

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

**The impact of foreign currency exchange rate on foreign
trade: Case study of the Republic of Kazakhstan**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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The impact of foreign currency exchange rate on foreign trade: Case study of the Republic of Kazakhstan

Objectives of thesis

The main objective of this bachelor thesis is to estimate the economic impact of foreign currency exchange rate on foreign trade of Republic of Kazakhstan. Highlight is on possible consequences related to foreign currency exchange rate, which can affect foreign trade in The Republic of Kazakhstan.

Methodology

The research method used in this bachelor thesis is based on the compilation and comparison of economically significant data found in the literature and available internet resources. The practical part in this bachelor thesis consists of data gathered from reliable sources, (such as the National Bank of Kazakhstan). This topic has been popular and quite significant since the Republic of Kazakhstan became independent. This bachelor thesis is not based on the unreliable quotes from the internet and journalistic sources, in order to avoid the biased information that comes from the political sphere in the Republic of Kazakhstan.

The proposed extent of the thesis

30 – 40 pages

Keywords

Exchange rate, import, export, trade, regime, National Bank of Kazakhstan

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- HARTMAN, Ondřej a TUREK, Ludvik. První kroky na FOREXu: jak obchodovat a uspět na měnových trzích. Vyd.1. Brno: Computer Press, 2009, 120 s. ISBN 978-80-251-2006
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- Žamberský, Pavel a Taušer, Josef. Ekonomie měnového kurzu I. Vyd 1. Praha: VŠE, Nakladatelství Oeconomica, 2003. 60 s. ISBN 80-245-0637-8.

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Declaration

I declare that I have worked on my bachelor thesis titled " The impact of foreign currency exchange rate on foreign trade: 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 13.03.2018

Yernar Kozhak

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The impact of foreign currency exchange rate on foreign trade: Case study of the Republic of Kazakhstan

Summary

The exchange rate is one of key determinants of foreign trade. It must however be noted that the size of exports will certainly be influenced by other factors that cannot be quantified. Such factors for example can be the national bank intervened size of interest rates, consumer preferences, political influences, the size of the rate of inflation in the country, the size of import into the country etc. Nowadays the value of exchange rate is considerably volatile (risky) and hard to predict. Therefore, the aim of this thesis is to analyze the evolution of the exchange rate and to determine its effect on foreign trade of Republic of Kazakhstan. The work consists of two parts.

The theoretical part explains the basic concepts of the issue and helps to give the background of exchange rate and foreign trade. With the description of such topics as regularities in currency markets, including foreign exchange differences, which are a major problem in the implementation of foreign trade. Second part is the practical part. It mainly consists of the exchange rate and foreign trade developments in the Republic of Kazakhstan.

Keywords: Exchange rate, import, export, trade, regime, National Bank of Kazakhstan, depreciation, appreciation, forex.

Vliv měnového kurzu na zahraniční obchod: Případová studie z Republiky Kazachstán.

Abstrakt

Kurz je jedním z důležitých ekonomických ukazatelů zemí. Neustále mění a ovlivňuje mnoho ekonomických faktorů, jako je zahraniční obchod a ekonomika obecně. V dnešní době je hodnota směnného kurzu značně volatilní (riskantní) a těžko předvídatelná. Cílem diplomové práce je tedy analyzovat vývoj směnného kurzu a určit jeho vliv na zahraniční obchod Republiky Kazachstán.

Práce se skládá ze dvou částí. Teoretická část, která vysvětluje základní pojmy této problematiky a pomáhá poskytnout pozadí kurzu a zahraničního obchodu Republiky Kazachstán. Zde můžeme nalézt témata jako pravidelnost na měnových trzích, včetně kurzových rozdílů, které jsou velkým problémem při realizaci zahraničního obchodu. Druhá část je praktická část, která zahrnuje vývoj směnného kurzu a zahraničního obchodu v Republice Kazachstán.

Klíčová slova: Kurz, dovoz, vývoz, obchod, režim, Národní banka Kazachstánu, odpisy, zhodnocení, forex.

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Introduction

Floating exchange rate system, which exists in most of developed countries, naturally results in currency fluctuations. These fluctuations, between two currencies, depend on numerous factors such as economic performance, capital flows, interest rate differentials, relative supply and demand of those two countries. However, a country needs to have stable currency in order to attract investment capital from abroad. Therefore, setting of the monetary policy by the Central bank also depends on what is the value of domestic currency at the international exchange market. It also discusses the role of the exchange rate in effect on the economy and foreign trade.

Therefore, we can say that the exchange rates on the businesses and economies across the globe is far from trivial. Fluctuations in the exchange rate of a currency can have important effects on a several macroeconomic outcomes. This changes and fluctuations translate into economic development, thought the industrial sectors which have large portion of their total output.

In the first part of the thesis we are engaged in basic theoretical background of monetary policy. The practical part is focused directly on the exchange rate development in the Republic of Kazakhstan and foreign trade. Among the major events that are mentioned include the shift from a floating exchange rate system to a fixed exchange rate and exchange rate fluctuations and the impact on international trade. Furthermore, interventions of Kazakh National Bank, and export strategy which should support the Kazakh economy.

Objectives and Methodology

1.1 Objectives

The main objective of this bachelor thesis is to estimate the economic impact of foreign currency exchange rate on foreign trade of the Republic of Kazakhstan. A highlight is on possible consequences related to the foreign currency exchange rate, which can affect foreign trade in The Republic of Kazakhstan.

1.2 Methodology

The research method used in this bachelor thesis is based on the compilation and comparison of economically significant data found in the literature and available internet resources. The practical part in this bachelor thesis consists of data gathered from reliable sources, (such as the National Bank of Kazakhstan). This topic has been popular and quite significant since the Republic of Kazakhstan became independent. This bachelor thesis is not based on the unreliable quotes from the internet and journalistic sources, in order to avoid the biased information that comes from the political sphere in the Republic of Kazakhstan.

Theoretical part

1.3 Origins of foreign exchange rate

Since March 1976, exchange rate become much more volatile and far less predictable than it was between 1945 and 1973. This happened after the breaking of Bretton Woods system. Furthermore, world adapted the use of floating foreign exchange rates, during the Jamaica agreement of 1976, commonly referred to as the Jamaica Accords. This meant that the use of the gold standard would be permanently abandoned and the system could effectively be eliminated, enabling exchange rates to float freely.¹

With internet adoption in the 1990s banks and small companies created online networks to produce automated quotes and allowed instantaneous trading. Therefore, advancing technology and regulation created a new category of brokers that enabled individuals to trade foreign exchange for the first time. Today, retail brokers, who can be found in virtually every corner of the world, account for a meaningful fraction of global spot foreign exchange volumes. Today, many brokers companies and brokers can be found in virtually every corner of the world, account for a meaningful fraction of global spot foreign exchange volumes.²

1.4 Exchange rate

An exchange rate is the price of one nation's currency in terms of another currency. It can be understood as the price of a unit of domestic currency, expressed in terms of the foreign currency. Therefore, an exchange rate has two components, the domestic currency and a foreign currency, and can be quoted either directly or indirectly.

¹ http://www.fxtrademaker.com/forex_history.htm

² <http://www.nasdaq.com/forex/education/history-of-retail-forex-market.aspx>

Also, it can be interpreted as:

‘Exchange rates allow you to determine how much of one currency you can exchange for another. For example, the dollar's exchange rate tells you how much a dollar is worth in a foreign currency, and vice versa. You will definitely need to understand exchange rates when you travel to another country. For example, if you traveled to the United Kingdom on June 24, 2016, you'd find a dollar was worth \$1.32 British pounds.’

(Amadeo, 2016)

Nominal exchange rate

The nominal exchange rate is defined as the number of units of the domestic currency that can purchase a unit of a given foreign currency. A decrease in this variable is termed nominal appreciation of the currency. An increase in this variable is termed nominal depreciation of the currency.

Real exchange rate

By contrast, the real exchange rate is defined as the ratio of the price level abroad and the domestic price level, where the foreign price level is converted into domestic currency units via the current nominal exchange rate.

1.5 Currency Pair

Investopedia explains, “A *currency pair is the quotation and pricing structure of the currencies traded in the forex market; the value of a currency is a rate and is determined by its comparison to another currency. The first listed currency of a currency pair is called the base currency, and the second currency is called the quote currency. The currency pair indicates how much of the quote currency is needed to purchase one unit of the base currency*”.

(Investopedia 2018)

In a simple word, currency pair indicates how much USD a trader needs to buy one euro. At the same time, it indicates that a trader can sell one euro to get 1 USD.

For instance, the euro's value increases against the USD and the exchange rate is now at EUR/USD 1.1100. For each euro that the trader bought, he/she has earned 1 USD cent. On the other hand, it could be for every euro the trader sold, he/she lost 1 USD cent. This is because the trader 'bought' back the euro for 1.11 at a higher rate than originally purchased, making a loss.

1.6 Appreciation of the currency

An appreciation of a currency means that it becomes worth more relative to other currencies. It means there has been a rise in the exchange rate. In other words, *"It is increase in the value of one country's currency with respect to another. This means that one unit of the appreciating currency buys more units of the other currency than it did previously. Economic fundamentals of the two countries generally determine the relative value between each. Appreciation also makes exports from the country with the appreciating currency more expensive, while making imports less expensive. Exchange rates may be fixed or flexible. An exchange rate is fixed when two countries agree to maintain a fixed rate to settle daily trade differences between respective Central Banks."*

(Forextraders, 2016)

Some of the issue for domestic trader appreciation of currency could be for example, when currency's value increases that means import became more expensive. One of the main reasons of appreciation is import to domestic country. Demand of foreign currency makes currency more valuable, which let to forex market set the higher price. When country sets fixed price of foreign currency, appreciation could not be significant. One of the most famous Fixed Exchange Rate is a Gold Standard.

1.6.1 The effects of a currency appreciation

One of the biggest effects of a currency appreciation goes on countries' exports and imports, where:

Export becomes more expensive.

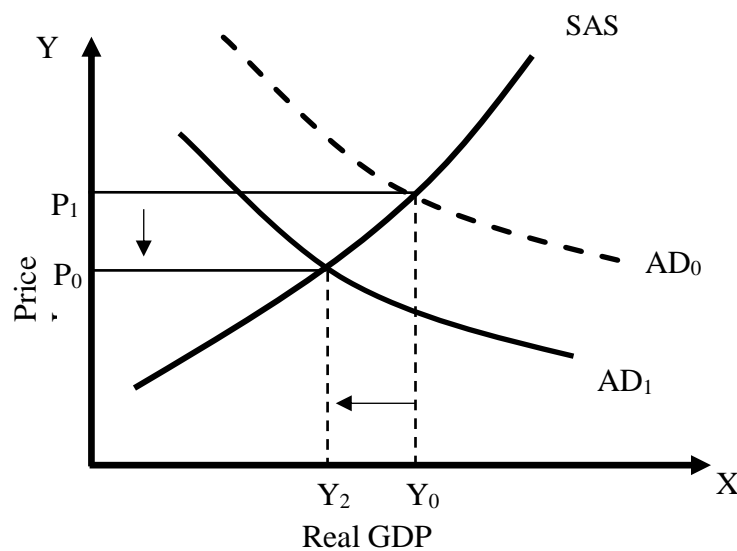
The price of Kazakh Exports will increase and foreigners will find Kazakh exports more expensive. Therefore, with a higher price, we would expect to see a fall in the quantity of exports from Kazakhstan.

Import becomes cheaper.

Consumers from Kazakhstan will find that 1 USD now buys a greater quantity of European goods. Therefore, with cheaper imports we would expect to see an increase in the quantity of imports.

This causes lower net exports and greater spending on import of goods and services, therefore we would expect fall in Aggregate Demand (AD), causing lower economic growth.

Figure 1: Graph shows appreciation of national currency, which causes fall in net export and leads to decline in both GDP and price level.



(Source: Made by author, based on sources from the Internet.)

Appreciation also tends to cause lower inflation, thanks to import prices which becomes cheaper. Therefore, cost of imported goods and services will fall after an appreciation, with the decrease of imported products and cheaper prices within the country.

Price policy after Appreciation. With higher export prices, manufacturers have greater incentives to cut costs to remain or maintain competitive.

An appreciation can help improve living standards – it enables consumers to buy cheaper imports. If the appreciation is a result of improved competitiveness, then the appreciation is sustainable, and it shouldn't cause lower growth. An appreciation could be a problem, if the currency appreciates rapidly during a difficult economic circumstance.³

1.7 The Depreciation of the currency

Investopedia source says, *“Currency depreciation is a fall in the value of a currency in a floating exchange rate system. Currency depreciation can occur due to any number of reasons – economic fundamentals, interest rate differentials, political instability, risk aversion among investors and so on. Countries with weak economic fundamentals such as chronic current account deficits and high rates of inflation generally have depreciating currencies. Currency depreciation, if orderly and gradual, improves a nation’s export competitiveness and may improve its trade deficit over time. But abrupt and sizeable currency depreciation may scare foreign investors who fear the currency may fall further, and lead to them pulling portfolio investments out of the country, putting further downward pressure on the currency.”*⁴

(Source: Investopedia 2018)

Depreciation is opposite of appreciation. It's very often caused by import decreasing, or decreasing of transportations. Depreciation is having significant impact on domestic trader. Decreasing of foreign currency, makes cheaper import for domestic countries, or traveling to foreign country. In forex market depreciation is very caused by currency surplus, then

³ <https://www.economicshelp.org/blog/10050/economics/effects-appreciation/>

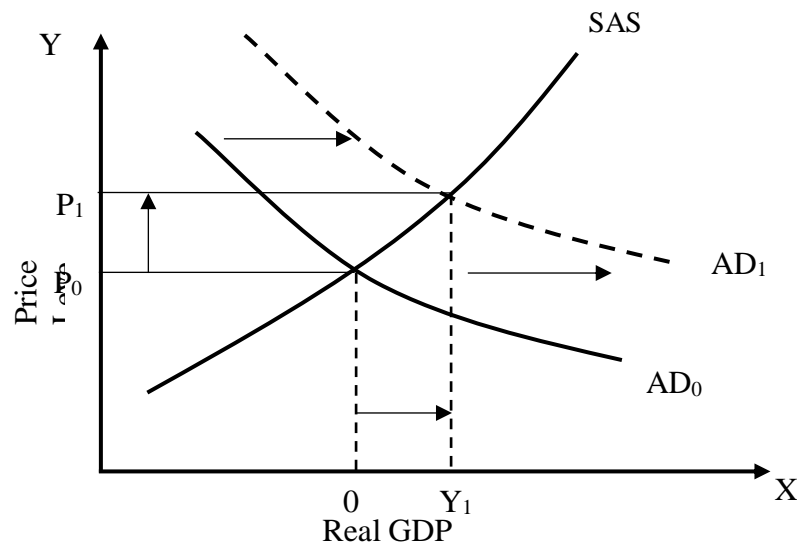
⁴ <https://www.investopedia.com/terms/c/currency-depreciation.asp>

market decrease value to support sales of currency, and gain back domestic currency to enable trade with another currency.

1.7.1 The effect of currency Depreciation

- Exports are cheaper. A devaluation of the exchange rate will make exports more competitive and appear cheaper to foreigners. This will increase demand for exports.
- Imports more expensive. A devaluation means imports, such as petrol, food and raw materials will become more expensive. This will reduce demand for imports.
- Increased aggregate demand (AD). A devaluation could cause higher economic growth. Part of AD is (NX) therefore higher exports and lower imports should increase AD (assuming demand is relatively elastic). In normal circumstances, higher AD is likely to cause higher real GDP and inflation.⁵

Figure 2: Graph shows depreciation-caused net export's rise which leads to the increase in both GDP and price level.



(Source: Made by author, based on sources from the Internet.)

⁵ <http://www.economicdiscussion.net/foreign-exchange-rate-2/effects-of-depreciation-and-devaluation-of-the-exchange-rate/10855>

- Inflation is likely to occur following a devaluation because:
 - imports are more expensive – causing cost push inflation;
 - AD is increasing causing demand pull inflation;
 - with exports becoming cheaper manufacturers may have less incentive to cut costs and become more efficient.

- Improvements in the current account. With exports, more competitive and imports more expensive, we should see higher exports and lower imports, which will reduce the current account deficit.

- Wages. A devaluation in the currency makes the country less attractive for foreign workers. For example, with fall in the value of the Kazakh Tenge, migrant workers from Uzbekistan may prefer to work in Russia than the Kazakhstan.⁶

1.8 Foreign exchange market

The foreign exchange market also called forex, FX, or currency market that trades currencies. Aside from providing a floor for the buying, selling, exchanging and speculation of currencies, the forex market also enables currency conversion for international trade and investments.⁷ The main participants in the Forex exchange rate are central banks and governments, they control the money supply in the country. Banks are service providers for investment companies, corporations, speculators and investors. All of those generate profit based on the movement of exchange rates and some of them, as speculators and investors provide payments abroad.

At present, it is also possible to open a so-called “mini account”. Trade can be done with just a few thousand tenge through various intermediaries using various forex platforms. The advantages are, apart from the higher first deposit, also the possibility of opening different

⁶ <http://www.economicshelp.org/macroeconomics/exchangerate/effects-devaluation/>

⁷ <https://www.investopedia.com/terms/f/foreign-exchange-markets.asp>

demo accounts where you can trade independently. Also, the brokerage fees which are the part of transactions, as they are already included in the foreign exchange differences. Another advantage is the size of the market and hence high liquidity. The market also cannot be controlled by central banks and institutions. Forex trading can also bring high profits through leverage. It works on the principle of speculative account where the broker sets, for example, \$ 1,000 as a guarantee for the position of every traded \$1,000 dollars. If the trader should lose the position it is encouraged by the broker to place additional money or to close the position. Therefore, it is possible even at low input of capital, to achieve higher profits. However, it should be noted that it has high volatility, because in a short time it is possible to lose most of the capital.⁸ A daily traded currency is in average worth \$ 5.3 trillion. Forex market so far exceed the stock markets and bond markets. This market scope includes most countries in the world and the largest centers of currency transactions includes four main centers Tokyo, London and New York. It is estimated that around 15 % of trading volume in forex is performed by corporations and governments that buy and sell goods and services abroad, and 85% of trades constitute of investment with the aim of making a profit on currency movements.

1.9 Exchange rate systems

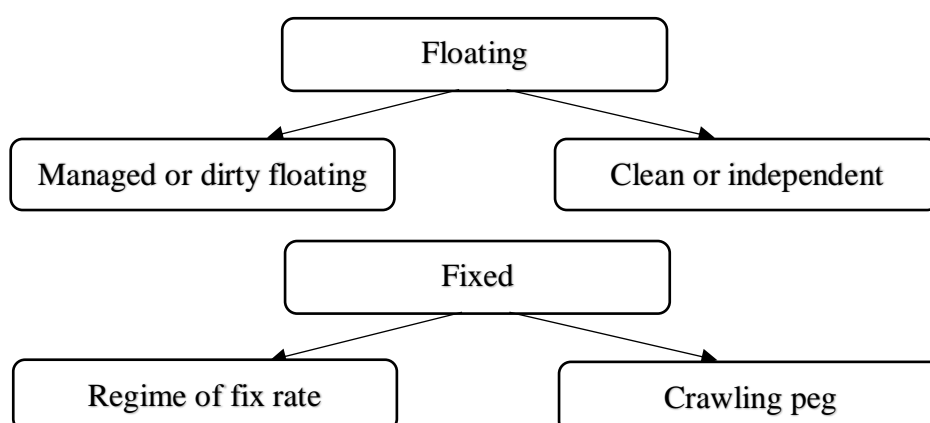
In terms of determination of exchange rates, it is important to know at what exchange rate regime currency is convertible, and not freely convertible. In terms of its convertibility it can be divided into two types of currency: **convertible** and **non-convertible**. Convertible ones are divided according to their degree of convertibility: **internal** or **external** convertibility. Those can be readily bought or sold without government restrictions, and used to purchase another currency. A convertible currency is a liquid instrument when compared to currencies tightly controlled by a central bank or other regulating authority. **Nonconvertible** currency is one that is used primarily for domestic transactions and is not openly traded on a forex market. This usually is a result of government restrictions, which prevent it from being exchanged for foreign currencies (Central Bank, Ministry of Finance etc.). The exchange

⁸ (Hartman & Turek, 2009)

rate would normally cause perform its basic function in domestic companies, with the necessary information of the actual prices abroad. The economy isolation from the outside of the world contributes inefficient functioning of domestic companies.

External convertibility is defined by Article VIII of the IMF Agreement, which requires a minimum of convertibility for transactions on the current account of the balance of payments. Such currency is then normally exchanged on the forex market. If convertible currency is given freely for all transactions throughout the balance of payments, then we consider it fully convertible. Therefore, external convertibility still does not mean full convertibility. Convertible currencies can work in two basic rate regimes:

Figure 3: Types of floating and fixed exchange regimes.



(Source: Personal made, representation of exchange rate regimes)

1.9.1 Currency exchange regimes

Floating exchange rate

A floating exchange rate, sometimes referred to as clean or pure float, is a flexible exchange rate system solely determined by market forces of demand and supply of foreign and domestic currency, and where government intervention is totally inexistent. The concept of floating exchange rates was not a genuine reality until the Bretton Woods agreement and the International Monetary Fund (IMF) were created to facilitate systems of exchange. Before

that, the gold standard, whereby the value of a piece of currency was directly linked to a specific quantity of gold, was the prevalent method of currency valuation around the world. Activity in the foreign exchange (forex) markets determines the exchange rates for floating currencies because those markets reflect the supply and demand for a particular currency.

Fixed exchange rate

Fixed exchange rate ties the official exchange rate to another country's currency. The purpose of a fixed exchange rate system is to maintain a country's currency value within a narrow band. It also helps the government to maintain low inflation rate, which, in the long run, keeps interest rates down and stimulates trade and investment. Most major industrialized nations have been floating exchange rate systems since the early 1970s while developing economies continue to have fixed rate systems.

Currency Board

A currency board is an exchange rate regime based on the full convertibility of a local currency into a reserve one, by a fixed exchange rate and 100 percent coverage of the monetary supply backed up with foreign currency reserves. Therefore, in the currency board system there can be no fiduciary issuing of money. As defined by the IMF, a currency board agreement is “a monetary regime based on an explicit legislative commitment to exchange domestic currency for a specific foreign currency at a fixed exchange rate, combined with restrictions on the issuing authority”. For currency boards to work properly, there must be a long-term commitment to the system and automatic currency convertibility. This includes, but is not limited to, a limitation on printing new money, since this would affect the exchange rate.⁹

This system is very effective in the fight against inflation, because we know that high inflation is always a result of excessive emissions of money in the domestic economy, which is not in the context of the currency board possible, because the central bank can emit new money and increasing the money supply only in the event occurring pressure on the appreciation of the domestic currency.

⁹ <http://policonomics.com/currency-board/>

In case that labor productivity in the domestic economy is growing slower than the country's reference currency, domestic companies can gradually lose competitiveness. This will negatively affect in particular the current account deficit and the demand for foreign currency will exceed its supply. Therefore, downward pressure on the domestic currency may become unsustainable. Another problem may be growing indebtedness of the domestic economy, where foreign investors lose confidence in the solvency of the government and the domestic economy will begin to suffer.

Crawling Pegs

Crawling pegs represents a process of currency being adjusted periodically in small amounts at a fixed rate, or in response to changes in selective quantitative indicators. For example, past inflation differentials of major trading partners, differentials between the inflation target and expected inflation in major trading partners, and so forth. The rate of crawl can be set to generate inflation-adjusted changes in the exchange rate (backward looking), set at a preannounced fixed rate and/or below the projected inflation differentials (forward looking). Maintaining a crawling peg imposes constraints on monetary policy in a manner like a fixed peg system.

Gold standard compare to Currency Board

Gold standard in its genuine form functioned in the years 1860–1914. The currency board basically represents essential monetary arrangement very similar to the gold standard. We know that during the functioning of the gold standard only full-fledged money was used. All newly issued banknotes had to be completely covered with gold. The amount of money in circulation were limited to stash of gold. Autonomous monetary policy that does not existed, as well as the currency board.

1.10 Foreign exchange interventions

A foreign exchange intervention (or currency intervention) is a monetary policy tool that a central bank uses when taking legal participatory role in influencing the monetary funds and

transfer rate of the national currency. Central banks, especially banks in developing countries, intervene in the foreign exchange market in order to build reserves, stabilize the exchange rate and to correct misbalance.

Another definition of foreign exchange rate: *“Currency interventions or forex interventions – occur when a central bank purchases or sells the country's own currency in the foreign exchange market in order to influence its value. The practice is relatively new in terms of monetary policy, but has already been used by several countries including Japan, Switzerland and China to control currency valuations. For the most part, currency interventions are designed to keep the value of a domestic currency lower relative to foreign currencies.*

Higher currency valuations cause exports to be less competitive, since the price of products are then higher when purchased in a foreign currency. As a result, a lower currency valuation can help improve exports and drive economic growth.”

(Kuepper, 2016)

Forex Intervention is financial tool that is intended to decrease price of domestic currency. Purpose of this tool is to support domestic export to boost domestic economy. Higher prices of foreign currency cause higher prices for import, and that has impact on purchasing power. In fact, this causes higher production in domestic country, which has impact on employment. Higher employment causes higher wages, which reduce prices of foreign products. Intervention doesn't work with pair currency; therefore, higher price of EUR causes higher price of dollar and other currencies.¹⁰

The main objective of the intervention is to influence the exchange rate of the domestic currency. This can be performed in two basic ways, directly and indirectly. Indirect intervention is involving a change of central bank interest rates in order to influence the movement of foreign capital. Growth rates would lead to a decrease in the outflow of foreign capital. This movement leads to a change in the relationship between supply and demand of foreign currency for domestic currency, thus changing the exchange rate. Direct (FX) intervention of the central bank buys or sells domestic currency for foreign currency. In this

¹⁰ https://www.cnb.cz/cs/faq/menovy_kurz_jako_nastroj_menove_politiky.html

case, there is a change in demand or an offer of foreign currency for domestic currency with an impact on exchange rate.¹¹

The main reasons of Central Bank interventions

The most common reason for central bank intervention in the last decade or so is because of a sharp or sudden decline in the value of a currency. However, it can be problematic for a nation to use market intervention whenever the currency value declines in the foreign exchange market. Export-dependent countries could spiral into recession if they become too confident with market intervention. Global trading partners' exchange rates will rise as well, while the prices of their exports will increase within the global market place. A decline in value of a nation's currency can also lead to an increase in inflation as prices of imported services and goods will go up. Subsequently, interest rates will be magnified by the central bank but will unfortunately disturb the economic growth and asset markets, and possibly develop into a decline of the currency's value. Nations with large budget deficits rely on foreign inflows of capital. A decline in the value of a currency can cause major financial difficulty for countries with high budget deficits. Financing the deficits will be extremely delayed and will increase the risk of economic growth of a nation. In order to maintain the value of the currency, there will have to be an elevation of interest rates. It is imperative that central bank takes the correct measures without focusing entirely on the value of its currency, otherwise forex market intervention could potentially hurt the nation's economy.

1.11 The law of one price

The law of one price is the economic theory that the price of a given security, commodity or asset has the same price when exchange rates are taken into consideration. The law of one price is another way of stating the concept of purchasing power parity. If the price of a security, commodity or asset is different in two markets, then an arbitrageur purchases the asset in the cheaper market and sells it where prices are higher. When the purchasing power parity doesn't hold, arbitrage profits will persist until the price converges across markets.¹²

¹¹ Revenda, Mandel, Kodera, Musílek, & Dvořák, 2004

¹² <https://www.investopedia.com/terms/l/law-one-price.asp>

The law of one price helps to prevent investors from taking advantage of a price disparity between different markets in a situation known as *arbitrage*. If a price of a good available for \$300 in Market A but is selling for the equivalent of \$600 in Market B, investors could purchase the security on Market A and immediately sell it for \$600 on Market B, netting a profit without any risk or shifting of the markets. As securities from Market A are sold on Market B, prices on both markets shift in accordance with the changes in supply and demand. Over time, this would lead to a balancing of the two markets, returning the security to the state held by the law of one price. In efficient markets, the occurrence of arbitrage opportunities are low, most often caused by an event causing a sudden shift occurring in one market before the other markets are effected.

1.12 Purchasing power parity

The alternative to using market exchange rates is to use purchasing power parities (PPPs). The purchasing power of a currency refers to the quantity of the currency needed to purchase a given unit of a good, or common basket of goods and services. Purchasing power is clearly determined by the relative cost of living and inflation rates in different countries. Purchasing power parity means equalizing the purchasing power of two currencies by considering these cost of living and inflation differences.

This is how the relative version of PPP is calculated:

$$S = \frac{P_1}{P_2}$$

Where:

S – represents exchange rate of currency 1 to currency 2

P₁ – represents the cost of good "x" in currency 1

P₂ – represents the cost of good "x" in currency 2

For example, if we convert GDP in Europe to US dollars using market exchange rates, relative purchasing power is not considered, and the validity of the comparison is weakened.

By adjusting rates to consider local purchasing power differences, known as PPP adjusted exchange rates, international comparisons are more valid.¹³

Purchasing power parity exists in absolute and relative versions. It's an economic theory which relates the exchange rate and prices of goods and services in two countries. Absolute version deals with the definition of the exchange rate and brings static view. Relative version examines the causes of exchange rate movements and expresses dynamic view.

1.12.1 The absolute version of PPP

Absolute version of purchasing power parity does not compare only one product or service, but focuses on the overall price level in both countries. Exchange rate compares the price levels of goods and services in both countries that make up the consumer basket. According to the theory of absolute purchasing power parity, the price level is recalculated on the exchange rate, and it should be the same in both countries.

The exchange rate in a direct quotation corresponds to the ratio of the:

$$ER_{ppp} = \frac{P_d}{P_f}$$

- domestic price level P_d (price of domestic product)
- foreign price level P_f (the price of foreign product). This creates an equilibrium exchange rate ER_{ppp} ¹⁴

1.12.2 Interest rate parity

Interest Rate Parity (IRP) is a theory in which the differential between the interest rates of two countries remains equal to the differential calculated by using the forward exchange

¹³ http://www.economicsonline.co.uk/Global_economics/Purchasing_power_parity.html

¹⁴ (Žamborský, Taušer 2003)

rate and the spot exchange rate techniques. Interest rate parity connects interest, spot exchange, and foreign exchange rates. It plays a crucial role in Forex markets.

IRP theory comes handy in analyzing the relationship between the spot rate and a relevant forward (future) rate of currencies. According to this theory, there will be no arbitrage in interest rate differentials between two different currencies and the differential will be reflected in the discount or premium for the forward exchange rate on the foreign exchange.

The theory also stresses on the fact that the size of the forward premium or discount on a foreign currency is equal to the difference between the spot and forward interest rates of the countries in comparison.

1.13 Foreign trade and foreign exchange rate

Foreign trade gives consumers and countries all around the world the opportunity to demonstrate the goods and services not available in their own countries. Almost every kind of product can be found on the international market from food, clothes all the way to oil, jewelry and currencies. Services are also traded: tourism, banking, consulting and transportation. Global trade allows wealthy countries to use their resources whether it is labor, technology or capital, and tries to make it more efficient. Because countries have different assets and natural resources such as land, labor, capital and technology, some of them may produce the same good more efficiently and therefore sell it more cheaply than other countries. If a country cannot efficiently produce an item, it can obtain the item by trading it with another country which is able to produce it. This is process called specialization in international trade. It basically helps to maintain the balance between production and trading good and services among the countries.

Changes in the exchange rate flows differently in large and small economy. Organization for Economic Co-Operation and Development examined the effect of exchange rate fluctuations on a small open economy and concluded, that these economies are affected more than large economies. The research results show that small open economies must be borne and almost entirely change in the exchange rate. The reason is little diversification of production and export base, if the growth in import prices due to the depreciation of the domestic currency, the number of domestic producers are small and insufficient to substitute foreign products

with domestic production. The size of the impact of depreciation depends on the business partner and the sector.

Organization for Economic Co-Operation and Development came with the claim that agricultural products are more sensitive to changes in the exchange rate over-manufacture products. One of their conclusions is that the relationship of the exchange rate and foreign trade mainly depends on the price elasticities of each traded product, the market share within the trade in the product, product composition of imports and exports and pricing strategies of importers and exporters. Also, the amount of the impact on foreign trade will eventually be reflected in other economic indicators, increased export has a positive effect on reducing unemployment, accelerate innovation processes and economic growth.

Reasons for foreign trade

No matter how attractive someone's product or service seems to be, a strictly limiting themselves to their domestic market will have a finite capacity. Because of these limitations wise business owners are looking to go global and exploit many foreign trade opportunities – after all, in the global economy, practically every country is a potential customer.

Following points explain the need and importance of foreign trade to a nation:

- **Optimum allocation and utilization of resources**

Due to specialization, unproductive lines can be eliminated and wastage of resources can be minimized or avoided. In other words, resources are connected to produce only those goods which would give highest returns. Therefore, there is rational allocation and utilization of resources at the international level due to foreign trade.

- **Economies of scale**

Producer may increase production volume to achieve higher profits, because of the average cost of production growth declining. If the domestic market is already saturated, the company can balance surpluses abroad.

- **Between production and consumption**

The country is not able to cover consumption of their inhabitants by its production capacity.

- **Promotes World Peace**

Foreign trade brings countries closer. It facilitates transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements. Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

- **Raises Standard of Living of the people**

Imports can influence life standard in the country. This is result of the fact that people can have a choice of new and perhaps better varieties of goods and services.

- **Ensures quality and standard goods**

Foreign trade is highly competitive, in order to maintain and increase the demand for goods, which forces the exporting countries to keep up high level of quality of goods. Therefore, foreign trade ensures the quality and standardized goods.

Currency exchange rate and trade

The intermediary of monetary policy which would lead the country out of a liquidity trap is the exchange rate. The exchange rate in a direct quotation shows the price of a foreign currency unit expressed in domestic currency units. Indirect quotation of the exchange rate shows the price of domestic currency units expressed in foreign currency units. Spot exchange rate is the exchange rate quotations of currency spot contracts with settlement within two business days. Designation forward exchange rate is used in the derivative currency market, where settlement occurs later.

The exchange rate is one because of its strong influence on the balance of payments and other macroeconomic variables among the most important price in the economy. Usually it is expressed as the average daily nominal exchange rate of domestic currency, against foreign currencies. Its size is formed and based on foreign exchange supply and demand. The exchange rate affects the structure of output and investment, operating on the labor market and prices and its misalignment can lead to inefficient allocation of domestic

absorption and external trade.¹⁵

Exchange rate and net exports in the long and short term

The exchange rate effects the size of net exports differently, in long and short term. Demand for the domestic currency of the country consists of exports of goods and services for home country (currency demanded the bodies of other countries to pay for exports) and capital inflows into the country. The demand curve for the currency in the long term has a negative slope. Supply of domestic currency consists of imports of goods and services and capital outflows. Supply curve currency in the long term has a positive slope.

If, after all, foreign demand has increased, domestic manufacturers have a predetermined production plan and a certain number of employees, it would not be able in the short term to produce more goods. In the short term therefore, there is a stagnation of exports. Import in the long term after depreciation decreases due to its relatively higher prices than domestic production. In the short term, however, it can grow. When buying imported goods domestic participants exchange domestic currency for foreign. After depreciation of the exchange rate, greater amount of domestic currency must be issued for each unit of foreign currency. Because in the short term, as is the case with the export, domestic demand is inelastic, import costs will rise. Net exports will be negative in the short term, due to stagnant exports and increasing imports. It was shown that the change in exports and imports in the short period after the initiation of foreign intervention in the country, there is stagnation of export value and import value growth.¹⁶

The exchange rate in the short term

The short term of the exchange rate is affected by short-term inelasticity of foreign demand, exports of the countries and even inelasticity of demand caused by exported goods from domestic countries. This occurs, for example in the short-terms, when depreciation of the domestic currency declines in the balance of goods and services. It can also be explained by curve, it has the shape of the capital letter J, and therefore we talk about J-curve phenomenon. Where, the price elasticity of demand for exports (imports) means the percentage change in

¹⁵ (Sevensson, 2001)

¹⁶ (Neuman, Žamborský, & Jiránková, 2010)

exports (imports), which was triggered by the percentage change in price.¹⁷

1.14 Determinants of Foreign Trade

The exchange rate is consistently fluctuating and affecting international economy and foreign trade in general. Therefore, there are many factors that influence the exchange rate. The most common factors that affect the exchange rate are: include interest and inflation differentials, current-account deficits, central bank intervention, purchasing power parity theory and political stability and economic performance.

Differentials in Inflation

Country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies. During the last half of the 20th century, the countries with low inflation included Japan, Germany and Switzerland, while the U.S. and Canada achieved low inflation only later. Those countries with higher inflation typically see depreciation in their currency in relation to the currencies of their trading partners. This is also usually accompanied by higher interest rates.

PPP Theory

Economists argue that if the exchange rate moves too far away from its PPP, trade and financial flow can move into disequilibrium. Others suggest that PPP is too narrow a measure because it only includes traded goods, which make up only part of a country's economy. Some economists prefer to use the newer Fundamental Equilibrium Exchange Rate that considers all three: traded goods, services and capital flows.

¹⁷ (Author: Ing. Vendula Hynková, Ph.D.)

Differentials in Interest Rates

Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impacts inflation and currency values. Higher interest rates offer lenders in domestic economy a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise. The impact of higher interest rates is mitigated, however, if inflation in the country is much higher than in others, or if additional factors serve to drive the currency down. The opposite relationship exists for decreasing interest rates – that is, lower interest rates tend to decrease exchange rates.

Current-Account Deficits

The current account is the balance of trade between a country and its trading partners, reflecting all payments between countries for goods, services, interest and dividends. A deficit in the current account shows the country is spending more on foreign trade than it is earning, and that it is borrowing capital from foreign sources to make up the deficit. In other words, the country requires more foreign currency than it receives through sales of exports, and it supplies more of its own currency than foreigners demand for its products.

Political Stability and Economic Performance

Foreign investors inevitably seek out stable countries with strong economic performance in which to invest their capital. A country with such positive attributes will draw investment funds away from other countries perceived to have more political and economic risk. Political turmoil, for example, can cause a loss of confidence in a currency and a movement of capital to the currencies of more stable countries.

Analytical Part: Fluctuation and impact on foreign trade in Republic of Kazakhstan

Kazakhstan is a country in Central Asia, with the coast on the Caspian Sea and it is bordering with Russia, China, Turkmenistan, Kyrgyzstan and Uzbekistan. It can be said with great certainty that Kazakhstan has used the great potential of its natural resources, particularly energy resources, that resulted in trade surplus. However, there might be a lack of product diversification present, also its export markets are mainly consisting of China and few European countries. Imports on the other hand arrive mainly from Russia and China. Therefore, Kazakhstan must take steps to finalize WTO accession to have access to a wider range of markets. It is also noteworthy that the Russia-Belarus-Kazakhstan Customs Union should increase regional trade opportunities. In order to enhance trade competitiveness, Kazakhstan must address issues related to its dependence on natural resources, low productivity, inadequate trade logistics, insufficient regional and global integration, limited financial access for SMEs, and weak quality management infrastructure.

1.15 Historical Currency Exchange Rate Development

After Soviet Union collapsed in 1990s, several republics, since then independent, tried to keep a common currency. Despite the collapse of Soviet Union, more or less the whole world expected that these countries will at least keep good political and economic relations. All this was very important for ruble zone also. After the mentioned collapse, the Central Bank of Russia continued to operate the Gosbank services (name of the Bank of the USSR). This resulted in prolonged and continued sending of ruble to banks of now independent countries, including the Gosbank unit in Kazakhstan.

However, after political turmoil, and whole atmosphere surrounding post-Soviet era, maintaining a common currency was not possible for these countries. One of the main reasons that it did not work was lack of consensus on monetary and fiscal targets and specific legislation. These things were very difficult to reach at that time, and still are today if we have in mind that it involves agreement between relatively large number of different countries.

This form of instability and certain uncertainty existed until 1993, when the total collapse of the ruble zone happened, after Russia withdrew from this “deal”, and by doing that, leaving many countries with nowhere to go, so to speak. As a result, Kazakhstan was expelled from the ruble zone, being practically forced to create its own currency

On November 15, 1993, national currency of Kazakhstan it was established. At the time, the following rate was used: 1 tenge to 500 Russian rubles. Because of lack of appropriate structure at the time, the first printing of banknotes and coinage was not done in Kazakhstan. The bank notes were created in a printing factory in the UK and the first coins were minted in Germany. In early 2014, the Kazakh National Bank decided to devalue the tenge in the range of 19 % against the dollar due to the weakening of the Russian ruble. Today 1 dollar equals 335 tenge.¹⁸

1.15.1 Currency pair KZT and USD

The period of 2013 and 2014 were full of actions related to exchange rate. Until 2013 the tenge was using so called a managed float exchange rate, which was used till September of the same year when it was decided to change the exchange regime to fixed one, which was basically causing peg (or fixing) of the domestic currency to the US dollar and the Russian ruble. When suddenly in 2014 the Russian ruble began to fall in value, which forced the Kazakh National Bank to decrease the value of the currency by 19% against the USD. After all those actions, finally, in August of 2015 the country decided to float the currency freely, without any restrictions. Which from the governmental point of view was logical move towards economic liberalization, but caused the currency to tumble 30%.¹⁹ In the graph below you can see the changes in exchange rate comparing to USD. Which clearly shows all the actions, that was mention previous.

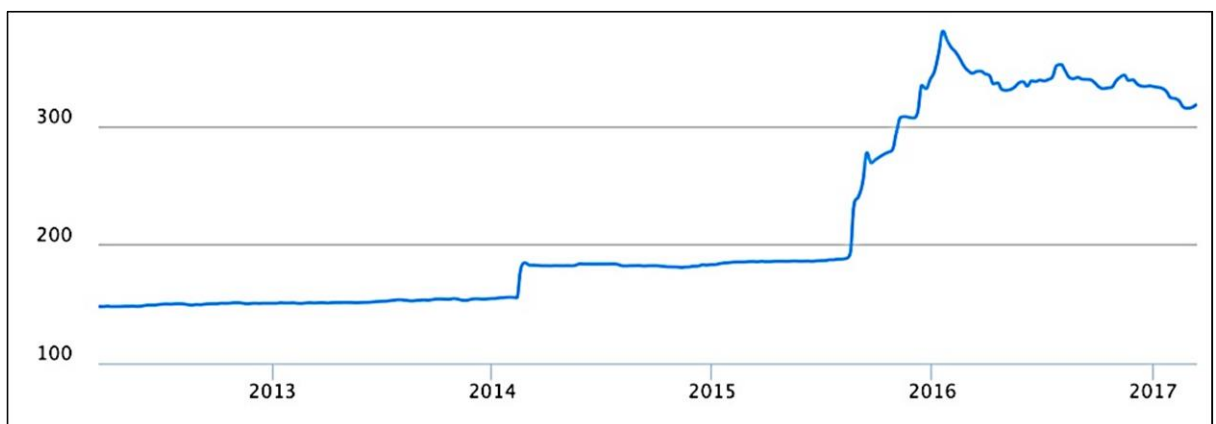
¹⁸<http://currencyinformation.org/>

¹⁹ <https://blog.continentalcurrency.ca/kazakhstani-tenge/>

Development of exchange rate from 1995–2018:

- 1995: 1 USD = 61.11 KZT
- 2000: 1 USD = 142.26 KZT
- 2005: 1 USD = 132.88 KZT
- 2017: 1 USD = 317.13 KZT
- 2018: 1 USD = 331.75 KZT

Figure 4: Graph below shows changes in exchange rate KZT to USD



(Source: TRADING ECONOMICS)

1.16 Export strategy of Republic of Kazakhstan

The success of national export strategy of Kazakhstan is related to successful export programs to other countries. The ministry of economy presented the program called “National Export Strategy of Kazakhstan” for 2018-2022. This program aims to achieve the strategic goals determined by so-called “Kazakhstan 2050,” where perhaps the most important goals are to double the export in non-oil sector by year 2025, in comparison with 2015. It is also proposed to setup increase of the scope of non-resource based products export for 1.5 times by 2022 in comparison with 2015, and furthermore to increase export of non-resource based goods to the countries of important contribution to the economy strategy.

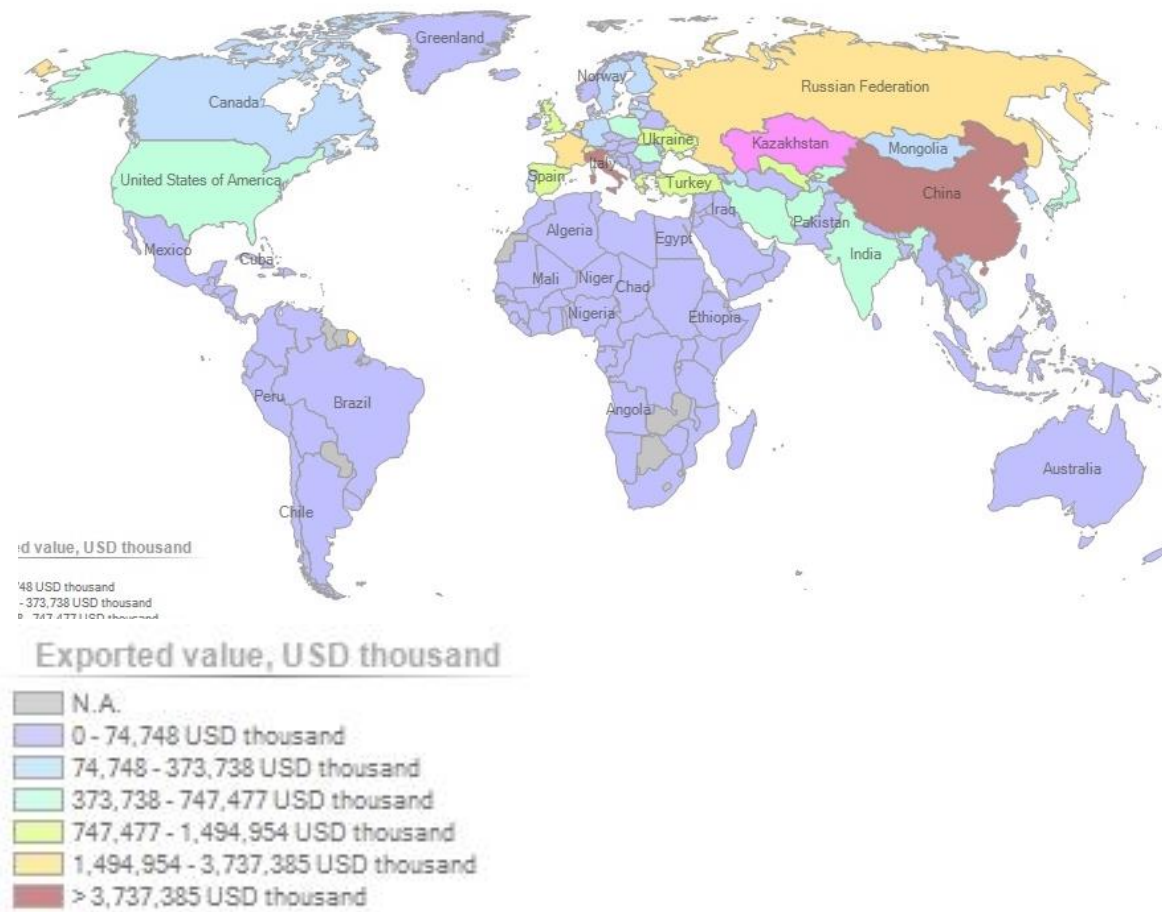
These countries, important for economy strategy, and all regions of Kazakhstan are supposed to have offices of Sole operator, which will provide supporting the export in their locations,

and provide attraction of local executives for execution of main directions of export policy of the republic. Implementation of the this “sole window” is allowing the state bodies and institutes to improve their efficiency and quality, to reduce the periods of providing services, to simplify administrative procedures. Also, the exporters would benefit because implementation of the “sole window” will reduce cost and time, simplify communication with government bodies.

Export of goods and its future direction of development is also affected by these factors: transport accessibility, index of complementarity between the countries that import from Kazakhstan and countries import comes from to Kazakhstan, and extent of export of non-resource based goods, mentioned above. There are 27 countries that have significant importance when it comes to exporting goods and services and they have been separated by the level of export interest for Kazakhstan to: priority countries (Russia, China), high level (Belarus, India, Iran, Kyrgyzstan, Turkey, Uzbekistan, Ukraine) and medium (Azerbaijan, Armenia, Afghanistan, Georgia, Latvia, Mongolia, Netherlands, Poland, Tajikistan, Turkmenistan) level of export interest. Furthermore, special category consists of countries that express certain long term interest (Great Britain, Germany, Italy, Finland, France, Switzerland, South Korea, Japan).

The program mentioned above includes providing financial and also non-financial support for exporters, and basically elimination of different kinds of barriers that prevent development of export. As part of that scope, improving export of goods in Republic of Kazakhstan, on a more practical note, it is required to speed up the process of mutual application of the electronic declaration of goods, which will lead into reduced time necessary for customs registration and less expenses in logistical terms.

Figure 5: List of imported markets for a product exported by Kazakhstan (2016)



(Source: ITC)

Map above presents markets which import product exported from Kazakhstan, where we can see such countries as Russia, Turkey, Ukraine, Spain, India, Norway, Mongolia etc. The average exported value for countries belonging to the range of 373,738 to 3 billion is 2,008,844,375. USD. From the top imported markets for a product exported from Kazakhstan we can list China, Russia, Japan, Uzbekistan. As expected, Russia is highly listed in this comparison of amount of import of goods from Kazakhstan, having in mind the historical, political and economical relations. Same fact holds for China, interestingly Italy is also very significant in this sense. Also, as it could be expected the least number of products from Kazakhstan are imported into African and South American nations.

1.17 Development of foreign trade in Republic of Kazakhstan

Foreign trade of Republic of Kazakhstan is certainly affected by the exchange rates, but even other sectors of the country's economy are affected. Goods make up 92.4% of exports, and are, as it was mentioned above, composed mainly of oil and gas-related products, while services account for only 7.6% of exports. Export diversification of goods has big influence on the development and success of country's exports, and in the case of Kazakhstan it mainly lies in the chemical and the basic manufactures sector, for example pig iron, non-alloy, potassium chloride, semi-finished products of iron or non-alloy steel, and potassium chloride are some of top products for diversification. Some of already existing export products such as metals and vegetable products have increased export potential. The same can hold the truth for some other products that are being exported, such as wheat flour, which has strong expansion opportunities in Europe and Central Asia, and non-OECD countries in general. These great potential amounts to an unrealized export potential of staggering \$930 million. The increased activity and importance of small and medium-sized enterprises and increased female participation in the economy sector contribute to further development of this field. The SME Competitiveness Grid which gives certain assessment of "health" in country's enterprises environment, says that Kazakhstan's immediate business and national environments have average scores in all 3 important factors of competitiveness. Nevertheless, it is important to note that the country underperforms on the ease of trading across borders. Few Kazakh firms have audited financial statements, and bank loans fund a relatively small proportion of investments. However, the country scores well on government online services.²⁰

Table below shows top potential export products of Republic of Kazakhstan. Where on the first positions is copper cathodes and sections of cathodes unwrought, it is mostly exported to countries, which are member of OECD (Organization for Economic Co-operation and Development). Products such: Natural uranium compounds; mixtures cntg natural uranium/its compounds, Cotton-seed oil crude, Natural uranium compounds are highly demanding in countries of Europe and Central Asia. Aluminum oxide has 100% rate in exporting to OECD counties. For the low demanding or less exported goods we can list such

²⁰<http://www.intracen.org/layouts/CountryTemplate.aspx?pageid=47244645034&id=47244652104>

products as Copper Cathodes and sections of cathodes unwrought and Hot roll iron/steels, coil >600mm x <3mm in countries of non-OECD members.

Table 1: Top potential export products of Republic of Kazakhstan

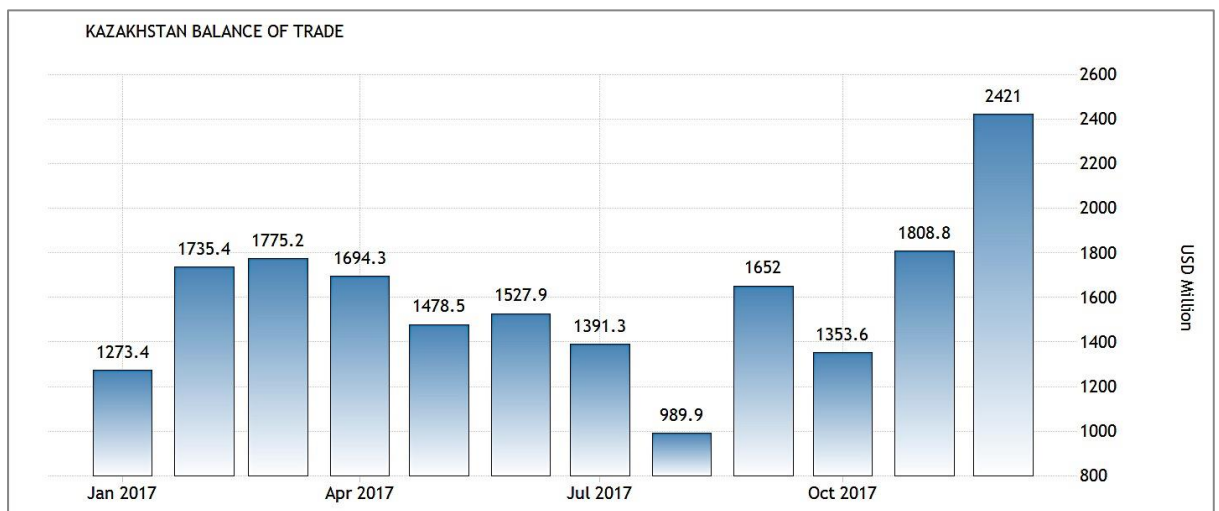
Product description	Export (USD thousand)	Europe and Central Asia	non – OECD	OECD
Copper Cathodes and sections of cathodes unwrought	2,326,588	27 %	5 %	33 %
Natural uranium compounds; mixtures cntg natural uranium/its compounds	1,967,943	76 %	66 %	31 %
Ferro chromium containing by weight more than 4 % or carbon	1,595,377	28 %	31 %	15 %
Wheat and meslin, except durum	913,206	18 %	23 %	54 %
Wheat or meslin flour	569,929	57 %	54 %	100 %
Wheat and meslin, except durum	433,519	46 %	58 %	48 %
Aluminum unwrought, not alloyed	369,980	56 %	24 %	67 %
Aluminum oxide	245,141	18 %	29 %	100 %
Hot roll iron/steel, coil > 600 mm x < 3 mm	215,994	80 %	9 %	89 %
Ferro-silico-manganese	191,934	55 %	48 %	65 %
Ferro-silico-chromium	130,984	83 %	87 %	12 %
Phosphorus	120,952	32 %	91 %	41 %
Cotton, not cared or combed	79,310	77 %	84 %	92 %
Fish fillets, frozen	76,870	39 %	46 %	63 %
Cotton-seed oil crude, whether or not gossypol has been removed	15,453	96 %	96 %	100 %

(Source: ITC's calculations based on country data)

1.18 The foreign trade balance

Statistically Kazakhstan's trade surplus increased by amount of USD 2421 million in December of 2017, from 1418.4 million US dollars in the same month a year ago. Exports scored 30.4 percent to USD 5,220 million and imports rose at a softer 8.3 percent to USD 2,799 million. Previous year (2017), the trade surplus was up by 67.6 percent to 19 billion US dollars. Sales rapidly increased by 31.6 percent to USD 48.3 billion, encouraged by larger shipments of mineral products, (showed 68.6 percent of total sales); articles thereof and metals have 18.1 percent and chemicals and allied industries products equal to 5.1 percent. Meanwhile, imports increased 15.5 percent to USD 29.3 billion, driven by purchasing such products as: machinery, equipment, vehicles and tools, total create the number of 37.7 percent of total imports; chemicals and allied industries products 16.7 percent and metals and articles 11.7 percent. The main exports partners were Italy with percentage score 17.9 percent and China with 12 percent. While the leading import partners were Russia and China with rate of 39.2 and 16 percent. Balance of Trade in Kazakhstan averaged shows 1453.10 USD Million from 1998 until 2017, reaching an all-time high of 6771.90 USD Million in June of 2011 and a record low of -22.10 USD Million in November of 1998.²¹

Figure 6: Graph below shows changes in Balance of Trade in the Republic of Kazakhstan (2017)



(Source: tradingeconomics.com; Agency of Statistic of the Republic of Kazakhstan)

²¹ <https://tradingeconomics.com/kazakhstan/balance-of-trade>

1.19 Structure of Kazakh trade

Since the economy of Kazakhstan depends very much on revenues that come from natural resources, like oil and gas, the export of this products stays between range of 75 to 80% of its total export. The fact of creation of Custom Union with Belarus and Russia in 2011, which eventually was transformed into the Eurasian Economic Union (the EEU) was quite reasonable since Russia remains to be the largest trade partner of Kazakhstan, accounting for nearly 20 % of its total outgoing trade. However, the trade flow of Kazakhstan is lower when it comes to exports. Overall the period of 2011 and 2014 the share of the EEU in total exports of Kazakhstan wasn't showing increase above 10%. However, by 2015, the EEU's total exports from Kazakhstan reached 11.14%. This change of percentage shares of trade is basically stays on two effects. Firstly, as it is shown further, the Kazakhstan's exports much more natural products, such as oil products, to countries outside the EEU than to its EEU partners. Decreasing trend of oil prices, was growing in the second half of 2014, which caused the increase the percentage share of the EEU countries in total exports of Kazakhstan. Secondly, in 2015 countries like Armenia and Kyrgyzstan joined the EEU, and became member with making the relative share of the EEU larger.

If to compare EEU member states and non-EEU countries as the two main export destinations of exports from Kazakhstan, then we can note that decreasing patterns of exports to the EEU in particular sector is usually accompanied with increasing of exports to non-EEU countries. This regularity is more applicable for period of 2012–2014 and to lesser extent for 2015.

Table 2: Table of exports to EEU-member states

	2012		2013		2014		2015	
	Exports in mln USD	Year to year % change	Exports in mln USD	Year to year % change	Exports in mln USD	Year to year % change	Exports in mln USD	Year to year % change
Exports to EEU-member states	6 228.7	-12.3	5 933.6	-4.7	6 449.9	8.7	5 120.3	-20.6

Agriculture	159.4	91.4	394.0	147.2	163.1	-58.6	201.3	23.4
Extractive Sector	2 576.5	-25.1	2 239.9	-13.1	2 337.2	4.3	1 990.1	-14.9
Manufacturing	2 878.7	-8.9	2 784.6	-3.3	3 186.8	14.4	2 048.6	-35.7

(Source: Eurasian Economic Commission)

Table 3: Table of exports to non - EEU countries

Exports to non-EEU countries	73 991.5	5.5	72 833.3	-1.6	66 560.1	-8.6	35 715.1	-46.3
Agriculture	1 639.2	120.1	885.1	-46.0	1 179.9	33.3	734.3	-37.8
Extractive Sector	57 637.9	3.1	58 561.9	1.6	54 588.2	-6.8	26 622.0	-51.2
Manufacturing	10 329.2	5.0	10 268.5	-0.6	8 958.0	-12.8	6 717.3	-25.0

(Source: Eurasian Economic Commission)

Table 4: Total exports of EEU and non- EEU members

Total Exports	80 220.2	3.9	78 766.8	-1.8	73 010.0	-7.3	40 835.5	-44.1
Agriculture	1 798.6	117.2	1 279.1	-28.9	1 343.0	5.0	935.5	-30.3
Extractive Sector	60 214.4	1.5	60 801.8	1.0	56 925.3	-6.4	28 612.0	-49.7
Manufacturing	13 207.8	1.6	13 053.1	-1.2	12 144.8	-7.0	8 765.9	-27.8

(Source: Eurasian Economic Commission)

Tables above represent the export from EEU and non – EEU countries, in the period of 2014–2015. Where the average amount of all product that was exported equal to 68208.125. And the highest amount of total exported products from EEU and non-EEU countries was in 2012, with the amount of USD 80,220.2 mln.

1.20 The impact of the exchange rate on foreign trade

Exchange rate has also big impact on foreign trade of Republic of Kazakhstan. For example, there was dramatic decrease in exports in 2015, that partially happened because of depreciation of tenge. Therefore, weaker tenge has led to a substantial nominal decrease of exports denominated in US dollars. Although, in certain industries there were negative growth rates in real physical amounts of exports, the summarized real change in exports in 2015 was not as large as it is expressed in US dollar denomination.

There was one case in particular, when changes of the tenge's exchange rate affected internal currency market drew the attention of the information boards of exchange offices. During only one week, between July 26 Aug. 2, the weighted average rate of the tenge at the Kazakhstan Stock Exchange fell by around 2.6 % to value of 335.21 tenge per one U.S. dollar.

The tenge demonstrates depreciation compared to foreign currencies. The currency rate is mainly impacted by oil prices as well as by the combination of other factors: forex rate of countries – main trading partners, inflation level, balance of payments, base rate of the National Bank, world interest rates and others. However, in short term the situation is little bit different and the tenge rate and an increase in volatility can be influenced by a range of factors, including a sudden change of expectations of market participants. The current dynamics of tenge rate is influenced by negative impact of the U.S. additional sanctions against the Russian Federation which happened recently and therefore uncertainty of possible future developments and dynamics of the Russian ruble. Furthermore, certain speculative mass media reports fuel rush demand on U.S. dollars.

The National Bank of Kazakhstan remains committed to tenge's floating exchange rate and does not target a specific level of exchange rate. The National Bank reserves the right to make interventions in case of sharp and destabilizing changes of the exchange rate, which has already explained can have major impact on the trade. It is set through the participation of second tier banks under special market conditions, based on demand and supply in the currency market.

Conclusion

The aim of this study was to analyze the evolution and the dynamics of the Kazakh foreign trade and to determine the impact of its currency on foreign trade. The analyzes of the exchange rate clearly indicate that the importance of Kazakh Tenge value against the Russian Ruble and US Dollar. During the last five years, there was significant inflation, causing the not so good condition of the Kazakh economy. Currently, the national currency is freely floating and its rate is quite volatile. There are no attempts of any kind to fix the tenge's exchange rate against the US dollar made by the National Bank or the government. Also, the state is not affecting currency or using other means to maintain the exchange rate as it was seen before, but instead, tenge was released in free floating.

The exchange rate is one of the key determinants of foreign trade. It must, however, be noted that the size of exports will certainly be influenced by other factors that cannot be quantified. Such factors, for example, can be the national bank intervened size of interest rates, consumer preferences, political influences, the size of the rate of inflation in the country, the size of import into the country etc.

In general, Kazakhstan's economy is in good shape this year. The unexpectedly large growth of GDP could be seen in first half of 2017. The balance of payments is also in good state and there are no negative trends related to it. The deficit of the national budget is less than the figures planned by the government, and there are no signs of its sharp degradation, which is a very promising indicator of success. There is no pressure on the currency reserves of the National Bank and the National Fund, and their level is so high that they can easily absorb any external and internal short-term financial shocks.

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