
Devaluation in Kazakhstan: History, Causes, Consequences

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Abstract:

The purpose of this research is to identify the concept of “devaluation”, to trace its history and to summarize the causes and the consequences of this phenomenon in the history of Kazakhstan.

The concept of "devaluation" first appeared in European countries during the Golden Standard (a system in which the role of the equivalent of monetary units is played by a standardized amount of gold), and meant a decrease in the gold content in a unit of currency.

After the abolition of the gold standard, the interpretation of this concept also changed. Now, devaluation is the process of reducing the basic price of the national currency (depreciation) against the currencies of other countries.

As currencies, relative to which the comparison is made, choose a hard currency. That is, the one that is freely convertible (for it there are no restrictions on currency transactions) and has a stable rate.

Keywords: *Devaluation, currency, national currency, monetary reform.*

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1. Introduction

With the appearance of paper money for a certain time, the role of hard currency for a number of historical reasons came out: the US dollar, the British pound sterling, the Canadian dollar, the Japanese yen, the Swiss franc, the Australian dollar, as well as the FRG brand and the French franc, later came the euro.

There is also another meaning of the concept of "devaluation". You can view this process as a deliberate measure of the central bank. Then, devaluation is a tool used by central banks to manage the national currency, under which measures are taken to reduce the exchange rate of the national currency against hard currencies in systems with a fixed exchange rate, which allows to stimulate domestic production of goods, to limit the number of imported goods (Allegret *et al.*, 2016; Chronis and Zombanakis, 2016). But the countries take all possible measures not to conduct it, stimulate the export of goods, limit imports, raise the interest rates of Central Banks, get loans from the International Monetary Fund within their quota, use their available gold - foreign exchange reserves, since the devaluation currencies indicate the weakness of the currency of this country (devaluation: types, causes, consequences).

Thus, devaluation is a monetary reform, which is to lower the official rate of paper money to their real value, as a result, the national currency depreciates, that is, its depreciation against foreign currencies and gold. In other words, devaluation is an official decline in the national currency. Prior to the abolition of gold parities, it occurred simultaneously with a decrease in the gold content of the currency. There are two types of devaluation: open (official); hidden (market).

With an open devaluation, the Central Bank of the country officially declares the devaluation of the national currency, the depreciated paper money is withdrawn from circulation or the exchange of such money for new, stable loan money (but at a rate corresponding to the depreciation of old money, that is, lower). An example from the newest history of Kazakhstan - on February 4, 2014, the National Bank announced a devaluation.

2. Types of Devaluation

An example of an open devaluation is the monetary reform of 1839-1843 in Russia, expressed in the fact that the depreciated banknotes were exchanged at a rate of 3.50 rubles for 1 silver ruble for credit tickets, which in turn were subject to exchange for gold and silver at face value. Thus, the temporary stabilization of the ruble was achieved by open devaluation: for 1 ruble banknotes holders received only about 29 kopecks silver. A historical example of hidden devaluation is the monetary reform of 1897 in Russia. It was expressed by the fact that exchange of credit tickets for gold coins was introduced, nominally ruble per ruble, but the gold content of the ruble

was reduced by 1/3 - from 26.1 to 17.4 shares of pure gold. August, 17 1998 in connection with the economic crisis, it was announced about the decision to devalue the ruble, the introduction of a unilateral moratorium on bank settlements with the West, the payment of dividends on T-bills and the freezing of accounts of private banks.

With hidden devaluation, the state reduces the real value of the monetary unit in relation to foreign currencies, without withdrawing the depreciated money from circulation. Hidden devaluation is an instrument of milder impact. The central bank acts with foreign exchange interventions, buying or selling foreign currency, thereby smoothing fluctuations in the market. This leads to depletion of the country's gold and currency reserves. Despite the colossal costs, this measure is justified: there is no mass panic among the population. In this case, depreciation occurs within a few weeks and even months (Devaluation of money - what is it and how it works on the example of the ruble, 2014).

Open devaluation causes a decline in commodity prices, the consequence of hidden devaluation is the rise in prices for goods and services. Thus, the main difference between these types is the degree of information provided by the Central Bank to the public, as well as in the publicity and transparency of its operations.

Devaluation is controlled - this is when the state tries to restrain it. It can carry out currency interventions, buying up or selling currency, in order to keep the exchange rate of the national currency at the desired level. Uncontrolled devaluation is one that the state cannot hold back, as it has no mechanisms. The latter usually occurs with a freely floating exchange rate of the national currency. Devaluation is a complex phenomenon in the monetary sphere. Countries take all possible measures to avoid it, because it shows the weakness of the currency of the country. There are two main reasons why central banks are forced to devalue: the deterioration of the country's trade balance, when imports prevail over exports, and high inflation (Kruglova, 2017). Also the reasons for the devaluation are:

- the need to increase the competitiveness of the national currency;
- lack of gold and foreign exchange reserves;
- the price of oil;
- outflow of capital;
- inclusion of "printing press";
- sanctions;
- loss of public confidence in the national currency.

3. Reasons of Devaluation

Market devaluation can occur due to the weakening of the economy of the state due to crises, wars, natural disasters and major technogenic accidents. Consider the main reasons for the devaluation, based on the experience of the Republic of Kazakhstan.

- *Deficit of balance of payments:* This is when the balance between foreign and local currency is violated in the country. For example, the tenge in the financial turnover of Kazakhstan is much more than the dollar. Deficiency gives rise to high demand. And since a rare commodity is always more expensive, the price of the dollar is skyrocketing. A deficit in the balance of payments can come when there is more import than export in the country. Imagine: you are trading something of value internationally. Your goods are readily bought up. And you bring to your country the proceeds in the form of currency. But suddenly the demand falls. So you began to bring home less currency. And when your situation becomes a trend for most exporters, there is a deficit in the balance of payments.

- *Panic:* Currencies in the country may become smaller for other reasons. For example: expecting a possible devaluation, people massively bought dollars and euros. Paradoxically, by this way they may well stimulate the collapse of the national currency. Panic accelerates the devaluation, but it has a short-term effect, the rush will quickly subside, and the market will stabilize, demand and supply will go into balance, and the panicky high rate will return to the normal level, depending on the balance of payments, rather than panic. Here, people can immediately lose a large exchange rate difference".

- *Inflation:* Inflation is often viewed as a consequence of devaluation. Nevertheless, this process can work in both directions: the purchasing power of money is reduced, they can already buy fewer goods and services. Thus, money is losing part of its real value. Even if the balance of payments is stable, then, in any case, if, for example, in our country, inflation is higher than in the US, then the tenge will fall with other fixed indicators. Because inflation is the fall in the value of currencies.

- *Geopolitics:* Another reason for the devaluation is geopolitical, that is, related to the relations of different countries. A vivid example is the situation with the sanctions of the European Union and the US against Russia. Sanctions cannot help putting pressure on the ruble. Since Russia is the largest trading partner of Kazakhstan, the tenge will also react to the weakening of the ruble. This was officially expressed by the National Bank, linking a sharp jump in the dollar to the tenge with the negative impact of additional US sanctions against Russia.

- *The price of oil:* The collapse of oil prices on the world market contributes to devaluation, especially for countries with a commodity orientation. The balance of payments in Kazakhstan, for example, largely depends on the price of oil. For example, at the end of 2014, the price of oil fell, and the balance of payments became negative. In 2014 -2015, according to media reports, the National Bank

spent 28 billion dollars to keep a fixed rate. Kazakhstan is a country of raw materials, respectively, strongly depends on the prices of oil and metals. That is a very large commodity dependence of the economy. This means that exports largely depend not on the production of goods, as in Germany or China, but on the export of natural resources. In turn, commodities are directly influenced by world exchange prices, which can vary very much from time to time. As a result of a sharp drop in commodity prices in Kazakhstan, devaluation races are also emerging.

- *Printing machine:* Monetary policy of the state can also provoke devaluation. For example, if the National Bank, in an attempt to stimulate the economy, turns into a so-called "printing press". That is, the national currency in large quantities is actually emitted from the air. It is not supported by the product or GDP indicators. And this is the way to devaluation. Devaluation, like any process in the economy, cannot pass without a trace. The main object of influence in its implementation is the currency and its rate, i.e. speaking in general terms - money and their purchasing power. Money, as the equivalent of goods, works and services, is an indispensable part of any sphere of the economy. Therefore, the implementation of devaluation has both negative and positive consequences. Devaluation can literally destroy the national economy, bringing a lot of negative consequences. People can remain without work, without money and without access to necessary goods. In the country, the level of GDP, the number of investments is declining. The main negative consequences of devaluation are:

- Loss of confidence in the national currency. Because of the unstable course, people try to keep their savings in a different, more reliable, in their opinion, currency.
- Deposits in the national currency are depreciated: people begin to withdraw money from bank accounts in large quantities.
- Inflation: goods and services become more expensive.
- Import suffers: importing foreign goods into the country becomes unprofitable because of expensive currency.
- The size of salaries, pensions, and social benefits is reduced.
- Prices for real estate are rising.
- The purchasing power of the population is reduced.
- Jobs in enterprises that work with foreign goods are shrinking.

One of the examples of what the devaluation can bring to the country is Venezuela. In 2010, President Hugo Chavez announced the devaluation of the currency in half under the impact of the economic crisis. Subsequently, the situation got out of control. Bolivar (currency of Venezuela) depreciated so much that sellers in stores had to weigh money to accept payment for products. Devaluation cannot be regarded as an absolute evil. It can be useful. Although the advantages in quantitative terms are less than minuses.

- The obvious benefit of devaluation, which is often said, is the stimulation of

exports. You sell any goods abroad for dollars. Since after the devaluation, exchanging the currency for the money of your country, you will get more, then you will win on the difference of rates.

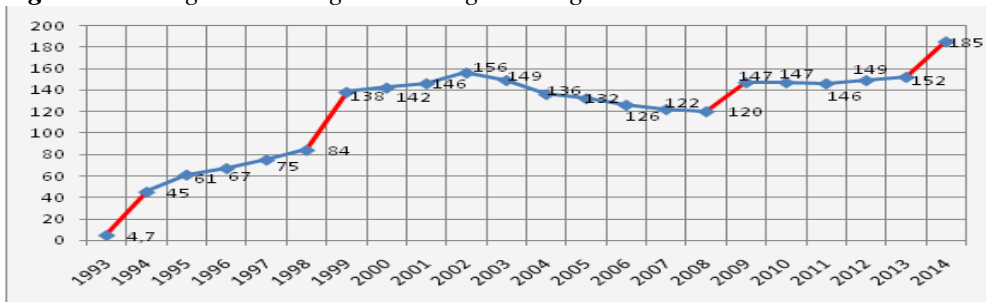
- Since imports are affected by devaluation, foreign goods are imported in less quantity, the demand for domestic products is increasing.
- Consumption of the country's gold and currency fund is declining.
- With the devaluation, the competitiveness of the national economy may increase.

But only if it is carried out reasonably - with restrictive monetary and lucrative policies. For example, some analysts suggest that Trump specifically devalued the dollar against the euro. Due to this, the state securities that the Europeans own are depreciating. And the US government as a result is easier to pay for them.

The change in the exchange rate of any currency is a multitude of different economic, fundamental, and technical factors. One of the most common forms of the negative impact of the global crisis on national economies has been the worldwide devaluation of currencies. Devaluation in a world crisis is an inevitable attribute of a market economy. Devaluation affected countries such as Iceland, South Africa, Brazil, Poland, Hungary, Turkey, South Korea. The CIS countries did not bypass the process. From July 2008 to the present, the Russian ruble depreciated by 39%, the Ukrainian hryvnia - from June to 50%. The Belarusian ruble was devalued by 20% in almost one day (Michel, 2015).

If we turn to the history of Kazakhstan, the devaluation in the newest history of our country has gone through several stages (Kazakhstan floats tenge, currency tumbles, 2015). Figure 1 shows that the national currency of Kazakhstan has experienced both ups and downs more than once. And the last was, at times more.

Figure 1. Change in the tenge's exchange rate against the dollar since 1993

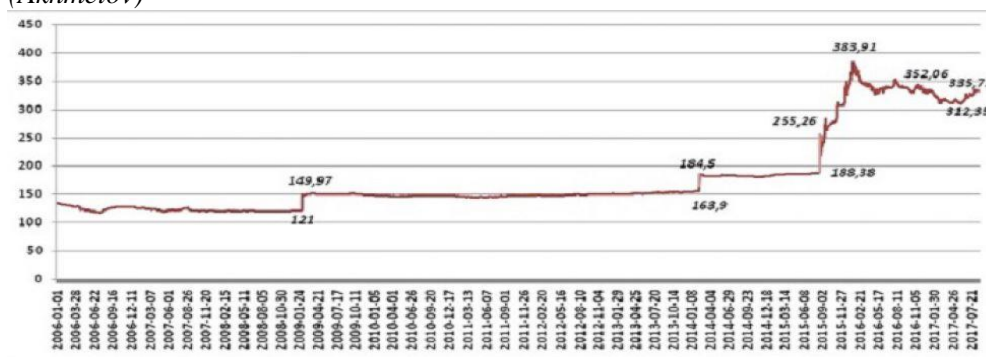


1st period 1994: The most expensive tenge could be bought in 1993. One dollar cost only 4.7 tenge. However, this price lasted only 1.5 months, and in January 1994 the dollar went up by almost 10 times. Nevertheless, this devaluation went smoothly. Firstly, the population is not accustomed to a new currency - the tenge. Secondly, at

that time, few used dollars, the rate of 4.7 tenge per dollar was held for a very short time.

2nd period 1999: In fact, we learned about the devaluation in our country only in 1999, when the dollar jumped immediately from 84 to 138 tenge (Figure 2). At that time, the head of the National Bank was Kadyrzhan Damitov, who announced to citizens of our country about the transition to a free fluctuation of the tenge. The purpose of the devaluation was to increase the volume of exports and its competitiveness (Devaluation in Kazakhstan).

Figure 2. Further changes in the tenge's exchange rate against the dollar (Akhmetov)



3rd period 2009: Since February 4, 2009, with the aim of preserving gold reserves and maintaining the competitiveness of domestic commodity producers, the National Bank of Kazakhstan stopped supporting the tenge in the former implicit corridor and established a corridor for a new tenge exchange rate of about KZT 150 per dollar with a fluctuation of +/- 3% or 5tenge. The tenge rate devalued from \$ 121.0 to \$ 149.97. The national currency was devalued by 23.9%. During this period, the contraction of business activity in the world led to a decrease in demand for oil and metals, and this was the basis for Kazakhstan's exports. During the year, the price of oil fell almost 4 times, for metals - almost 2 times. The main trading partners of Kazakhstan and the nearest neighbors - Russia and Ukraine - devalued their national currencies by 40-45 percent. Therefore, the tenge was devalued. Otherwise, Kazakh products would lose their competitiveness (Message of the President of the Republic of Kazakhstan N.A. Nazarbayev to the people of Kazakhstan, 2009).

4th period 2014: The National Bank of Kazakhstan announced the devaluation of the national currency on February 11, 2014, in connection with this suspended the work of auto dealers and sites of the largest online stores, many exchangers closed. On February 11, the tenge was devalued by 20%. Since 2009, the tenge has fallen in price by 43% (The site of the National Bank of the Republic of Kazakhstan; Kazakhstan National Bank explains tenge depreciation and equilibrium rate, 2015).

Decisive action was a necessity: the tenge gradually began to be subjected to speculative attacks from foreign banks and special funds, and for its maintenance it was necessary to spend precious and limited reserves of the National Bank of the Republic of Kazakhstan (Did Sharp Devaluation of the Tenge Help Kazakhstan? 2016). Moreover, domestic commodity producers were increasingly placed at a disadvantage because of the rapidly weakening ruble. For Kazakhstan, as well as other countries in the world, under the circumstances, this measure was inevitable, analysts say.

First of all, it allowed to increase the competitiveness of the economy, improve the working conditions of exporters, which allowed to save or create new jobs, as well as to get out of the crisis situation with lesser costs. As a result of devaluation, the country's gold and currency reserves are being spent to a lesser extent, the necessary conditions for the inflow of foreign capital are created. It should be noted, however, that the government and the previous leadership of the National Bank did not take into account the negative experience of the devaluation of 1999, when they were also late with its conduct. Devaluation had to start much earlier, gradually reducing the tenge's rate to the US dollar, as many countries of the world did. This would allow to preserve the gold reserves, to avoid the excitement with foreign currency and especially with the prices. 1. 2015 year. In August 2015, after the announcement by the National Bank of the introduction of the free exchange rate of tenge, there was a devaluation. From August to December 2015, the tenge depreciated from 188.38 to 349.12 tenge against the dollar (History of tenge devaluation: how it was, 2014; New devaluation in Kazakhstan? 2015).

The most likely reason for this step is the desire to support the national economy against the background of a sharp decline in the Russian ruble. By the end of 2015, the tenge was recognized as the most depreciated currency of Europe. According to analysts, the tenge devalued by 85.2 percent. The pressure on the economy of Kazakhstan was exacerbated by the weakening of the Chinese yuan and the reduction in the price of Brent crude oil from the beginning of 2015 by 33 percent, which forced the National Bank of Kazakhstan to switch to a floating rate in August. In January-July 2015, the exchange rate of the tenge remained stable, slightly weakening by 2.8% over the mentioned period. To maintain the exchange rate, the National Bank actively conducted interventions, mainly on the sale of foreign currency (Moshinsky, 2015).

4. The Advantages of Devaluation

Undoubtedly, because of the devaluation, dollar loans from borrowers who receive a salary in tenge have risen in price. But the tenge borrowers benefited from the devaluation. Also, plus devaluation is that the export potential of Kazakhstan has grown significantly. So, all Kazakhstani export-oriented companies, which may not

have been so many, would have received a discount. That is, our local companies, without lowering the pay to their employees, without reducing their costs, simultaneously reduced the cost of their products by 20%.

The adjustment of the tenge's exchange rate also positively affected the country's tourism market. Permits to Europe, which could previously be purchased, for example, for 3 thousand dollars (450 thousand tenge), now cost 555 thousand tenge. So, this year the population will think about whether to go to rest in Turkey or choose a recreation center in Kazakhstan. That is, in this case local tour operators will benefit from the devaluation. Or, take, for example, Kazakhstani universities, after their devaluation, their positions also intensified. If in previous years, some parents may have planned to send their children to study in the Chinese university, then after another devaluation, most likely they may change their mind. The cost of higher education abroad in the translation into tenge has become much more expensive (Belkova, 2018).

4.1 Cons of Devaluation

First of all, devaluation inevitably leads to an increase in prices for imported raw materials, materials, finished products and consumer goods. True, importers from this will not be badly affected, as they inevitably and quickly will shift these costs to the price of finished goods or imported goods. They will not work for themselves at a loss. In this we have already seen after the next devaluation, when the prices for goods and products imported by import have increased significantly, although importers sold products and goods purchased by import, even at prices and the rate of tenge before devaluation.

Thus, the population of the country was primarily affected by the devaluation due to the increase in prices. Of course, first of all, this applies to the poorly protected segments of the population - workers in the budgetary sphere and pensioners. The second serious disadvantage of the tenge devaluation is the loss of depositaries with bank deposits in the national currency. People believed in the steadfastness of the tenge and transferred deposits from foreign currency accounts to the national currency. The next devaluation of 2015 brought prices down on the secondary housing market, but not as noticeably as it was in 2009. Sellers, taught the crisis of past years, will have to reduce prices, as the solvency of buyers has declined because of the difference in the dollar exchange rate and, accordingly, demand has decreased. But the decrease can be insignificant, mainly due to those sellers who urgently need to sell the apartment. According to forecasts, this decline will also stretch for months, on average for a year or more, as the housing market is inert and cannot immediately respond to changes in the economy (Farchy, 2015).

4.2 Methods for Preventing Devaluation

The first method is to fight inflation. Methods of influencing the level of inflation during the implementation of monetary policy in the regime of inflation targeting are widely used in Kazakhstan. Inflation targeting is a regime of monetary policy aimed at establishing and achieving the inflation target in the medium term. A distinctive feature of this regime is a clear definition of the goals and priorities of monetary policy, which contributes to the formation of favorable expectations of the population and the market and increases their confidence in the central bank.

An important role in the regime of inflation targeting is played by the interest channel through which the interest rate policy of the central bank affects market rates with further transfer to consumer, savings, investment behavior of the population, and, ultimately, inflation processes. The basic tool of the monetary policy of the National Bank is the base rate. As an intermediate reference point for making decisions on the level of the interest rate, the inflation forecast is used, which takes into account inflationary expectations of the population.

In the event that the forecast inflation exceeds the target value in the medium term, the central bank decides to raise the current level of the base interest rate, and vice versa. The short-term, as a rule, one-day interest rate of the money market acts as an operational target. For the current year, the National Bank of the Republic of Kazakhstan sets the target corridor for inflation - 6-8%. This target benchmark reflects the ongoing process of adaptation of the economy to the current conjuncture of commodity prices and free exchange rates, as well as the instability of inflationary expectations of the population and their location at a sufficiently high level. At the end of 2018, the National Bank sets targets for inflation in the corridor of 5-7%. At the same time, by 2020, the goal is to slow inflation to below 4%. To achieve these goals, the following tasks must be carried out:

- Improving the system of monetary policy instruments and increasing the efficiency of the percentage channel;
- Clarification of the target target on the money market in the conduct of monetary policy;
- Following the floating exchange rate;
- Convergence of the official refinancing rate and base rate;
- Measuring inflationary expectations.

The second method is to prevent panic attacks. To reduce the level of mistrust of Kazakh people to the national currency and the actions of the authorities, it is necessary to improve the communicative policy. Ensuring an appropriate level of transparency will increase Kazakhstan's confidence in the National Bank, reduce inflationary and devaluation expectations and more effectively pursue monetary policy. The National Bank will continue to disclose information on the direction of monetary policy and the publication of decisions on the basic rate and other instruments of the National Bank, explaining the grounds for decision-making.

If the declared targets are not achieved, the deviation factors will be clearly defined, including those that are outside the zone of influence of the National Bank. An ever increasing role in the field of communications will be given to the Inflation Review - a quarterly edition of the National Bank, which reflects trends and factors influencing inflation, as well as forecasts of macroeconomic indicators. The inflation report is a kind of formalized visual result of the forecast round. It will be preceded by a press release on the basic rate with the rationale for the relevant decision, as well as an information message with technical details, detailed analysis and forecasts for the medium-term period.

The third method. In order to minimize devaluation, it is necessary to implement effective risk management taking into account the following types of risk, both external and internal:

- a significant change in oil prices;
- a slowdown in the growth of the world economy;
- dynamics of rates of the Fed;
- weakening of the Russian ruble;
- maintaining a high level of dollarization;
- State budget deficit;
- Structural liquidity surplus;
- abolition of state price regulation.

5. Conclusion

Thus, it can be concluded that devaluations in the Republic of Kazakhstan and their consequences have become a proven instrument of state financial policy, and the National Bank implements them in coordination with the government and local regional authorities with the tacit approval of the country's top leadership. This tool is very effective, as a result not only exporters of raw materials get support, but also the financial sector together with the state, then ensuring quite decent rates of economic growth. The social impact of devaluations is clearly negative, since at first the population is suffering financial losses.

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