

Kazakhstan and the Ruble (B)

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On April 1 President Nazarbayev re-assembled his advisors to consider the question of the choice of currency. On January 1 they had advised to stay the course with the ruble as the national currency. The President now has a quarter-year of economic experience with the system and wishes to revisit the decision.

Economic performance in the first quarter of 1992.

In early January, the government re-affirmed its acceptance of the ruble as the currency of Kazakhstan. It also initiated a sweeping price liberalization program on 2 January that paralleled that of Russia. Price controls for most goods were removed. For a number of essential goods the prices were increased (in most cases by factors of 3 to 5) and then controlled at the higher level.¹

These price increases did not induce an immediate increase in supply of essential goods, so the municipality of Alma Ata in January introduced ration cards issued to each resident for their purchase. By April 1, the number of goods covered by the ration card had been reduced to 5. The goods available through the ration card may also be available in other markets (bazaars, open-air stands) and can be purchased in those places without the ration card.

Average inflation in consumer prices was 308 percent for the first quarter of 1992 when compared with the last quarter of 1991, while wholesale prices rose in excess of 600 percent over the same period.² Nominal wages have risen during the first quarter, although less rapidly than inflation.³ The minimum wage on 1 April of 342 rubles/month remains far below the average monthly wage in the government sector of 1393 rubles/month for the first quarter of 1992.⁴

¹ There is a listing of these goods and the percentage increases in controlled price in Annex C.

² The consumer price index is reported as defined in State Statistical Committee (GOSKOMSTAT) statistics as the average price for the quarter over the average price of the last quarter of 1991. The comparable wholesale price is derived by considering the average February and November price indices as representative of the quarterly average. Then the inflation rate underlying the February statistic (1375 percent) is divided by the comparable annual inflation rate for the previous November (210 percent). This understates the quarter-to-quarter inflation rate to the extent that there was non-zero inflation in November 1990 through February 1991.

³ Workers of the industrial sector have the highest wage of the government payroll. Statistics from GOSKOMSTAT indicate that the government's wage in industry rose by 307 percent when the July 1991 wage is compared to the average wage for the first quarter of 1992 (2255.3 vs. 553.5). Consumer price inflation between July 31 and the fourth-quarter average in 1991 causes a fall in the real wage.

⁴ This average does not include the 100 percent increase in salaries of certain lower-paid government workers (employees working for health organizations, education, culture, science, legislative organizations,

Production in most sectors for the first quarter of the year ran behind the comparable levels of the previous year (which was itself a year of economic contraction). The shortfalls were especially noticeable in sectors dependent upon Russian or other Commonwealth suppliers for productive inputs.

Presidents Nazarbayev and Yeltsin in January 1992 signed an agreement prohibiting the levying of duties on international trade between Kazakhstan and Russia. The bans on trade between the two countries were lifted on 16 January.

A cash shortage has developed in Kazakhstan in the first quarter of 1992. There are insufficient stocks of rubles to denominate transactions -- this is leading to production difficulties and the build-up of arrears among firms. Further, the government is unable to find sufficient cash to pay its employees. Restrictive measures have been taken to circumvent this shortage, including limits on cash withdrawals from savings accounts and direct deposit of payroll into the savings banks.⁵

Large premia remain on the price of foreign exchange. The informal exchange rate for dollars has risen to 140-150 rubles/dollar, while the government has followed Russia in adopting the rate 55 rubles/dollar for most official purposes. There has also been a "tourist rate" of 110 rubles/dollar introduced.

Intra-Commonwealth trade has been disrupted by the falling value of the ruble. Much of the present trade is either in barter terms (with equivalent value assured by pricing in foreign currency) or in exchange for foreign currency. Transport services have followed the same pattern.

TURANBANK, a recently privatized commercial bank of Kazakhstan, has implemented an alternative to the NBR-based payments mechanism. According to their evidence, NBK's clearance lag for typical intra-Commonwealth transactions in rubles was 10 to 15 days in January. TURANBANK has established a 90-percent owned corporation in Moscow called the RUSKIKAZAKBANK to reduce that clearance lag to 1/2 day. Subsidiary corporations are also planned for Belarus, Ukraine and St. Petersburg.

Senior government officials have been worried about Russia's approach to ruble policy. They cited reports that Russia suggested treating ruble balances in the NBK as interest-bearing debts to Russia, and spoke of declaring the ruble its national currency. In their opinion, these wouldn't happen if the ruble were truly the currency of the entire ruble zone. There was further concern (fueled by a news interview with Kagalovsky of Russia) that the IMF-led ruble stabilization fund would be appropriated by Russia for its own growth and development. The resolution of disputes over the ruble zone had important ramifications for the fiscal situation in Kazakhstan. The original budget for 1992 included an annual excess of expenditures over revenues to be financed through issuance of ruble notes by the National Bank of Russia (NBR). If Kazakhstan must now "buy" its rubles from NBR, it would lose the resources budgeted through seigniorage and/or the inflation tax.

courts and state agencies financed by the budget) also mandated on 1 May 1992.

⁵ Checks are rarely used in Kazakhstan economic transactions, although the government is encouraging adoption of such activity.

Budgetary information for the first quarter of the year is encouraging. Revenues in real terms are down below the government's forecast, but expenditures have fallen by even more in real terms. As a result, the budget on a quarterly basis had been in surplus. There was concern among budget officials, however, that future quarters would be deficitary -- there was increased social pressure for expenditures on social safety net items.

Ethnic tension is increasing, although it has not yet reached the fever pitch of neighboring Tajikistan. Kazakhs are more openly (and pointedly) inquiring when the ethnic Russians will be "going home". There has in fact been an exodus of ethnic Germans and Russians, and these are often the more highly skilled citizens of Kazakhstan.

Decision time.

President Nazarbayev has not changed his objectives. Will you change your policy advice?

This case study does not represent historical meetings or conversations within the government of Kazakhstan. It is constructed from the author's reading of events in this country to highlight the choices actually facing that government at a time of crisis for pedagogical purposes. It should not be interpreted as a historical text.

Annex C: Price Control Increases of 2 January 1992

<u>Consumer good</u>	<u>Percent price increase</u>
bread (first and second grade)	300
milk/milk products (low fat content)	300
child nutrition	300
salt	400
sugar	350
vegetable oil	300
vodka and alcoholic spirits	450
matches	400
medicines	400
artificial limbs and prophylactics	400
petrol	300
diesel fuel	280
kerosene and other domestic fuels	500
condensed gas	500
natural gas	300
electric power (rural) ⁶	400
electric power (city)	200
water use	300
rental (including stay in hotels)	0
rail transport	300
water transport	200
air transport	400
motor transport (except in-city)	350
basic communications services	300

⁶ The increase in prices of domestic power was defined as 8 kopecks per kilowatt-hour for rural residents and 12 kopecks per kilowatt-hour for urban residents. In the last category, houses with stationary electric ranges and electric heating faced an increase of only 8 kopecks per kilowatt-hour. The corresponding percentages in the table were furnished by SEC.

<u>Producer good</u>	<u>Percent price increase</u>
Coal:	
engineering	500
coking	800
Oil, associated gas and gas condensate	500
Natural gas and LNG	500
Motor and boiler room fuel, and kerosene	480
Electric power	400
for agricultural consumers, max. tariff is 8 kopecks/kwh	
Mangyshlak Power Complex	690
Heat energy	400
Mangyshlak Power Complex	510
Precious metals and stones	to be announced
Railway transport	
interrepublican	830
local and republican	500
loading/unloading	500
Sea transport	500
Air transport	500
River transport	350
Motor transport	360
Basic communications services	300 on average

Source: GOSKOMSTAT Kazakhstan