



ELIT

Economic Laboratory Transition
Research Podgorica

Montenegrin Journal of Economics

Sabyrzhan, A., Andarova, R., Kanatbek, A., Lisova, N. (2021), "Keynesian and Monetarist Approaches to Regulation of the Labor Market in the Transition Economies of EECCA Countries", *Montenegrin Journal of Economics*, Vol. 17, No. 4, pp. 75-83.

Keynesian and Monetarist Approaches to Regulation of the Labor Market in the Transition Economies of EECCA Countries

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ARTICLE INFO

Received November 18, 2020
Revised from December 22, 2020
Accepted January 20, 2020
Available online December 15, 2020

JEL classification: J01, J02, J4

DOI: 10.14254/1800-5845/2021.17-4.7

Keywords:

Economic reforms,
Keynesianism,
labor market,
monetarism,
transitional economy

ABSTRACT

In the modern world, there is a process of mixing economic theories and policies in government management, which is associated with a reorientation to the service sector in developed countries, the formation of new economic leaders, an increase in competition and new forms of trade. In these conditions, it is necessary to analyze existing economic theories of state governance. This study analyzes Keynesian and monetarist approaches to the regulation of macroeconomics, identifies their main patterns and features. As an object of analysis, it was decided to consider the countries of the EECCA (Eastern Europe, Caucasus and Central Asia) region, which are carrying out socio-economic reforms for the transition to a market economy, where special attention was paid to Kazakhstan, as one of the leaders in the region in terms of economic development in recent years. The result of the study is the conclusion that countries use both theories in government, but Keynesianism is used to a greater extent and monetarism to a lesser extent. The tools of Keynesian theory most typical for EECCA countries are stimulating demand in the labor market by creating new enterprises, stimulating investment in the state, and carrying out tax reforms. The monetary component is manifested in the management of inflation, the government's credit policy to stimulate the market, and the management of the exchange rate. It is this combination of tools that creates the greatest effect today, which is confirmed by this study and the assessments of experts from international organizations.

INTRODUCTION

In the twentieth century, two important trends emerged in economic theory: Keynesianism and monetarism, which describe macroeconomic trends from different positions. J.M. Keynes in his economic theory offered completely new, different from the classical and neoclassical predecessors, principles of regulation of the economies of countries. Thus, he rejected the non-interference of the state in the economy and, on the contrary, saw in this a decisive role in preventing crises and unemployment. Only the state can prevent crises, regulate the labor market and achieve full employment.

The idea of economic freedom is realized if the state does not interfere in the economy (Velieva, 2016). State intervention is justified only if socially important goals are achieved that are not related to production efficiency (military-industrial complex), it is also possible in the form of budget incentives, but subject to the attraction of real resources to the production process (Velieva, 2016).

At the moment, the border between monetarism and Keynesianism has blurred (Moiseev, 2018). One of the important lessons of monetarism is that long-term inflation depends on the money supply and its stabilization is in the hands of the issuer. Thus, it is possible to target the money supply and, for example, in 2017, among the countries of the former USSR (the Union of Soviet Socialist Republics), Belarus adhered to this policy, while Azerbaijan adhered to a mixed policy (Moiseev, 2018). Monetarists believe that economic instability is the result of a violation of monetary regulation. They explain economic crises by the processes that take place in the sphere of money circulation.

The new concept of the labor market - the Keynesian theory of employment - contradicted the classical theory of employment and argued that capitalism does not have the mechanism that regulates employment, that full employment of the population is an accident. Thus, the main difference between the Keynesian market model and the classical one is the need for state regulation of employment, including by influencing the population's savings and stimulating investment. Keynesian concept of the labor market examines the problem of employment and unemployment on a national scale as a whole. The main difference from the classical school is the influence of aggregate demand (AD) and aggregate supply (AS) on each other. Unemployment is a central issue in Keynesian economics (Palley, 2019).

According to new trends in monetarism, the economy is divided into markets for goods and labor, which are not equally influenced by monetary policy. Government influence can manifest itself in an expanded cash supply and increased liquidity of firms that subsequently enter the labor market to acquire employees. Monetarists see a positive long-term relationship between inflation and unemployment (Moiseev, 2018).

The type of country is also important in the regulation of the labor market and the choice of the economic basis for this. According to the degree of development of the market economy, countries are divided into developed, developing and countries with economies in transition. Within the framework of this study, countries with economies in transition are considered in more detail, which are moving from a planned to a market economy. Most of them are countries of the former USSR or EECCA countries. These include: Azerbaijan, Armenia, the Republic of Belarus, Georgia, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. At the moment, since the 1990s, having a common economic past, they are actively reforming the economy in order to transit to a market type of economic system. Therefore, they are of interest for studying, finding general trends and exceptions, as well as identifying the prevalence of the tools of one or another economic theory in government.

Differences in the labor market between emerging economies and developed economies are: in developing economies, wages are highly volatile and procyclical, as are employment volatility; labor market institutions in emerging market economies differ significantly from those in developed countries (Coşkun, 2019). For example, in the EU, the average wage level over the past 3 years has remained at about the same level, fluctuations were at the level of 1 percent (Trading Economics, 2020).

Although the labor force is the least changing part of the labor market, ignoring it can have negative consequences. Stabilization of unemployment entails volatility in the supply of jobs, stimulating employment (Campolmi and Gnocchi, 2016)

With the transition of the former Soviet republics to a market economy, it is important to adopt an effective economic theory for government. There is an opinion that in the Russian Federation this should become Keynesianism, which developed during the Great Depression and, which suggests that obtaining full employment in a market economy is not possible. According to Keynesianism, it is possible to achieve full employment of the population only with government support. Thus, one of the tasks of this study is to substantiate the most appropriate conceptual framework in the regulation of the labor market in countries with economies in transition.

The aim of this study is to assess the proportion of Keynesian and monetarist methods in the complex of measures that EECCA countries are implementing to regulate the labor market. The research tasks are: 1. Analysis of the peculiarities of EECCA countries' transition to a market economy from the point of view of their attitude to Keynesianism or monetarism. 2. Study of the labor market in the EECCA region and substantiation of the most appropriate conceptual framework for labor market regulation in countries with economies in transition. 3. Research of the labor market of one of the leaders of the region, in this case - Kazakhstan, to assess its attitude to one or another economic theory. The choice of this country is due to the fact that at the moment Kazakhstan is among the leaders of the EECCA region (in particular, Kazakhstan took the 2nd place after Russia in the rating of the global competitiveness index in 2019). This may also be related to the change of power that occurred for the first time in the country, which may be a factor destabilizing politics in the region. Therefore, it is necessary to assess the real vector of the country's economic policy in order to propose in further studies more applied developments for diversifying the risks of a turbulent environment.

1. RESEARCH METHODOLOGY

To achieve the goal and objectives of this study, as well as to confirm or refute the study hypothesis, the following methodology is used: a description of the reform process in various sectors in the EECCA countries to highlight patterns and general trends. In addition, an analysis of the labor market of the countries of the region and Kazakhstan, in particular, will be used in order to highlight Keynesian or monetary methods of regulation in this area. Statistical analysis of the labor market in Kazakhstan, as well as such indicators as inflation and population, GDP per capita will help to substantiate the conclusions made. To describe the research results, a comparative method is used, which is based on the considered data.

To study the experience of Azerbaijan, an interdisciplinary synthesis was used to form an analytical summary based on national regulations in the field of reform. Thus, Azerbaijan, like all post-Soviet countries, is faced with the need for market reforms, which has been especially aggravated by the influence of the IMF on the country's economic policy against the background of the implementation of the credit line. The reforms were of a similar nature to other countries - the former republics of the USSR: the formation of market relations, privatization, and the creation of various forms of ownership. A distinctive feature of Azerbaijan is its oil and gas industry and foreign investments attracted thereby. The agreements signed with foreign companies on the sharing of oil and gas fields reflect that the government is stimulating investment inflows. The ongoing economic reforms in this country are typical for post-Soviet states - market liberalization, privatization, modernization of the tax and banking systems. Azerbaijan was among the first countries in the region to pass legislation protecting foreign investment, thus stimulating inflow into the country. Besides, according to the legislation of Azerbaijan, foreign investors have the right to take part in privatization. With the adoption of the Tax Code, tax rates on profits started to decrease, VAT appeared, and a simplified tax system was introduced for small entrepreneurs.

The main macroeconomic indicators of Georgia were compared. In 1999-2003, the first economic reforms were carried out in Georgia, which included reducing the role of the state (privatizing enterprises), liberalizing trade, aimed at reducing inflation and stabilizing the exchange rate of the national currency. That is, there is mainly a monetary approach.

Change in socio-economic indicators in the period 1991-2018 is presented in Table 1.

Table 1. Basic socio-economic indicators for Georgia, 1991-2018

Indicator	1991	1998	2001	2007	2008	2009	2015	2017	2018
GDP nominal, US \$ billion	-	3.6	3.2	10.2	12.8	10.8	14.0	15.1	16.3
GDP per capita (PPP), thous. Int\$	5.6	3.2	3.7	6.5	6.7	6.5	9.0	9.7	10.2
Inflation, %	-	3.6	4.7	9.2	10.0	1.7	4.0	6.0	2.6
Unemployment, % of labor force	-	12.4	11.1	17.4	17.9	18.3	14.1	13.9	-
Population, million people	-	4.3	4.0	3.9	3.8	3.8	3.7	3.7	3.7
Public debt, % of GDP	-	-	61.3	25.5	31.2	41.0	41.4	45.1	44.5

Source: Grigoriev et al., 2019.

Further economic reforms in the early 2000s continued to liberalize the market and increase investment attractiveness, as well as develop the private sector. The law allowing the privatization of enterprises in virtually all sectors of the economy further showed the monetarist nature of the reforms in Georgia. The implemented tax reform provided for a reduction in the types of tax collections, a reduction in the income tax rate from 20% to 15%.

The descriptive method was used to study the Russian experience. In the Russian economy in transition, there is a sharp change in the relationship between the rates of various processes, in comparison with the changes characteristic of stable economies. Namely, price indices and indicators in current prices become fast variables, and indicators in real terms - relatively slow variables, which is not inherent in a stable economy (Malkova, 2020). In this case, there is a dysfunction of monetary policy, which can be compensated for by certain manipulations in the investment environment, which will lead to an increase in demand. Since in the Russian Federation the market cannot yet self-regulate (monetarist theory), it is necessary to conduct an active state policy, which is aimed at reviving investment mechanisms, supporting the competitiveness of national industries (Keynesianism) (Savina, 2017).

Comparative and analytical methods are used further in the work. Kyrgyzstan is also carrying out privatization reforms, reorganization of state-owned enterprises, and price liberalization. However, the main emphasis is placed on the reform of agriculture as one of the important and, at the same time, problem areas of production. It is believed that the period of market transformation has dragged on in Kyrgyzstan and the results of reforms are assessed ambiguously. The support of the agro-industrial sector is manifested in lending to farmers by the country's state bank.

The privatization process in post-Soviet countries influenced the rise in the unemployment rate (Pilc, 2015). Thus, within the framework of an intercountry study on labor market regulation in Armenia, Azerbaijan, Belarus, Georgia, Ukraine, which belong to EECCA, the problems that arose in the labor market of these countries after the transition from planned to market economy were investigated. Since gaining independence, these countries have faced the problem of unemployment due to the lack of jobs. The reason for this was the process of privatization and restructuring of industry, which led to a surplus of labor and irrelevance of qualifications of older workers. This is also due to the fact that in the new conditions of the world economy, the role of the service sector is increasing, while in the Soviet Union the prevailing role was played by industry, which largely explains the discrepancy between the qualifications of the labor force of modern EECCA countries (Feiler, 2014).

The labor market of the Republic of Belarus has its own characteristics that distinguish it from other labor markets in the EECCA countries, namely: a stable high level of employment, which practically does not depend on the dynamics of GDP, a low level of official unemployment, and an intensive labor turnover. Government policy is aimed at maintaining low differentiation in wages and the highest possible employment. However, as in other EECCA countries, there are imbalances in the vocational and qualifica-

tion structure of employment in Belarus. To achieve the goals of this study, the labor market of Kazakhstan was analyzed (Figure 1), as well as other indicators that characterize the socio-economic condition of the population, using statistical and graphic methods for this. The issue of state participation in the labor market of Kazakhstan is twofold: on the one hand, government intervention in labor market regulation is necessary in situations where market mechanisms are found to be ineffective, on the other hand, government intervention in labor market regulation leads to a negative effect.

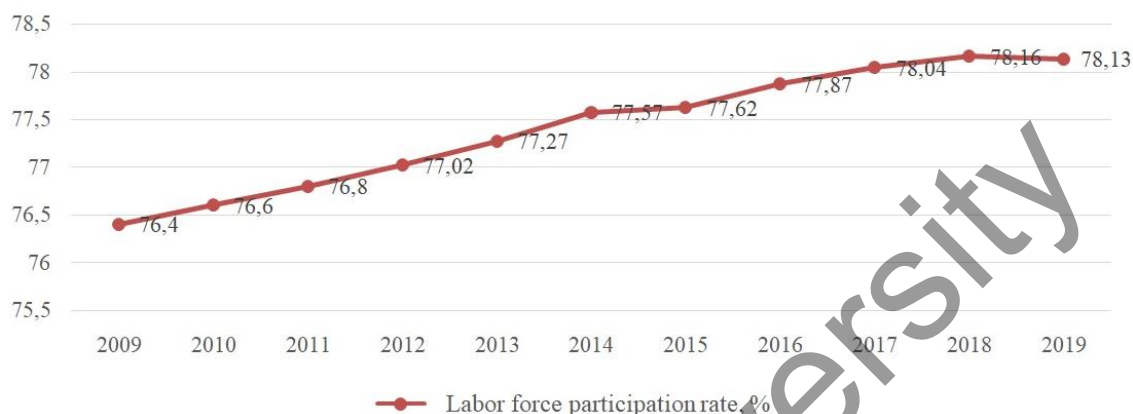


Figure 1. Labor force participation rate in Kazakhstan, %

Source: Statista, 2020d.

The indicators analyzed in this study characterize not only the labor market directly (employment rate, unemployment rate), but also other economic indicators that are indirect factors of the labor market and a consequence of its development. One of them is inflation, which is viewed by monetarists as positively related to employment. Rising inflation is assumed to increase labor demand in the long run.

Table 2 and Figure 2 present the main indicators of the labor market and socio-economic condition of the population of Kazakhstan for 1999-2019.

Table 2. Unemployment rate in Kazakhstan, 1999-2019

Year	Unemployment rate, %	Inflation rate, %	Youth unemployment rate, %	Population, million inhabitants	GDP per capita at current prices, USD
1999	13.46	8.41	25.09	14.95	1132.13
2000	12.75	13.33	23.61	14.89	1230.49
2001	10.43	8.38	18.88	14.84	1491.65
2002	9.33	5.85	16.73	n/a	1657.15
2003	8.78	6.45	14.35	n/a	2062.29
2004	8.4	6.89	14.1	n/a	2862.5
2005	8.13	7.54	12.51	15.07	3753.44
2006	7.79	8.58	10.88	n/a	5261.03
2007	7.26	10.78	9.1	n/a	6733.45
2008	6.63	17.15	7.39	15.57	8349.29
2009	6.55	7.3	6.68	16.00	7116.5
2010	5.77	7.13	5.22	n/a	9005.26

2011	5.39	8.33	4.58	n/a	11553.13
2012	5.29	5.12	3.94	n/a	12300.48
2013	5.2	5.83	3.92	n/a	13789.25
2014	5.06	6.72	3.8	17.42	12713.56
2015	4.93	6.65	3.69	17.67	10434.17
2016	4.96	14.56	3.7	17.92	7662.01
2017	4.9	7.43	3.62	18.16	8970.88
2018	4.89	6.03	4.1	18.4	9401.21
2019	5.43	5.3	4.84	18.64	9139.11

Source: Built using data from Statista (2020f)

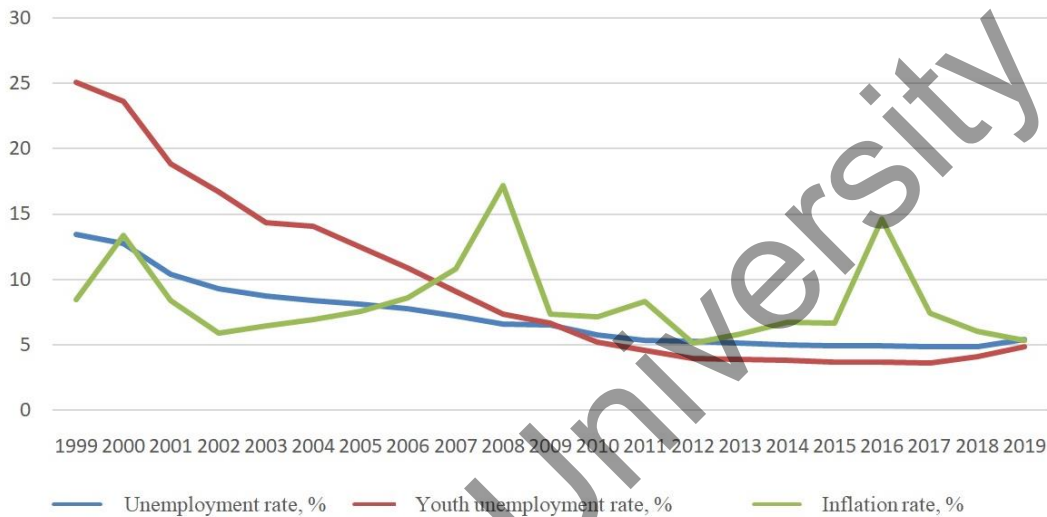


Figure 2. Change in unemployment and inflation in Kazakhstan, 1999-2019

Source: Built using data from Statista (2020f)

Figure 3 presents an indicator that characterizes the economic side of the social state of the population - GDP per capita in current prices. It is considered more accurate than indicator of GDP as a whole for the country. The choice of this indicator during the study is due to the fact that the level of employment of the population is a socio-economic indicator that has a direct impact on the welfare of the population. Therefore, it is assumed that the higher the employment rate, the higher the GDP per capita.

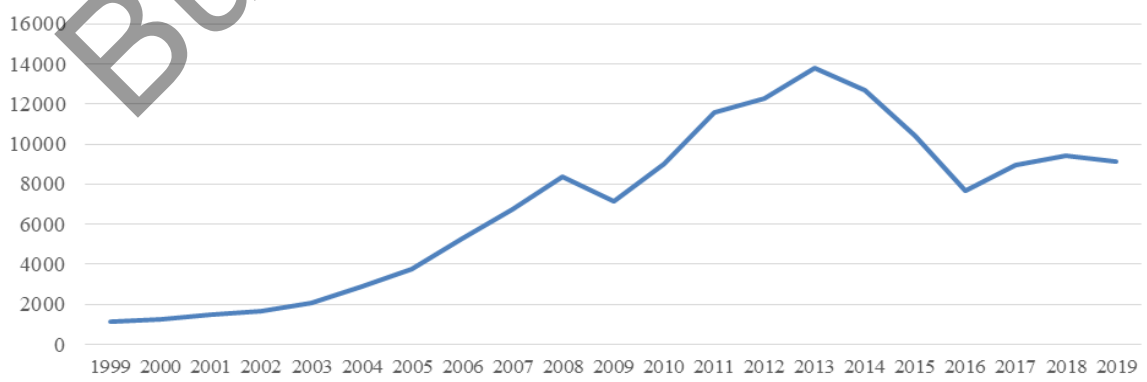


Figure 3. Dynamics of Kazakhstan's GDP per capita in current prices in US dollars, 1999-2019

Source: Built using data from Statista (2020b)

2. RESULTS

The transition from a planned to a market economy has already begun in all countries of the EECCA region, many of them have already received the status of countries with a market economy (upon accession to the WTO) (World Trade Organization, 2020). The reforms carried out mainly consisted of the reorganization and privatization of state-owned enterprises, the introduction of various forms of ownership (Kyrgyzstan, Uzbekistan later than other countries of the region), price liberalization, reforming tax legislation, and attracting investment to the state.

Thus, Azerbaijan, using fiscal methods, promotes the development of entrepreneurship. It is important to reorient the state's economy to the non-resource sector due to the dependence on oil and gas prices. To achieve this goal, the Strategic Roadmap has been adopted in 2016, which stimulates the earliest possible diversification of the economy. The main reforms were aimed at improving the private sector and attracting investment, modernizing the tax system. At the same time, the state acts as a further regulator of the reforms carried out in order to stimulate investment in the non-resource sector (Abdullayev, 2019). As can be seen, economic reforms are mainly aimed at implementing a mixed policy - Keynesian and monetary policies - stimulating investment, non-interference of the state (in the case of Azerbaijan, interference is manifested in the form of a reform regulator). Anti-inflationary policy is monetary (Velieva, 2016).

Due to the policy of Belarus in the employment market, the labor force has rather low motivation and mobility, which is the negative side of such an employment policy. A distinctive feature of the labor market in Belarus is excessive government regulation, the result of which is, in addition to those described above, the possibility of avoiding the problem of absolute poverty and high inequality. Thus, the policy on the labor market in Belarus has the features of the Keynesian model, but it is not effective enough for the long term.

Assessment of the economy of Kazakhstan using the Bayesian dynamic stochastic equilibrium model showed that the labor market in Kazakhstan is characterized by significant inertia, which distinguishes this country from developed market countries (Shultz, 2019)

Figure 1 shows the labor force participation rate in Kazakhstan from 2009 to 2019. The labor force participation rate is the proportion of the population aged 15-64 that is economically active for a given period. From the figure, it can be seen that the number of the economically active population increased during the specified period. Growth was stable, but with a slight slowdown in 2015. In 2019, the share of labor resources in the total population aged 15 to 65 in Kazakhstan was about 78.13 percent, which is almost 2% more than in 2009.

From the data in Table 2 and Figure 2, it is seen that the unemployment rate in Kazakhstan as a whole has been decreasing since the beginning of the study period, however, it has slowed down by 2019 and has increased in 2019 in relation to 2018. The unemployment rate of the young population has also been decreasing during the analyzed period, however, since 2018 it has begun to grow. In 2019, the youth unemployment rate was 1.2% higher than in 2017. Thus, it can be concluded that in 2018-2019 in the labor market of Kazakhstan, problems began, which were caused by a large number of factors: the outflow of labor to other countries, intraregional migration within the country, the arrival of labor migrants from nearby Asian countries, including China.

In general, the current situation on the labor market in Kazakhstan can be characterized as satisfactory, since there is a decrease in unemployment and an increase in the employment of the economically active population. This fact indicates positive trends. This trend is common for other indicators that characterize the economic state of the population - inflation, which has been declining in recent years and GDP per capita, which has an ambiguous trend throughout the analyzed period, but a positive trend in the last 3 years.

3. DISCUSSION

The present study analyzed the countries of the EECCA region in terms of their compliance with monetary and Keynesian theories. These theories differ in general from each other. Monetarism assumes that state influence in the economy blocks spontaneous market regulators and cannot ensure an equilibrium between supply and demand (Velieva, 2016). In modern macroeconomic analysis, the border between monetarism and Keynesianism has become blurred, which is generally explained by the need to form a mixed policy of market management, while each economic theory separately cannot ensure its effective functioning, and the used methods are borrowed from each other (Moiseev, 2018). This explains the confusion of these theories. Thus, investment incentives or government lending policies are inherent in both approaches, however, in the current study, for convenience they were differentiated.

Researchers (Aimurzina and Sadvakasova, 2015), who studied the labor market in Kazakhstan, propose a method for forecasting the needs of the labor market to improve the efficiency of its management. This technique will make it possible to rationally build a network of educational institutions taking into account modern challenges, improve the quality of not only higher education, but also secondary vocational education, and also increase the volume of retraining and advanced training. They compared the methodology for forecasting the labor market with other countries of the world that are classified as developed and took them into account as a model. However, they attributed them to belonging to the Keynesian or monetarist school, as they studied the experience of countries that gravitate towards both the Keynesian model (Germany) and the monetarist (Great Britain) (Aimurzina and Sadvakasova, 2015). This is of particular relevance in the current time of digitalization of the labor market, which is developing faster than the workforce itself has time to change its qualifications. It is high-quality forecasting that will become the basis for effective labor market regulation. As it was presented, many countries from the EECCA region see effective forecasting as an important tool for achieving employment.

The labor market in Kazakhstan is regulated by the state through state employment programs. At the moment, this statement has already somewhat lost its relevance due to the increase in the number of private enterprises and the stimulation of the inflow of investments into the country.

Some results indicate that post-socialist countries that have intensified their domestic competition have also chosen to strengthen employment protection legislation and tax rates. However, within the framework of this study, the results do not allow confirming the expected relationship between the form of political institutions and labor market institutions.

CONCLUSIONS

The countries with economies in transition in the EECCA region are actively pursuing reforms. Some of them (Kyrgyzstan, Turkmenistan, Uzbekistan) relatively recently, in comparison with the rest of the region, have finally begun the transition to a market economy. The methods of regulating the economy and the reforms themselves are mixed and include both Keynesian and monetarist elements. Although the main advantage remains for the Keynesian approach, which is explained by the historical peculiarity of these countries. Besides, various international organizations (IMF) exert influence on their policies, which, through the loans provided, can regulate the reform process and the application of monetary or Keynesian measures. The labor market is an important area of reform in all countries of the region. A distinctive feature of the post-Soviet countries of the EECCA region is a strong social protection system, including social security for the unemployed, but today in many developed countries, payments for such budget expenditures are increasingly decreasing, reorienting to regulating the labor market through the formation of high-quality forecasts of labor demand and affecting education. Thus, Keynesian methods of influencing labor market are traced, including in Kazakhstan. In general, it can be said that it is difficult to identify the most effective economic theory for the transition to a market economy, since practice in the countries of the EECCA region shows that the most effective results of the reforms are mixed. That is, Keynesianism is used in government regulation to ensure the growth of entrepreneurship, investment inflows and the impact on the labor market and monetarism is used in the conduct of credit policy, as well as inflation management.

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