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## IMPROVING THE REGULATION OF CASH TURNOVER

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### Abstract

This article is devoted to ways to improve the regulation of cash circulation. In monetary circulation, certain problems arise related to the subsidence of cash in the channels of circulation, the dilapidation of banknotes and the discrepancy between the bill composition of the cash supply and the needs of monetary turnover. The paper provides an overview of modern features and tools of state regulation of cash circulation. In addition, we consider the tools for regulating the money supply in circulation, used in the world economic practice, as well as in the Republic of Kazakhstan. The analysis of the main elements of the monetary policy of the National Bank is carried out. Attention is paid to improving the system of instruments of the National Bank: introduction of the currency swap tool; inclusion of state securities of the Republic of Kazakhstan in the Clearstream list; changing the terms of settlements in the foreign exchange market and the state securities market; creation of the institution of a Central counterparty. The main stage of the implementation of the denomination and its laws. In addition, the problems and features of direct and indirect regulation of cash circulation in today's conditions are reflected.

**Key words:** cash turnover, monetary policy, money supply, exchange rate policy, transmission mechanism, currency market, central Bank, securities.

## ҚОЛМА-ҚОЛ АҚША АЙНАЛЫМЫН РЕТТЕУДІ ЖЕТІЛДІРУ ЖОЛДАРЫ

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### Аңдатпа

Айналыс арналарында қолма-қол ақшаның отыруы, банкноттардың тозығы және ақша массасының купюралық құрамының ақша айналымының қажеттіліктеріне сәйкес келмеуі ақша айналымында проблемалар туғызады. Мақалада қолма-қол ақша айналымын мемлекеттік реттеудің қазіргі ерекшеліктері мен құралдарына шолу беріледі. Бұдан басқа, әлемдік экономикалық тәжірибеде, сондай-ақ Қазақстан Республикасында қолданылатын айналымдағы ақша массасын реттеу құралдары қарастырылады. Ұлттық Банктің ақша-кредит саясатының негізгі элементтеріне талдау жүргізілді. Ұлттық Банктің құралдар жүйесін жетілдіруге назар аударылады: валюталық своп құралын енгізу; Қазақстан Республикасының Мемлекеттік бағалы қағаздарын Clearstream тізіміне енгізу; валюта нарығы мен мемлекеттік бағалы қағаздар нарығында есеп айырысу мерзімдерін өзгерту; орталық контрагент институтын құру. Деноминация жүргізудің негізгі кезеңдері және оның заңдылықтары анықталды. Сонымен қатар, қазіргі жағдайда қолма-қол ақша айналымын тікелей және жанама реттеудің проблемалары мен ерекшеліктері көрсетілген.

**Түйінді сөздер:** қолма-қол ақша айналымы, ақша-кредит саясаты, ақша массасы, айырбас бағамының саясаты, трансмиссиялық тетік, валюта нарығы, орталық банк, бағалы қағаздар.

ПУТИ СОВЕРШЕНСТВОВАНИЯ РЕГУЛИРОВАНИЯ  
НАЛИЧНО-ДЕНЕЖНОГО ОБРАЩЕНИЯЦапова О.А.<sup>1</sup>, Михайлова Н.Ю.<sup>1</sup>, Жалтурова А.Д.<sup>1</sup><sup>1</sup>СҚГУ им. М. Козыбаева, Петропавловск, Казахстан

## Аннотация

Данная статья посвящена путям совершенствования регулирования налично-денежного обращения. В денежном обращении возникают определенные проблемы, связанные с оседанием наличных денег в каналах обращения, ветхостью банкнот и несоответствием купюрного состава наличной денежной массы потребностям денежного оборота. В работе дается обзор современных особенностей и инструментов государственного регулирования налично-денежного обращения. Кроме этого, рассматриваются инструменты регулирования денежной массы в обороте, применяемые в мировой экономической практике, а также в Республике Казахстан. Проведен анализ основных элементов денежно-кредитной политики Национального Банка. Уделяется внимание совершенствованию системы инструментов Национального Банка: внедрение инструмента валютный своп; включение государственных ценных бумаг Республики Казахстан в список Clearstream; изменение сроков расчетов на валютном рынке и рынке государственных ценных бумаг; создание института центрального контрагента. Выделены главные стадии осуществления деноминации и ее закономерности. В дополнение, отражены проблемы и особенности прямого и косвенного регулирования налично-денежного обращения в современных условиях.

**Ключевые слова:** налично-денежный оборот, денежно-кредитная политика, денежная масса, политика обменного курса, трансмиссионный механизм, валютный рынок, центральный банк, ценные бумаги.

## Introduction

Changes in the amount of money that is circulating in the financial system can have a significant impact on the actual output of the product, the degree of prices, employment, and other financial variables, as well as on the money turnover itself. Citizens in ancient times noted the existence of a certain correspondence between the long-term dynamics of the money supply and the movement of the price index. This correspondence formed the basis of the quantitative theory of money, which was significantly modified in the XX century due to the research of monetarists.

The main attention is paid to the mechanism of influence of the money supply on prices, the structure of the money supply itself and its aggregates. Controlling the amount of money is very important for financial stability, and economists, researchers, and policy makers should have sufficient capacity to change the money supply. The instruments of state regulation of monetary circulation include effective monetary policy; management of public debt; implementation of tax policy; development of the financial market; control over the money supply in the course of monetary policy. For the optimal control the state of the money supply need:

1. wholly to abandon the delineation of the principles and spheres of circulation of cash and non-cash economic means;
2. strictly to observe the monopoly of the Central Bank to issue money, issue Bank notes in all sorts of forms; which leads to the growth of the money supply;
3. to regulate the monetary circulation on the following principles:
  - planning the needs for funds at the macro level, some sectors and regions;
  - development of the organization and use of control figures and normative values (minimum and maximum limits on the growth of the money supply and lending volume;
  - limits on cash economic resources and solutions in banks);

– development and use of the economic and mathematical apparatus and functions of money supply and demand.

– use of the organization of relative indicators of multiplication of economic funds in the practice of accounting, analysis and regulation of monetary circulation.

These coefficients reflect the level of conversion of cash and non-cash economic funds: development of indicators of the total money supply, determination of which correspond to aggregates and implementation of monetary policy measures. Currently, there is a state monetary regulation of the economy, which is due to the close relationship between monetary policy and lending [1].

Since the 70s of the last century, targeting has been identified in many countries, which means setting targets for regulating the growth of the money supply and lending, which are followed by Central banks in their policies. Since 1975, the us Federal reserve has reported to Congress on planned increases or decreases in the money supply and has continuously issued 12-month benchmarks that characterize the growth rate of the money supply. In global financial practice, the following methods are used to regulate the money supply in circulation:

1. A very basic method at the international level is considered to be open market operations that affect the performance of credit institutions of the second indicator through the volume of resources that they have, such as the purchase and sale of Treasury bills, government bonds and other government securities, as well as short-term operations with securities with a further reverse transaction. If the Central Bank sells securities on the open market and purchases them by commercial banks, the latter's resources and their ability to provide loans to customers are significantly reduced. This leads to a decrease in the money supply in circulation and an increase in credit interest. The Central Bank, in turn, provides additional resources to second-tier banks in this situation.

2. Motto operations, that is, the purchase and sale by the Central Bank of foreign currency to maintain the national currency and prevent its sharp fluctuations, counteract the speculative mood of market participants.

3. Bank of the Republic of Kazakhstan Deposit operations, which are also spent to withdraw excess liquidity of the economic Bank. These transactions enable the National Bank of the Republic of Kazakhstan to rapidly attract temporarily vacant funds of credit organizations into deposits and thus, in practice, immediately neutralize their potential pressure on the currency market mechanism, avoiding depreciation of the national currency and the growth of inflation in this regard.

4. Discounting policy or discount policy, i.e. the regulation of interest rates on commercial Bank loans by the Central Bank. Credits are issued at the refinancing rate established by the National Bank of the Republic of Kazakhstan. The rise in the rate on accounting or lending operations is intended to limit the growth rate of inflation by «squeezing» the cash feed into circularity.

5. The change in the mandatory reserve rate, which is also set by the National Bank. Increase in it means that most of the Bank's funds are «frozen» in the accounts of the Main Bank and can not be used by mercantile banks to issue loans. As a consequence, it money supply is decreasing in circulation.

#### **Method of research**

Thus, the stability of the ratio between the mass of money in circulation and very important economic criteria is one of the main manifestations of financial stability. The function expressing this relationship is a very important method for analyzing the impact of monetary policy on the economy. Monetary turnover in the Republic of Kazakhstan is

regulated in accordance with the Law of the Republic of Kazakhstan «on the National Bank of the Republic of Kazakhstan» and the main directions of monetary policy. The national Bank uses these methods to regulate the liquidity and interest rates of the money market, influence the credit activity of credit institutions, and influence the number of money in circulation.

Open market operations are regular operations of the National Bank, which can be carried out in the form of auctions to provide or withdraw liquidity in the value market to create an indicator of interbank interest rates near the base rate. These operations are carried out on the initiative of the National Bank. When performing operations on the open market, highly liquid and risk-free securities are used as collateral [2].

Fixed access operations are monetary policy methods for refining the volume of liquidity created by open market operations. The main purpose of constant access operations is to limit the volatility of short-term money market interest rates. These operations are initiated by banks. Minimum reserve requirements are used to manage structural liquidity, as well as liquidity and interest rates in the inter-credit organizations credit market. By changing reserve requirements, the Central Bank regulates banks' demand for their own reserves and, using its own methods, maintains the liquidity of the money market at a level that allows maintaining short-term interbank interest rates in the desired range. Ensuring price stability in the Republic of Kazakhstan is the main goal of the national Bank's monetary policy. The main reason for stable economic formation is the formation of a macroeconomic environment with a steadily low level of inflation. Starting in 2018, within the framework of the current disinflation strategy, it is planned to reduce the target inflation indicator.

The stabilization and normalization of market interest rates due to low inflation, the development of the interest channel and the gradual reduction of the role of the currency channel in the transfer of money contribute to achieving this goal. Therefore, the national Bank will continue to implement monetary policy in the mode of inflation targeting, as well as demonstrate the immutability of the goals and principles of its policy. The base fee, subsequently, remains the main method of monetary policy. Planning for inflation and other macroeconomic variables will remain the basis for making decisions on the base rate. Quarterly indicator planning helps you get quick estimates of the future dynamics of variables and, accordingly, respond in time to long-term changes in the situation. At the same time, the base fee reflects inflation expectations on a 12-month horizon, long-term neutral (in the opinion of inflation) growth rates of the economy, as well as the desirable nature of monetary policy (stimulating, neutral or restraining) [3].

The National Bank is continuing to implement measures to stabilize and consolidate the inflation expectations of companies. Fixing inflation expectations and ensuring their gradual reduction will increase the stability of the economy to internal and external shocks, which, subsequently, will have a favorable affect on the effectiveness of achieving the goals of monetary policy. the National Bank will continue to implement measures to stabilizing and consolidate the inflation expectations of economic entities. strengthening inflation expectations and ensuring their gradual reduction will increase the stability of the economy to internal and external shocks, what, subsequently, will have a positive impact on the effective achievement of the goals of monetary policy.the national Bank will continue to implement measures to stabilize and consolidate the inflationary expectations of economic entities. Strengthening inflation expectations and ensuring their gradual reduction will increase the stability of the economy to internal and external shocks, which, subsequently, will have a positive impact on the effective achievement of the goals of monetary policy.

The present exchange rate policy regime is a floating exchange rate of the tenge. The currency market is formed under the influence of fundamental factors. International oil prices, as well as exchange rates of the main trading partners, primarily the Russian Federation, are the main fundamental factors for the dynamics of the Kazakhstan's tenge.

Monetary policy will be implemented at a floating exchange rate of tenge. The freely floating tenge exchange rate effectively absorbs external shocks. The benefit of the floating currency exchange rate regime are the market balance of the actual exchange rate indicator, the competitiveness of Russian producers, the prevention of significant current account imbalances, and the prevention of a decline in international decisions. The National Bank does not interfere in the mechanism of exchange rate formation, but reserves the right to intervene to prevent unnecessary changes in the tenge exchange rate, as well as to ensure the stability of the economic organization. Intervention, traditionally, does not contradict the policy of a floating exchange rate and can be carried out by Central banks, including to strengthen international decisions of the state.

Another important criterion for stimulating economic growth is the stabilization of the financial sector. In 2017-2018, the Program to increase the economic stability of credit organizations in the Republic of Kazakhstan was implemented, which allowed to clear the credit organizations sector from insolvent banks, increase the level of asset quality, and create an opportunity for the next growth of credit activity. In 2019, the national Bank will introduce a new Supervisory practice-a risk-based approach, implemented taking into account the experience of the European Union, the United States, and the EEU (Russia, Belarus). Improvements in the banking sector and new methods of regulation and supervision will significantly reduce the risks for Bank depositors.

Improving the organization of the National Bank's methods:

1. Introduction of the currency swap tool. In April 2018, in order to increase the effectiveness of the monetary policy transmission mechanism and the development of the market of derivative financial instruments, it was decided to start performing currency swap operations for a period of one day at the JSC "Kazakhstan stock exchange", both for providing liquidity and for withdrawing it. A broader corridor of swap rates relative to the corridor of constant access rates are designed to prevent the use of foreign currency in the form of collateral when attracting tenge liquidity. Providing liquidity in the national currency through a currency swap is carried out at the base rate plus 2% per annum. The daily volume of operations of the National Bank to withdraw liquidity through currency swap operations is limited to 500 million U.S. dollars.

2. Adding government securities of the Republic of Kazakhstan to the Clearstream list. In July 2018, the National Bank successfully implemented a project to include state security paper in the Republic of Kazakhstan in the list of securities calculated in the Clearstream international settlement system. This measure implies a significant simplification of access of international investors to the Kazakhstan stock market and an increase in demand for Kazakh government bonds. The initiative also allows expanding sources of long-term funding, reducing the cost of borrowing for the state, which will have a positive impact on the formation of the yield curve and the further development of the Kazakhstan securities market.

3. Changing the terms of payments on the foreign exchange market and the government securities market. Since September 10, 2018, in order to reduce volatility in the foreign exchange market, the official exchange rate of the tenge to the us dollar is determined as a result of the average exchange rate at the end of trading sessions with settlement dates of

T+1. The currency operations of the National Bank on the Kazakhstan stock exchange JSC were transferred to the T+1 sector.

In addition, in order to improve the efficiency of liquidity management, the national Bank has started placing short-term notes under the T+2 system. This system complies with international practice and is a standard for conducting operations with securities on the world financial markets.

The introduction of deferred payment settlement systems in the foreign exchange and securities markets contributes to improving the banking sector's liquidity forecasting systems and creates prerequisites for increasing foreign capital inflows, including through the launched international channel with Clearstream.

#### 4. Establishment of a central counterparty institution.

Since October 1, 2018, Kazakhstan stock exchange JSC has started acting as a Central counterparty in the foreign exchange market and insures such transactions. The formation of a Central counterparty helps to improve credit risk management, ensure stability in the market, and increase the attractiveness for foreign partners.

Since October 1, 2018, the approach to setting the recommended rate on deposits of individuals has changed, which became possible due to the introduction of a new type of deposit (savings) in the legislation, as well as the regulatory concept «deposit that meets / does not meet the terms of urgency» and «minimum penalty for early withdrawal». Instead of the previously existing single level for all types of deposits, from October 1, the maximum rates will be differentiated by the terms (3, 6, 12 and 24 months) and types (depending on the conditions of early withdrawal - urgent, non-urgent and savings) deposits, the right to replenish. The basis for the calculation will be the values of deposit rates set by the banks themselves. The maximum rate will be calculated as the average market rate increased by the size of the spread [4].

This approach affects only deposits in tenge. The marginal rate on deposits in foreign currency was maintained at 1%.

The application of a differentiated approach to setting rates will allow banks to build a system for managing interest rate risk and liquidity risk when attracting funding from individual deposits and reduce the risks caused by excessive interest expenses. The new approach will also entail strengthening the interest channel of monetary transmission, since changes in the base rate level in other instruments of the National Bank will directly affect deposit rates.

Also, the rise of the market for term and savings deposits will increase the stability of Kazakhstan's credit organizations and expand the ability of banks to attract medium-and long-term funding in tenge [3].

In General, the monetary environment in Kazakhstan, according to the national Bank, remains neutral. The set level of the base rate ensures that inflation targets are met. The real interest rate is maintained at a level that corresponds to the potential long-term growth of the economy.

### Conclusion

Thus, the main goal of the economic policy of Kazakhstan remains to maintain a stable price level. This is achieved because of the stability of monetary circulation. Ensuring stability of monetary circulation, subsequently, is achieved by observing the following rule: the mass of money increases at a constant moderate rate, which depends on the ratio of long-term growth rates of production and the speed of monetary circulation. A fine-tuning policy that involves an active response to the current situation is excluded as ineffective and does not

meet the goals of maintaining the stability of economic formation. The money supply is controlled by the central bank, which directly affects the size of the monetary base, which is the main indicator of monetary policy and its main tool.

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