

Comment of Zhandos Ybrayev, Unit Head in the NBK Department of Financial Stability and Research regarding the factor of exhaustibility of natural resources

When conducting fiscal and monetary policies, it is important to take into account the factor of exhaustibility of natural resources. First of all, this is necessary for countries rich in non-renewable natural resources, including Kazakhstan. International studies reveal that they are featured by symptoms of the so-called 'Dutch disease', a decrease in incentives for production and competitiveness, a relative decline in manufacturing industry. Boom in natural resources generates an effect of excessive public spending, which entails appreciation of the real exchange rate. This causes structural transformation of the economy, especially the sectors that are not directly connected with trade in non-renewable resources.

The key to mitigate the impact of the Dutch disease is effective management of natural resource revenues through fiscal policy. Given the structural features of our economy with domination of commodity exports, dynamics of revenues and expenditures of the state budget is subject to influence of external macroeconomic conditions.

When an amount of accumulated funds is insufficient by the time reserves of natural resources are depleted, the economy may run into a need for harsh consolidation of expenditures. This will have a negative impact on long-term sustainable economic growth. Thus, rent received from the oil sector must be accumulated as financial assets, and **income of the non-oil sector must gradually replace income from exhaustible resources**. Its growth must exceed a rate of depletion of recoverable oil reserves.

In order to prevent the negative scenario in the form of excessive spending of the funds accumulated through extraction of non-renewable resources, it is necessary to use them extremely economically and at the same time efficiently. By accumulating some of the oil revenues, a liquidity buffer is created that helps to withstand sudden negative shocks, mainly related to volatility of commodity prices.

Our country has created National Fund in order to perform a function of saving and redistributing funds from the oil sector. Accumulating sufficient assets in the fund that generates investment return will allow to keep government spending high and smooth aggregate consumption even after oil is depleted.

At the same time, it is vital to take into account the efficiency of using resources of the future generations fund which will have a positive impact on expansion of the non-oil tax base, and, accordingly, will allow to **reduce withdrawals** in the long term. Thus, government spending can be divided into current and capital. Traditionally, capital expenses have the highest effect on growth of economy's productivity. Therefore, important factor is monitoring of a direction of use and redistribution of allocated funds to improve their efficient use.

The mechanism to enhance fiscal discipline, which is essential in the face of a limited supply of extractable resources, is a budget rule. In addition, introduction of such a rule will intensify coordination of monetary and fiscal policies, and, accordingly, will contribute to sustainable economic growth.