

LIBERALIZATION OF CAPITAL ACCOUNT UNDER INTEGRATION

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Abstract. The article summarizes countries’ approaches to the liberalization of capital account including CEE countries before their accession to the European Union – in pre-accession. The main steps on the way of capital liberalization are identified: the removing of restrictions on FDI before the liberalization of financial flows; the preference for the liberalization of capital inflows against capital outflows; the primary liberalization of long-term capital flows against short-term flows. The financial liberalization experience in Kazakhstan and Uzbekistan in the context of regional integration is considered. As it is known, Uzbekistan has always stayed away from the projects of economic integration. As a result, this country has a less developed domestic exchange market. In contrast, an active integration policy of Kazakhstan has become the driving force behind the liberalization of exchange regulation.

Keywords: globalization, regional economic integration, financial integration, international capital flows, liberalization of capital account.

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Introduction

Formation of globalized financial environment of interaction of economic agents is one of the most important signs of our time. Globalization does not only change the balance of power on the world stage, but it also determines the new sovereign integration imperatives of economic and financial policies. So today one can see a range of serious qualitative changes in integration processes, which make them the only path for the development of nations and regions.

Regionalization of world economy – is a natural stage of modern world economy development under the globalization. A consistent enforcement of the European model of development in general is the main strategic goal of Ukraine’s public policy. Thus, the study of international experience in regional integration is the topical scholarly task for politicians and government. One of the most important aspects of such studies is the capital account liberalization.

Liberalization of capital account in CEE countries

Analyzing the experience of capital account liberalization of CEE countries under the European integration, it should be noted that it is closely related to their transition to market economies.

As a first step, current account convertibility was achieved between 1994 and 1996 as a part of IMF membership obligations. For the Czech Republic, Hungary, Poland, and the Slovak Republic, the application for OECD membership in 1993-1994 was an additional

catalyst for capital account liberalization. But most importantly, the prospect of EU membership and the accession negotiations provided an institutional anchor for capital account liberalization in all CEE countries (Hagen, Siedschlag, 2008).

The European integration is a multi-speed process. In the beginning of the period 1995-2004 international financial integration was higher in CEE countries with gradual liberalization policy. But from 1998 the speed of integration was much higher in countries that have rapidly liberalized their capital accounts. Some of them fall under the risks of sudden stops of capital flows and, as a result, formation of large economic and financial imbalances.

So governments should be ready for the adequate response to a sudden stop with the necessary financial rescue of the banking system and a fiscal expansion to partly absorb the fall in aggregate demand.

The integration of each country into the world or regional economy is a very special process reflecting different macroeconomic terms of country economic development. Nevertheless, we can identify three common features of capital flows liberalization in CEE countries before their accession to the European Union which are the main lessons for Ukraine and many other countries:

- the removing of restrictions on FDI before the liberalization of financial flows;
- the preference for the liberalization of capital inflows against capital outflows;
- the primary liberalization of long-term capital flows against short-term flows.

Liberalization of capital account in some post-socialist countries

We would like to consider in our study the financial liberalization experience in two separate countries of the former socialist bloc, namely – Kazakhstan and Uzbekistan to compare them in the context of integration policy despite the fact that the trajectory of their movement is outside European integration. We regard, the importance of such a policy makes it necessary to coverage of their content as close as possible to the relevant national standards and regulations mentioned below.

The National Bank in agreement with the Government of the Republic of Kazakhstan for a number of years, since 2002, has implemented a policy of gradual liberalization of the exchange regime. By 1 January 2007, in Kazakhstan, in accordance with the program of liberalization of the foreign exchange regime for 2003-2004 and for 2005-2007, the Central Bank implemented a number of measures: the licensing of capital movements operations and opening accounts in foreign banks, lifting restrictions on exchange operations of legal entities in the domestic foreign exchange market, a new scheme of control over execution of requirements of currency repatriation. The main purpose of foreign exchange liberalization was the complete abolition of exchange restrictions on the movement of capital and the creation of an informative statistical and analytical monitoring of the exchange operations as a basis for decision-making on economic policy.

Next, let us consider the main features of the monetary policy of Kazakhstan in accordance with the official website of the central bank (National Bank of Kazakhstan).

Currently, there is a liberal foreign exchange regime in Kazakhstan, which does not contain any restrictions on the free movement of capital and in no way impedes the implementation of business activity in this country.

The goal of exchange regulation in Kazakhstan today is to promote public policy to achieve sustainable economic growth and economic security of the country. Accordingly, the objectives of exchange regulation are:

- 1) establishing procedures for handling foreign exchange values in the country;
- 2) creation of conditions for further integration into the world economy;
- 3) providing the information base on foreign currency transactions and capital flows.

Obtaining a license is only required for the implementation of activities for the organization of exchange operations with foreign currencies (the activity points of currency exchange).

Modes of registration and notification allow for large-scale operations of capital movements, which involve inflow of capital (property, cash) to the Republic of Kazakhstan in the amount of over US \$ 500 thousand in the equivalent or transfer of capital (cash, transfer of property) of the Republic of Kazakhstan in the amount of over 100 thousand US dollars equivalent.

According to the registration mode a resident must give to the National Bank the copy of the exchange agreement as the basis of the movement of capital before the operation. But in terms of notification mode, the resident should provide information to the National Bank on transactions (including foreign exchange contract) after operation. The requirement of registration and notification is applied only to the residents of the Republic of Kazakhstan.

In foreign exchange legislation of the Republic of Kazakhstan in order to ensure the supply of foreign currency on the domestic foreign exchange market there is a requirement of currency repatriation, which is credited to the bank accounts in the authorized (Kazakhstan commercial) banks:

- 1) revenues in local and foreign currency from the export of goods (works, services);
- 2) national and foreign currency transferred by a resident to a non-resident for payments for imports of goods (works, services), in the case of non-fulfillment or incomplete fulfillment of obligations of a non-resident.

In accordance with the current legislation, the period for the repatriation is determined solely by the terms of the foreign trade contract without any restrictions on the implementation of the transaction on the export or import of repatriation upon expiration. This requirement applies only to the residents (legal entities established under the laws of the Republic of Kazakhstan, and individual entrepreneurs - citizens of Kazakhstan).

The monitoring of repatriation requirement is carried out on foreign trade transactions, the sum of which exceeds US \$ 50 thousand in the equivalent by registration of the foreign trade contract with the commercial bank serving the resident's foreign trade transaction.

However, given the existing risks of external shocks, the Law of the Republic of Kazakhstan dated 13 June 2005 "On Exchange regulation and Exchange control" provides a mechanism for rapid response in the event of threats to the economic security of the Republic of Kazakhstan and the stability of its financial system.

Namely, if the situation cannot be solved by other measures of economic policy, the Law provides for the opportunity to brief introduction of certain foreign exchange restrictions in the framework of the special exchange regime, such as:

- 1) the requirement to open a bank deposit without payment of remuneration in the amount determined as a percentage of the amount of foreign currency transaction in the authorized bank or in the National Bank for a fixed term;
- 2) the requirement to obtain a special permit from the National Bank to conduct foreign exchange operations;
- 3) the requirement of mandatory sale of foreign currency received by residents of the Republic of Kazakhstan;

4) establishing repayment period for foreign currency earnings; limits on volume for settlements of foreign exchange transactions.

Special exchange regime could be introduced by the President of the Republic of Kazakhstan, after consultation with the Government and the National Bank for a term not exceeding one year.

So far, the protective mechanism of the Republic of Kazakhstan has not been applied.

As a whole, an active integration policy of Kazakhstan has become the driving force behind the liberalization of exchange regulation.

Uzbekistan is on the threshold of major changes in the sphere of exchange relations: in 2017 the wide scale exchange liberalization is expected. It is aimed at the development of the domestic foreign exchange market and increasing its efficiency as well as improved conditions for foreign economic activity of business entities (Draft decree of the President of Uzbekistan, 2016). In the document the main priorities of the liberalization of monetary policy include the following:

- change of all the state bodies regulating methods of control and a restrictive approach to the protective-stimulating, meaning ensuring the implementation of the right to dispose of its own assets at its discretion and to create a favorable investment climate and business environment;

- stimulating the growth of the export potential of the country, improving the competitiveness of domestic producers on foreign and domestic markets;

- creation of equal conditions for all participants of foreign economic activity during their foreign exchange operations, the prohibition of the practice of presenting the benefits and preferences to individual companies or sectors;

- the establishment of the national currency against foreign currencies solely for the use of market mechanisms;

- preventing the establishment of legislation, adversely affecting the stability of the national currency.

We have found out in our research that in order to ensure the full realization of the rights of legal entities and individuals on the free disposal of their own resources the above-mentioned policy:

- allowed the payment of profits, dividends and other income in foreign currency, in the presence of foreign currency earnings and funds on accounts of legal entities, based on decisions of the shareholders (participants);

- allowed transferring foreign currency funds on the territory of Uzbekistan between individuals using a bank transfer, postal order or payment systems;

- made it possible that individual entrepreneurs without legal entity are permitted to pay for imports of goods and services in the established order, through their bank accounts;

- exporters and importers freely at their discretion choose the form of payment for their foreign trade contracts concluded under the laws of exchange regulation;

- export of cash foreign currency outside the country up to the amount equivalent to \$ 10,000 is carried out without any restrictions, except for the cases established by government decisions. Similarly foreign currency in cash in the amount equivalent to \$ 2,000 is not subject to mandatory declaration in its import and export to / from Uzbekistan;

- it abolished the practice of giving commercial banks and the Central Bank the authorization for the export of cash foreign currency outside Uzbekistan;

– non-residents of Uzbekistan (legal entities and individuals) are entitled to open accounts in the banks of Uzbekistan and freely dispose of the funds on their accounts at its discretion in the manner prescribed by law.

In order to create favorable conditions for the export of foreign economic activity of participants the following steps are taken:

– exporters and importers are free at their discretion to choose the form of payment for their foreign trade contracts concluded under the laws of exchange regulation;

– the revenues of exporters in foreign currency, regardless of their ownership, are not subject to sale, with the exception of exports of goods and services, the list of which is approved annually by the decision of the Cabinet of Ministers;

– unification of deadlines for obtaining proceeds in foreign currency and commodities (services) for export-import operations;

– granting the right to individual entrepreneurs without a legal entity to acquire foreign currency on the domestic foreign exchange market, in the manner prescribed for legal entities – the residents of Uzbekistan.

The phased reduction of the size of the mandatory sale of foreign currency earnings from the export of certain goods and services is planned till its future complete abolition.

It is planned to develop a simplified procedure for the purchase and sale of business entities of foreign currency in the domestic foreign exchange market, providing it:

– free purchase and sale of foreign currency for payments for current international transactions;

– realization of foreign exchange by commercial banks to customers through their own resources, including resources purchased by customers, while ensuring the safety of funds on accounts and deposits of physical and legal persons and fulfilling the requirements of foreign exchange position limits.

In order to introduce modern principles and mechanisms of regulation, reducing bureaucratic barriers in banking, eradication and prevention of administrative interference in the activities of commercial banks, as well as removal from their non-core functions, it is planned to establish that:

– conditions for the issuance and repayment of foreign currency loans by domestic commercial banks are determined on the basis of the credit policy, based on the agreement of the parties;

– commercial banks in providing banking services to customers are prohibited to restrict the rights of the free disposal of their assets in foreign currency;

– the practice of issuing licenses to commercial banks to carry out operations in foreign currency, when carrying out foreign exchange transactions on the basis of a license for banking activities is canceled.

Based on the analysis of the impact of proposed changes in the first half of 2017 it is planned to develop a new draft law "On Exchange regulation", providing:

– all aspects of exchange transactions that occur in practice, with a maximum reduction in the practice of reference rules;

– definition of the Cabinet of Ministers as a body of exchange regulation, along with the Central Bank with a clear definition of their powers;

– realization of the rights of legal entities and individuals on the free disposal of own resources;

– ensuring the stability of the national currency of the Republic of Uzbekistan;

– regulation of funds transfer outside for investment purposes, taking into account the country's economic interests.

From the foregoing it follows that the change of exchange regulation in Uzbekistan relates mainly to the liberalization of the current account of balance of payments, while Kazakhstan has implemented the liberalization of the capital account. Against the background of the progressive liberalization of monetary policy Kazakhstan has a good progress. In accordance with EBRD, economic conditions have started to stabilize since March 2016. Since March, the exchange rate was stable, appreciating by around 10 per cent in February to June 2016, with short-term liquidity gradually returning to the market. As a result, the NBK, in a series of reductions, lowered the monetary policy rate to 13 per cent in July, from 17 per cent in January 2016. The NBK has also maintained a high level of international reserves, up by 9.4 per cent in June compared with the beginning of the year as a result of interventions in the foreign exchange market; National Fund reserves also increased by 3.5 per cent between the beginning of the year and June 2016. In the banking sector, tenge deposits increased by 6.6 per cent in the first half of 2016 and dollarization slightly decreased from the peak of 70 per cent in January 2016, indicating the stabilization of currency preferences (Transition Report 2016-17, 2016).

Uzbekistan takes the 87th place in the ranking of 190 countries in terms of quality for entrepreneurial activity, driven by the World Bank report "Doing Business - 2017". Serious obstacles to business continue to have a negative impact on foreign and domestic investments and the overall competitiveness of the economy. The country lags behind with structural reforms, particularly in such areas as economic management, enterprise access to finance and monitoring the foreign currency conversion (Transition Report 2016-17, 2016). So we should regard liberalization of exchange regulation in Uzbekistan as a necessary policy for the development of the country.

Uzbekistan almost always stayed away from projects of economic integration. As a result, this country has a less developed domestic exchange market which does not promote the overall development of the economy.

Conclusions and suggestions

In a globalizing world economy and the growth of international financial transactions, capital movement liberalization is inevitable and it is a necessary condition for economic development for countries wishing to maximize the benefits of greater integration into the world economy.

Cancellation of restrictions on capital flows is accompanied by a reduction in the administrative costs of participants of foreign economic operations, providing greater freedom of entrepreneurship. At the same time, in the process of liberalization of the exchange rate regime increased requirements for effective economic policy that adequately meets the risks associated with capital mobility, when the decision-making by market players about investing in domestic or foreign assets is determined by economic factors, and the impact of administrative costs is minimal.

Achieving stability in the money market, the balance of foreign currency demand and controlled inflation has necessitated the development of new approaches to the liberalization of the foreign exchange regime, aimed at the removal of certain restrictions on the conduct of foreign exchange operations, the use of other methods of foreign exchange transactions regulation, in accordance with the requirements of time and international practice.

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