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Support to the Banking Sector as a Factor of the Central Bank Losses (the Case of the National Bank of Kazakhstan)

V. Yu. Dodonov

Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan,
Nur-Sultan, Kazakhstan<https://orcid.org/0000-0003-0741-417X>

ABSTRACT

Central bank activities in developing and transit economies differ in specificity, due to the underdevelopment and increased vulnerability of national banking systems to external shocks. In some cases, this specificity leads to central bank losses, including over long periods and in large volumes. The **subject** of the article is central bank activities contributing to their losses. The **relevance** of the study is due to the increasing instability of the external environment within the growing crisis in the global economy, which causes the constant generation of shocks for the financial sector of developing economies. Maintaining financial stability and supporting the banking sector under these conditions may be factors of central bank losses. The **aim** of the article is to assess the impact of these factors on the example of the Central Bank of Kazakhstan. The study employed the **methods** of the analysis of the financial results of the National Bank of the Republic of Kazakhstan during its active support to the country's banking sector, as well as a comparative analysis of its financial statements with other central banks. As a **result**, the study revealed that the specifics of the monetary policy in Kazakhstan implemented to ensure the stability of financial markets and support to the banking sector led to massive losses for the regulator. This significantly distinguishes its results from similar indicators of other central banks in the world and the CIS countries. The resulting losses developed due to factors of both a temporary and situational nature, as well as systemic features of monetary policy that arose in a difficult period and became permanent afterwards. The **conclusion** confirms the hypothesis about the significance of support measures for the national financial sector in the formation of a negative financial result for the central bank, as well as illustrates the specificity of monetary policy in developing economies with a dominant commodity sector.

Keywords: central bank; central bank profit; central bank losses; monetary policy; banking sector recovery; interest expense; issue of debt instruments

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INTRODUCTION

Central bank activities are usually assessed in terms of their monetary policy and achieving its objectives (inflation targeting, stimulating economic growth and employment, dynamics of financial markets), and performing other key functions, such as financial supervision or ensuring the national currency stability. The issue of central bank profitability is considered much less frequently, since the profit making function of these institutions is secondary towards the primary function of implementing monetary policy as a state body. The secondariness of the central bank profit as an effectiveness indicator of its activities is recorded in the legislation of some countries and in many corresponding scientific papers¹ [1–3]. Nevertheless, the issues of central bank profitability in its various aspects obtained some coverage in the scientific literature [4–8].

The functions of the state body for regulating the financial sector and implementing monetary policy performed by central banks do not cancel its nature as a financial institution, usually organized as a joint stock company, which in the course of business gets a certain financial result as profit or loss. More-

over, the profit of the central bank as a state institution is subject to transfer to the state budget and, therefore, is a factor in the budget process. This aspect of central bank activities is also highlighted in the relevant literature from various perspectives.

Some American authors consider the legal perspective and note that “some laws explicitly exclude measures of profit from central bank objectives”², which eliminates “tensions between central banks and their governments”³ regarding the transfer of their profits to the budget. M. Blejer and K. Chu recognize the secondariness of the profit making compared to the effectiveness of the objectives of regulators to achieve a given inflation rate, and note that performance should still be evaluated. The evaluation criterion may be “information on operating costs incurred by the central bank while achieving inflation targets” [13, p. 27].

According to other views on central bank profitability, these institutions should not be completely free from obligations on making profit and transferring it to the budget. P. Stella believes that central banks ought to earn profit on a regular basis and to deliver it to the treasury, except the profit required to

¹ Current development in monetary and financial law. Vol. 3. Washington, DC: International Monetary Fund; 1999.

² The same. P. 443.

³ The same. P. 448.

ensure financial stability. “The accumulation of “excess” net worth is not justified; could require the government to borrow from private capital markets at excessively high rates” [1, p. 32], while these excess profits could be used to reduce the budget deficit.

Despite the consensus on the secondariness of central bank profitability compared to the effectiveness of the main regulatory functions, this does not cancel the need for profit and cost management in the context of the state’s interests to ensure the budget process. In this regard, the problem of central bank losses is also of interest to researchers. M. Teijeiro and O. Sweidan [9, 10] investigated the causes and consequences of this phenomenon; J. Dalton and C. Dziobek [11] studied central bank losses in selected countries; J. Benchimol and A. Fourçans [12] examined the correlation of central bank losses with the current monetary policy.

This thesis is not only a theory, but is also used in practice, since many central banks of developed countries deliver almost all their net profit to the government. In 2019, the US Federal Reserve received net income of \$55,458 million⁴, of which provided \$54,893 million (99%) to the Treasury. At the end of 2018, the Fed remittances to the Treasury — \$65,319 million — even exceeded its net income of \$63,101 million, which led to losses⁵.

At the end of 2018, the Bank of Japan received a net income of 587 billion yen, of which 557.6 billion (95%) was paid to the government⁶.

The issue of central bank profitability in developing or transition economies is not sufficiently developed, especially in terms of its formation factors and consequences for non-

banking sectors of the economy. At the same time, the processes of generating the financial result of central banks in such countries differ significantly from similar processes in developed economies, which is due to both the features of economic models and the less developed and more stable banking systems of such states. Therefore, studying the processes determining the formation of the Kazakhstan central bank’s financial result seems relevant in the context of its objectives, such as identifying the main factors affecting the profitability of the regulator in developing economies based on the upstream industry.

MAIN FACTORS OF CENTRAL BANK’S FINANCIAL RESULTS FORMATION

We should consider the main factors and sources of central bank formation in the context of their profitability issues. The central bank’s financial result is influenced by many factors that affect their main income and expense items. The features of the regulator’s monetary policy may significantly affect the volumes of individual income and expense items and their result, making profit or losses. Sometimes central bank income (or expenses) may include items specific to the conditions of a particular country or the current economic situation, difficult to find in the financial statements of regulators in other countries. For example, a specific article by the Bank of Russia about “income gained from equity participation of Sberbank of Russia public joint stock company”, which made a significant part of this regulator’s total income — its share was 23.4% at the end of 2018⁷. Nevertheless, given the wide diversity of central bank structure of income and expenses in various countries, we can distinguish some key items that have the most significant impact on the financial result.

The largest income and expense items for most central banks are currently interest and operating (from operations with securi-

⁴ Hereinafter, by dollars we mean US dollars.

⁵ Federal Reserve Banks Combined Financial Statements. As of and for the Years Ended December 31, 2019 and 2018 and Independent Auditors’ Report. Federal Reserve System Audited Annual Financial Statements. P. 4. URL: <https://www.federalreserve.gov/aboutthefed/files/combinedfinstmt2019.pdf> (accessed on 20.03.2020).

⁶ Financial Statements for the 134th Fiscal Year. Fiscal 2018. Financial Statements. P. 3. Bank of Japan. The Bank’s Accounts. URL: <https://www.boj.or.jp/en/about/account/zai1905a.pdf> (accessed on 20.03.2020).

⁷ Bank of Russia’s 2018 Annual Report. P. 258. M.: AEI PRIME, 2019.

ties and financial instruments). Significant expense items also include the formation of reserves or provisions (various banks use different terms) and various administrative expenses, where staff expenses prevail. These items are typical of most central banks as the most significant both in absolute volume and in specific weight.

The impact of individual items on the formation of a financial result may vary depending on economic conditions and the specifics of the central bank's monetary policy. This explains numerous views of specialists on the significance of certain factors of central bank profitability. At the same time, they admit the high variability of the financial result from the specific composition of the measures. O. Smirnova believes that "using three main instruments of monetary policy (monetary base, reserve requirements and refinancing rates) gives 8 different options to combine them, each providing its own unique character of central bank income and expenses" [14, p. 15].

Some authors focus on the impact of monetary policy on the formation of the central bank's financial result and note that "changes in exchange rates will usually cause changes in the domestic currency counterpart of net foreign assets resulting in an unrealized profit (or loss)" [13, p. 27].

A. Sukharev believes that the profit of the central bank is also formed due to its operations in the foreign exchange market: "By smoothing daily fluctuations in the exchange rate, the central bank buys excess currency at a lower rate and sells it at a higher rate, thus, it will make profit. However, the greater the fluctuations between the demand and supply of foreign currency are during the year, the greater the profit the central bank will have" [2, p. 19].

In the context of exchange rates impact, P. Stella and A. Lönnberg note the importance of extending international financial reporting standards (IFRS) to evaluating central banks, which led to "the possibility of volatile income and balance sheet statements" [15, p. 5]. According to IFRS, the revaluation of as-

sets related to foreign exchange revaluation changes refers to either profits or losses.

Despite numerous aspects of central bank activities that influence the formation of their financial result, in most cases interest income and expenses are its main factors. Thus, in 2018, the Bank of Russia's interest income (362 billion roubles) amounted to 62.6% of total revenue (578 billion roubles), and the interest expenses (354 billion roubles) became the largest expense item (877 billion roubles)⁸ with a specific weight of 40.4%.

In 2019, the US Federal Reserve interest income in the amount of \$102.8 billion accounted for almost all of the revenue (\$103.8 billion) — 98.9%, and interest expense (\$41 billion) were 84.7% of total expenses (\$48.4 billion)⁹.

The interest income of the European Central Bank in 2018 (EUR2,503 million) also became the bank's main source of income (EUR3,062 million) with the specific weight of 81.7%¹⁰.

The objectives of this article do not include studying the reasons why interest received and paid by central banks determines their financial results. In recent years, in developed economies, central banks have pursued an aggressively soft monetary policy, in which they redeem a large number of debt financial instruments from the market, settled by 2018 on their balance sheets in amounts exceeding \$16 trillion [6]¹¹. The maximum volumes of such securities on the balance sheets, several trillions of dollars, were generated by the Bank of Japan, the European Central Bank

⁸ Bank of Russia's 2018 Annual Report. P. 258. M.: AEI PRIME, 2019.

⁹ Federal Reserve Banks Combined Financial Statements. As of and for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report. Federal Reserve System Audited Annual Financial Statements. P. 4. URL: <https://www.federalreserve.gov/aboutthefed/files/combinedfinstmt2019.pdf> (accessed on 20.03.2020).

¹⁰ European Central Bank. Annual Report 2018. P. A24. URL: <https://www.ecb.europa.eu/pub/pdf/annrep/ar2018-d08cb4c623.en.pdf?d4db50437f47e3bf9914e1381b1a2cde> (accessed on 21.03.2020).

¹¹ Central banks led the world into crisis and helped the rich. Vesti.ru. 31.01.2018. URL: <https://www.vesti.ru/doc.html?id=2982335&cid=6> (accessed on 02.04.2020).

and the US Federal Reserve. Therefore, these central banks receive rather large volumes of income from the repurchased assets, which explains both the high absolute volume of interest income and their dominance in the income structure.

In most other countries, central banks have a less specific monetary policy, and that is why do not have gigantic volumes of debt assets bought up in the markets on their balance sheets. Thus, the size and share of interest income from other central banks are much lower, and these incomes are not always sufficient to ensure overall profitability amid strong fluctuations in the volumes of other components of the balance sheet and income.

In many cases, these fluctuations are caused by the increasingly complicated external and macroeconomic environment for the functioning of national banking systems, especially in relatively small commodity-type economies, dependent on world commodity markets with high volatility and lower prices. External shocks are transmitted to the level of such national economies and have a negative impact, including on financial systems. Thus, central banks have to respond to emerging challenges both to ensure macro-financial stability and to support specific financial institutions. This response often generates increased expenses, not only within the traditional monetary policy directions, but also in non-standard one-off events.

FORMATION OF FINANCIAL RESULTS OF THE NATIONAL BANK OF KAZAKHSTAN: FACTORS AND FEATURES

Having had a negative impact on the financial results of the National Bank of the Republic of Kazakhstan, the situation in the Kazakhstan financial sector sets an example of the impact of such challenges on central bank activities and their profitability.

Like other central banks, the National Bank of Kazakhstan receives a financial result as a profit or loss, thus acting not only as a state body, but also as a joint stock company, whose result belongs to its shareholders. The main

shareholder of the National Bank of Kazakhstan is the state, which in accordance with the applicable Law¹², owns the authorized capital of this state institution.

The activity of the National Bank is not aimed at making profit, which is due to its main functions as a state body and is reflected in the regulatory framework. The main goal of the National Bank of Kazakhstan is to ensure the price stability and to implement the tasks to accomplish it, rather than generate income and make profit. At the same time, in accordance with the Law, part of the National Bank's profit is subject to transfer to the state budget. Kazakhstan has legally established the possibility to compensate losses to the National Bank from the state budget. However, at present the relevant part of Art. 11 of the Law on the National Bank is suspended and is in force as amended in 2018, in which budgetary compensation for losses is not provided, and the corresponding provision is removed from the text of the article.

This version of the Law is valid, since the reserve capital of the National Bank dropped to zero for the first time as of the end of 2018. If the standard version of the Law were in effect, it would be necessary to form the reserve capital of the regulator at the expense of the state budget. The zeroing of the reserve capital took place in just three years and from a very significant level of 346 billion tenge (about a billion US dollars) that the bank had at the end of 2015. The reserve capital of the National Bank was depleted, since it compensated for the losses, incurred by the regulator in 2016–2017–158 billion tenge in 2016 (in 2017) and 175 billion tenge in 2017 (in 2018)¹³.

The reserve capital depletion is due to the unprofitable activity of the National Bank for four consecutive years — from 2015 to 2018

¹² Law of the Republic of Kazakhstan dated March 30, 1995 No. 2155 "On the National Bank of the Republic of Kazakhstan". Information system "Lawyer". URL: https://online.zakon.kz/document/?doc_id=1003548 (accessed on 02.04.2020).

¹³ Consolidated Financial Statements for the Year Ended December 31, 2018 p. 122. National Bank of the Republic of Kazakhstan. URL: https://nationalbank.kz/cont/NBRK%202018%20FS_RUS_.pdf (accessed on 23.03.2020).

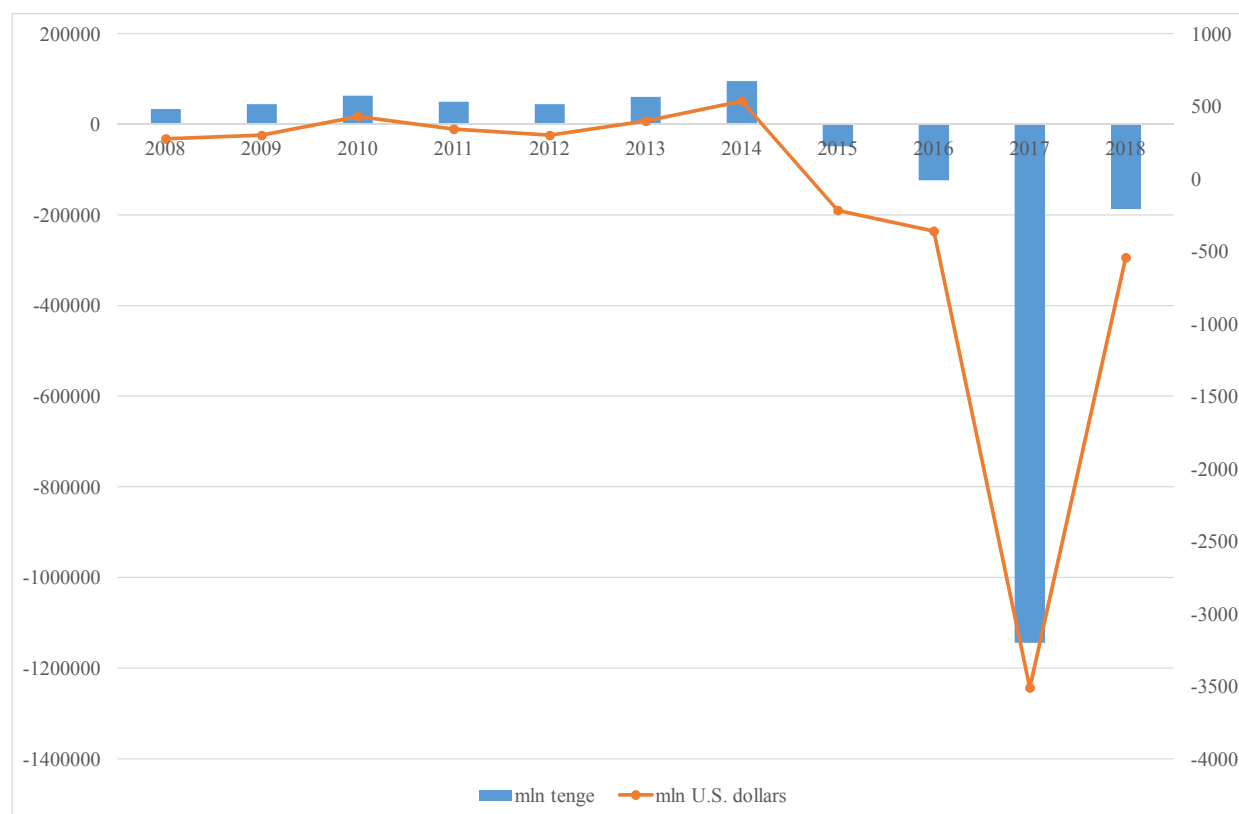


Fig. 1. losses (–) of the National Bank of the Republic of Kazakhstan for 2008–2018

Source: National Bank of the Republic of Kazakhstan (consolidated financial statements for 2011–2018), calculated by the author.

(the data for 2019 is not yet available). This is a new trend for the Kazakhstan central bank activities, always profitable before, including the period of the 2008–2009 global financial crisis, after which large-scale measures were taken to support the country's financial sector (Fig. 1).

From 2008 to 2014, the profit of the National Bank increased steadily from 33 to 95 billion tenge simultaneously with its dollar equivalent, whose average value for this period amounted to \$367 million. However, after 2014, the National Bank was making losses that reached the maximum of 1145 billion tenge, or \$3.5 billion, in 2017. Over four years, the total volume of continuous losses reached 1505 billion tenge, or \$4.6 billion.

Recurring losses of a central bank is a regular part of the world practice. Since, as noted above, the main function of this institution is to regulate the financial sector and to implement monetary policy in areas that sometimes require significant costs, it is difficult

to avoid losses. However, the question is how often they arise and how large they are.

If we consider the functioning of some central banks of the CIS countries and the world over the past five years, we will see that such regular and large losses as those of the National Bank of Kazakhstan are a rare exception (Table 1).

The Bank of Russia made quite large losses, but only for two of the past five years (in 2017–2018). The Central Bank of Azerbaijan also had losses for two out of five years (in 2014 and 2018), but they were small. The central banks of Kyrgyzstan and Ukraine have not had a loss in the past five years. Of the four leading central banks of developed countries, the US Federal Reserve (in 2015 and 2018) and the Bank of England (in 2017) made losses, while the European Central Bank and Bank of Japan remained consistently profitable. Belarus, whose National Bank has been loss-making over the past five years, is the only example of the same consistent and

Table 1

Profit / loss volumes of some central banks of the CIS countries and the world in 2013–2018, million US dollars

	2014	2015	2016	2017	2018
Bank of Japan	9542.5	3395.9	4663.1	6822.5	5316.7
National Bank of Ukraine	8170.7	3723.9	2707.8	2334.1	1386.6
Central Bank of Azerbaijan	–393.6	5385.4	253.2	2042.7	–28.1
European Central Bank	1315.1	1200.6	1320.9	1440.9	1861.2
US Federal Reserve	2751	–16829	711	784	–2176
National Bank of the Kyrgyz Republic	100.6	101.5	54.0	32.7	33.4
Bank of England	733.5	1980.8	359.2	–268.1	244.5
National Bank of the Republic of Belarus	–700.7	–0.1	–746.8	–586.7	–386.3
National Bank of the Republic of Kazakhstan	532.8	–219.0	–363.2	–3631.8	–545.0
Bank of Russia	4770.6	1836.6	651.1	–7465.6	–6933.7

Source: compiled by the author according to the financial statements of the corresponding banks.

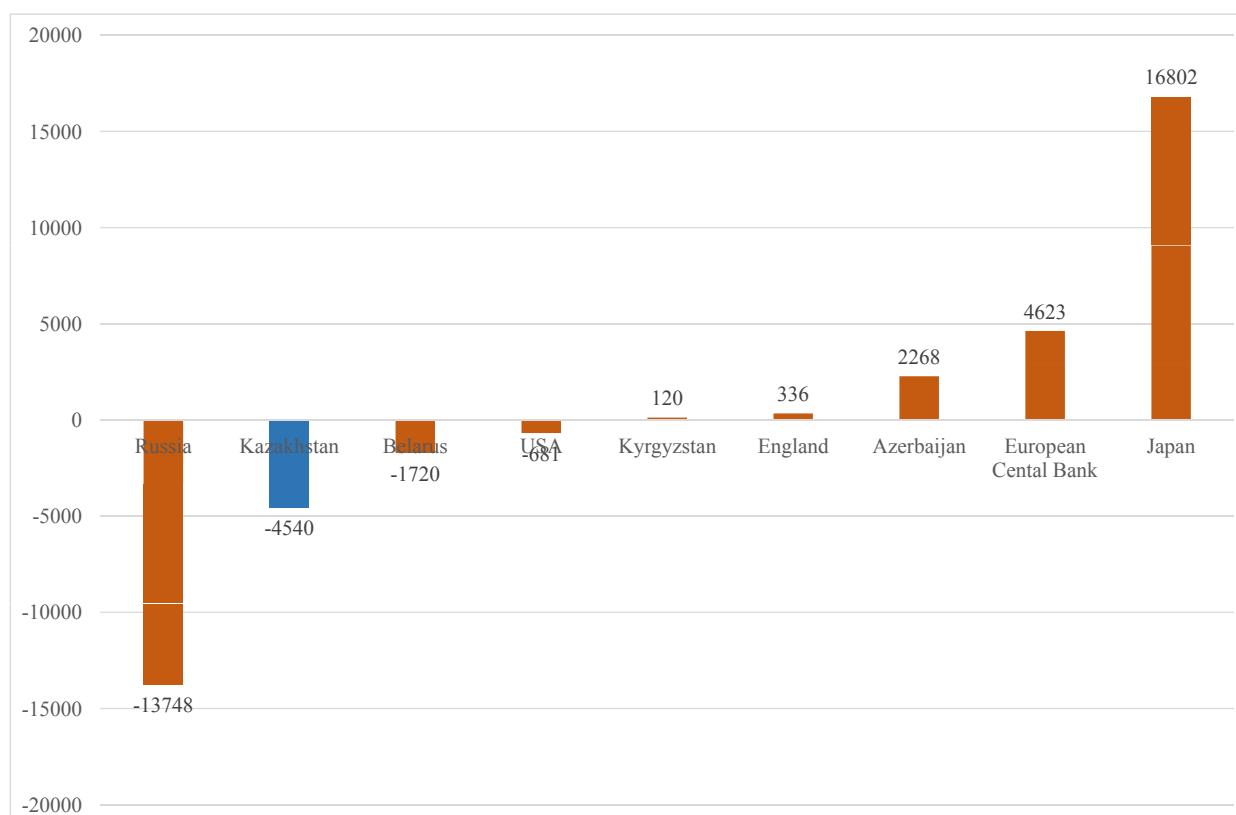


Fig. 2. Cumulative profits / losses of the some central banks of the CIS and the world in 2016–2018, million US dollars

Source: financial statements of the respective central banks, calculated by the author.

Table 2

Largest expenses of the National Bank in 2014–2018, mln tenge

	2014	2015	2016	2017	2018
Interest expense	-4416	-15 700	-275 513	-357 179	-380 590
Banking sector recovery expenses	-	-	-5429	-585 623	-102 378
Disposal expenses of a subsidiary	-	-	-	-507 474	-
Other operating expenses	-5596	-152 446	13 753	39 381	55 607
Personnel expense	-19 180	-22 955	-24 298	-26 066	-28 715

Source: compiled by the author according to the consolidated financial statements of the National Bank of the Republic of Kazakhstan.

large-scale loss-making of the financial regulator as Kazakhstan.

As for the size of losses, especially in relative terms, the negative experience of the National Bank of Kazakhstan in recent years is also outstanding. In absolute terms, the total loss of the Kazakhstan regulator over the past three years is second only to that of the Bank of Russia (*Fig. 2*), and in relative terms (comparing GDP) — to the Belarusian National Bank. Over the past three years, the Kazakhstan regulator made the average loss to GDP of 0.94%, and the Belarusian one — 1.1% (the Russian one — 0.28%)¹⁴.

The reasons for such large losses of the National Bank in recent years are clearer when considering the most significant items of its expenses (*Table 2*).

Table 2 illustrates the specifics of the formation of the financial result of the Kazakhstan central bank associated with providing assistance to the country's banking system. Two items — banking sector recovery expenses and disposal expenses of a subsidiary — made the main contribution to the regulator's losses in 2017. Expenses on these two items amounted to almost 1.1 trillion tenge — the amount corresponding to 2% of Kazakhstan's GDP of that year.

The banking sector recovery expenses were made by the National Bank for three consecutive years and amounted to 693 billion tenge, their bulk fell on 2017 and 2018. The losses under this item were the result of differences in the value of bonds issued by banks and by troubled entities of the quasi-public sector, bought out by JSC Kazakhstan Sustainability Fund, a subsidiary of the National Bank. These bonds, issued at non-market rates of

¹⁴ Calculated by the author based on the financial statements of the National Bank of the Republic of Kazakhstan, the National Bank of the Republic of Belarus, and the Bank of Russia.

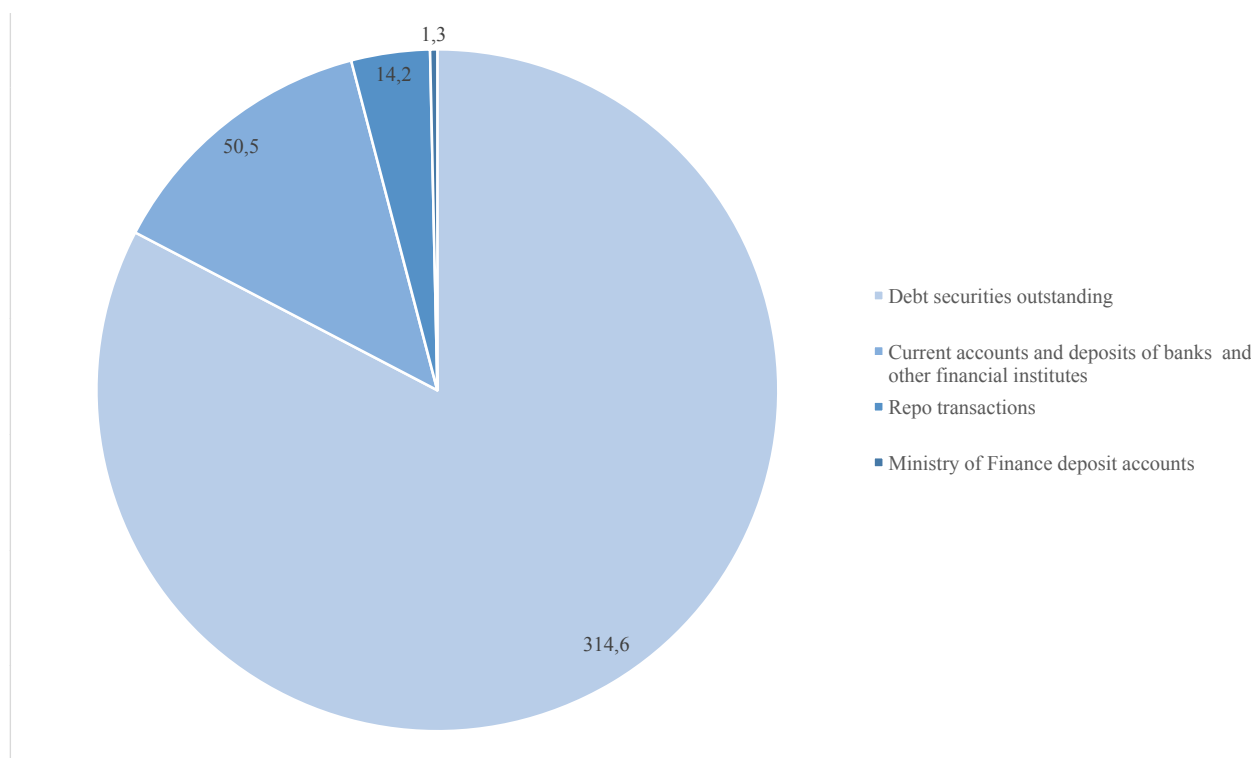


Fig. 3. Interest expenses of the National Bank in 2018, billion tenge

Source: National Bank of the Republic of Kazakhstan (consolidated financial statements for 2018), calculated by the author.

return (from 4 to 10.95%)¹⁵, have a fair value, significantly different from the nominal one, and the difference in their value is recognized by the National Bank as a loss.

The second largest loss item of the National Bank of recent years — disposal expenses of a subsidiary — also refers to the problems of the banking sector and measures previously taken by the state to solve them. As part of these measures, JSC Fund of Problem Loans, the institution of the National Bank, inter alia, provided support to the banking sector by donating its shares to the Government of the Republic of Kazakhstan in 2017 (represented by the State Property and Privatization Committee of the Ministry of Finance). The loss from the disposal of these shares in the amount of 507,474 million tenge was recorded as a loss of the National Bank for 2017¹⁶.

¹⁵ Consolidated Financial Statements for the Year Ended December 31, 2018 p. 122. National Bank of the Republic of Kazakhstan. URL: https://nationalbank.kz/cont/NBRK%202018%20FS_RUS_.pdf (accessed on 23.03.2020).

¹⁶ The same. P. 123.

ISSUE OF NOTES AS A FORMATION FACTOR OF REGULAR LOSSES OF THE NATIONAL BANK

Thus, the bulk of the losses of the National Bank was due to the support measures to the banking system. At the same time, the loss-making of this institution in recent years has been the result not only of solving the problems of the banking system, but also of the peculiarities of monetary policy, which led to an increase in interest expense to very high levels. This was the largest expense item both in 2016 and in 2018, except 2017, when banking sector recovery expenses attained a maximum. In 2018, the volume of interest expenses exceeded 380 billion tenge (more than \$1 billion), and this amount, though not a consequence of some extraordinary events, is nevertheless comparable to the volume of funds spent a year earlier on emergency items related to assistance to banks.

Interest expenses are payments made by the National Bank for its obligations — securities, bank deposit money, etc. The structure

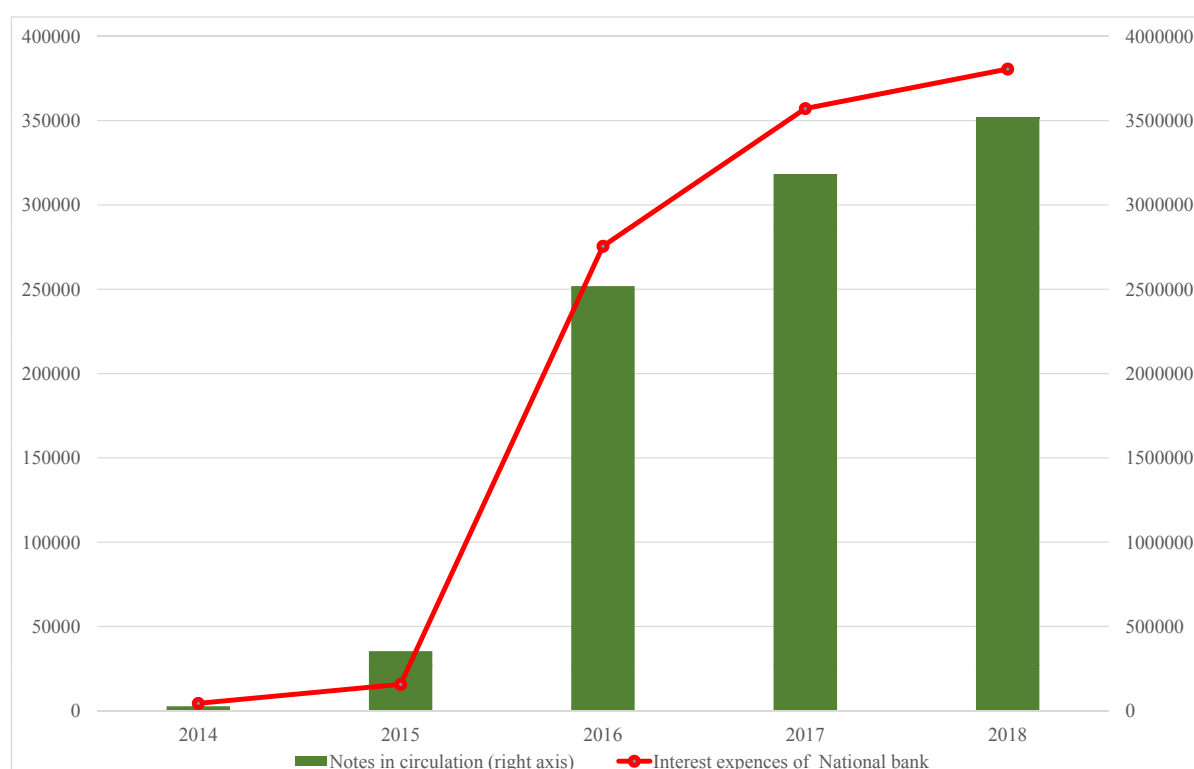


Fig. 4. Comparative dynamics of the volume of notes of the National Bank in circulation and its interest expenses, mln tenge

Source: National Bank of the Republic of Kazakhstan (consolidated financial statements for 2015, 2018; structure of government securities denominated in national currency), calculated by the author.

of these expenses reflects the structure of the regulator's obligations; in 2018, its bulk (almost 83%) was represented by servicing debt securities in the amount of 314.6 billion tenge (Fig. 3).

These significant expenses for the interest payment on debt securities, the main type of obligations of the National Bank, are due to their large volumes of issue. Unlike measures to improve the banking sector, this regulator's activity is systemic, which means generating losses on a regular basis. At the same time, interest expenses have been steadily increasing since 2015, as the volumes of the issue of debt securities by the National Bank — notes — and their volume in circulation are constantly growing (Fig. 4). Thus, its growing debt burden determines the growth of interest paid on debt, which are becoming an increasingly large expense item and lead to the formation of a negative financial result of the regulator.

Notes of the National Bank are issued primarily for implementing monetary policy, and not because the regulator needs cash — this is the specificity of these instruments and the difference between the motives for their issue and ordinary debt securities (for example, government debt to cover budget deficit). The jump in their output in recent years referred to the difficult situation in the country's financial market, including the need to provide banks with tools for placing excess cash, which otherwise could become a destabilization factor of financial markets, primarily for foreign exchange. However, the policy of sterilizing excess liquidity by issuing notes also had a number of serious negative consequences, including for central bank profitability.

In the case of the issue of notes of the National Bank of Kazakhstan, this effect was manifested through a rapid increase in the regulator's interest expenses as a result of both an increase in their issue volume and

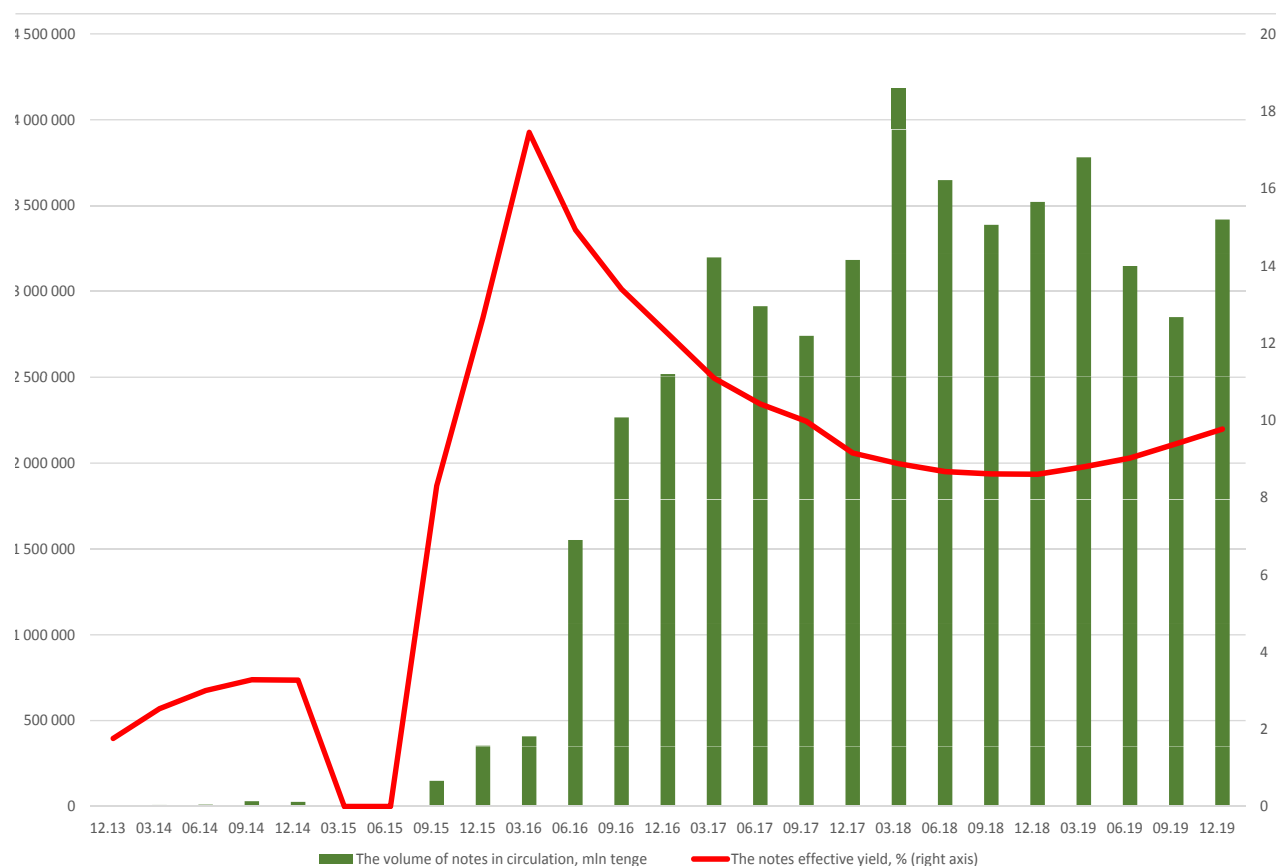


Fig. 5. Notes in circulation and their yield

Source: National Bank of the Republic of Kazakhstan (structure of government securities denominated in national currency), calculated by the author.

high maintenance costs. The notes were issued at sufficiently high interest rates to tie up money that could put pressure on the tenge — that is why a sharp surge in the issue of notes occurred during the period of high devaluation expectations after the fall in oil prices in 2015–2016 (Fig. 5).

Due to the jump in the issue of notes and their high servicing costs, the debt burden on the National Bank amounted to about 3.5 trillion tenge (about \$10 billion) only through these financial instruments, and interest payments on them exceeded 1 trillion tenge (about \$3 billion)¹⁷ in just three years (2016–2018). This made a significant contribution to the growth of interest expenses and the formation of the regulator's losses.

¹⁷ Consolidated Financial Statements for the Year Ended December 31, 2018 p. 122. National Bank of the Republic of Kazakhstan. URL: https://nationalbank.kz/cont/NBRK%202018%20FS_RUS_.pdf (accessed on 23.03.2020).

Another negative consequence of the massive issue of notes, which does not directly affect the National Bank's profitability, but creates the prerequisites for maintaining a high level of interest expenses, was that these instruments started replacing loans in the bank assets for the economy. While the National Bank was actively issuing notes (since 2016), the volume of bank lending to the economy decreased, despite the growth of the banking system assets during this period. From the end of 2015 to the end of 2019, second-tier bank assets increased by 13%, and the volume of the loan portfolio decreased by 5%¹⁸. At the same time, we can clearly see the relationship between the period of a strong reduction of the loan portfolio from mid-2017 to mid-2018

¹⁸ Information on equity, liabilities and assets for 2014–2020. National Bank of the Republic of Kazakhstan. URL: <https://nationalbank.kz/?docid=1060&switch=russian> (accessed on 11.03.2020).

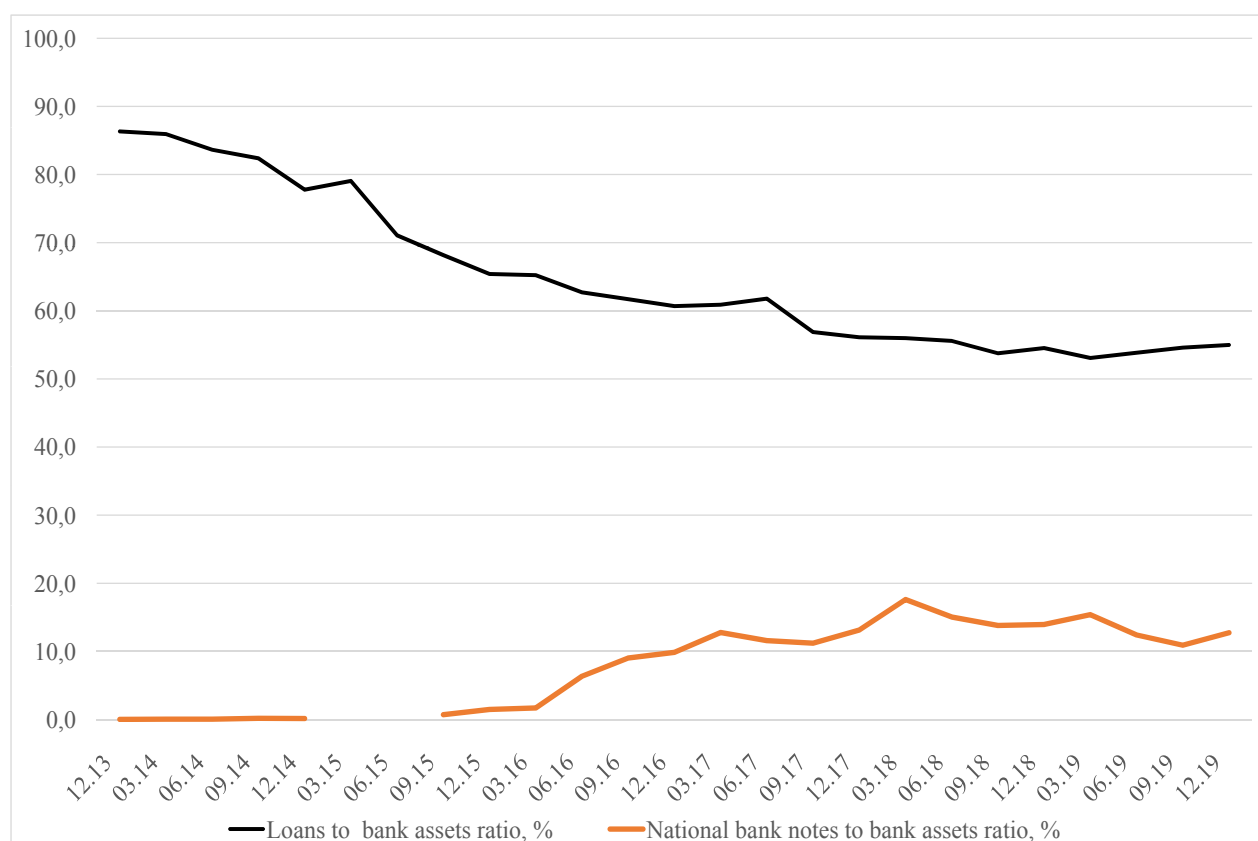


Fig. 6. Comparative dynamics of the volumes of notes and loans relative to the volumes of banks assets

Source: National Bank of the Republic of Kazakhstan (information on equity, liabilities and assets for 2014–2020), calculated by the author.

and the growth in the volume of notes of the National Bank in the same period (the maximum was attained in the first quarter of 2018). That is, the relationship between the growth in the issue of notes and the reduction in bank lending to the economy is clear. This relationship is even better illustrated by the dynamics of two ratios — the share of loans in bank assets and the ratio of the volume of notes of the National Bank in circulation and the STB-owned assets during the period of active issue of notes (Fig. 6).

The increase in the volume of notes issued was accompanied by a decrease in the share of loans in the banking sector assets, i.e. notes replaced loans in bank assets because they were a much more attractive way to place money. In our opinion, besides the negative impact on the credit market, this phenomenon has a deferred effect on the Na-

tional Bank profitability, making it maintain a high level of notes in circulation. The issue of these instruments was originally determined by the regulator's situational response to an extraordinary situation and the need to link excess liquidity. However, they became a constant and large component of the assets side of the balance sheet and a systemic factor in the stability of Kazakhstan's financial market. A sharp cessation of their release may lead to an imbalance, especially in the face of a strong reduction in demand for loans amidst an escalation of the global crisis and shocks caused by the coronavirus pandemic. The threat of imbalances in the banking system due to the limited supply of notes by the National Bank will force it to continue issuing and, as a result, incur high interest expenses, which will remain the main item forming a negative financial result.

CONCLUSIONS

Currently, the formation of the financial result of the central bank in developing economies has significant differences from a similar process in the regulators of developed countries, demonstrating the cost analysis of the National Bank of Kazakhstan in recent years. These differences are due to the vulnerability of the banking sector to external shocks, especially in countries with a high role of upstream industries, where product prices are highly volatile, which causes instability, including in national financial systems. The vulnerability of the financial sector is reflected in the specifics of the central bank activities. The experience of Kazakhstan demonstrates that they are forced to provide large-scale support to troubled banks and incur significant costs in the course of this support. They also have to pursue a monetary policy, coupled with an increase in interest ex-

penses, to ensure the banking sector with reliable and liquid assets in order to sterilize excess liquidity and maintain stability in the foreign exchange market and in the financial system as a whole.

Such a policy of central banks may lead to the formation of a negative financial result, including over long periods and in significant volumes, as in the case of Kazakhstan. As a result of the central bank systematic loss-making, the economy faces a number of negative consequences. They include an increase in the country's state debt, part of which is the regulator's debt, a deterioration of the budget process due to the lack of receipt of part of its profit, a decrease in the bank credit activity, etc. These refresh the problem of ensuring central bank profitability, although obtaining a positive financial result is not a priority for these institutions.

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ABOUT THE AUTHOR



Vyacheslav Yu. Dodonov — Dr. Sci. (Econ.), Chief Researcher, Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan, Nur-Sultan, Kazakhstan
dodonovv@mail.ru

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