
IMF SAYS KAZAKHSTAN CAN SHIELD CURRENCY FROM DEVALUATION

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The Kazakh central bank, which has faced questions about devaluing the national currency for a second time this year, can manage the tenge without putting it under new stress, the International Monetary Fund said.

I dont think a new devaluation will necessarily be a good thing, Juha Kahkonen, deputy director of the IMF's Middle East and Central Asia department, said yesterday in an interview in the Kazakh commercial capital of Almaty. Certainly Kazakhstan has reserves to handle any short-term fluctuations.

The tenge, closely managed by the central bank, has strengthened in seven of the past eight months against the dollar after a 19 percent devaluation in February. Kazakhstan has no plans to devalue it in response to the falling price of oil, the countrys chief export, and a weaker Russian currency, central bank Chairman Kairat Kelimbetov said Oct. 21.

While Russia is the main factor for pressure on the tenge, some weakness in exports to China is also weighing on the currency, Kahkonen said. As the central bank discusses its currency management, it should also be mindful of the high level of dollarization in the Kazakh economy, according to Kahkonen.

More Flexibility

If the exchange rate moves a lot, it will create issues for borrowers and lenders, he said, urging the central bank to show more flexibility in steering the tenge. Its a gradual process and certainly will take some years.

The ruble has been plunging as capital flees the country, even after the central bank increased

interest rates last week amid a standoff with the U.S. and its allies over the conflict in Ukraine.

The tenge is trading near the strongest level against the ruble in more than four years. It was little changed at 4.1454 against the Russian currency as of 4:30 p.m. in Almaty after gaining 1.3 percent yesterday, according to data compiled by Bloomberg.

There's little evidence that the tenge is overvalued, Jacob Nell and Alina Slyusarchuk, analysts at Morgan Stanley, said today in an e-mailed note, predicting a gentle pace of appreciation against the dollar. Kazakhstan's stronger finances and a better outlook for its oil industry explain why the tenge should appreciate against the ruble, they said.

Better Protection

We expect Kazakh oil production and exports to grow strongly, while in Russia we see production as broadly flat and exports likely to decline slightly, they said. In addition, we see Kazakhstan as having more protection against a lower oil price than Russia.

A further drop in the price of oil, a continued sharp weakening of the ruble and an uptick in the inflation rate are among the main risks for tenge, according to Morgan Stanley, which predicts the Kazakh currency will trade at 179 tenge per dollar by the end of this year and 184 at end-2015.

Kazakhstan's central bank widened the tenge's trading corridor in September to allow for more appreciation against the dollar. It pledged to keep the tenge between 188 and 170 per greenback. Its previous target was 185 per dollar, with a range of 3 tenge on either side. The Kazakh currency traded little changed at 180.90 per dollar today.

Kazakhstan is at risk of importing inflation from Russia, which is buying more goods in central Asia, but so far inflation pressure has been very contained, Kahkonen said.

Consumer prices rose 7.6 percent in October, the most in almost three years.

The central bank must introduce a single policy rate to improve the transmission of monetary policy into the real sector, Kahkonen said.

There is no single effective interest rate, which the central bank can use to signal its stance on

monetary policy, he said. The regulator also needs to show flexibility with the exchange rate over time in an orderly fashion, so that in the medium to longer term Kazakhstan can move to inflation targeting.

Kaynak/Source: