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Monetary and Credit Instruments for the Improvement of Financial Market's Instability

Abstract. Monetary and credit policy is the most important and effective direction that is used to stabilize financial market in the conditions of its instability and high volatility. From one hand, central banks apply monetary and credit instruments for the purposes of regulation, aiming to achieve price stability, useful allocation of financial resources, as well as an appropriate development of the economy and financial market. From other hand, central banks choose priorities to establish an effective level of money supply and money circulation. Global and internal threats have strong influence on market participants' activity and monies flows, resulting with unbalanced output of the financial system. Regulation of the financial organizations is an additional task of the central banks that should be implemented for establish financial stability on the internal market.

Therefore, in an aggressive economic environment monetary and credit measures should support and protect internal markets from negative outcome.

Key words: Monetary and credit policy, central bank, money market, inflation, interest rate.

Introduction

Measures of the monetary and credit policy, used by central banks, are aimed to realize their functions in the sphere of money and credit stability, as well as to insure sustainable and competitive financial market. Internal and external movements of the financial markets, multiplied by globalization and integration, result with high volatility and instability of internal financial system. Thus, first tier banks should react on all negative signals caused by economic units in order to exclude their falls and illegal speculations on the market. The monetary and credit instruments have strong influence on the economic development and financial flows. All measures, used for stabilization, should protect and support interests of market participants as well as the financial system itself from the aggressive environment.

Methods. Theoretical and methodological basics of the monetary and credit policy can be found in the works of economists and practitioners, including Borio C., Disyatat P., Esteban Vesperoni, Cravcova G.I., Praet P., Benford J., Berry S., Nikolov K., Young C. and Fischer S.

Main analytical and informational data are included into the reports and strategic documents of the central banks. A database, regarding the investigating problem, is published in the World Bank, IMF, BIS and UN Researches.

The following methods were used in the research: analysis, synthesis, classification, deduction, induction, observation, and modeling.

Main body. Measures of the monetary and credit policy, used by central banks, are aimed to realize their functions in the sphere of money and credit stability, as well as to insure sustainable and competitive financial market. Internal and external movements of the financial markets, multiplied by globalization and integration, result with high volatility and instability of internal financial system. Thus, first tier banks should react on all negative signals, caused by economic units, in order to exclude their falls and illegal speculations on the market. The monetary and credit instruments have strong influence on the economic development and financial flows. All measures, applied for stabilization, should protect and support interests of market participants as well as financial system itself from the aggressive environment.

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High level of volatility, experienced almost on all financial markets, evidence about severe conditions and critical situations that spread globally in developed and emerging economies. Daily trends of currencies rates' fluctuation move closely to 1 per cent on developed markets – see Picture 1. Emerging markets' trends go furthermore, resulting with unstable sell&buy positions. Positive or negative trends on currency markets influence on the internal financial system and lead to necessity of monetary and credit policy improvements.

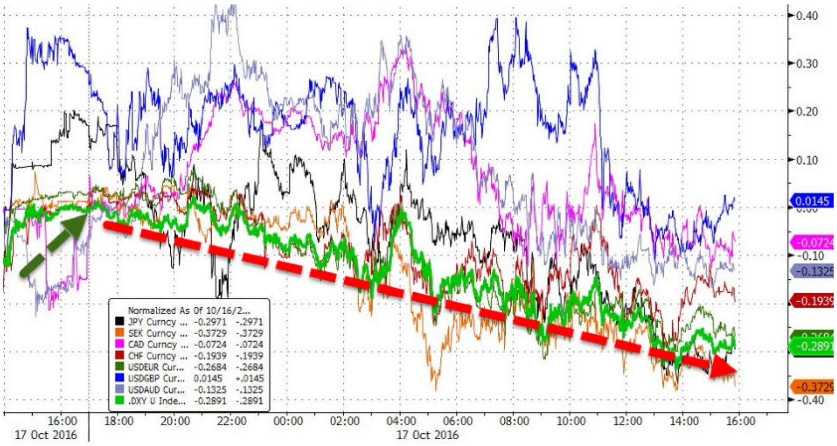

Figure 1 – Currencies rates for 17th October 2016
Resource: Bloomberg

Open market operations and currency interventions of the central banks become key issues to insure financial sustainability on the local market. Unfortunately, funding resources are strictly limited. On the falling market, main problem of the central banks that they mostly face with is a lack of gold and currency reserves. Above all, these reserves should cover needs of a state debt, existing in every country. In order to avoid this problem, central banks reject currency-targeting policies and follow inflation rate targeting policies. The last one is considered as more effective, responding to current economic problems within any country.

Positive tendencies on the world market provide fruitful conditions for economic growth, when central banks implement supporting policy to stimulate business units' activity. Otherwise, in an aggressive environment all measures of the central banks direct on the stabilization and protection of the internal market and its participants. Two main indicators – the level of inflation and exchange rate, reflect problems of instability – see Figure 2.

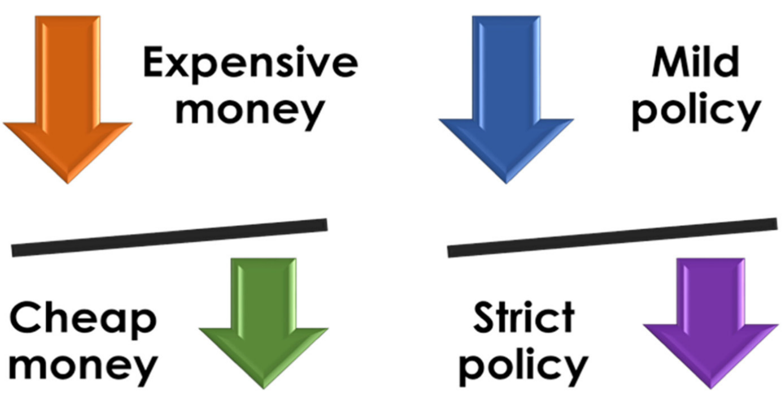

Figure 2 – Main Directions of Monetary and Credit Policy
Source: prepared by author

Central banks improve the directions of the monetary and credit policy according to the situations in short-, mid– and long-term period. This policy can be changed on the opposite one following interests of the national economy.

Firstly, the global market experienced dramatic drop of exchange rates in last periods. Some emerging markets stopped to support local currencies against world ones. As a result, emerging markets' currencies considerably fell down or were devaluated by the central banks. From other, side political and economic factors led to vast change in world currencies' rates against each other.

Secondly, inflation rate demonstrated unpredictable data. The rate of inflation in most countries decreased reaching the record low levels from 1990-s as it stated in the Report «World Economic Outlook. October 2016», issued by IMF.

The main reasons of this decrease in prices for goods, commodities and services is that global supply and demand dramatically dropped. Rate of inflation below zero is a rather new phenomenon for global economy that received its name as disinflation. However, emerging and unstable markets continue to experience high level of inflation, despite of overall decrease in prices – see Figure 3.

Country/ group of countries	1998-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 forecast	2017 forecast
USA	2,6	3,8	-0,3	1,6	3,1	2,1	1,5	1,5	0,1	1,2	2,3
Euro-zone	2,0	3,3	0,3	1,6	2,7	2,5	1,3	0,4	0	0,3	1,1
Japan	-0,2	1,4	-1,4	-0,7	-0,3	-0,1	0,3	2,8	0,8	-0,2	0,5
CIS	19,7	15,4	11,1	7,2	9,7	6,2	6,4	8,1	15,5	8,4	6,3
Russia	21,2	14,1	11,7	6,9	8,4	5,1	6,8	7,8	15,5	7,2	5,0
Kazakhstan	**8,3**	**17,1**	**7,3**	**7,1**	**8,3**	**5,1**	**5,8**	**6,7**	**6,5**	**13,1**	**9,3**
Kirgizstan	9,7	24,5	6,8	7,8	16,6	2,8	6,6	7,5	6,5	1,1	7,4
Basing on «World Economic Outlook. October 2016» issued by IMF [3].											

Figure 3 – Level of consumer prices, %

According to the data, Kazakhstan experienced the highest level of inflation among CIS countries including Russia and Kirgizstan in 2016. In developed countries, the rate of inflation decreases reaching negative data in some countries for example in Japan.

Analyzing Kazakhstani practice restriction policy tends to slow down inflation expectations and stabilize internal market but these measures have negative affect on the business activity of local producers and households. From other hand high level of devaluation and «weak» tenge lead to loss of confidence to the national currency and monetary authority. In 2015 individuals converted the most of their deposits into foreign currency. Banks and other institutions made many transactions with foreign currency that led to growth of speculations and drop of exchange rate of the national currency. Restrictions made by the Central Bank and reforms in monetary and credit policy resulted with decrease in volumes of transactions on KASE's Forex market. Theoretically, global tendencies of «weak» currencies and disinflation in theory should improve aggregate supply and demand in future. In this process, the role of central banks and monetary and credit policy are considerably important. Therefore, appropriate measures provide effective and mild improvements of instable market conditions.

Conclusion

There are different measures – financial and nonfinancial, that central banks implement in their activity for realizations of the monetary and credit policy. From one hand, the optimal and effective monetary and credit system should be supported to ensure its further prosperity. From other hand, in crisis monetary and credit policy establish priorities to protect national economy. However, a tough policy has negative affect on the business activity of local producers and households

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