp. 114-118.
 25. Panchenko V. I. Currency regulation: textbook / SPB: Troitsky bridge, 2014. - 240 p. ISBN 978-5-4377-0051-8
 26. Sagynbay A. International competitiveness of Kazakhstan: problems of its development. In the collection: Current issues of economic sciences and modern management. collection of articles based on the materials of the *XXIX international scientific and practical conference.* Novosibirsk, 2019. 25-29p.
 27. Saltibus A. K., Akhmetshina T. K., Acebal J. A., Abdikarimov E. N. Features of foreign economic activity of the republic of Kazakhstan. In the collection: Current problems and trends in the development of the modern economy. *Materials of the international scientific and practical conference.* 2018. 253-257p.
 28. Sinyakov A. A., Khotulev I. M. optimal monetary, budgetary and macroprudential policy in the oil exporting country (research review) // *Money and credit*, 2017, no. 9. 58-66p.
 29. Tereshina E. A. Problems of economic security of states in the system of integration processes in Eurasia (on the example of Kazakhstan and Kyrgyzstan). *Bulletin of Economics, law and sociology.* 2019. Vol. 2. No. 3. 186-189p.
 30. The Economics of Exchange Rates – Lucio Sarno. 2003. ISBN 9780511754159
 31. Turakhankyzy A., Baltabekova Zh. U., Kupeshova B. K. Influence of the main macroeconomic factors on the high interest rate of loans in banks of Kazakhstan. *Young scientist.* 2020. No. 42 (332). Pp. 141-145.
 32. Tyulebekova D., Onuchko M., Marmontova T. The importance of forming common markets for gas, oil and petroleum products of the Eurasian economic union for the

republic of Kazakhstan. Central Asia and the Caucasus. 2019. Vol. 22. No. 2. 54-64p.

<http://repository.apa.kz/xmlui/handle/123456789/275>