

The Current State of the Monetary Sphere of Kazakhstan, Kyrgyzstan, Tajikistan within the Framework of Changes in the Legislation

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Abstract:

The article discusses the current state of the monetary – credit sphere in the former states of the Soviet Union. The authors note that, the collapse of the Soviet Union in 1991, which led to the defragmentation of the monetary system, is an important event in the formation of the financial sector in Central Asia. The single monetary and financial system, which was adapted to the conditions of the planned economy, had started rapidly falling apart. The result was a break of the traditionally existing economic ties.

It is important to note that the monetary policy has a direct impact on the major macro-economic indicators such as GDP, employment and the level of prices. It is thus important to have a solid legal base. The accelerated formation of national monetary systems in Central Asian states has required the creation of genuinely independent emission center as the Central Banks of Central Asia. Since 1994, Central Asian governments have begun to carry out macroeconomic regulation, mutual settlement in the economy and emission activity.

The next step was a reform of the banking system in Central Asia. At the beginning of the independence of the Central Asian states a legal framework was created and a transition was made to a two-tier banking system. According to the adopted laws in the countries of Central Asia, a two-tier banking system was formed, where the upper level was represented by the State Bank of the region (with emission rights), and the bottom were - commercial and government specialized. Creating second tier banks was a response to the needs of the Central Asian countries.

Keywords: monetary and credit policy; economic criminality; economic security; criminal policy; fight against crime.

JEL Classification: E42; K39.

Introduction

Nowadays, globalization impacts all spheres of the society, including the economic sector. After the collapse of the USSR, Russia and Central Asian countries transitioned from a command economy to a market economy. It was a defining moment in the development of post-Soviet states.

A national monetary policy was formed, which faced not only internal problems but also external challenges (Golovnin 2010).

The relevance of the chosen topic is confirmed by the fact that on the contemporary crisis a number of innovative practical and theoretical approaches appeared to implement monetary policy in the developed

countries. Regarding this development, there is an opportunity to rethink the regulatory framework in the monetary sector and the Central Asian countries, which were also affected by the global crisis. Also it should be noted that the entire sector of the economy is attractive to criminals. Recently the crime in banking sector has increased. The highest share of banking crimes concerns the embezzlement of funds in the lending process, which is characterized by very high levels of material damage caused to banks (The experience of crisis management in the banking sector of the CIS countries, Central and Eastern Europe).

1. Methods

The analysis calls for a varied methodology: systems analysis, logic (analysis, synthesis, induction, deduction, analogies, generalization of methods) as well as methods for establishing a cause-effect relation of investigated processes, methods of formalization and idealization, research of the operations, and other general scientific methods.

Using a systematic and comprehensive approach to study the laws of the Central Asian countries on monetary regulation, regulating the process of conducting the policy in this area, have revealed a number of legal issues, which is lowering the effectiveness of the financial organization.

The formation of conclusions and recommendations emanated from the principles of deduction, it was made on the basis of the analysis and synthesis of the available documents and historical facts.

As conceived by the banks of the second level were to provide a more efficient and flexible use of the loan, the free flow of financial resources to intensify commodity-money relations. Due to the reform of the upper link of the banking systems in Central Asia, Central banks were created with emissive functions, dates of the banks in the region freed from non-core functions, have switched on the strategic issues of monetary and foreign exchange regulation.

2. Results

Summarizing the results of our study, we note that during the period of reforms in the monetary sphere, the countries of Central Asia created an independent issuing center, which was made by the Central Banks. In 1994, the Central Asian states carried out a great deal of work on macroeconomic regulation, mutual settlements in the economy, and started issuing activities.

I would like to note that the reform of the banking system has become an important stage in the countries of Central Asia. After gaining independence, a regulatory and legal framework was formed, and a two-tier banking system was implemented.

At the same time, along with successes, there are many problems in the monetary policy of the states of Kazakhstan, Kyrgyzstan, and Tajikistan, among which we note: - the problem of realization by the bank of the countries under consideration of the anti-inflationary policy, the approaches to the study of which change over time, depending on external conditions and internal processes; - the disintegration of the single monetary zone led to the loss of inter-firm relations of enterprises of Central Asian countries due to the impossibility of performing mutual settlements and payments.

In the course of the study the authors came to the following results: Until 1994, the effectiveness of the monetary policy of the Bank of Kazakhstan, Kyrgyzstan and Tajikistan was limited by the need to finance a huge budget deficit, caused mainly by a sharp drop in production;

After 1995, the economy of the states in question began to show signs of stabilization and legislative acts were adopted that provided banks with a certain degree of independence in the conduct of monetary policy. In addition, the change in the currency regime and the introduction of the peg of national currencies against the dollar in 1995 meant fundamental shifts in the direction of monetary policy.

In conclusion, it should be noted that for all the diversity of recommendations, the general conclusion is that in order to effectively solve the tasks of macroeconomic regulation, on the one hand, the actions of the Central Banks of Kazakhstan, Kyrgyzstan and Tajikistan should be characterized by independence and consistency, on the other hand, measures taken in monetary sphere, should be accompanied by an adequate budget policy.

3. The Degree of the Problem Elaboration

Within the framework of changes in legislation there is an extensive research literature, regarding the monetary sphere in Kazakhstan, Kyrgyzstan, Tajikistan. The authors are dividing the historiography into three blocks: foreign, Russian and the Kazakhstan, Kyrgyzstan and Tajikistan researchers.

Generally issues of the monetary sphere have been highlighted in the works of foreign scientists, as Adam Smith (1998); Krueger (1997), Audretsch (1998); Bankman, Griffith, Pratt (2002);Gürgen (1999); Ganiyev (2008).

Russian scholars which were identified the problems could be referred further, Manevich (2013); Moiseeva (2011); Burlachkova (2011); Korishenko. Works which are reflected by Kazakhstan scientists, Seitkhoshin (2007); Volzhenkin (2002); Aliyev (2005); Zhempiisov (2006); Rahmetov (2012); Amanzholova (2011).The work of Kyrgyzstan's scientists, Kymyskov, Koichyyeva (2003); Koychuyev, Bektenova (2014); Atabayev (2012).

Central Asian countries have, begun to appear in the works on this subject, but they are devoted usually, to the problems of specific countries or individual issues in the framework of the topic. This once again confirms the relevance of the chosen theme.

4. Discussions

Kazakhstan's monetary policy has passed a number of important steps that reflect the core of macroeconomic trends.

The main objective of the monetary policy in Republic of Kazakhstan is to ensure price stability, which implies to keep inflation in certain corridors in the short or medium term.

Monetary policy of Kazakhstan is carried out within the framework of adopted laws and normative documents, in particular, the Law 'On the National Bank of the Republic of Kazakhstan' #2155, 30 March 1995 (with amendments and additions on 07/26/2016) (Law of the Republic of Kazakhstan No. 2125, 1995), the Law of the Republic of Kazakhstan dated August 31, 1995 No. 2444 'On Banks and Banking Activities in the Republic of Kazakhstan' (Law of the Republic of Kazakhstan No. 2444, 1995) as well as within the framework of the monetary policy program until 2020 (Monetary policy of the Republic of Kazakhstan till 2020 2015).

The National Bank is carrying out monetary policy in the Republic of Kazakhstan. National Bank of Kazakhstan is the authority, which defines and implements the state monetary policy in the country. The aim of the monetary policy of the National Bank of Kazakhstan is to ensure the sustainability of the national currency in Kazakhstan: its purchasing power and exchange rate against to the leading foreign currencies.

National Bank of Kazakhstan may establish the target reference points of growth one or more indicators of money supply in circulation.

The main instruments of monetary policy are in addition:

- levels of interest rate on loans to banks of National Bank of Kazakhstan;
- normative of minimum reserve deposit which is required by the National Bank of Kazakhstan, including the capability to differentiate on the timing, volumes and types of borrowed funds (the reserve requirement);
- open market operations of buying and selling of state securities;
- credit facilities to the banks;
- intervention in the foreign exchange market;
- an introduction in exceptional circumstances, direct quantitative restrictions on the level and the volume of credit operations of certain species;
- official discount (discount) rate (Decision of the Board of the National Bank of Kazakhstan No. 246, 1997).

Short-term notes of the National Bank it is also an instrument of monetary policy, intended to regulate the money supply in circulation. The order of placement, circulation and repayment short-term notes of National Bank of Kazakhstan (Placement rules, circulation and redemption of short-term foreign currency notes of the National Bank of Kazakhstan 1998).

The National Bank of Kazakhstan establishes the official refinancing rate and other fee rate for its ongoing operations. The official refinancing rate is determined based on the general condition of the monetary market, supply and demand for the credits level of inflation and inflationary expectations.

The national Bank of Kazakhstan is using fee rates policy to influence the market fee rate (interest) (On the rates of remuneration (interest) on operations of the National Bank of Kazakhstan 1997).

The National Bank of Kazakhstan uses a mechanism in reserve requirements.

In order to regulate the volume of loans, that was given by banks for the risk reduction of default bank obligations, as well as to protect the interests of depositors and shareholders of the banks.

The standard of reserve requirements is calculated as a percentage of total liabilities net of obligations to the banks and is setting up as no more than 40 percent. In exceptional cases, the National Bank of Kazakhstan may impose the reserve requirement on growth of liabilities. Changing the standard minimum reserve come into effect no earlier than one month from the date of the decision.

The National Bank of Kazakhstan is calculated and exacted a fine, established by the legislation of the Republic of Kazakhstan, in case of infringement of the norm of minimum obligatory reserves. (In the case of violation of minimum average reserve requirements by the bank, from bank took the fine in the amount weighted average refinancing rate for the amount of the monthly shortage of reserve assets.)

At the termination bank activity, the National Bank of Kazakhstan returns the reserved funds in the National Bank of Kazakhstan within a one week period.

Beneath an open market operations has refers to purchase and sale exchequer bills, government bonds and other securities, which was implemented by the National Bank of Kazakhstan on the secondary market for the purpose of regulate the money supply.

The limit of open market operations is approved by the Board of Directors of the National Bank of Kazakhstan. In accordance with the official discount rate, the National Bank of Kazakhstan is rediscounting commercial bills. National Bank of Kazakhstan determines the official discount (discount) rate, depending on the general condition of the monetary market, supply and demand for loans.

The National Bank of Kazakhstan provides the accounting (discount) policy to influence accounting (discount) rates of banks under the state of monetary policy

The National Bank of Kazakhstan has established the procedure for rediscount and conditions imposed for receiving bills for rediscounting by the National Bank of Kazakhstan.

The National Bank of Kazakhstan is a determined further feature: the procedure, conditions, types, terms and lending limits of the banks.

National Bank of Kazakhstan controls the overall volume of bank lending in accordance with the guidelines of monetary policy. National Bank of Kazakhstan, as the lender of final instance, entitled to grant loans to the banks in the national and foreign currency, both secured and without ensuring, in order and on the terms established by the Board of the National Bank of Kazakhstan (On the forms of loans from the National Bank of Kazakhstan, and the forms of their support 1996).

By intervention of the National Bank of Kazakhstan on the exchange market is meant buying and selling foreign currency at the interbank exchange market or to influence Kazakhstani the exchange to the rate of exchange market.

Foreign exchange market is realized by the National Bank of Kazakhstan independently with the use of any kind of foreign exchange transactions through any banks and currency exchanges. The interventions of the National Bank of Kazakhstan in the foreign exchange market are conducted in the framework of the common monetary policy.

The meaning of the direct quantitative restrictions of the National Bank of Kazakhstan refers to the maximum interest rates on certain types of operations and transactions, a direct restriction on lending, the freezing of fee rates (interest), direct regulation of specific types of credit in order to stimulate or deter development of certain sectors.

National Bank of Kazakhstan has the right to apply direct quantitative restrictions in the case of impossibility to suspend inflation by indirect methods of monetary control.

Kyrgyzstan.

The Kyrgyz Republic as one of the countries which was under the former Soviet Union during the period of its independence in 1991, and has used the old scheme of monetary and fiscal policy of the Soviet system. The National Bank of the Kyrgyz Republic was established in 1992. Since then, the formation of the country's monetary policy has started.

It has implemented a regulatory framework, in particular, the Law on the National Bank of the Kyrgyz Republic (The Law on the National Bank of the Kyrgyz Republic No. 59, 1997), Law on Banks and bank activity (The Law on Banks and Banking No. 60, 1997), The Government of the Law of Kyrgyz Republic 'On the restructuring of RCC debt to the National Bank,' (Law of the Government of the Kyrgyz Republic No. 2922, 1998) Resolution of the Government of Kyrgyz Republic 'On settlement of financial relations between the Government and the National Bank of Kyrgyz Republic ' (2002).

Regulation 'On the procedure for holding an auction for the sale of state treasury bills' (1999), the Regulation 'On Reserve Requirements' (2004), the Regulation 'On credit' overnight 'of National Bank (2004).

May 10, 1993 with the introduction of the new national currency (Som), Kyrgyz Republic withdrew from the ruble zone. The National Bank of the Kyrgyz Republic had became the central bank of the country, has received full independence in forming the main directions of monetary and exchange rate policies.

The National Bank of Kyrgyz Republic has priority areas such as:

- ensuring the financial sustainability;

- to achieve a smooth functioning of the payment system;
- promote for restoration of economic growth.

The consequences of a combination of internal political shocks and the price shocks of the environment has caused complications for the development and implementation of monetary policy

In accordance with the legislation of the Kyrgyz Republic, the NBKR is building its policy towards the achievement of price stability in the short term and economic growth – in the long-term period. Price stability is - one of the conditions for sustainable economic development, which is underlies activity of the NBKR. Monetary policy of NKBR is an integral part of the general economic policy of the state.

At the beginning of the reform of full convertibility of the national currency on the basis of floating in Kyrgyz Republic, fixed in March 1995 the Law 'On foreign exchange operations', had allowed to form a channel of the exchange rate.

Tajikistan

After the collapse of the Soviet Union in 1991, the banking system of the Republic of Tajikistan originally was formed on the basis of the five special major state-owned banks, such as the 'Savings Bank' (Savings Bank), 'External economic Bank' (EBV), 'Agroprom' (APB), 'Housing and social Bank '(FSW) and' Industry and construction Bank '(ICB).

One of the stages of reforming the banking sector, aimed at strengthening and maintaining the stability of the banking system, is to restructure banks. By the end of 1997, most banks had a weak capital basis, which in the further became the reason of their failure to observe prudential regulations of banking supervision. In early 1998, the banking market has begun cleaning of financially unstable banks and financial institutions with low capital base. Further, the banking system of the republic of Tajikistan had expanded by establishing new banks, and recent time there are two levels: first is National Bank of Tajikistan as a central emission, reserve Bank and commercial banks.

Since 1995 during for fourteen years, it had been a number of following transitional measures to the reform.

- the first national currency was introduced (the Tajik ruble) at May 10, 1995, the Tajik ruble was a legal means of payment instead of the Russian ruble. The implementation of the national currency had passed in close cooperation with the International Monetary Fund, which was provided technical and advisory assistance for monetary reform, as a result of the issuance of the Tajik ruble were established the bases an independent monetary and fiscal policy in the country;
- introduction of a new national currency - TJS (as it is know by everyone, that, the national currency is one of the essential foundations of strengthening of independence and at the same time one of the most important symbols of state sovereignty, in this regard, after the celebration of the 1100th anniversary of the Samanid state (formerly the Tajik State) The Republic of Tajikistan has introduced a new 'TJS' national currency);
- between 1995 -2000yy, introduction of the new laws, regulations on the banking activities, including the adoption of the Law on the National Bank (2011), the Law 'On banks and banking activity' (2002), the Tax Code of the Republic of Tajikistan (2009).

Conclusions and Further Research

Formation of the legislation for regulation the monetary sphere in the Central Asian states was accompanied by quite dramatic process of the newly formed sovereign states.

Firstly, despite the implementation of a national currency in the first half of the 90's of the last century in all countries, the emission center, that is, the foundation of an independent monetary policy, has for a long time been under Russian supervision.

This has undermined the foundations of an independent monetary policy in Central Asia.

Second, the collapse of the ruble zone has led to loss of economic links companies in Central Asia because of the impossibility of mutual settlements and payments.

Thirdly, the transition to a market economy in almost all countries of Central Asia had accompanied by the structural changes in the economy. The result was a sharp decrease of production levels. Common law principles enshrined independence of the Central Bank in above-mentioned countries:

- Kazakhstan – National Bank is independent in its activities within the powers granted to it by the laws of the Republic of Kazakhstan and acts of the President of the Republic of Kazakhstan;
- Kyrgyzstan – The Bank of Kyrgyzstan independently manages and carries out its activities within the powers, which is established by this Law and does not contradicting to this. The intervention of public

authorities in solving the issues referred by this Law to the maintenance of the Bank of Kyrgyzstan is not allowed;

Investigation on formation of legislation of the processes in the monetary policy of the above countries for the period from 1992 to the present time has allowed summarizing the following features:

- analysis of the situation in Central Asia during economic reforms and integration processes, shows that there are needs to new financial instruments in the field of regulation of monetary systems;
- unregulated payment relations in Central Asia, including the accumulated and current debts, not convertibility of national currencies in the world market, the differences in the pace of market reforms, as well as tax, foreign exchange and banking legislation, were the main factors hindering rapid stabilization and integration of Central Asian countries in the monetary and financial sector;
- still has not implemented the provisions of the balanced approach to currency regulation, mutual convertibility, harmonization 33 payment and settlement systems, rules and procedures of the relationship of residents and non-residents, problems of the settlement of balance payments problems in the within the Central Asian countries.

For the further development of the Central Asian countries has a significant role central (national) banks in coordination conducted by the Central Asian countries for monetary policy, the main directions of which are ongoing: the unification of the currency legislation of the Central Asian countries;

In general, nowadays, all countries of Central Asia have completed the long stage of formation of a sovereign, legal monetary policy. Central Banks of Central Asia has all the tools to conduct monetary policies.

It has to be mentioned, that the main achievement of the Central Asian countries is reduction of the inflation in countries of the region until to temperate options. This is the main merit of the central banks in the region. Although the rate of inflation in the countries of Central Asia in comparison with the developed countries is still high, however, the achieved level is provides reason to believe that, in the longer term would be possible to reduce inflation to a moderate size in the region. One sphere, where is typical situation in the countries of Central Asia - is a monetary block of the economical policy.

The definition and implementation of monetary policy of the state is entrusted to the central banks. Thus, the Law on National Bank (Kazakhstan, Kyrgyzstan, Tajikistan) provides the following functions for the major banks compared republics: Kazakhstan, Kyrgyzstan - development and implementation of monetary policy; Tajikistan - development and the carrying out of the conduct of monetary and exchange rate policies.

At the same time, accountability of central banks is different. In Kazakhstan, the National Bank is accountable to the president in Kyrgyzstan it coordinates its policies with the government and reports to the Parliament (Jogorku Kenesh), in Tajikistan - is accountable to the lower chamber of parliament (Majlisi Oli).

Thus, Central Asian countries economic policy institutions have the general backgrounds and initial historical conditions, by now; there are quite big differences among them. First of all, the Republic's vary in the degree of centralization of power, in terms of the powers, different levels of governmental management, as well as on how to spread responsibility for managing various resources between national authorities.

However, in our opinion, the Central Asian region is in its identity rather integrated, and detected differences are merely illustrative of its cultural and mental peculiarities.

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