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MONETARY COOPERATION PERSPECTIVE IN CENTRAL ASIAN COUNTRIES

Abstract:

The paper explores monetary cooperation perspectives in Central Asian countries in view of recent developments in two largest regional economies (Kazakhstan and Uzbekistan) and EU experience. Recent global economic and financial crisis resulted in changes in exchange arrangements and monetary policy frameworks as well as in development strategies in Central Asian countries and brought to the prioritization of the pegged exchange arrangements with the view to ensuring external economic competitiveness and economic diversification based on industrialization. However, exchange rates in these economies are primarily pegged against US Dollar while other exchange rates against other countries are determined based on cross-rates. Furthermore, US Dollar dominates in Central Asian countries as a key currency of foreign trade at the time when main trade partners include Russia, China and other neighboring countries. Consequently, latest severe exchange rate volatility of Russian Ruble had a negative impact on Central Asian countries in form of foreign trade terms deterioration and subsequent drops in exports to Russia and abrupt devaluation of exchange rates.

In view of recent developments, there is a strong need for regional monetary cooperation aimed at enhancing mutual trade and minimizing exchange rate volatilities. EU countries' experience in 1960s-1970s can serve as ground framework for the monetary cooperation in Central Asian countries, particularly, in part of introduction of exchange rate mechanism and European currency unit.

In consideration of that, the paper discusses monetary cooperation perspectives in Central Asian countries in view of economic expediency of the introduction of regional monetary system (Central Asian Monetary System) with corresponding exchange rate mechanism and regional currency unit (Central Asian Currency Unit). Particularly, the paper presents an estimation of Central Asian Currency Unit based on ECU calculation methodology.

Keywords:

Exchange arrangements, monetary policy frameworks, monetary cooperation, Central Asia, international trade

JEL Classification: E00, E42, F15