

LECTURE 9. FUNCTIONS AND OPERATIONS OF THE NATIONAL BANK OF KAZAKHSTAN

Agenda:

1. The primary goal, tasks and functions of the National Bank of Kazakhstan
2. Operations and deals of the National Bank

The primary goal, tasks and functions of the National Bank of Kazakhstan

The primary goal of the National Bank of Kazakhstan is the price stability security in the country.

The National Bank of Kazakhstan is allotted with the following tasks:

- 1) development and conduction of the monetary credit policy of the state;
- 2) maintenance of the payment systems;
- 3) performance of the currency exchange regulation and control;
- 4) security promotion of the monetary system stability.

NB RK in accordance with the allotted tasks performs the following *functions*:

- 1) conduction of the state monetary credit policy;
- 2) performance of the notes and coins emission;
- 3) execution of the function of the bank of banks;
- 4) performance of the function of the bank – financial adviser, governmental agent and other services for the government or any state authorities under the agreement with them;
- 5) organization of the payment systems functioning;
- 6) currency exchange regulation and control in the Republic of Kazakhstan;
- 7) management of the gold value assets;
- 8) control and supervision of the financial organizations activity and also regulation of their activity on the questions attributed to the bank's exclusive competence.

The National Bank acts as a body determining and conducting the state monetary and credit policy of the Republic of Kazakhstan the purpose of which is the national currency stability security: its purchasing power and rate in regard to the leading foreign currencies. NB RK can set the circulating monetary targets of one or several factors.

The overriding priority of the National Bank is the transfer to the principles of inflation targeting answering the purposes of the bank itself of the inflation decline due to the advanced transparency of the set goal providing more market confidence.

The usage of alternative principles of the monetary credit policy conduction or focus shift to the monetary targeting sphere or targeted exchange rate the National Bank considers does not make economic sense.

Within the frame of transfer to the principles of the inflation targeting the National Bank follows the course of floating exchange rate, i.e. the exchange rate of tenge is set according to the foreign exchange rate demand and supply on open market.

The key instruments of the monetary credit policy are:

- the levels of rate of remuneration (interest) of the credits of NB RK to the banks;
- the standard of minimum cash reserves deposited with NB RK including with possible differentiation of terms, volumes and types of the attracted funds (reserve requirements);
- the operations on open market of purchase and sale of the state paper holdings;
- the granting of credits to banks;
- the interventions on a currency market;
- the introduction (in exceptional cases) of the direct quantitative limitations of a separate type credit operations level and volume;
- the official accounting (discount) interest rate.

The National Bank establishes *the official rate of refinancing* and also other rates of remuneration (interest) of the conducted operations. The official rate of refinancing depends on an overall condition of the monetary market, demand and purchase of credits, the level of inflation and inflationary expectations.

From August 10, 2009 the National bank defined *the official rate of refinancing* on the level of **7.5%** per annum. Its decrease is a result of an annual inflation fall to 6.9% in July of 2009 and

also of the general decrease of interest rates on the native interbank market. In particular the KazPrime standard as on the end of July, 2009 constituted 8.52% decreasing from the historical maximum in 15.04% in March 2009.

As on February 1, 2010 the rate of refinancing constituted 7.0%. This level is one of the lower bounds which kept for the period from July 7, 2003 till February 1, 2005, lower it didn't fall. The maximum rate of refinancing was in March 1994 and it rose to 300% (Table 10).

Table 1. The rate of refinancing changes of the National Bank

The date of establishment	The rate of refinancing
01.02.1992	25
01.07.1992	65
01.07.1993	110
23.07.1993	140
10.01.1994	270
01.03.1994	300
01.09.1994	250
05.12.1994	230
01.07.1995	55
01.09.1995	45
10.11.1999	18
04.06.2001	12
06.09.2001	11
20.11.2001	9
06.03.2002	8
18.11.2002	7,5
01.12.2007	11
05.02.2009	9,5
10.06.2009	8,5
10.07.2009	8,0
10.08.2009	7,5
1.03.2010	7,0

Hereafter the official rate of refinancing establishment will be performed by the National Bank according to the situation on a monetary market and the inflation level in such a manner that it would be the highest level of the interest rates on a monetary market of the short-term instruments.

The rates of remuneration policy the National Bank applies for the influence on the market of remuneration rates in the framework of the executed state monetary credit policy.

In purpose of regulation of credits' volume granted by banks for the reduction of risks of nonpayment by banks under their commitments and also security of the depositors' and bank shareholders' interests the National Bank of Kazakhstan uses the mechanism of reserve requirements.

As a result of the monetary credit policy active conduction in 2009 the volume of nonpaid debts of the banks to the National Bank of Kazakhstan according to the refinancing loans was decreased. To the end of February, 2009 it constituted 71.4 billion tenge (to the end of January 2009 – 440.5 billion tenge, to the end of 2008 – 255.9 billion tenge).

The reserve requirements standard is counted as a percentage from the total sum of commitments deducting the commitments to the banks and sets in amount of not more than 40%. In Kazakhstan the maximum rate of mandatory reserves rose to 30% in March, 1994. From March 3, 2009 the maximum reserve requirements to the banks were decreased:

- according to the internal commitments from 2 to 1.5%;
- according to the other commitments from 3 to 2.5%.

It was the third decrease of the rate for 8 months. As a result of these decreases the short-term banks' liquidity was widened on an amount of 490 billion tenge.

Under the rate of mandatory reserves violation the acts of legislation of the Republic of Kazakhstan stipulates penalty charging and recovery in amount set by NB RK. Under the bank's termination the NB RK within a week returns the reserved fund.

In exceptional cases the National Bank is authorized to introduce the reserve requirements on the incurrence of liabilities. The minimum cash reserve standard changes are introduced in another month at the earliest from the day of such decision adoption.

Under *the operations on open market* the treasure bills' purchase and sale is understood on the secondary market in purpose of the monetary stock regulation. The operations' limits on open market are adopted by the directorate of NB RK.

The National Bank grants the second-tier banks with loans of refinancing in the form of the reverse repurchase agreement (reverse repo) operations conduction on security of state and agent paper holdings. It also determines *the official accounting (discount) rate* in accordance with the general condition of the monetary market, demand and purchase of credits. Conducts the

accounting (discount) policy for the influence on the accounting (discount) rates of banks in the frame of state monetary credit policy. Establishes a procedure of the bills rediscount and the terms set for the bills acceptance for rediscount.

The accounting rate of the National Bank was officially established on June 20, 2000 in amount of 12.5% and functioned till December 31, 2003 (7%). Beginning from December 31, 2003 in Kazakhstan the official accounting rate corresponds refinancing rate according to which the rediscount of bills is performed.

From 2008 the practice of commercial bills rediscounts conduction was fully terminated, therefore the status of the first rate emitters of bills awarding in favor of the enterprises was stopped.

The procedure, conditions, types, terms and limits of banks' crediting are determined by the National Bank which regulates the total volume of crediting according to the agreed directions of the monetary credit policy.

As lender of last resort the National Bank is authorized to grant banks with credits in national and foreign currency both as secured and unsecured in the order and on terms sestablished by the National Bank directors.

The operations of currency swaps conduction and also granting of the short-term loans on security of correspondent balance of the banks in NB RK are performed only under the cooperation agreement conclusion on the questions of the bank loan granting.

Under the National Bank interventions on the currency market the foreign currency purchase and sale on interbank or exchanging markets is understood for the influence on tenge exchange rate.

The money market interventions are conducted by the National Bank autonomously with usage of any types of foreign exchange dealings through any banks and forex exchanges but in the limits of general monetary credit policy.

The National Bank performs the operations of conversion and reconversion of the National Bank's assets both as by means of the foreign currency purchase or sale on the internal market and at the expense of gold value assets. Whereby the additional demand of foreign currency fall on the internal market will promote the terms increase to 6 months within which The National Bank can perform the conversional operations.

The minimum reserve requirements to the banks and refinance rates decrease allowed to the National Bank in 2009 to terminate conduction of the exchange swap and swap operations on security of correspondent balance of banks.

Under *the direct quantitative restrictions* of the National Bank the maximum level of rates of separate types of operations and dealings are understood, direct restriction of crediting, freezing of the remuneration rates (interest), direct regulation of the concrete types of credit for purposes of stimulation or curbing of separate fields. The National Bank has a right to apply the direct quantitative restrictions in case of the inflation development discontinuance impossibility by the indirect methods of the monetary credit regulation.

In order to perform the function of the bank of banks the National Bank of Kazakhstan:

- organizes the system of refinancing, grants credits to the bank account holders opened in the National Bank on the term not less than one year on security of highly liquid riskless paper holdings and other assets;
- is the lender of last resort for the second-tier banks in connection with what has a right to grant them credits in national and foreign currency both as secured and without security in order and on the terms established by the National Bank's directors;
- has a right of money withdrawal from the client's bank account under the fact of its wrong placing, has a right to debit the client's bank account under the documents presence which confirm his agreement on acceptance-free money withdrawal;
- performs the reconstruction of the banks' and other organizations' debts to the National Bank regarding granted to them credits in order and on terms determined by the NB RK directors.

For the functions of bank, financial adviser, governmental agent and other state bodies' performance the National Bank acts under the agreement with them.

It places the funds of the government, performs payments and other operations on its accounts and also renders the other services.

Serves as financial adviser of the government under the development and realization of the public borrowing policy, budget policy formation regarding the questions connected with monetary and credit policy of the government.

The National Bank plays role of the governmental agent and serves the government loans.

For the purpose of payment systems functioning organization the National Bank of Kazakhstan organizes, coordinates, regulates and also supervises the payment systems functioning.

Establishes the means of payments performance and money transfer, the rules and peculiarities of their usage.

Determines the order, terms of payments performance with cash money usage and minimal security requirements of the banks, organizations which perform separate types of bank operations, reliability, safety of the applying and automated systems and the bank information protection.

Establishes the bank accounts' types and legal status, the order and terms of opening, usage (conduction) and accounts closure.

Performing the currency exchange regulation and control the National Bank of Kazakhstan determines the sphere and order of circulation of foreign currency and paper holdings in the country, introduces the required restrictions of the operations in foreign currency conduction, the form of settlements regarding separate export-import dealings.

Establishes the rules of operations with foreign currency and paper holdings in foreign currency conduction by residents and nonresidents of Kazakhstan and adopts the laws and regulations in the matter of exchange operations, the order of export-import exchange control performance and the residents' accounts opening in foreign banks.

Determines the order of import, export and remittance to the Republic of Kazakhstan and from it of currency valuables and also the official rate of the national currency to the foreign currencies.

Forms and performs the operations with gold value assets and organizes the international settlements, improves the monetary and financial, credit and settlement relations with foreign countries.

Attracts the foreign currency from the offshore and international organizations in accordance with the concluded state agreements, introduces and cancels the course of mandatory sale of revenue in foreign currency from the goods (works, services) export.

The National Bank of Kazakhstan has a right of the operations with currency valuables and precious metals. Purchases and sales foreign currency, paper holdings issued and guaranteed by the government in foreign currency, by the governments of offshore states or international financial organizations including in the form of securities loan.

Opens the accounts in banks, international central banks and financial institutes having a corresponding right by the states' legislation where they are registered and also in the international financial organizations.

Accepts for saving fine gold, precious metals, stones and the wares of them and performs on the territory of the Republic of Kazakhstan and on the external market the operations of purchase and sale of the fine gold and other precious metals.

In the order stipulated by applicable legislation it imports in Kazakhstan the currency valuables and precious metals and also exports them abroad for placement on its accounts in foreign banks and specialized financial organizations.

Performs the operations with instruments of monetary market such as the interbank deposits, repo and reverse repo, certificate deposits, commercial papers and other debt obligations issued by emitters having credit rating the minimal level of which is determined by the directors of NB

RK. Either performs the operations with the derivative financial instruments: forward operations, swap operation and optional operations with counterparties, credit ratings of which not less than defined.

For the gold value assets management the National bank of Kazakhstan in accordance with the legislation which regulates the relations connected to precious metals and stones, buys fine gold from the Kazakhstani and any other producers (buyers) of the mentioned metal.

Purchases the foreign currency by means of Kazakh tenge (including commemorative and souvenir coins) and foreign currency from residents and nonresidents of the Republic of Kazakhstan and also the government of RK.

Places deposits, performs dealing operations with foreign currency and paper holdings denominated in foreign currency, grants credits in foreign currency and performs sale, depositing and other operations with fine gold, silver, platinum and other metals of platinum group.

Receives credits from the international financial organizations, central banks of foreign states and other creditors; renders consulting, informational issuing and other services with payment in foreign currency.

Purchases and sales currency on the internal exchange market for the purpose of monetary credit policy and exchange rate policy conduction including for scatter smoothing of purchase and demand on the internal exchange market.

Writes off the non-performing gold value assets at the expense of formed provisions (reserves).

2. Operations and deals of the National Bank

The bank accounts owners in the National Bank of Kazakhstan are considered the legal entities which opened the accounts in the order set by directors of the National Bank and banks.

According to the Law of the Republic of Kazakhstan dated from March 30, 1995 №2155 “About the National Bank of the Republic of Kazakhstan” the National Bank conducts the following operations in the national currency:

- 1) grants credits to the owners of bank accounts opened in the National Bank on the term of not more than six months on security of highly liquid riskless paper holdings and other assets;
- 2) purchases and sales the state paper holdings;
- 3) purchases and sales the certificate deposits, debt securities with maturity not more than one year which are considered valid for credits' security;
- 4) accepts deposits, performs payments and money transfers, takes for saving and management paper holdings and other valuables;
- 5) performs operations with derivative financial instruments;
- 6) if required opens the accounts in banks and financial organizations on the territory of the Republic of Kazakhstan and abroad;
- 7) issues cheques and draws bills;
- 8) performs the other banking operations and also dealings in its own name in accordance to its targets if it is not directly prohibited by the legislation.

The subject of pledge with a view to ensuring the credits of the National Bank could be:

- fine gold;
- foreign currency;
- bills in tenge and foreign currency with maturity to six months;
- debt securities officially quoted on the stock-markets with maturity to one year.

Either the subject of secure could be the other assets and property disposal documents in cases established by the board of directors. In case of non- or delayed payment and also nonpayment of fee (interest) the National Bank of Kazakhstan realizes the subject of secure fully or partially in accordance to active legislation.

The National Bank is not authorized to perform the following types of activity excluding the cases directly stipulated in legislation of the Republic of Kazakhstan:

- to serve the organizations and also purchase shares of the legal entities;
- to perform a commercial or any other activity;
- to grant credits without secure;
- to prolong granted credits or allow terminating bills' renewal.

The National bank of Kazakhstan:

- a) determines sphere and order of circulation in Kazakhstan of foreign currency and paper holdings in foreign currency, introduces the required restrictions on the operations in foreign currency conduction including the volume of such operations and remuneration rates level (interest);
- b) establishes the rules of conduction by residents and nonresidents of Kazakhstan of the operations with foreign currency and paper holdings in foreign currency;
- c) establishes the order of import, export and remittance to the Republic of Kazakhstan and from it of currency valuables. Establishes for residents the order of mandatory remittance of foreign currency and paper holdings in foreign currency to the Republic of Kazakhstan and also determines the terms of accounts opening for residents of Kazakhstan in foreign banks.
- d) regulates the rate of national currency to foreign including the establishment of the official rate of NB RK for the purposes of customs duties and tax payments, market tenge quotations of operations with foreign currency and precious metals;
- e) forms and performs operations with gold value assets;
- f) organizes international settlements, improves monetary and financial, credit and settlement relations with foreign countries;
- g) attracts in accordance with concluded state agreements the foreign currency from foreign and international organizations;
- h) introduces offers on questions of the additional credits attraction from the nonresidents of the Republic of Kazakhstan;
- i) introduces and cancels the course of revenue mandatory sale in foreign currency from the goods (works, services) export.

It is authorized also to perform the other functions in the sphere of currency exchange regulation and control stipulated by the legislation of the Republic of Kazakhstan.

The comprehension questions

- 1. What targets and tasks the National Bank of Kazakhstan sets to itself?*
- 2. Discover the function of the monetary credit policy conduction.*
- 3. List the operations and dealings of the National Bank of RK.*

