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FOREIGN EXCHANGE RATE REGIMES IN KAZAKHSTAN

Abstract. The work investigates the main affecting factors to domestic currency volatility and also provides an extensive analysis about the relationship of oil prices and nominal exchange rate of tenge against US dollars. The paper discusses the relationship between oil prices and exchange rate of KZT vs. USD and measures the marginal effect of oil prices on domestic currency through the Vector Error Correction Model (VECM).

It examines about the affecting factors to domestic currency, exactly nominal exchange rate of KZT vs. USD according to the Inflation Report of NBK. The analysis, made by the Vector Error Correction Model (VECM) for time series data. Popular model because it allows for the existence of an underlying or fundamental link between variables (the long run relationship) as well as for short run adjustments (i.e. changes) between variables, including adjustments to achieve the cointegrating relationship.

Key words: oil industry ,local content, exchange rate, Kazakhstan.

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Аңдатпа. Мақалада мұнай бағасының және АҚШ долларына қатысты теңгенің номиналдық айырбас бағамының өзара қарым-қатынасы ауқымды талдау жүргізіледі. Вектор қателерді түзету моделі (VECM) арқылы мұнай және мұнай бағасының бағасына, сондай-ақ ұлттық валютаны АҚШ долларымен өлшеп шекті әсеріне қарсы теңге бағамының арасындағы қарым-қатынасты талқылайды. Отандық валютаны, ҚҰБ инфляция баяндама сәйкес АҚШ долларына қатысты теңгенің дәл номиналдық айырбас бағамы әсер ететін факторлар қарастырылады.

Уақыт сериясы деректер үшін қате векторын түзету арқылы (VECM) модельді талдау жасалған. Бұл танымал модель, айнымалы (ұзақ

мерзімді қарым-қатынас) арасындағы негізгі немесе іргелі қарым-қатынас пайдалану, және қысқа мерзімді түзету пайдалануға мүмкіндік береді, себебі айнымалы және коинтеграциялық қарым-қатынасқа қол жеткізу үшін кез келген түзету жасайды.

Кілт сөздер: мұнай өнеркәсібі, жергілікті қамту, айырбас бағамы, Қазақстан.

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Аннотация. В данной работе проанализированы и представлены основные факторы, влияющие на волатильность национальной валюты, а также проводится обширный анализ взаимоотношений цен на нефть и номинального обменного курса тенге по отношению к доллару США. В статье обсуждается взаимосвязь между ценами на нефть и обменным курсом тенге против доллара США и измеряется предельный эффект цен на нефть, а так же на внутреннюю валюту через модель коррекции векторной ошибки (VECM).

Также автор рассматривает факторы, влияющие на внутреннюю валюту, номинальный обменный курс тенге против доллара США в соответствии с Инфляционным отчетом НБК. Анализ, сделанный моделью (VECM), который корректирует векторные ошибки для данных временных рядов. Это популярная модель, потому что она позволяет использовать базовую или фундаментальную связь между переменными (долгосрочное отношение), а также использовать корректировки короткого пробега (т. е. изменения) между переменными, включая корректировки для достижения коинтегрирующего отношения.

Ключевые слова: нефтяная промышленность, местное содержание, обменный курс, Казахстан.

Introduction

During the introduction of the national currency, the tenge, there remained a substantial deficit in gold and foreign exchange reserves. Fixed exchange rate regime would not resolve the problem of supporting the tenge's internal stability nor curb the currency depreciation rate in the presence of fast growing demand for foreign currency, induced to a certain degree by lack of confidence in the tenge by households. In 2015, the National Bank of Kazakhstan started to implement a set of measures to adopt the inflation targeting regime. In the environment of external shocks on August 20, 2015 the National Bank and the Government of Kazakhstan made decision to move to the floating exchange rate of the Tenge. After this event, the domestic currency has become more vulnerable to external factors.

Main part

While the relationship between tenge exchange rate and oil prices is widely discussed in the popular press and among market practitioners, there is

no academic literature on this topic. Therefore, I used academic literature based on other oil exporting countries.

Mr. Gedek studied the relationship between Ruble exchange rate and oil price. The results of econometric model allowed the causality analysis which confirmed that Russian Ruble exchange rate against US dollar was Granger caused by Brent oil prices in every period. The causality analysis identified the fact that Brent oil price influenced Russian Ruble exchange rate against US dollar. The analysis of impulse response functions also describes three elements:

- Ruble exchange rate was under influence of oil price
- The rise of oil price resulted in Russian ruble appreciation
- The pattern of RUB/USD exchange rate and oil price correlation was different.
- The analysis has shown that the relation was stronger after 2008 world financial crisis [1].

Another paper by Ms. Katsuya provides study about the impact of oil price volatility on macroeconomic activity in Russia. This analysis leads to the finding that a 1% increase (decrease) in oil prices contributes to the depreciation (appreciation) of the exchange rate by 0.17% in the long run, whereas it leads to 0.46% GDP growth (decline). Likewise, it was found that in the short run rising oil prices cause not only the GDP growth and the exchange rate depreciation, but also a marginal increase in inflation rate.

Overall result shows that the Russian economy is greatly vulnerable to oil price volatility. Given the economic damage in case of falling oil prices, it seems reasonable to suppose that the country needs to diversify its key industries and enhance the competitiveness of non- energy sectors by increasing foreign direct investment (FDI).

Mr. Brown investigates the relationship between oil prices and the Canadian Dollar (CAD) exchange rate and finds that there is a 0.78 % positive correlation. This high correlation indicates that the decrease in the price of oil leads to the depreciation of CAD exchange rate and it shows that the value of the Canadian dollar has declined by 12% while the oil price fell by approximately 48 % over the last six months.

One more paper about the link between CAD exchange rate and crude oil prices by Orr indicates that there are at least four important additional factors which must to be taken account of before the determining the final net impact of an increase in the price of oil on the Canadian Dollar. If there is an economic slowdown in the US and other oil importing countries, the demand for export from Canada will decline. This is an important impact, partially compensating the initial positive terms of trade impact of an increase in oil prices on the Canadian dollar [2].

A second indirect impact is an international financial markets impact. High oil prices can weaken global growth and cause instability and fears in international capital markets.

The third additional impact is that the increased oil price raises the cost of doing businesses in the energy intensive sectors of both, oil exporting and importing countries, especially in the transportation sector. The net impact of this on exchange rate is the complex result of the competitive positions of many sectors, therefore the final net impact is considerably small.

The fourth factor that has an impact on the Canadian Dollar is gasoline prices. Increased gasoline prices reduce expenditures of foreign buyers on some items, and these consumer items would have been imports from Canada. To sum up, the direct and indirect impacts of higher gasoline prices have a negative impact on Canadian dollar. This paper proves that there is more than one factor that affect the currency volatility and it is the same in our country's situation [3].

One well – known paper by M. Fratzscher, D. Schneider and Ine V. Robays studies the relationship between oil prices and US Dollar. They find causality between exchange rates and oil prices that runs in both directions: a 10% increase in the price of oil leads to a depreciation of the US dollar effective exchange rate by 0.28% on impact, whilst a weakening of the US dollar by 1% causes oil prices to rise by 0.73%. Since oil is priced in US dollars, a US dollar depreciation makes oil cheaper in domestic currency terms for those countries not pegged to the US dollar, thus raising global oil demand and the price of oil. So, the negative correlation means that decrease in oil price leads to appreciation of US dollar.

Conclusion

This paper has applied a simple methods which shows how oil industry in the world effect the Russian Ruble. The results gives us that Russian ruble was under influence of oil industry and rise of oil price appreciates the Russian ruble. The pattern of RUB/USD exchange rate and oil price correlation was not same.

For running this analysis, I used the Vector Error Correction Model (VECM) for time series data. The VECM is a very popular model because it allows for the existence of an underlying or fundamental link between variables (the long run relationship) as well as for short run adjustments (i.e. changes) between variables, including adjustments to achieve the cointegrating relationship.

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THE IMPACT OF CONTRIBUTORY PENSION SCHEME ON THE ECONOMY (IN THE CASE OF EURASIAN ECONOMIC UNION)

Abstract. The purpose of this article consists influences related with pension schemes of Eurasian Economic Union on the economy.Contributory pension scheme of Eurasian Economic Union countrieswas reviewed: its opportunities and influences on the economy. State-members pension scheme was written briefly to make comparative analysis. Positive and negative influences review through analysis of each country's pension scheme. Also, on this article analyzedContract on Eurasian Economic Union: deepen cooperation, providing economic progress by joint actions, new opportunities.This Contract helps to make good relationship between union countries and considered all aspects, on the content of articlewaswritten about pension scheme.

Key words: pension scheme, EEU (Eurasian Economic Union), influence, opportunity, state-member, comparative analysis, Contract, relationship, positive, negative.

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Аңдатпа. Аталғанмақаланың мақсаты зейнетақы қорының экономикаға әсері жайлы сұрақтарды қарастыру. Евразиялық Экономикалық Ынтымақтастықтың құрамына кіретін мемлекеттердің жинақтаушы зейнетақы қорларының экономикаға әсері қарастырылды. Бірнеше мемлекеттердің жинақтаушы корларына салыстыру анализы жургізілді. Зейнетақы қорына өзгертулер еңгізілді және оның оң әсері байқалды. Сонымен қатар, Келісімнің Ынтымақтастықтағы мемлекеттердің зейнетақы қорларына және ондағы жұмыс атқаратын адамдарға әсері қарастырылды. Нақты нәтижелер алу мақсатында Келісімнің артықшылықтарына тоқталдық.