



NATIONAL BANK OF KAZAKHSTAN

Inflation Report

The First Quarter of 2016

Almaty, Kazakhstan

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The forecast of macroeconomic indicators was prepared on the basis of statistical information as of 14.05.2016

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SUMMARY

In the first quarter of 2016, the situation in the foreign markets was characterized by relative stabilization of world oil prices, feeble recovery of the demand on the part of trading partners, and the decreased external inflationary pressure.

At the same time, the Kazakh economy has retained the trend of slowing economic growth because of the reduced business activity in the real sector and the decreased consumer demand of the population. Lower rates of growth in real income of the population and the decreased consumer lending were conducive to a sluggish household consumption.

The domestic currency was appreciating, devaluation expectations were going down and interest rates in the money market were gradually stabilizing amidst recovering oil prices. The situation in the financial market was characterized by low lending activity as well as by decreasing loan interest rates after their soaring at the beginning of the quarter.

Owing to the decreased devaluation expectations, the shift in preferences of the population towards deposits in the domestic currency and the increased supply of foreign exchange, the National Bank's operations were aimed to withdraw the Tenge liquidity from the money market.

As the situation in the money market and foreign exchange market was stabilizing, in February 2016 the National Bank got back to the practice of setting the base rate and resumed its standing facility operations. Taking account of economic trends and macroeconomic parameter forecasts, the base rate set at 17% was retained at that level till the end of the quarter.

Therefore, in the environment of persisting inflation risks, in the first quarter the monetary policy was implemented in line with the changing conditions.

The annual inflation has still been at a high level – 15.7% as of the end of March 2016 due to the low base effect of the first quarter of 2015. A sharp rise in inflation at the end of 2015 as a result of dramatic depreciation of the Tenge made the main contribution to the price growth.

At the same time, the monthly inflation got back to its regular multi-year trend. Moreover, some trend towards decreased inflationary expectations had outlined.

The annual inflation target for 2016 was set within 6-8%. According to the National Bank's forecasts, a high inflation rate will remain until the third quarter of 2016 inclusive. The inflation is expected to significantly slow down by the end of 2016; however, in case of negative behavior of world oil prices there is a risk that inflation targets will not be achieved.

The National Bank expects that risks associated with a slow revival of external demand will remain, while prerequisites about recovery of the Russian economy became more positive. According to forecasts, domestic economic conditions are characterized by existence of a negative output gap till the end of 2016; this will be having impact on decreasing inflationary pressure.

In this environment, the monetary policy stance will remain as moderately contractionary; this will help attaining the inflation goals in case of a baseline scenario.

I. MACROECONOMIC ENVIRONMENT AND THE FINANCIAL SECTOR DEVELOPMENT

1. EXTERNAL MACROECONOMIC ENVIRONMENT

In the first quarter of 2016, there was a relative stabilization of the pricing environment in the global commodity markets. Alongside with that, both the currencies of the countries that export and consume primary products were appreciating. This phenomenon had a positive effect on inflationary processes in Russia that demonstrated a stable decrease as well as a slightly negative impact on the EU and Chinese economies where the exports became less competitive against appreciation of national currencies.

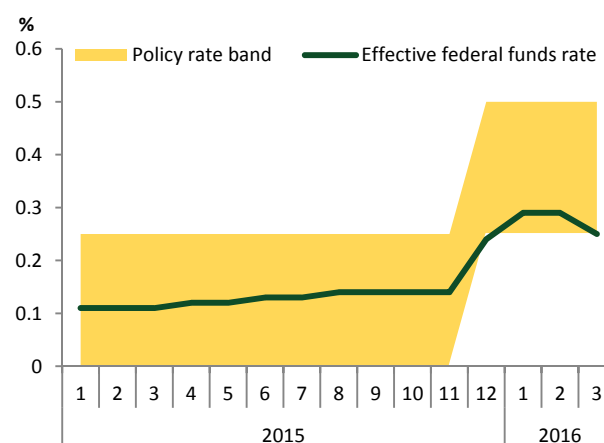
In the absence of positive dynamics in development of the US economy, there was no increase in the Fed's policy interest rate (Figure 1). The crucial factors that influenced the decision about the interest rate were the retention of risks that the economic growth cools down and the slowdown in the employment growth in the US as well as a significant appreciation of the US Dollar in the fourth quarter of 2015. Weakening of the US Dollar in the first quarter of 2016 was the consequence of invariance of the Fed's interest rate.

The situation in the global commodity markets in the first quarter of 2016 was relatively favorable; as a consequence, foreign economic environment for Kazakhstan was a weak positive as compared to a more negative background that was observed at the end of 2015. Over the reviewed period, aggregated parameters of external GDP and CPI have been demonstrating a feeble recovery of external demand for Kazakhstan's exports and weakening external inflationary pressure.

1.1 Situation in the Global Commodity Markets

Oil prices while having reached the bottom at end-January, resumed their growth in the following months. During the first quarter of 2016, the price of oil (Brent) increased by 30% on average (Figure 2). The excessive supply in the hydrocarbon market persisted but the news

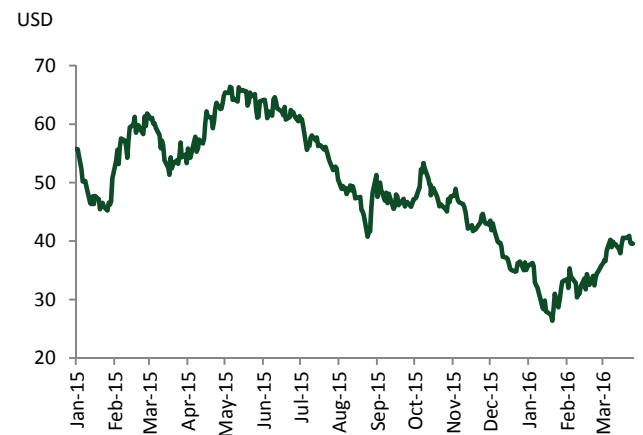
Figure 1. US Policy Rate



Source: Reuters

about the coming meeting of the OPEC member countries with Russia and other oil exporting countries based on which the parties would have reached an agreement about “freezing” the volumes of oil extraction in order to balance the demand and supply in the market, have stimulated the growth of oil prices. Alongside with that, the growth of oil prices was caused by curtailment of drilling units in the US as well as disruptions in oil supplies from Nigeria, Columbia, Libya and Iraq in connection with a tense geopolitical situation in those countries.

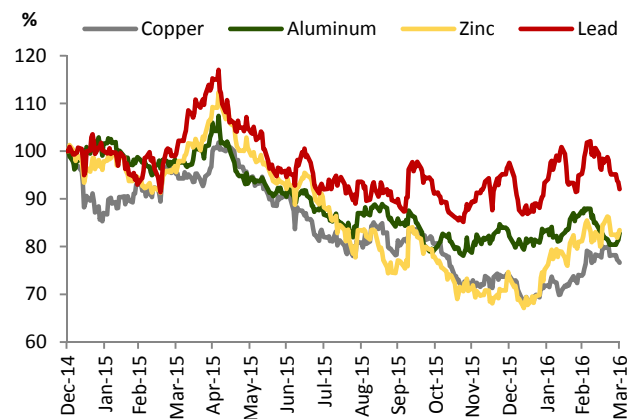
Figure 2. Price of Oil (Brent)



Source: Bloomberg

In the metals market, the growth in stock exchange quotations for copper, zinc, aluminum and lead was observed during January-March 2016. A continuing drop in prices of metals which began in mid-2014, stopped in the first quarter of 2016. Moreover, prices of such metals as copper and zinc increased by 10-12% on average (Figure 3).

Figure 3. Metals Price Indices (December 2014 =100 %)

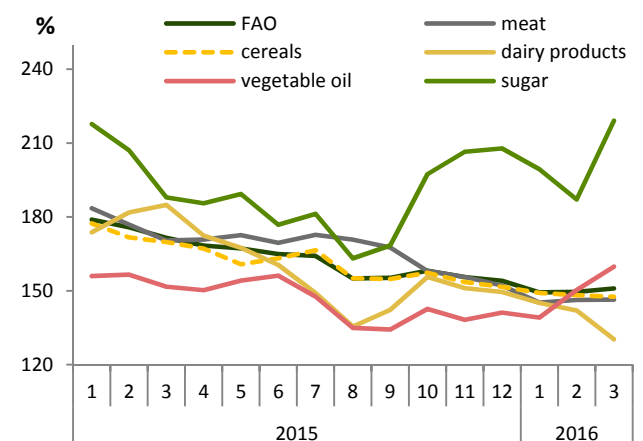


Source: Bloomberg

A positive role in the behavior of metal prices was played by governmental projects launched in the field of infrastructure and real estate sector in China as well as weakening of the US Dollar.

Price stabilization was also observed in the food market. In the first quarter of 2016, the FAO index had not demonstrated any significant changes (Figure 4). A significant growth in prices for sugar and vegetable oil caused by adverse climatic factors was offset by the decline in cereal prices against the backdrop of escalated competition in the wheat and corn markets as well as favorable expectations regarding their crop and also stabilization of meat prices. World prices of dairy products had reached the lowest level ever since June 2009 as a result of accumulation of their reserves in the main exporting countries.

Figure 4. FAO Index (2002-2014 =100 %)



Source: UN FAO

1.2 Economic Situation in Countries – Kazakhstan’s Trading Partners

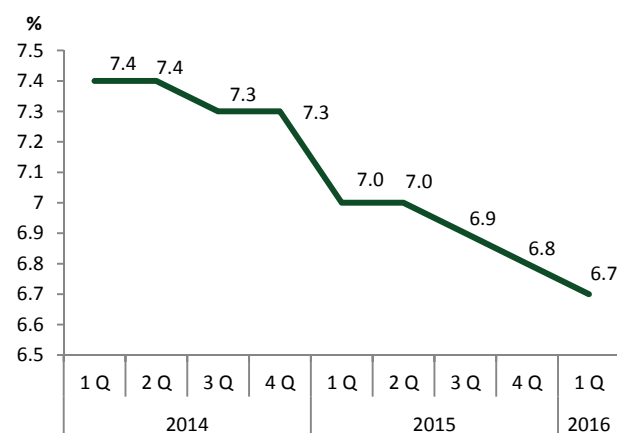
1.2.1 China

In China, the slowdown in the GDP growth rates continued in the first quarter of 2016 (Figure 5). The factors of continuing slowdown in the economic activity in China remained as before: redundant fixed capital in the country, a low domestic and external demand, and reduced returns on investments. However, the effect on the GDP growth as a result of the shift in economic priorities from investments and exports to domestic consumption is most likely anticipated in the medium- and long-term.

Despite decreasing rates of economic growth in China, prices increased significantly during January-March 2016 (Figure 6). Such growth in prices results from the price surge in February in the domestic market of foodstuffs, tobacco and alcohol beverages and is of a short-term nature. So, during January-February 2016, prices of foodstuffs and tobacco increased by 4.6%, which exceeds the annual inflation by 2 times. In turn, a dramatic slowdown in the rates of decline in producer prices was also caused by the price growth in February which did not have a long-term trend.

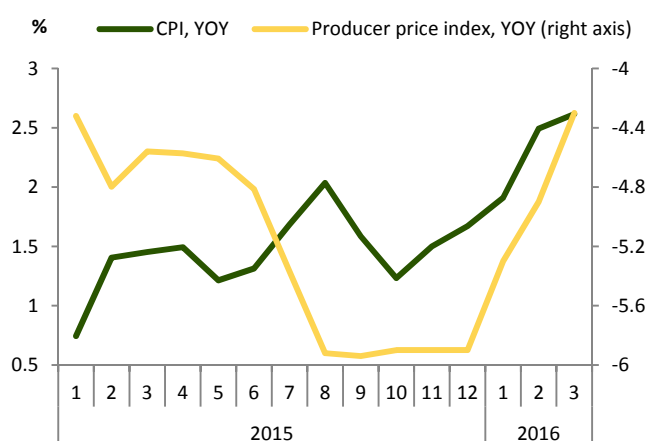
In the reviewed period, the People’s Bank of China retained its base rate (lending rates) at the existing level; accordingly, monetary conditions remained unchanged (Figure 7). According to the Xinhua news agency, the People’s Bank of China determined facilitating the liquidation of redundant production capacities, mainly in the steel and coal industry, curtailing stock reserves, and reducing the share of borrowed funds as key priorities of its policy for 2016. In this context, the interbank rate also remained stable.

Figure 5. China’s Real GDP Growth, YOY



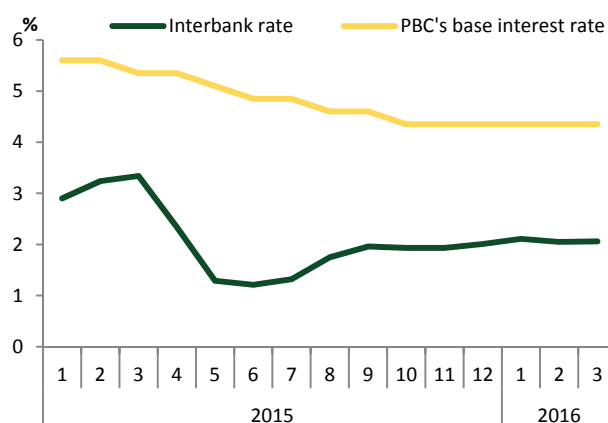
Source: Bloomberg

Figure 6. Inflation in China



Source: National Bureau of Statistic of China

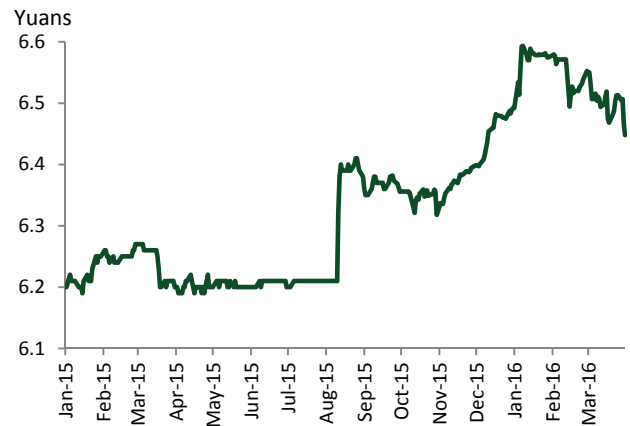
Figure 7. Rates in China



Source: Reuters

In the Chinese foreign exchange market, after several devaluations which began in August 2015, in the first quarter of 2016 the Yuan was appreciating (Figure 8). During January-March 2016, the Yuan appreciated against the US Dollar by 1.8%.

Figure 8. USD/CNY Exchange Rate

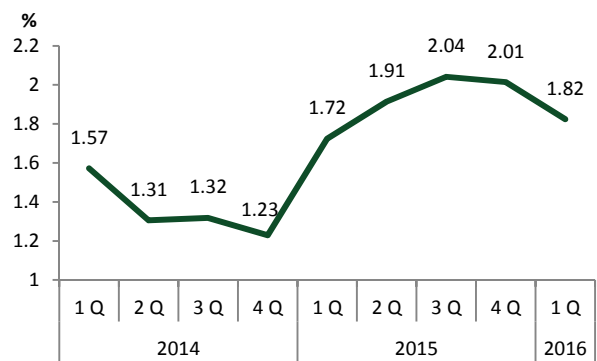


Source: Reuters

1.2.2 European Union

According to preliminary data from the Eurostat, the EU’s GDP in the first quarter of 2016 showed a minor slowdown in the growth rates (Figure 9); this was mainly caused by appreciation of the Euro against the US Dollar. Risks associated with a possible exit of Great Britain from the European Union, exacerbation of the migration crisis as well as growing geopolitical tension in the cross-border regions may have a negative effect on the EU’s economic growth in future.

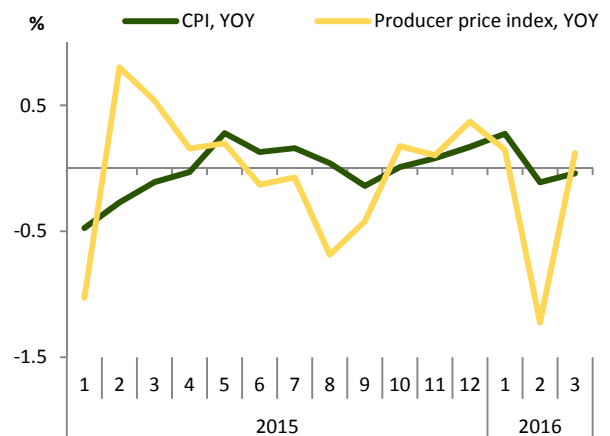
Figure 9. EU’s Real GDP Growth Rate, YOY



Source: Eurostat

In the first quarter of 2016, prices in the EU were declining (Figure 10). Deflation risks which existed during the prior periods were realizing in the first quarter of 2016 against low energy prices. So, during January-March 2016, the annual inflation rate had decreased from 0.14% to (-)0.03%. Low energy prices caused the decrease in the cost of industrial goods, such that producer prices dropped a lot in February and in March they demonstrated a very feeble growth.

Figure 10. Inflation in the EU

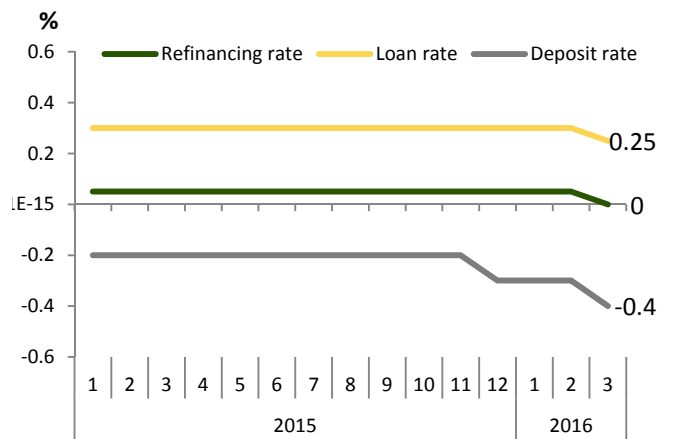


Source: Reuters

Because of the February deflation as well as due to the slowing rates of economic growth,

on March 15, 2016 ECB made the decision to strengthen its stimulative monetary policy. To this end, the refinancing rate as well as deposit and loan rates were lowered to 0%, which represents a new record-low level (Figure 11). Apart from that, the ECB also continues to expand measures as part of the quantitative easing program with a view to stimulate the economic activity in the region.

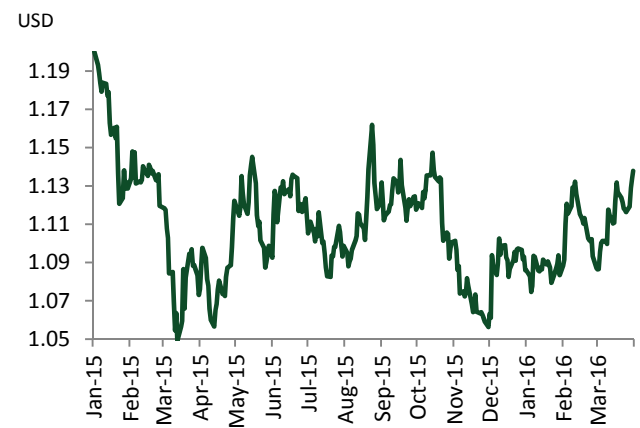
Figure 11. ECB Rates



Source: Reuters

In the first quarter of 2016, the nominal exchange rate of the Euro had demonstrated a notable appreciation (Figure 12). From January to March, the Euro appreciated against the US Dollar by more than 5% in connection with the uprise of certainty among the market participants that the Fed’s policy interest rate will be maintained at the existing level.

Figure 12. USD/EUR Exchange Rate

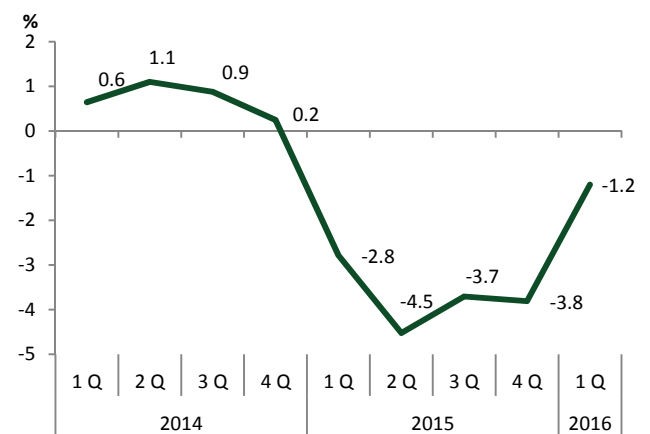


Source: Reuters

1.2.3 Russia

Recession processes in the Russian economy are slacking. In the first quarter of 2016, Russia’s GDP growth rates slowed their decline significantly (Figure 13) since the volumes of extracted mineral resources were steadily increasing and the volumes in the manufacturing sector, agriculture and construction stopped decreasing. However, there is still a negative effect of foreign economic factors which include low oil prices, sanctions by the US and EU, and internal factors such as the falling consumer demand and low investment demand.

Figure 13. Russia’s Real GDP Growth, YOY



Source: Rosstat

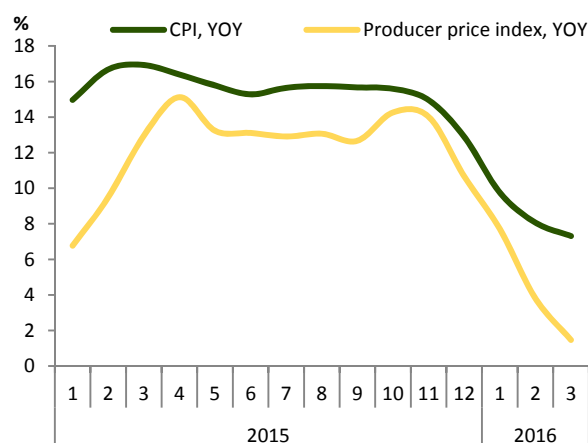
In Russia, the annual inflation has decreased significantly over the reviewed period (Figure 14). Given appreciation of the ruble, a moderately tight monetary policy of the Bank of Russia, low consumer and investment demand as well as the “a high base effect”, the growth in consumer prices at the end of the first quarter of 2016 decreased to 7.3% in annual terms, whereas at the end of 2015 the annual inflation accounted for 12.9%.

Meantime, inflation risks caused by slightly decreasing devaluation expectations of the population, by possible further depreciation of the ruble exchange rate and its volatility, and by sanctions are still there.

In the first quarter of 2016, the Bank of Russia left its key rate unchanged at 11% (Figure 15). Such decision was associated with persisting inflation risks including unstable conditions in the oil market and foreign exchange market, uncertainty of certain budget parameters and high inflationary expectations.

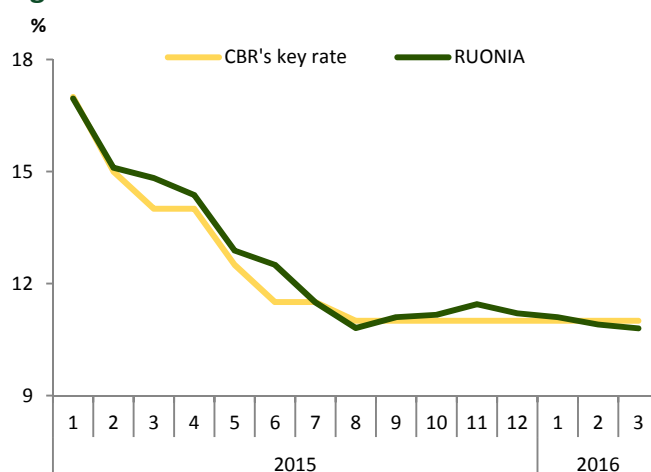
From January to March 2016, the Russian ruble had appreciated for the first time since August 2015 (Figure 16). Oil prices continue to determine behavior of the Russian ruble. Because of the 30% growth of oil prices, the nominal exchange rate of the Russian ruble versus the US Dollar appreciated by 10% in the first quarter of 2016. A further movement of the ruble exchange rate will be depending on the situation in the hydrocarbon market, in the first instance.

Figure 14. Inflation in Russia



Source: Reuters

Figure 15. Russia's Rates



Source: Reuters

Figure 16. RUR/USD Exchange Rate



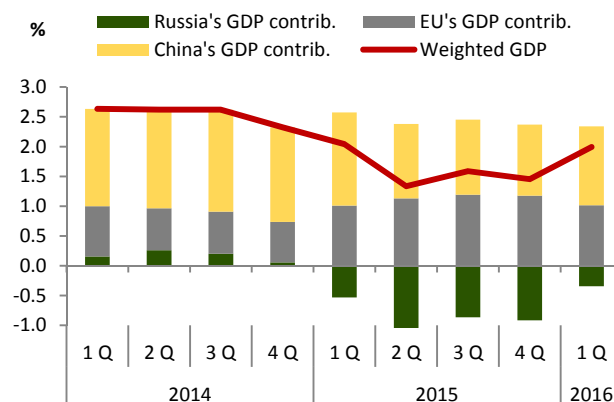
Source: Reuters

1.2.4 External GDP and Inflation

Aggregate external GDP which is calculated on the basis of the data about the international trading structure of Kazakhstan and is characterizing the demand for Kazakhstani exports, increased significantly during the first quarter of 2016 (Figure 17). This happened as a result of a more moderate drop in the Russian real GDP and an increased share of China in Kazakhstan’s foreign trade turnover. The growth in the aggregate external GDP of countries-main trading partners is declarative of a minor improvement of the external demand factor in the first quarter of 2016.

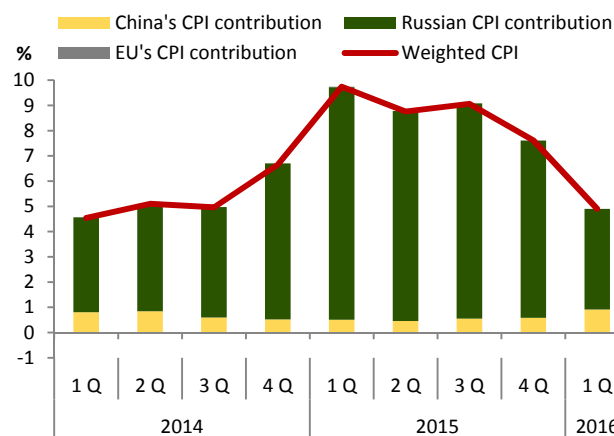
In the first quarter of 2016, the aggregate external food price index which is calculated based on the share of main trading partners in Kazakhstan’s imports had demonstrated a decline (Figure 18). The decline in this indicator to a larger extent was caused by the decreased annual inflation in Russia. At the same time, the EU contribution to inflation remained unchanged and the contribution by the dynamics of inflationary processes in China increased versus the previous quarter being caused by a shocking short-time growth in prices of foodstuffs in China in February. In general, the decline in this indicator is a reflection of an easing pressure of external inflation on the Kazakh consumer market.

Figure 17. Weighted External GDP, YOY



Source: NBRK’s derivations

Figure 18. Weighted External CPI, YOY



Source: NBRK’s derivations

2. DOMESTIC ECONOMY

2.1 MONETARY POLICY AND THE FINANCIAL SECTOR DEVELOPMENT

2.1.1 Money Market and Operations of the National Bank of the Republic of Kazakhstan

In the first quarter of 2016, the situation in the money market was determined by the measures and operations of the National Bank in the domestic market.

After the instability period in October-December 2015, the balance in the money market and foreign exchange market was restored by the beginning of 2016. The National Bank was actively conducting operations to make up for a liquidity shortage. Also, in January 2016, with a view to reduce the burden on banks, amendments to the framework of minimum reserve requirements were made – restrictions regarding the use of banks' cash in the Tenge in complying with minimum reserve requirements were cancelled.

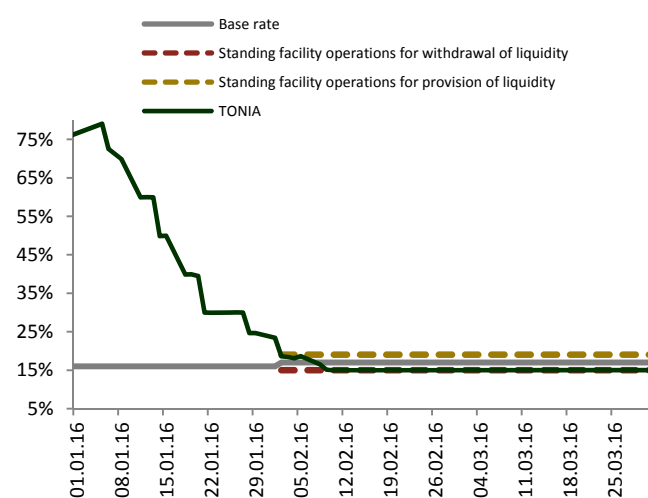
The above combination of factors created necessary prerequisites for restoring the interest rate channel of the monetary policy. From February 2, 2016, the National Bank set its base rate at 17% with the deviation limits of +/- 2 percentage points (on March 14, 2016 the National Bank retained the base rate level by its consecutive decision). A relatively high level of the base rate was set in order to ensure the balance between financial stability risks and risks of unjustified devaluation expectations.

As a result of taken measures, money market rates decreased significantly and had stabilized. Rates on 1-day repos and swaps decreased from 80% in December 2015 to 25% at end-January 2016, and they were at the lower boundary of the base rate band in February-March 2016 (Figure 19).

Starting from the second week of February 2016, there was excessive Tenge liquidity in the money market that was associated with the budget spending and the growth in the volumes of conversions of foreign exchange into the local currency in the domestic foreign exchange market.

In these conditions, the National Bank was withdrawing liquidity by issuing short-term notes, conducting direct repo transactions and

Figure 19. Base Rate and TONIA Rate

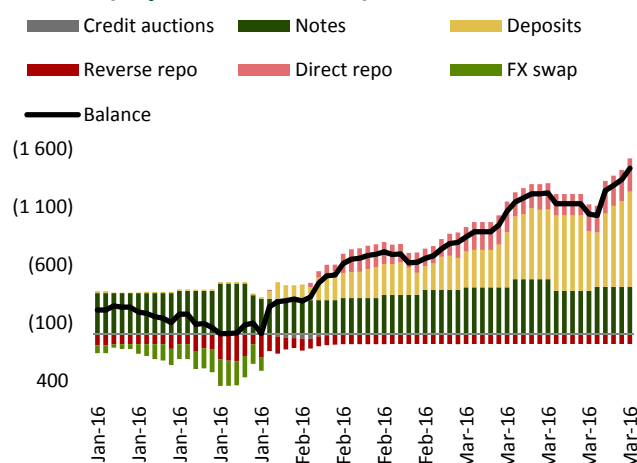


Source: NBRK, KASE

taking deposits from banks (Figure 20).

In the first quarter of 2016, MMI was 25.8%. As the situation in the money market and foreign exchange market was stabilizing, the bulk of operations were conducted in the repo market (Figure 21).

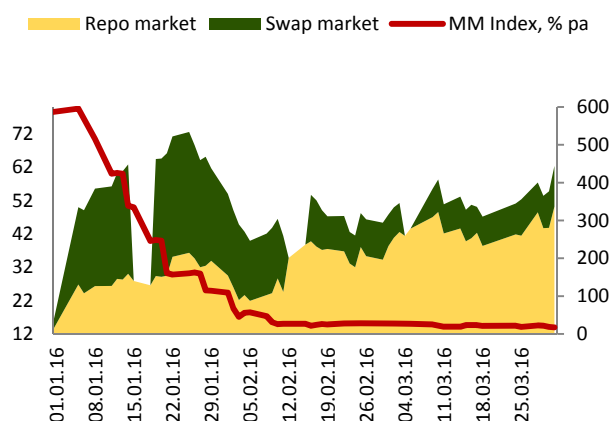
Figure 20. NBRK's Operations in the Domestic Market (exposure, KZT bln.)



*NBRK's securities buy/sell back auction

Source: NBRK

Figure 21. Changes in the MMI and the Volume of Transactions (KZT bln., right axis)



Source: KASE

2.1.2 Foreign Exchange Market and Foreign Exchange Operations of the National Bank of the Republic of Kazakhstan

In the first quarter of 2016, the situation in the foreign exchange market was determined by external conditions, particularly by the behavior of world oil prices as well as by internal factors determined by changes in currency preferences of the population and the corporate sector.

In January 2016, the exchange rate of the Tenge against the US Dollar demonstrated a gradual weakening (Figure 22). With a view to smooth dramatic fluctuations of the exchange rate, the National Bank was selling foreign

exchange thus satisfying the arising speculative demand.

From the beginning of February 2016, the Tenge was appreciating against the US Dollar amidst a significant imbalance between a low demand for the US Dollars and their increased supply. The increased supply of foreign exchange was driven by the growing attractiveness of instruments in the Tenge against stabilization of oil prices and appreciation of the Russian ruble against world currencies.

Currency preferences of the population also changed in favor of the domestic currency. Since February, the foreign exchange market was showing the excess of selling volumes of foreign exchange over its purchases as well as an overflow of deposits denominated in foreign currency into the Tenge deposits.

An excessive supply of foreign exchange had an internal systemic nature and could lead to a sharp appreciation of the Tenge not driven by the impact of fundamental factors. In these circumstances, in February-March 2016 the National Bank made interventions in the form of foreign exchange purchases which amounted to USD 1.7 bln.

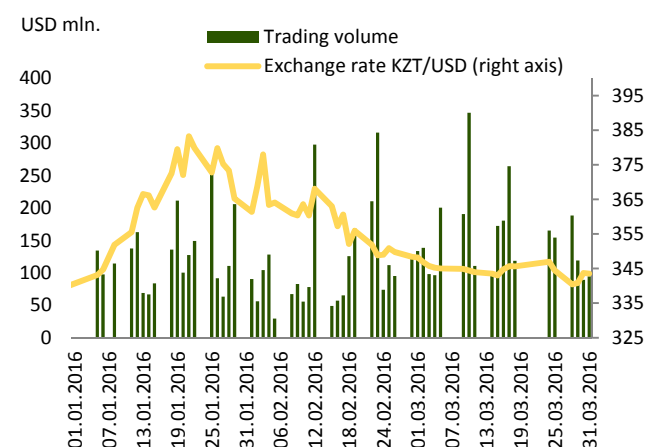
Based on the performance in the first quarter, as part of the free floating exchange rate regime of the Tenge, imbalances in the foreign exchange market caused by the impact of external shock were eliminated.

2.1.3 Deposit Market

In the first quarter of 2016, the trend of prevailing growth rates of the Tenge deposits in comparison with foreign currency deposits had outlined. In large part, this pattern is driven by stabilization of the situation in the foreign exchange market, by the trend of the Tenge appreciation in February-March 2016 as well as by the fact that from February 1, 2016 the recommended interest rate on the Tenge deposits was raised from 10% to 14% and it was lowered from 3% to 2% on foreign currency deposits.

So, the overall dollarization of deposits

Figure 22. Exchange Rate Behavior and the Trading Volume in the Foreign Exchange Market

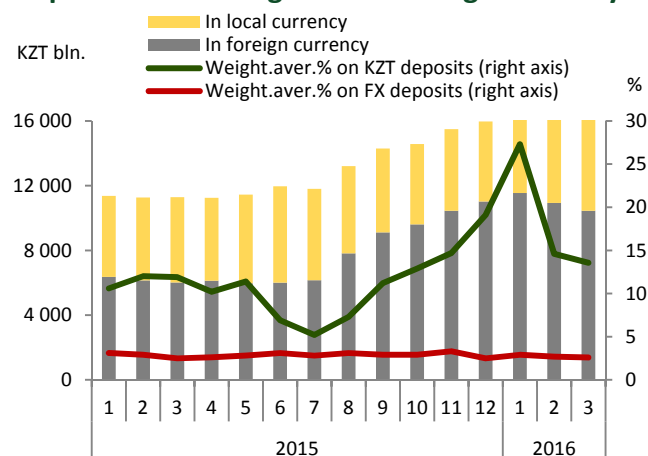


Source: KASE

decreased from 69.0% in December 2015 to 63.4% in March 2016 (Figure 23).

A high volatility of interest rates in the money market in December 2015 resulted in a significant increase in the weighted average interest rate on the Tenge deposits in January 2016 (to 27.3%), specifically, rates on deposits of legal entities (to 29.6%). Regulation of the Tenge liquidity in the money market by the National Bank via the base rate framework helped reduce interest rates on deposits in the domestic currency. Interest rates on foreign currency deposits increased from 2.5% in December 2015 to 2.6% in March 2016.

Figure 23. Volumes and Interest Rates on Deposits in the Tenge and in Foreign Currency



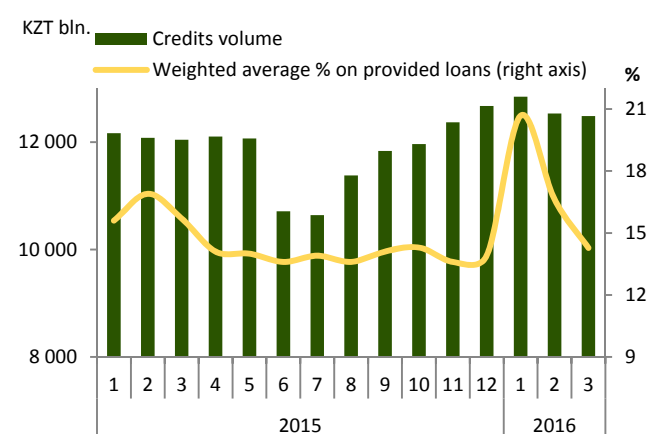
Source: NBRK

2.1.4 Credit Market

In the first quarter of 2016, the volume of bank credits to the economy decreased by 1.5% as compared to the previous quarter (Figure 24). This was mainly caused by a negative revaluation of their foreign currency portion and a low lending activity in the market.

The behavior of loan interest rates was additionally impacted by instability of interest rates in the money market and in the deposit market as well as by changes in the bank liquidity.

Figure 24. Volumes and Interest Rates on Loans



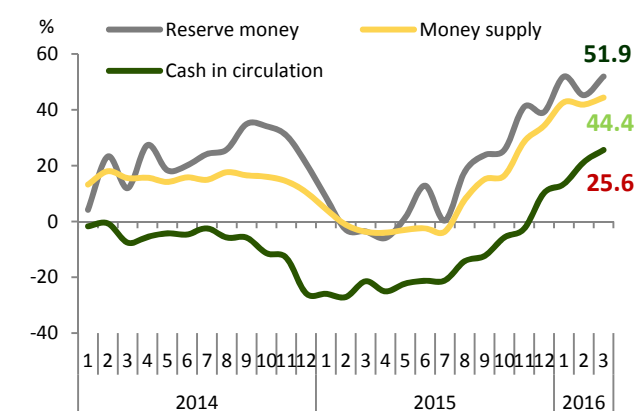
Source: NBRK

2.1.5 Monetary Aggregates

In the first quarter of 2016, the growth in the money supply was observed, both on a year-to-date basis and on a year-over-year basis (Figure 25). During January-March, the money supply increased by 3.4%, the reserve money expanded by 5.1%, and cash in circulation increased by 5.3%.

The main factor for the increase in the money supply is the revaluation of its currency components, mainly foreign assets, because of a sharp weakening of the Tenge as well as (as relates to the money supply) of a foreign currency portion of liabilities of non-bank financial organizations to the banking system

Figure 25. Growth in Monetary Aggregates, YOY

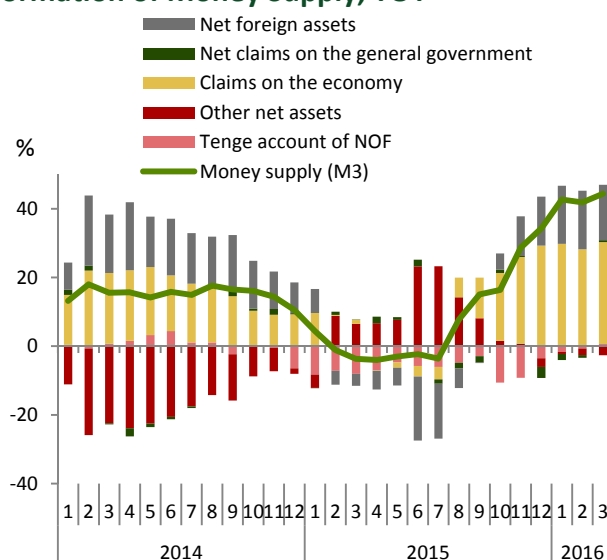


Source: NBRK

(Figure 26).

Expansion of the reserve money in the first quarter of 2016 occurred due to the growth in net international reserves as a result of the growth in gold-denominated assets because of the increased price of gold and operations conducted by the National Bank, the growth in expenditures from the National Fund as part of the government programs against the decrease in the Tenge resources of the National Fund.

Figure 26. Dynamics of Contributions to the Formation of Money Supply, YOY



Source: NBRK

2.2 Prices and Inflationary Processes

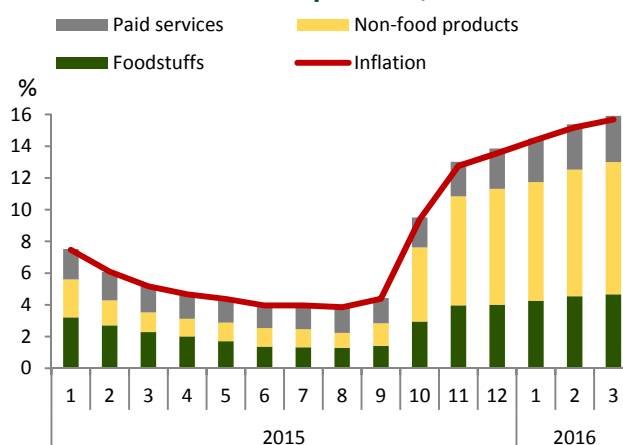
Consumer Price Index

In the first quarter of 2016, the consumer price growth in annual terms remained high due to a low base effect of the previous year (Figure 27).

Dynamics of inflation was determined by divergent factors. On the one hand, the increase in tariffs for regulated services and prices for imported goods had affected the level of consumer prices. So, in March 2016 as compared to December of the previous year, there was an increase in prices for imported primary agricultural products (by 21.6%), non-food consumer goods and construction materials (11.3% and 12.8%, respectively).

On the other hand, appreciation of the Tenge and the decreasing consumer demand by the end of the quarter helped slowing down the monthly inflation, thus enabling it to go back and to be within the multi-year trend. During the first quarter of 2016 the inflation was 3.0%.

Figure 27. Annual Inflation and the Contribution of its Components, YOY



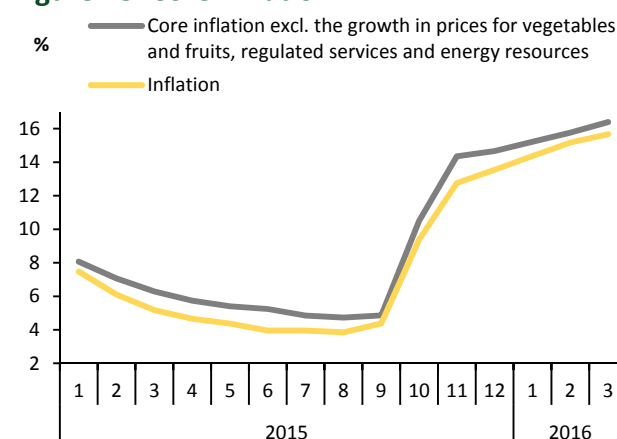
Source: CS MNE RK

Core Inflation

In the first quarter of 2016, the trend where the core inflation level exceeds that of the baseline inflation continued (Figure 28) and was driven, to a larger extent, by a higher rate of growth in prices of non-food products as compared to other groups of goods and services.

Behavior of this indicator shows that the effect of the exchange rate pass-through to domestic prices in respect of tradable goods is virtually exhausted whereas prices of non-tradable goods and regulated services are still in the process of inertial adjustment.

Figure 28. Core Inflation



Source: CS MNE RK

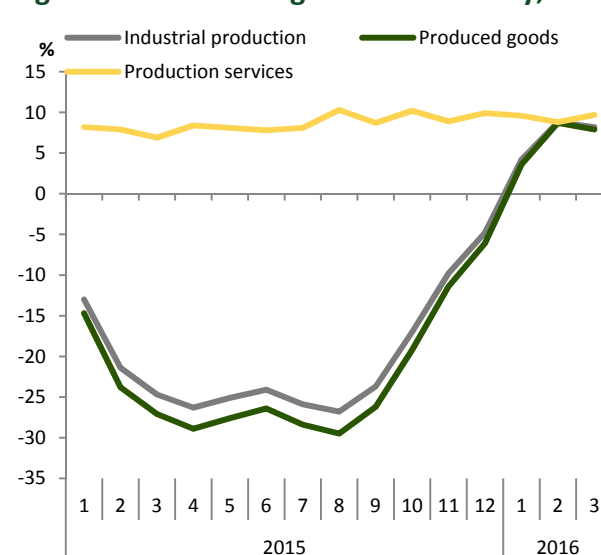
Prices for Industrial Production

In the first quarter of 2016, prices in the industry declined by 3.3% because of the falling prices in the mining industry; these were mainly caused by declining prices of export supplies to the countries other than the CIS. So, prices of enterprises extracting crude oil declined by 15.0% because of the decline in the average price of oil in the first quarter of 2016.

Along with that, the trend of falling prices in annual terms which had persisted since the end of 2014 gave way to their 8.2% increase (Figure 29), which was caused by the increase in prices in the manufacturing industry and the cost of production services. At the beginning of 2016, fees for electricity and water supply increased by 10.0% and 8.3%, respectively.

The highest increase in prices occurred in the metallurgical industry because of the 47.1% increase in price of ferroalloys. A significant increase in the price of iron ore was observed in connection with short-term disruptions in supplies of products in the global markets.

Figure 29. Price Changes in the Industry, YOY



Source: CS MNE RK

Prices for Agricultural Production

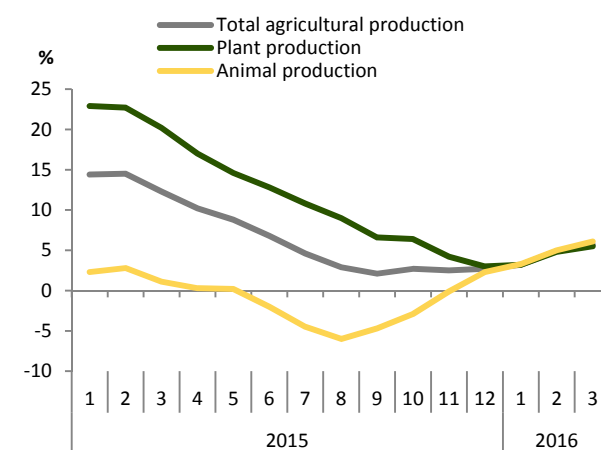
In the first quarter of 2016, the growth in prices of plant production accounted for 3.6%; this was associated with a new harvest of fresh vegetables and also with the reduction in the stock reserves of grain and bean cultures. Apart from that, the decision made by the RK's Ministry of Agriculture to stop subsidizing bread

makers from January 1, 2016 had influenced the increase in prices. During the first quarter of 2016, the selling prices of wheat increased by 4.6%, thus resulting in the 6.3% increase of retail prices of bread.

In its turn, in the first quarter of 2016 the animal production increased by 2.5% in terms of price, which was caused by the increase in the price of meat and milk.

The annual price growth for agricultural production under the impact of increased prices of mineral fertilizers and imported feed products was accompanied by the increase in prices both for animal production and plant production (Figure 30).

Figure 30. Price Changes in Agriculture, YOY



Source: CS MNE RK

Inflationary Expectations

According to the public opinion polls conducted in the first quarter of 2016 regarding inflationary expectations (see the insert) and the real sector enterprise monitoring, prices of consumer goods and prices of final products will continue growing at a moderate pace.

Outcomes of the Public Opinion Poll Regarding Inflationary Expectations¹

Inflationary Expectations of the Population

The poll outcomes for the first quarter of 2016 demonstrate that the level of inflation as perceived by the population remains high. Nonetheless, expectations about future inflation are moderate.

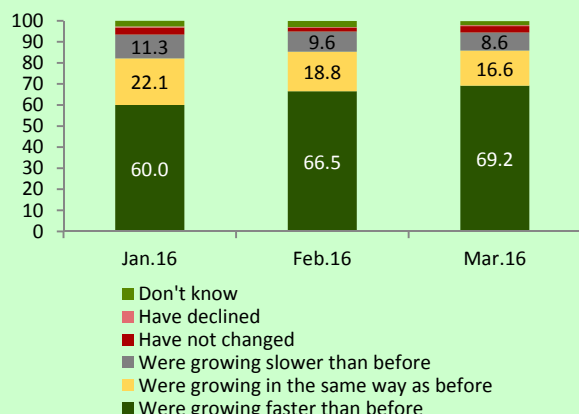
According to the average quarterly data, the price growth over the last 12 months is perceived by 94.2% of respondents, and about a half of those respondents believe that prices have grown by more than 20%. Along with that, a significant portion of respondents believes that over the last 12 months prices have been growing faster than before.

During the 1st quarter of 2016, the opinion of respondents regarding the price growth in the coming month shifted from a high and moderate growth towards a moderate growth and stability. Expectations of the population regarding the rates of price growth in the next 12 months are also becoming less negative: the percentage of those who expects that inflation rates will increase is going down and the percentage of those who believe that inflation rates will decrease is growing. In doing so, 29.2% of respondents expect that the inflation rate will be below 10%, and 44.1% of respondents think that prices will grow by more than 16%.

¹Since January 2016, «GfK Kazakhstan» on request of the NBK conducts the public poll aimed to measure inflationary expectations in Kazakhstan. The poll is conducted through a telephone interview where 1500 respondents in all regions of the country take part. The questionnaire includes 29 main questions in 6 categories. The data source for graphs is based on the outcomes of the telephone interview of the population in Kazakhstan, GfK Kazakhstan

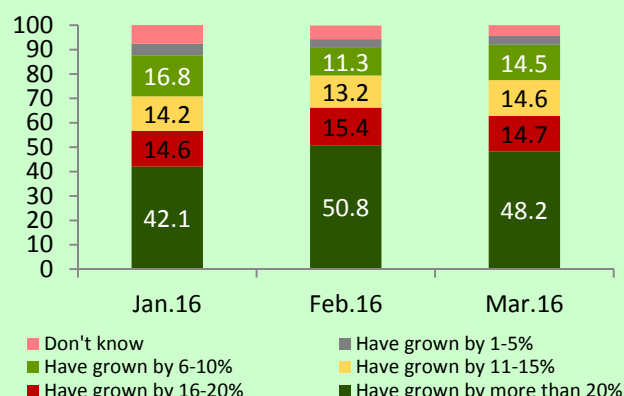
Assessment of the price growth over the last year

In your opinion, how prices of foodstuffs, non-food products and services have generally grown over the last 12 months?



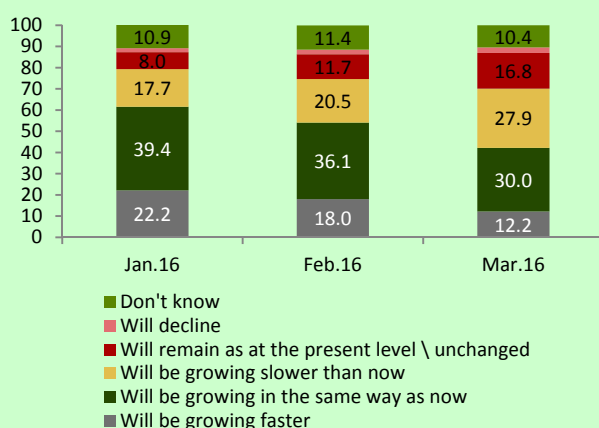
Quantitative assessment of the price growth over the last year

In your opinion, how much precisely prices of foodstuffs, non-food products and services have grown over the last 12 months?



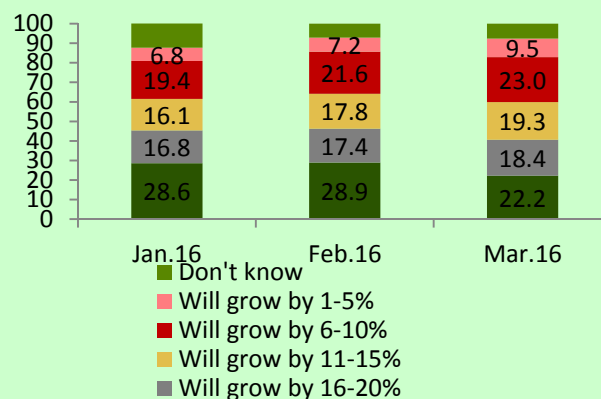
Expectations about the price growth in one year

In your opinion, how much will prices of foodstuffs, non-food products and services generally change in the next 12 months?



Quantitative assessment of the price growth in one year

In your opinion, how much will prices of foodstuffs, non-food products and services grow in the next 12 months?



Consumer and Saving Sentiments of the Population

The survey outcomes allow for the conclusion that only a small percentage of the population can afford saving up money, and yet a smaller percentage intends to take bank loans for large buys.

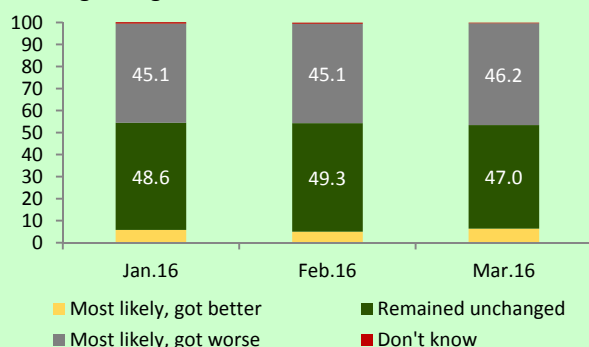
The most significant income item in a family is a wage. Respondents mainly note that their financial standing over the recent year remained unchanged (48.3%) or got worse (45.5%). Along with that, 38.9% of respondents think that in the next 12 months their financial standing will not change and 26.0% of respondents hope that their financial standing will get better. 87.9% of respondents answered that they could not put aside a certain amount of money.

The overwhelming majority (81.5%) of respondents do not have personal savings. For those people who save up, bank deposits (57.2%) and cash (35.7%) remain the most attractive form of saving. The majority of respondents keep their cash savings in the Tenge (72.8%) and in the US Dollars (39.7%).

Meantime, the lending activity remains low. 64.3% of respondents do not have borrowings, 23.3% of respondents have taken a consumer loan. 86.9% of respondents do not intend to take a loan within the next 12 months.

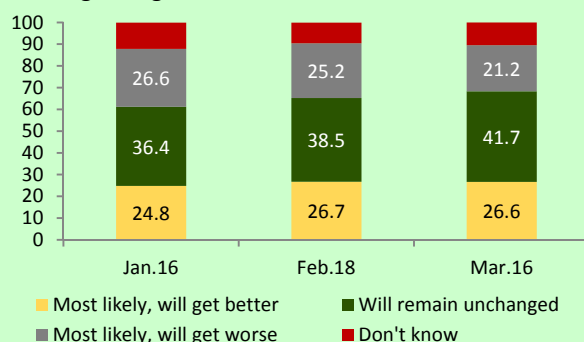
Assessment of financial standing for the year

In your opinion, in what way has your family's financial standing changed over the last 12 months?



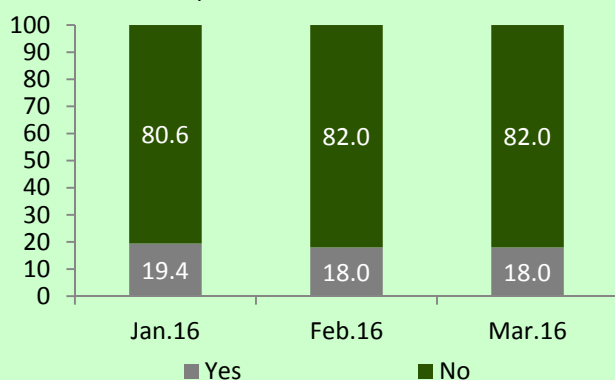
Assessment of financial standing in one year

In your opinion, in what way will your family's financial standing change in the next 12 months?



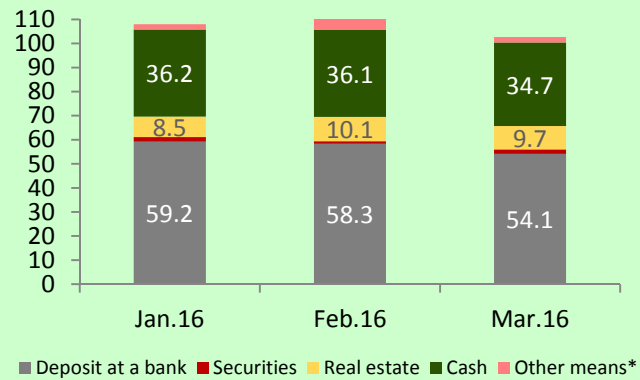
Personal savings

Please tell whether you have any personal savings or cash accumulations at present?



The way you keep your savings

Please tell in which way you keep your personal savings or cash accumulations?



* other ways of keeping savings which account for less than 1% of responses are put in one category

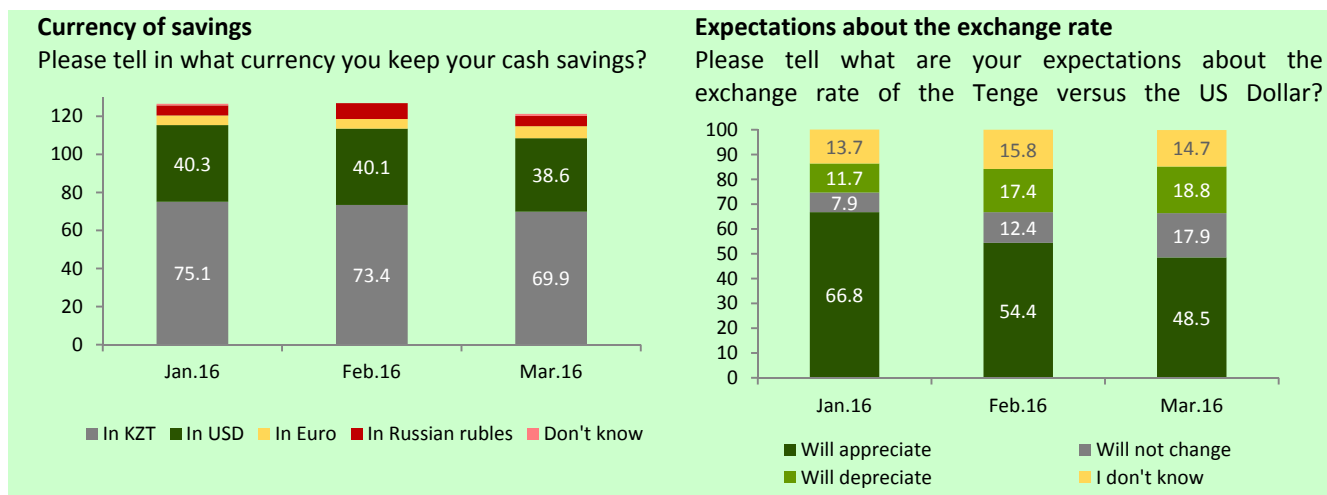
Prospects of the Economic Development and Perception of the Exchange Rate of the Tenge

One can say that the population has a positive view of future economic environment.

A stable situation in the economy within the next 12 months over three months of observation on average is anticipated by 27.5% of respondents, 44.0% of the interviewed believe that the next five years will be a good time for the Kazakh economy.

Since January 2016, the number of people tracking the world oil price behavior has reduced. In January, every second respondent was interested in the price of oil; by April, the share of those concerned with the price of oil accounted for 37.8%. Despite the fact that 63.3% of the interviewed anticipate the growth in unemployment, the number of people sharing this opinion is decreasing.

As for the exchange rate of the Tenge versus the US Dollar, the percentage of those people who believe that the exchange rate would be stable or would appreciate is growing. While in January, 66.8% of the interviewed expected that the domestic currency would depreciate, in March their percentage decreased to 48.5%.



2.3 Real Sector Development

Despite stabilization of the situation, the external market environment coupled with a low consumer demand continues having a negative impact on the economic growth rates. Nonetheless, a high investment demand against the growth in the government sector spending offsets a negative impact made by the deteriorated consumer demand.

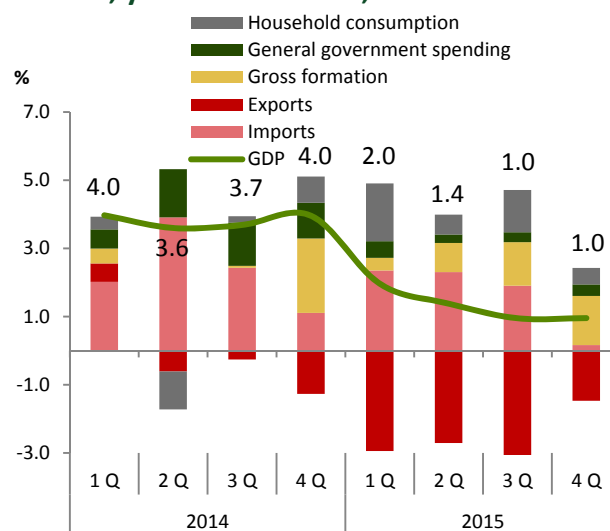
2.3.1 Domestic Demand

In the fourth quarter of 2015, the economic activity remained low. Gross capital formation against a feeble growth in household consumption still makes the main positive contribution to the economic growth. At the same time, declining prices of oil and metals and deteriorating foreign economic environment caused the decrease in export volumes. As a result, growth rates of the real GDP at the end of 2015 remained at 1.0% (Figure 31).

Inflationary shock which was realized in the fourth quarter of 2015 caused the reduction in real cash income of the population. In addition, the slowing consumer lending coupled with high interest rates on retail loans became the main reason for a sluggish consumer demand.

In the first quarter of 2016, the situation in the domestic market had changed: the exchange rate of the Tenge was appreciating and the monthly inflation was coming back to

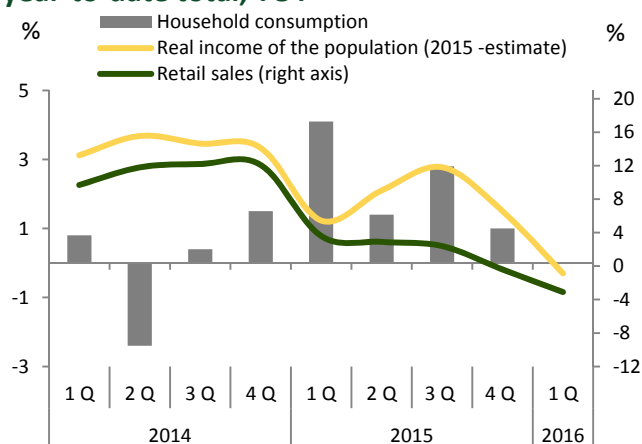
Figure 31. Decomposition of the GDP Components by the Final Consumption Method, year-to-date total, YOY



Source: CS MNE RK

its normal patterns. Nonetheless, in the first quarter of 2016 retail sales continued to go down with the decrease accounting for 3.1% (Figure 32). To a large extent, this was related to the 0.3% decrease in the real cash income of the population. The decrease in real income was partially offset by the growth in salaries of the public sector employees and the increased retirement benefit payments alongside with a traditional indexation of salaries and wages at the beginning of a year.

Figure 32. Household Consumption, Household Real Cash Income and Retail Sales, year-to-date total, YOY

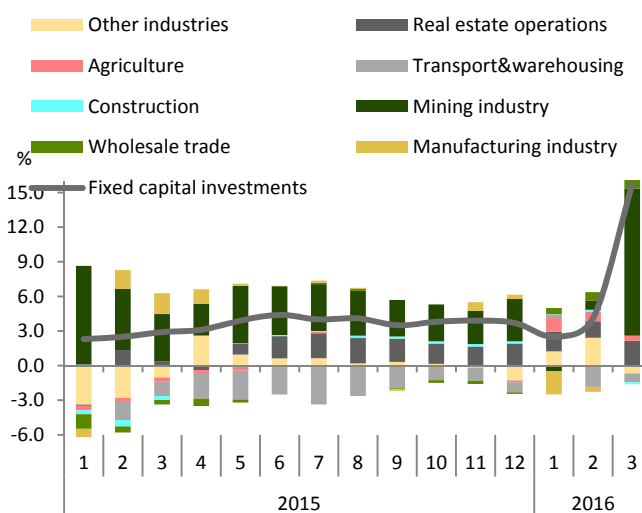


Source: CS MNE RK

Investment Activity

In the first quarter of 2016, fixed capital investments whose growth accounted for 15.7% as compared to the first quarter of 2015 continued to have positive influence on the economic development (Figure 33).

Figure 33. Fixed Capital Investments by Types of Economic Activity, Input, year-to-date total, YOY



Source: CS MNE RK, NBRK’s derivations

As per the breakdown by sector, a significant contribution to the growth in fixed capital investments was made by capital investments in the mining industry where their growth accounted for 30.9% (the share in the overall investment volume – 46.2%). Among other industries, the largest growth was demonstrated by investments in real estate operations – by 16.3% (the share – 13.2%), and the manufacturing industry – by 6.7% (the share – 12.4%).

As per the plant-equipment ratio, the highest share in investments is represented by investments into construction works and major overhaul of buildings and structures (56.1%), whose growth in the first quarter of 2016 as compared to the first quarter of 2015 accounted for 24.9%.

Own funds of economic agents (the share in the total investment volume in the first quarter of 2016 accounted for 65.1%) still represent the main source of funding of fixed capital investments. The share of public funding and funding with bank credits decreased by 3.0 percentage points and funding with bank credits increased by 1.9 percentage points as

compared to January-March 2015.

2.3.2 Domestic Production

Based on performance in the first quarter of 2016, the real GDP had reduced for the first time since 2009.

The main factors for reduction in GDP were the curtailment of industrial production caused by a persisting unfavorable external environment and reduction in the services sector caused by a drop in turnover (Figure 34). However, retained rates of growth in the sectors of transport, construction and agriculture keep making a positive contribution to the GDP.

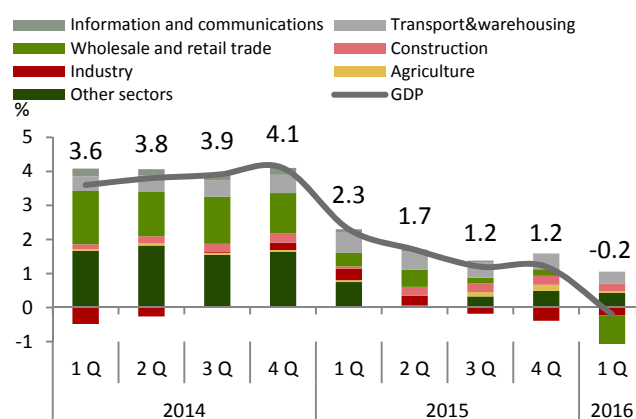
In the first quarter of 2016, the downturn of industrial production accounted for 0.8%, being caused by the decreased volumes of production in the mining industry (by 1.5%). Falling world prices of oil and metals, reduced external demand on the part of China and Russia were the main factors for continuing reduction in the extraction volumes of crude oil (by 1.3%), coal and lignite (by 8.5%) and iron ore (by 28.7%) in the first quarter of 2016.

A positive contribution to the industrial production was made by branches of the manufacturing industry. In the first quarter of 2016, the growth in production volumes in the sector accounted for 0.3%, which was secured by increased production volumes in the metallurgical industry – by 7.5%, and in the foodstuffs production – by 4.0%.

Growth rates in agriculture retained their positive dynamics demonstrating the 2.9% increase in the first quarter of 2016 as compared to the first quarter of 2015. The volume of animal production grew by 3.0%, and that of the plant production remained unchanged.

Growth in the construction sector was recorded in the first quarter of 2016. In the first quarter of 2016, the volume of construction works increased by 6.0% (Figure 39). A favorable effect on development of this sector is made by implementation of the government economic support programs (GPIID and “Nurly

Figure 34. GDP Decomposition. Contribution by Economic Sectors to the GDP Growth, year-to-date total, YOY



Source: CS MNE RK, NBRK's derivations

Zhol") in the areas of infrastructure and housing construction, construction of residential facilities.

A sluggish domestic consumer demand caused the 0.2% reduction in the services production in the first quarter of 2016 (in the first quarter of 2015 – the 3.7% growth).

Despite decreased volumes of foreign trade (both exports and imports) and decreased volumes of retail sales in the first quarter of 2016, volumes of cargo transportations by all types of transport increased by 0.3%. Negative dynamics was demonstrated by services of telecommunication enterprises where the volumes decreased by 4.3%.

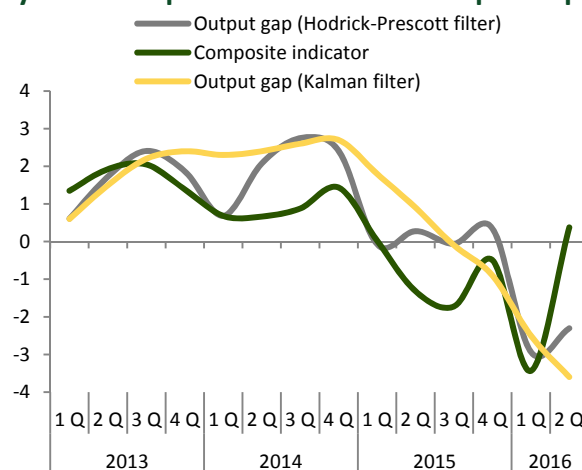
The aggregate composite indicator, which reflects the assessment of the existing situation and expectations of CEOs of companies in the real sector of the economy, in the first quarter of 2016, was still going down relative to a long-term GDP trend and it was indicating that the terms of trade deteriorated and the domestic demand in the economy decreased. Estimation methods based on filtration principles point to negative values of the output gap at the end of the first quarter of 2016, which had a downward pressure on the price growth in the economy. In the second quarter of 2016, enterprises anticipate that the economic situation would improve to a moderate extent, which is evidenced by the growth in the expected demand for final products (Figure 35), whereas estimation methods based on Kalman and Hodrick-Prescott filters show that a negative output gap remains.

2.3.3 Labor Market and Unemployment

Sluggish external and domestic demand as well as unfavorable external market environment kept having a negative effect on the labor market in the first quarter of 2016.

The cooling economic activity manifested itself in the pressure on the labor market via the decreasing real wages whereas the unemployment rate has not significantly changed. At the same time, the growth in nominal wages based on performance in the

Figure 35. Behavior of the Composite Indicator, Cyclical Component of GDP and Output Gap

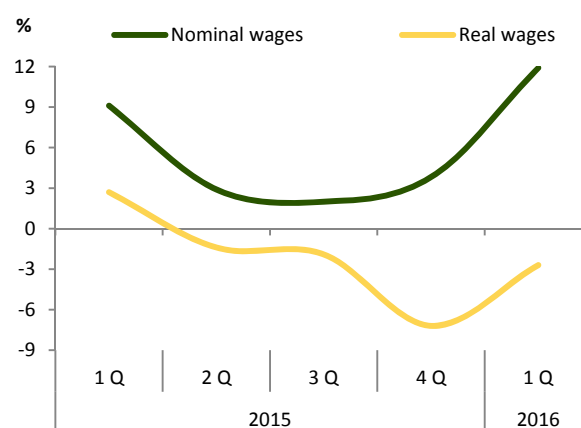


Source: NBRK

first quarter of 2016 accounted for 11.9%. In the first quarter of 2016, a high inflation rate kept putting a downward pressure on the real wages (Figure 36).

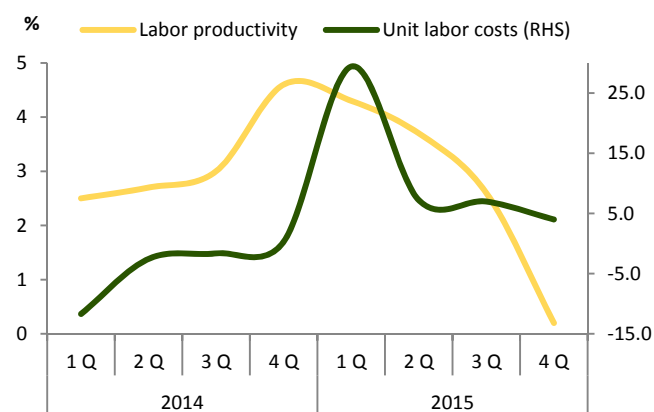
The imbalance between the wage growth and the volumes of output at the end of 2015 caused the slowdown in the growth of unit costs related to payroll expenses by 3.0 percentage points (Figure 37). The growth in the labor productivity index in the economy as a whole slowed down to 0.2% based on the 2015 performance; in the production of goods, the labor productivity increased by 1.5%, and in the services production – decreased by 0.7%.

Figure 36. Nominal and Real Wage Indices, YOY



Source: CS MNE RK

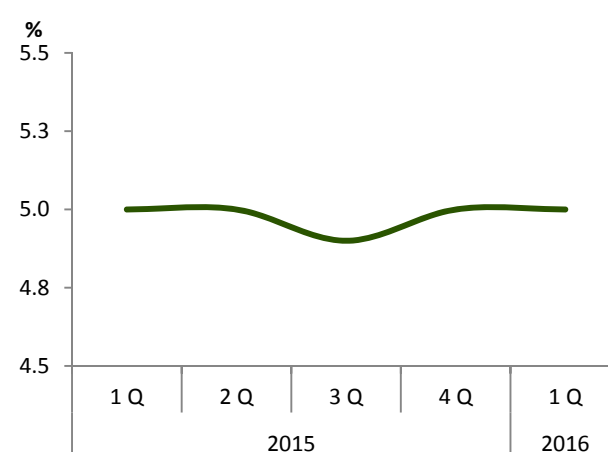
Figure 37. Labor Productivity and Unit Labor Costs, YOY



Source: CS MNE RK, NBRK's derivations

Reduction in real wages appeared to be the main adaptation mechanism of employers in the environment of deteriorating economic situation. The Government economic growth stimulus programs and EXPO-2017, which imply creating new jobs, ensured the growth of the employed population. Against the decreased numbers of the unemployed and the growth of self-employed population, the unemployment in January-March 2016 remained at 5.0% (Figure 38).

Figure 38. Unemployment Rate



Source: CS MNE RK

2.4 Fiscal Policy

According to the National Bank's estimates, in the first quarter of 2016 the fiscal policy was expansionary. This fact is evidenced by the growth in the state budget spending as compared to tax revenues, expansion of the budget deficit in implementation of the anti-crisis policy measures, and further investment of the National Fund's resources into the infrastructure projects.

The budget revenues in the first quarter of 2016 as compared to the first quarter of 2015 increased by 4.4% in nominal terms to 19.8% of GDP (in the first quarter of 2015 – 21.4% of GDP).

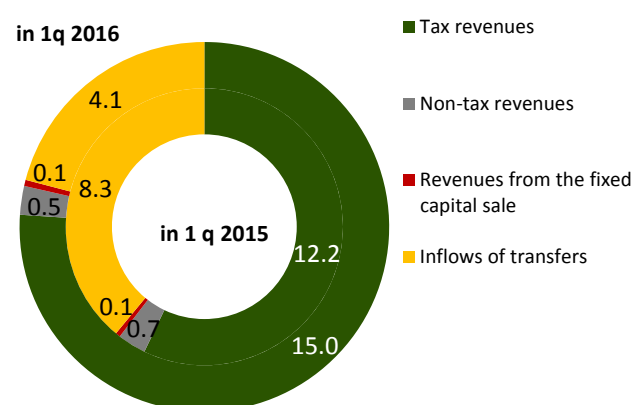
The 39% increase in tax revenues to the state budget occurred mainly due to the increased revenues from VAT and revenues from the use of natural and other resources. The amount of the guaranteed transfer to the state budget from the National Fund accounted for 4.1% of GDP or 11.6% of the total volume of the guaranteed transfer for 2016.

The structure of revenues in the first quarter of 2016 generally showed the reduction in non-tax revenues, revenues from fixed capital sale and transfers whereas tax revenues increased (Figure 39).

The state budget spending in the first quarter of 2016 accounted for 23.1% of GDP (in the first quarter of 2015 – 20.3%). The growth in expenditures occurred against the increased intensiveness of resource uses in the areas of "Social aid and social security", "Education" and "Public healthcare".

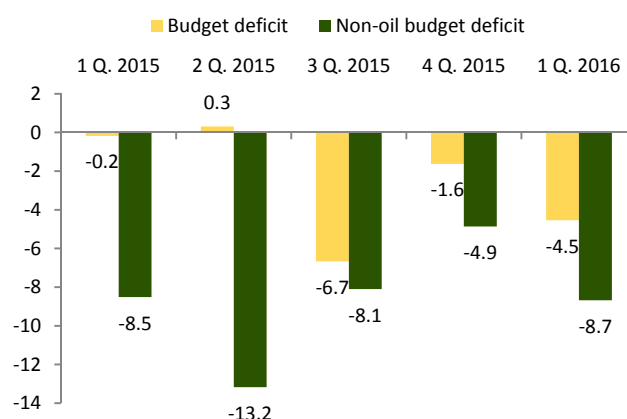
Given a significant growth of the budget spending, in the first quarter of 2016 the budget deficit accounted for (-)4.5% of GDP (in the first quarter of 2015 – (-)0.2% of GDP), the non-oil deficit increased by 0.3 p.p. to 8.7% of GDP (Figure 40).

Figure 39. State budget revenues, as % of GDP



Source: RK's Ministry of Finance, NBRK's derivations

Figure 40. State budget deficit, as % of GDP



Source: RK's Ministry of Finance, NBRK's derivations

2.5 Balance of Payments

Balance of Payments

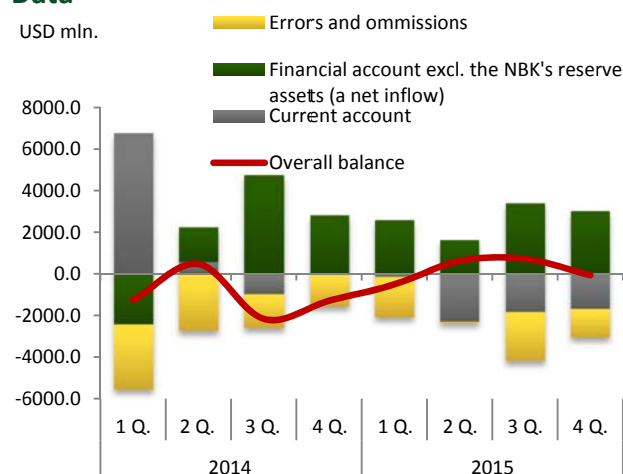
The dynamics of the balance of payments items had not undergone significant changes in the fourth quarter of 2015. Due to the growth in the current account deficit (in the fourth quarter of 2014 – a minor surplus of USD 14.1 mln.) as well as to the increased negative balance on the financial account, the overall balance of payments in the fourth quarter of 2015 had been low negative at USD (-)64 mln. (Figure 41).

The existing current account deficit was associated with the reduced balance of trade surplus. The behavior of the balance of trade items in the fourth quarter of 2015 showed that world prices of energy carriers and metals influenced economic indicators of Kazakhstan. So, the balance of trade surplus in the fourth quarter of 2015 decreased by 63.0% versus that in the fourth quarter of 2014 (Figure 42), which was associated with changes in the trade in commodities: the rates of decreased exports of goods were outrunning the rates of decreased imports.

As per the trade in services account, it shows up a sustainable deficit. In the structure of export of services, over a half of revenues falls on income from cargo transportations, mainly for the pipeline transit of oil and gas across the territory of the Republic of Kazakhstan. Within the import of international services, the dominating items are other business services (44%) associated with expenditures for consulting and engineering and services in the oil and gas sector as well as services for construction of railways and roads and EXPO-2017 facilities.

The decline in exports of goods largely due to falling oil prices, grain crops and ferrous metals. Under the influence of excess of supply over demand in the global food markets and the strengthening of the US Dollar, the FAO Index Cereals has continued the downward trend. The decreased demand for metals is mainly driven by slowing business activity in the manufacturing industry of China.

Figure 41. Balance of Payments, Quarterly Data



Source: NBRK

Figure 42. Export and Import of Goods and Services



Source: NBRK

The decline in imports of goods was provided both by the decrease contract prices and lower volumes of physical supplies. Herewith the largest decrease occurred in imports of consumer non-food products; a significant portion in their structure was comprised of medications and cars. As per imports of investment goods, in contrast to other product groups, their decrease resulted from a significant reduction in the volumes of physical supplies.

Due to the weakening of the Tenge against the Russian ruble and the Chinese Yuan and lower volumes of imports, the cost of import of goods from Russia and China decreased significantly (by 33% and 45%, respectively). However, their relative shares in the structure of imports decreased insignificantly – the share of imports from Russia accounted for 35.1% (33.8% in the fourth quarter of 2014), and from China – 14.9% (17.5% in the fourth quarter of 2014).

The deficit which resulted from the sum of the current account balance and capital account balance in the fourth quarter of 2015 secured a net capital inflow or a “net borrowing from the rest of the world”.

The financial account showed up a negative balance (a net inflow) of USD 3.0 bln. because of a more significant reduction in assets under a slight decrease in liabilities.

A net inflow of financial resources was secured mainly by direct investment operations and operations of the Kazakh Government related to the USD 1 bln. loan borrowed from the Asian Development Bank and to reduction in the National Fund’s foreign assets as well as by operations of Kazakh banks associated with reduction in their foreign assets.

Terms of Trade and Real Effective Exchange Rate

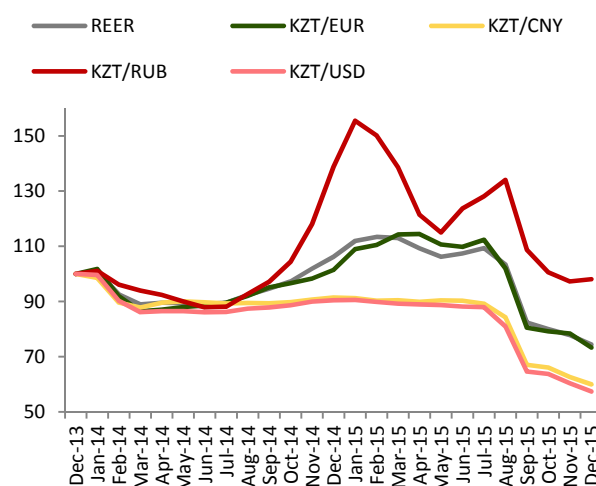
During the fourth quarter of 2015, the real effective exchange rate of the Tenge had a stable downward trend; its dynamics is largely determined by the deteriorated terms of trade (Figure 43). Prevalence of primary commodities in Kazakhstan’s exports results in that the

decline in oil prices leads to deterioration in the terms of trade and determines the behavior of the exchange rate of the national currency. The weakening of the Tenge could not fully offset the impact made by the price decline on the terms of trade.

Based on the performance in the fourth quarter of 2015 compared with the corresponding period of 2014, the real effective exchange rate index of the Tenge weakened against the US Dollar by 32.5%, against the Euro – by 22.1%, against the Russian ruble – by 18.1%, and against the Chinese Yuan – by 30.6%.

The aggregate index of terms of trade was by 42% lower than the corresponding indicator for the fourth quarter of 2014. As per the breakdown by countries – main trading partners, the terms of trade index with the Euro zone countries deteriorated by 10%, and with Russia it improved – by 6% (Table 1). A significant overall deterioration in the terms of trade occurred because of the increased exchange rate difference between the Tenge and the Chinese Yuan.

Figure 43. Real Effective Exchange Rate Index (December 2013 = 100%)



Source: NBRK

Table 1. Change in Price Indices and the Terms of Trade

(as % of the corresponding period of the previous year)

	3 Q 14	4 Q 14	1 Q 15	2 Q 15	3 Q 15	4 Q 15
Export prices	4	-12	-34	-41	-39	-42
Import prices	-8	-14	-19	-13	-10	0
Terms of trade	14	2	-19	-32	-32	-42
including:						
The Euro zone countries						
Export prices	7	-15	-41	-46	-46	-49
Import prices	-33	-14	-58	-10	-15	-43
Terms of trade	59	-1	40	-39	-36	-10
Russia						
Export prices	4	-2	-22	-16	-30	-19
Import prices	-1	-13	-30	-22	-32	-23
Terms of trade	5	13	10	7	3	6

Source: NBRK

II. FORECAST OF KEY MACROECONOMIC INDICATORS AND FURTHER MONETARY POLICY GUIDELINES

The forecast of macroeconomic indicators was prepared on the basis of statistical information as of May 14, 2016.

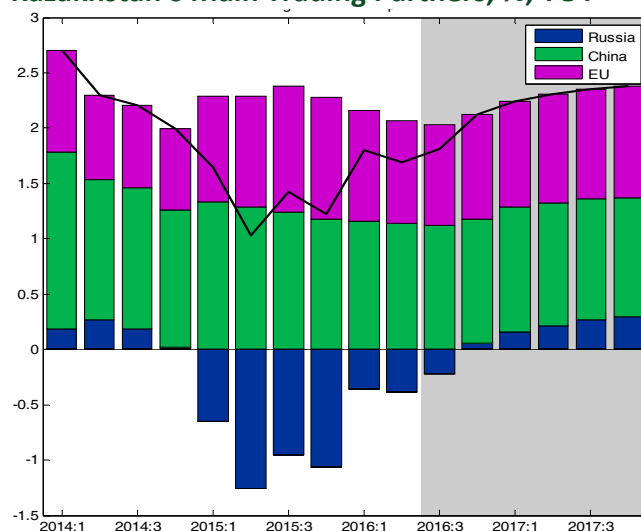
1. Key Assumptions for External Forecast Parameters

Pre-requisites regarding the terms of trade related to the demand for Kazakhstan’s export commodities on the part of Russia, EU and China, which account for over 53.8% of the total foreign trade turnover of Kazakhstan, in the fourth quarter of 2015, had undergone changes as compared to previous forecasts presented in the Inflation Report for the fourth quarter of 2015. According to the National Bank’s expectations, which take into account estimates of international organizations, in the medium term the economic growth in China will retain its slowing trend and the economic growth in the EU will be slowly recovering (Figure 44). Meantime, economic activity in Russia is expected to recover. Thus, a moderate recovery of the external demand is expected from the beginning of 2016; in doing so, the economic growth rates in Russia will start making their positive contribution to recovery of the external demand starting from the fourth quarter of 2016.

The inflationary background in countries-main trading partners remains erratic. World food prices and the weighted average consumer inflation in countries – main trading partners will be demonstrating the decline. According to the National Bank’s estimates, external inflation will be going down until the fourth quarter of 2017 (Figure 45). The inflationary background in China and in the EU will be low, and inflationary processes in Russia will be slowing down as a result of the GDP reduction and the decreasing inflationary expectations.

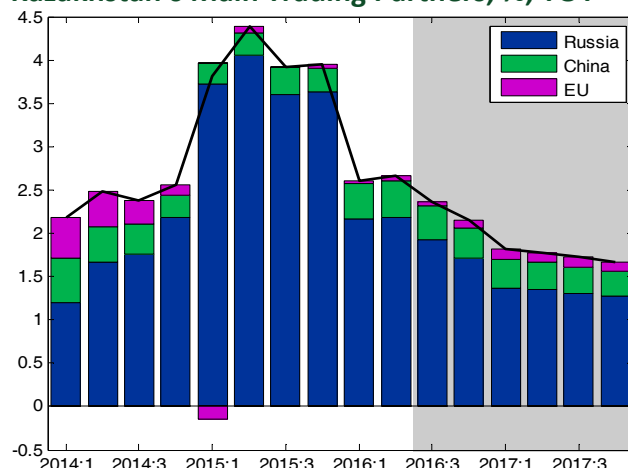
World food prices continue to demonstrate the decline (Figure 46). An excessive food supply in the market as a result of positive expectations regarding the grain crops in 2016,

Figure 44. External GDP Decomposition of Kazakhstan’s Main Trading Partners, %, YOY



Source: NBRK’s derivations

Figure 45. Weighted Average Inflation of Kazakhstan’s Main Trading Partners, %, YOY



Source: NBRK’s derivations

the increased crop acreage in the US, favorable weather conditions in the South America may be mentioned as the main factors. Thus, low prices of grain are anticipated in the medium-term. The risks of this assumption may also include shocks of climatic and weather conditions. As a result, an expected decrease in the external consumer inflation will be putting a minor downward pressure on inflationary processes in Kazakhstan.

In January-May 2016, an average oil price (Brent) was USD 48.39 per barrel, which prompted the revision of the baseline scenario of the oil price (Brent) from USD 30 to USD 40 per barrel throughout the entire forecast period.

Expectations about external monetary conditions in the medium term remained unchanged. As a result of tightening of monetary conditions given that the US Fed raised its federal funds rate, a number of risks for Kazakhstan arise associated with a possible capital outflow, depreciation of currencies of developing economies as well as with a more expensive funding in foreign markets.

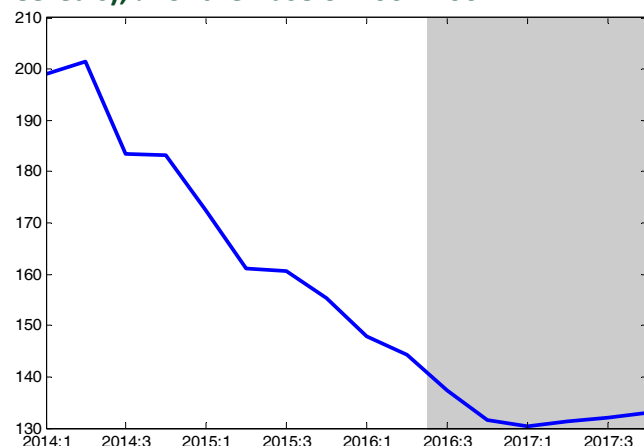
2. Forecast under the Baseline Scenario of USD 40 per Barrel

If the oil price is USD 40 per barrel, the growth of the Kazakh economy is anticipated to make 0.5% in 2016; this is related to large-scale measures of countercyclical support to the economy in 2016-2017.

In 2017, a gradual adaptation to new economic conditions would be observed, and the economic growth would account for 2%. The GDP would start its recovery which would depend on effectiveness of investments channeled to support the economy, of institutional reforms as well as dedollarization measures.

According to the National Bank’s estimates, in 2016 the output would be below its potential level. In 2017, a positive output gap is expected to restore. The main factor for idle capacities in the economy is the decreased domestic consumption. The drop in imports as a result of the decreased domestic consumption would be

Figure 46. Wheat Price Index (FAO Index Cereals), % of the Base of 2002-2004.



Source: NBRK’s derivations

making a positive contribution to the behavior of net exports. Such effect is limited by implementation of long-term investment projects which imply the use of imported goods and equipment. The opening of a positive output gap would be associated with recovery of the domestic consumption owing to the growth in government investments as part of the anti-crisis measures implementation. A floating exchange rate would be exerting positive influence on competitiveness of domestic manufacturers in the oil and non-oil sectors thus positively influencing the exports dynamics.

The drop in exports would be making a negative contribution to the output gap until the second quarter of 2017. The growth in the primary portion of exports is related to the monetary policy regime and with stabilization of the oil price at USD 40 per barrel as well as with recovery of external demand. The growth in the non-oil portion of exports is associated with undervaluation of the real effective exchange rate which would exist until the third quarter of 2017. Actions taken to increase non-primary exports (petroleum products, uranium compounds, grain meal and products of primary metal processing), which, according to estimates, accounted for 30% in total exports in 2015, may have a positive effect on diversification of the economy and the growth in export volumes.

Households will defer their consumption for a much later period because of the decreased real wages, reduced lending as well as depreciation of the Tenge. Positive real interest rates will be having a constraining effect on consumption. As the degree of dollarization goes down and confidence about economic prospects is gained, consumption would be recovering.

The government consumption would be limited by reduction in tax revenues as a result of a drop in the domestic consumption that would be offset by the increased transfers. According to the National Bank's estimate based on the changes in the Forecast for Social

and Economic Development of the Republic of Kazakhstan for 2016-2020 dated February 23, 2016, a stimulating fiscal policy is anticipated in the medium term.

In case of the baseline scenario with the oil price of USD 40 per barrel, the peak of inflation will be in the third quarter of 2016. As a result of impact made by the moderately contractionary monetary policy, the inflation is expected to go down to single-digit values in the fourth quarter of 2016 (Figure 47). A significant contribution to the inflation growth would be made by the non-food component. In the short term, the non-food inflation would be influenced by the behavior of the Tenge exchange rate and the inflationary background in Russia.

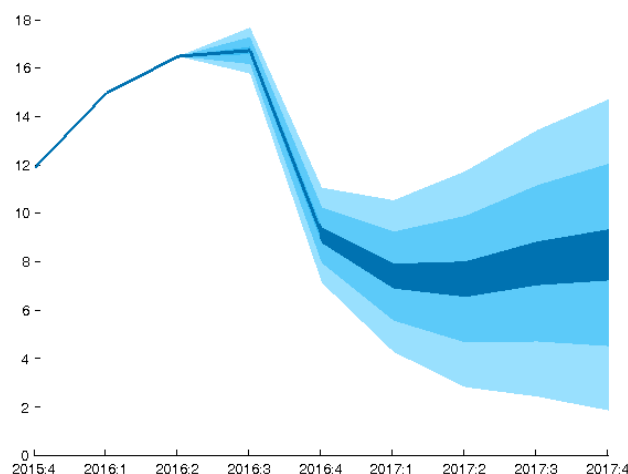
An external inflationary background for the food component of inflation would remain moderate in the medium term.

A negative output gap will be serving as a constraining factor for the food inflation and non-food inflation in 2016.

As the GDP takes a positive path of the business cycle, the inflationary pressure will start increasing.

Once an expected rate of inflation goes down in the medium term, interest rates will be decreasing. The monetary policy stance will be moderately constraining up to the fourth quarter of 2017, being related to the opening of a positive output gap in the third quarter of 2017. Implementation of the anti-crisis and other economic stimulus measures as well as stabilization of the exchange rate of the Tenge makes a positive contribution to the medium-term dynamics of economic activity. In their turn, medium-term rates of recovery in the domestic consumption would be dependent on good quality investments into the manufacturing sector, expansion of the share of non-oil sector in the economy, and institutional reforms as well as on a significant decrease in the degree of dollarization.

Figure 47. Inflation, Average for the Quarter, YOY, % (confidence intervals of 75%, 50% and 10%)



Source: NBRK's derivations

3. Risks in the Medium Term

The key risk of the forecast would be the decline in oil price (Brent) to USD 30 per barrel throughout the entire forecast period.

Implementation of this scenario will result in the slowdown of recovery of Russia's economy and depreciation of the ruble, which, in turn, would affect on assumptions regarding the external inflationary background and external demand in a negative way.

For the Kazakh economy, the decline in oil prices to USD 30 per barrel would lead to a minor GDP growth in 2016-2017, due to a slower recovery in the domestic consumption, reduced government revenues and expenditures. Given that, it is expected that the process of dedollarization of the economy would slow down, the volumes of retail trade would decrease, prices for imported products would grow, conditions in foreign capital markets would deteriorate and the external demand would decrease.

The decline in oil price and low growth rates of GDP are most likely to lead to depreciation of the Tenge, thus causing a slower deceleration of inflation. As a result, a high risk of inflation going beyond the target band in 2016 (6-8%) would arise.

In these conditions, the monetary policy of the Republic of Kazakhstan would be contractionary. This would result in persistently high cost of funding in the money market.

The scenario of recovering oil prices was also reviewed; such developments would lead to a probable appreciation of the Tenge, low inflation and rapid recovery of the Kazakh economy in the medium term against the background of decreased dollarization and the growth in economic activity as opposed to the baseline scenario.

BASIC TERMS AND DEFINITIONS

Core Inflation – means the inflation which excludes transitory price changes subject to certain factors of administrative, event-related and seasonal nature.

Base Rate – is the target interest rate on the National Bank’s one-day operations in the money market.

Gross Fixed Capital Formation – is the growth in non-financial assets which have been used in the process of industrial production for a long time. Gross fixed capital formation includes the following components: a) acquisition, less retirement, of new and existing fixed assets; b) costs for major improvements of tangible produced assets; c) costs for improvement of tangible non-produced assets; d) expenses in connection with the transfer of title for non-incurred costs.

FX Swap – means a foreign exchange transaction which involves the concurrent purchase and sale of a certain amount of one currency in exchange of another currency with two different value dates. The National Bank’s FX swaps represent the instrument of provision of the Tenge liquidity on the overnight basis at a fixed interest rate against collateral in foreign exchange.

Gross Domestic Product is an indicator that reflects the market value of all final goods and services (i.e. designated for direct consumption) produced during a year in all sectors of the economy within the territory of the country for consumption, exports and saving, irrespective of the national identity of the used production factors.

GPIID – government program for industrial and innovation development of the Republic of Kazakhstan for 2015 – 2019. Was approved by the Presidential Decree of the Republic of Kazakhstan as dated August 1, 2014 No.874. The program is a part of Kazakhstan’s

industrial policy and is focused on developing the manufacturing industry with the concentration of efforts and resources on a limited number of sectors, regional specialization with the use of a cluster approach and effective industry-based regulation.

Money Base (Reserve Money) includes cash issued in circulation by the National Bank, other than cash at the cash departments of the National Bank (cash outside the National Bank), transferrable and other deposits of banks, transferrable deposits of non-bank financial organizations and current accounts of government and non-government non-financial organizations in the Tenge at the National Bank.

Money Supply (M3) is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of non-bank legal entities – residents and households in the domestic and foreign currency.

Dollarization of the Economy means the situation where a foreign currency (largely – the US Dollar) starts to be used for transactions within a country or in certain sectors of its economy, pushing out the domestic currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

Other Inflation Measures. According to the international practice, mainly two indicators are used as a measure of inflation: consumer price index and core inflation. Theoretically, the GDP deflator may be used. However, since the GDP deflator does not take into account the change in prices for imported goods, it is hardly used by any country as a measure of inflation. The most commonly used indicator of inflation

in the international practice is the consumer price index.

Central banks of the Euro zone countries as well as central banks of Canada, UK, Poland, Czech Republic, Thailand, and Indonesia use the consumer price index or its modifications (for example, the harmonized index of consumer prices in the Euro zone).

Inflation Measurement in Kazakhstan. In Kazakhstan, inflation is measured with the use of consumer price index. The Committee on Statistics of the Ministry of National Economy is monitoring and fixing prices in all regional centers and, on a selective basis, in regions of Kazakhstan.

Consumer Price Index (CPI) – the change in the overall level of prices for goods and services purchased by the population for consumption. The consumer basket of Kazakhstan for calculation of inflation reflects the structure of household expenditures and contains 508 goods and services which represent the largest portion in the consumption of population. The CPI is calculated as the ratio of the cost of a fixed set of goods and services in current prices and its cost in the prices of the previous (base) period. The index is calculated by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

In 2015, the share of foodstuffs in the CPI structure in Kazakhstan accounts for 36.4%, of non-food products – 32.2%, and of paid services – 31.4%.

Inflation – is an increase in the general price level of goods and services.

A stable and predictable inflation rate is required for a sustainable economic development. A high inflation rate has a negative impact on the investment activity, palling process at enterprises, production of goods and on the economy as a whole. In developed countries, the inflation rate does not exceed 3%; in developing countries

(corresponding to the level of their economic development) the inflation rate exceeds 6%.

Inflation Targeting – is a monetary policy regime which is oriented at achieving a target inflation rate.

The advantage of this regime is a clear identification of monetary policy goals as decreasing and stabilizing inflation at a low level. A precise orientation of the central bank at one target potentially increases confidence in the central bank on the part of markets. In addition, disinflation and effective maintenance of its rates at a low level eventually supports a stable economic growth.

Composite Indicator – is a generalizing indicator which is used to reflect short-term trends in the development of the real sector of the economy. Composite indicator as possessing the forward-looking feature is used to reflect a cyclical change and to identify turning points when recovery and downturns in the economy occur and change. A composite indicator is built on the basis of survey findings among enterprises which participate in the market research conducted by the National Bank.

Credit Auctions mean the National Bank's auctions for securities buy/sell back.

Minimum Reserve Requirements (MRRs) mean the mandatory share of bank's liabilities which the bank is to keep in the form of cash in its cash department and monies at the National Bank in the domestic currency (reserve assets). The volume of reserved liabilities of banks is regulated by the MRR ratios.

Nominal Anchor for Monetary Policy. It is a certain indicator including a macroeconomic indicator which helps the National Bank to influence the ultimate monetary policy goal.

With a view to regulate inflation, central banks influence those indicators which they can directly manage or the so-called nominal

anchors. For example, the money supply in the monetary targeting regime or exchange rate in the exchange rate targeting regime or short-term money market rates in the inflation targeting may serve as a nominal anchor. The choice of this or that “anchor” by a central bank depends on the specifics of the country’s economy and the existing system of the money market and financial market as well as a monetary policy regime.

Reverse Repo is the purchase of securities with the agreement to sell them at a specific price and at a specific future date. The National Bank conducts reverse repos with a view to provide the Tenge liquidity to banks against the pledge of securities in line with the National Bank’s list of collateral.

Open Market Operations are regular operations of the National Bank in the form of auctions for liquidity provision or withdrawal in the money market with a view to set interest rates around the base rate.

Standing Facilities refer to monetary policy instruments for adjustment of volumes of liquidity which resulted from the open market operations. Standing facilities are provided as part of bilateral arrangements where the National Bank is one party to the transaction. Such operations are conducted at the initiative of banks.

Transferrable Deposits refer to all deposits which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferable deposits represent a part of the narrow money.

Other deposits primarily include savings and time deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary

commercial transactions and, mainly, meet the requirements established for saving vehicles. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

Potential Output reflects the level of output in the economy that can be reached subject to full utilization of inputs and full employment. It reflects the volume of production which can be manufactured and realized without creating prerequisites for the change in the price growth rates.

Consumer Basket means a sample of goods and services which characterizes the standard level and the structure of monthly (annual) consumption of an individual or a family. Such sample is used to calculate the minimum subsistence level, based on the cost of the consumer basket in current prices. The consumer basket also serves as a comparative basis for estimated and real consumption levels and also as the basis to determine the purchasing capacity of currencies.

“Affordable Housing-2020” Program is the government housing program approved by the Governmental Decree of the Republic of Kazakhstan as dated June 21, 2012 No. 821 on approval of the “Affordable Housing-2020” Program. The Program is intended to solve the problems of developing the housing construction in a comprehensive way that will help further increase affordability of housing for the population.

“Roadmap of Business-2020” Program is the unified program for the support and development of business “Roadmap of Business-2020”. Was approved by the Governmental Decree of the Republic of Kazakhstan as dated March 31, 2015 No.168. The “Roadmap of Business-2020” Program was designed to implement the Message of the President of the Republic of Kazakhstan to the people of Kazakhstan “New Decade-New

Economic Upturn-New Opportunities for Kazakhstan” and the Strategic Development Plan of Kazakhstan till 2020. The Program’s goal is the post-crisis development, retention of existing jobs and creation of new jobs, ensuring a sustainable and balanced growth of regional entrepreneurship in non-energy sectors of the economy.

“Nurly Zhol” Program – the government infrastructure development program “Nurly Zhol” for 2015-2019, designed with a view to implement the Message of the President of the Republic of Kazakhstan to the people of Kazakhstan as dated November 11, 2014 “Nurly Zhol – a road to the future”. The Program is focused on building a common economic market via integration of the country’s macro-regions by building an efficient infrastructure on the hub basis to ensure a long-term economic growth of Kazakhstan; it is also focused on implementation of anti-crisis measures for support of certain sectors of the economy in the environment of deteriorating conditions in foreign markets.

Interest Rate Channel of the monetary policy transmission mechanism is the transmission mechanism channel which describes the impact of the central bank on the economy through the interest rate regulation.

Direct Repo is the sale of securities with the agreement to repurchase them at a specific price and at a specific future date. The National Bank conducts direct repos with a view to withdraw excess liquidity in the Tenge.

Free Floating Exchange Rate. According to the current classification of the International Monetary Fund, under the floating exchange rate framework a central bank does not establish any pegs including operating ones for the level or the change in the exchange rate, allowing the exchange rate to be determined by the market factors. In doing so, the central bank reserves the opportunity to periodically

intervene in the foreign exchange market in order to smooth the volatility of the domestic currency exchange rate or to prevent its dramatic changes as well as to ensure the financial system stability.

Output Gap (GDP Gap). Deviation in GDP expressed as a percentage of a potential output. Expresses the difference between an actual GDP and potential GDP for a certain time frame. Serves as an indicator which reflects the effectiveness of resources utilized in the country. If an actual output exceeds the potential one (a positive output gap), other things remaining equal, the trend of acceleration in the price growth rates would be anticipated because of the overheating of the economy. The presence of a negative output gap indicates an expected slowdown in the price growth rates due to low economic activity. Output fluctuations around its potential level reflect business cycles in the economy.

Real Exchange Rate refers to a relative price of a commodity produced in two countries: the proportion of commodity exchange between countries. The real exchange rate depends on the nominal rate, relation between exchange rates of currencies, and prices for goods in the domestic currencies.

TONIA Rate – (Tenge OverNight Index Average) represents a weighted average interest rate on one-day repo opening transactions made on the stock exchange with government securities in the automatic repo sector.

Monetary Policy Transmission Mechanism is the process, by which monetary policy tools influence final macroeconomic indicators such as the economic growth, inflation.

In the inflation targeting regimen, a central bank, as a rule, uses the inflation forecast as an operating target for the decision-making about the interest rate level. In general, the central

bank, with a view to control inflation, influences short-term rates which, in their turn, influence the cost of credit resources, investments, business activity and inflation. Assessment of inflationary expectations of the general public is an important element in achieving inflation goals.

If an expected inflation rate exceeds the inflation target in the medium term, the central bank makes the decision to increase the existing base rate.

As a rule, a short-term (in most cases, one-day) interest rate serves as the main operating monetary policy target. The National Bank regards an interest rate on one-day operations as its targeted rate.

At present, the National Bank, as part of its effort to implement the inflation targeting, is in the process of designing the system for modeling and forecasting of macroeconomic indicators, developing and improving monetary policy tools.

Narrow reserve money is the reserve money excluding other deposits of banks at the National Bank.

Factors Affecting Inflation. Inflation is a complex social and economic phenomenon which is influenced by multiple internal and external factors, including business activity level, output gap (the gap between actual GDP and its potential level), labor productivity, household cash income, employment rate, the degree of competition in the markets, adequate supply of goods and services, prices in the global commodity markets and other factors.

NDF – non-deliverable forwards used to hedge foreign exchange risks

LIST OF KEY ABBREVIATIONS

- GDP – Gross domestic product
 - EU – European Union
 - ECB – European Central Bank
 - OPEC – Organization of the Petroleum
- Exporting Countries
- CPI – consumer price index
 - PI – price index
 - VAT – value-added tax
 - USA – United States of America
 - CS MNE RK – Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan
 - KASE – Kazakhstan Stock Exchange
 - NBRK – National Bank of the Republic of Kazakhstan
 - RK – Republic of Kazakhstan
 - UN FAO – UN Food and Agriculture Organization
- Organization
- FRS – Federal Reserve System
 - MMI – Money Market Index
 - bln. - billion
 - mln. - million
 - thous. - thousand

EVOLUTION OF MONETARY POLICY INSTRUMENTS IN KAZAKHSTAN

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Lombard facilities																				
NBRK loans																				
Overnight loans																				
Commercial paper discounting																				
Refinancing loans																				
FX swaps																				
Reverse repo at the KASE																				
Reverse repo at the NBRK's trading platform																				
Purchase/sale of government securities																				
FX interventions																				
Direct repo at the KASE																				
NBRK's short-term notes																				
NBRK's deposits																				
Minimum reserve requirements																				



– operations on provision of the Tenge liquidity



– operations on withdrawal of the Tenge liquidity

ANNEX

Table 1

Interest Rates on the National Bank's Operations for Provision and Absorption of the Tenge Liquidity in 2016 (% pa)

Purpose	Instrument Type	Instrument	Collateral	Frequency	Timeframe for provision/ withdrawal	Rates (%)
						02.02.2016
Liquidity provision	standing facilities	currency swap at the KASE	US dollars	at banks' request	1 day	24
		reverse repo at the KASE	government securities	at banks' request	1 day	19
	open market operations	NBK auction for the purchase of securities with the reverse sale	Lombard List*	daily	1 day	auctionary rate of return
Liquidity withdrawal	open market operations	NBRK's notes ¹	-	once a week	1 month	auctionary rate of return
	standing facilities	NBRK's deposits	-	at banks' request	7 days	15
		direct repo at the KASE	government securities	at banks' request	1 day	15

¹ bids are satisfied in full at a discounted price which corresponds to the level of yield around the existing rate

*Bonds of Kazakhstani and foreign issuers denominated in the Tenge with the issuing rating equal to or higher than the sovereign rating of Kazakhstan under the rating scale of one of the leading rating agencies (Standard&Poor's, Fitch or Moody's). Corporate bonds of Kazakhstani and foreign issuers denominated in the Tenge with the issuing rating not below BB- under the scale of Standard&Poor's and/or Fitch, and/or the Ba3 rating under the scale of Moody's or higher.

Table 2

Monetary Aggregates in Kazakhstan

Date	Reserve Money		Money Supply		Cash	
	KZT mln.	%, YOY	KZT mln.	%, YOY	KZT mln.	%, YOY
01.01.14	2 861 003	4.2	11 882 162	13.2	1 397 708	-1.7
01.02.14	3 240 023	23.3	12 432 486	18.0	1 399 675	-0.7
01.03.14	3 408 022	11.9	12 796 182	15.5	1 319 887	-7.6
01.04.14	3 633 316	27.4	12 782 103	15.7	1 359 033	-5.6
01.05.14	3 595 581	18.3	12 921 548	14.2	1 397 801	-4.3
01.06.14	3 715 258	20.1	13 411 461	15.8	1 452 216	-4.7
01.07.14	3 859 730	24.1	13 424 662	14.9	1 439 601	-2.5
01.08.14	3 654 727	25.8	13 352 628	17.6	1 382 569	-5.8
01.09.14	3 753 134	34.9	13 466 829	16.5	1 369 299	-5.8
01.10.14	3 723 626	34.1	13 550 620	16.0	1 274 397	-11.4
01.11.14	3 414 322	30.8	12 973 924	14.4	1 221 633	-13.0
01.12.14	3 413 841	20.8	12 816 554	10.5	1 122 319	-25.8
01.01.15	3 109 020	8.7	12 403 086	4.4	1 035 712	-25.9
01.02.15	3 144 815	-2.9	12 287 224	-1.2	1 020 848	-27.1
01.03.15	3 287 005	-3.6	12 322 119	-3.7	1 037 126	-21.4
01.04.15	3 418 576	-5.9	12 266 760	-4.0	1 018 439	-25.1
01.05.15	3 644 795	1.4	12 533 824	-3.0	1 086 948	-22.2
01.06.15	4 191 185	12.8	13 082 850	-2.5	1 143 598	-21.3
01.07.15	3 871 600	0.3	12 938 179	-3.6	1 135 293	-21.1
01.08.15	4 307 271	17.9	14 391 689	7.8	1 186 211	-14.2
01.09.15	4 644 278	23.7	15 494 985	15.1	1 199 959	-12.4
01.10.15	4 678 045	25.6	15 775 290	16.4	1 201 559	-5.7
01.11.15	4 816 225	41.1	16 684 442	28.6	1 190 243	-2.6
01.12.15	4 750 422	39.2	17 207 454	34.3	1 236 973	10.2
01.01.16	4 722 030	51,9	17 697 095	42,7	1 174 178	13,4
01.02.16	4 566 189	45,2	17 428 774	41,8	1 237 519	21,2
01.03.16	4 993 159	51,9	17 787 740	44,4	1 302 768	25,6

Source: NBRK

Table 3

Price Indices in the Kazakh Economy

Date	Consumer Price Index, %		Food Price Index, %		Non-food Price Index, %		Services Price Index, %		Producer Price Index, %		Agricultural Producer Price Index, %	
	M/M	YOY	M/M	YOY	M/M	YOY	M/M	YOY	M/M	YOY	M/M	YOY
01.04.14	100.6	106.6	101.0	106.4	100.6	106.4	100.2	106.9	100.3	112.0	101.2	92.7
01.05.14	100.6	107.0	100.8	107.0	100.6	106.9	100.3	106.9	100.7	117.9	100.5	94.3
01.06.14	100.3	107.0	100.4	107.3	100.3	107.0	100.2	106.6	101.4	120.3	101.4	97.0
01.07.14	100.1	107.0	99.8	107.0	100.3	107.2	100.3	106.6	101.4	119.8	101.4	99.5
01.08.14	100.4	107.2	99.9	106.9	101.1	108.1	100.4	106.5	99.2	115.3	101.2	101.1
01.09.14	100.5	107.5	100.3	107.4	100.5	108.4	100.7	106.6	97.3	109.6	101.0	104.1
01.10.14	100.4	107.6	100.5	107.7	100.5	108.5	100.2	106.6	96.8	107.2	101.4	107.9
01.11.14	100.6	107.7	100.7	107.7	100.5	108.6	100.5	106.7	95.9	103.3	101.6	110.8
01.12.14	100.5	107.4	101.1	108.1	100.0	107.9	100.3	106.5	95.0	98.4	101.9	113.4
01.01.15	100.6	107.5	101.2	108.8	99.9	107.4	100.7	106.2	89.7	87.0	100.7	114.5
01.02.15	100.4	106.1	100.2	107.4	99.5	104.9	101.3	105.7	91.7	78.6	99.8	114.6
01.03.15	100.1	105.2	100.2	106.3	100.0	103.9	100.1	105.3	103.6	75.3	99.7	112.4
01.04.15	100.1	104.7	100.3	105.5	100.2	103.4	99.9	105.0	98.2	73.8	99.2	110.2
01.05.15	100.3	104.4	100.0	104.7	100.8	103.6	100.0	104.7	102.2	74.9	99.2	108.8
01.06.15	99.9	104.0	99.5	103.7	100.3	103.6	100.1	104.6	102.8	75.9	99.6	106.9
01.07.15	100.1	104.0	99.7	103.6	100.2	103.5	100.5	104.8	99.0	74.1	99.2	104.5
01.08.15	100.3	103.9	99.8	103.5	100.5	102.9	100.7	105.1	98.0	73.2	99.5	102.8
01.09.15	101.0	104.4	100.6	103.9	102.0	104.5	100.7	105.1	101.3	76.2	100.2	102.0
01.10.15	105.2	109.4	104.6	108.0	110.2	114.5	101.1	106.0	105.4	83.0	102.0	102.7
01.11.15	103.7	112.8	103.3	110.8	106.5	121.3	101.4	106.9	104.3	90.2	101.4	102.5
01.12.15	101.2	113.6	101.2	110.9	101.1	122.6	101.4	108.1	100.2	95.2	102.2	102.7
01.01.16	101.3	114.4	101,8	111,6	100,9	101,2	101,2	108,6	98,1	104,2	101,2	103,2
01.02.16	101.1	115.2	100,9	112,4	100,8	101,6	101,6	108,9	95,8	108,8	101,4	104,9
01.03.16	100.5	115.7	100,5	112,7	100,9	100,3	100,3	109,1	103	108,2	100,5	105,7

Source: CS MNE RK

Table 4

Labor Market

Items	2015				2016
	I	II	III	IV	I
Employment and unemployment					
Unemployment rate	5.0	5.0	4.9	5.0	5.0
The employed/unemployed ratio	18.9	19.1	19.5	18.9	18.6
Labor market index of the Real Sector Enterprise Monitoring (deseasonalized)*	55.1	66.4	63.8	60.3	56.8
Employed population (as % of the corresponding period of the previous year):					
Country total	-1.6	-0.9	-0.5	-1.6	0.2
Agriculture, forestry and fishery	-25.1	-19.6	-14.4	-19.1	-4.3
Industry	8.7	4.5	3.1	2.4	0.1
Mining industry and quarry operations	13.7	14.3	11.5	9.1	-3.8
Manufacturing industry	4.6	-0.6	-3	-0.3	5.1
Construction	-4.2	-0.2	1.6	-3.8	1.0
Wholesale and retail trade; repair of bicycles and motorcycles	1.8	-2.9	-6.1	-0.6	0.1
Transport and warehousing	-4.3	-2.2	-2.1	6.2	1.7
Information and communication	13.3	9.6	28.3	13.1	5.2
Real estate operations	-19.3	-4.1	-20.5	-14.9	3.2
Public administration and defense; compulsory social security	17.6	15.2	9.6	12.7	1.4
Education	5.9	7.9	6.5	6.1	4.0
Public healthcare and social services	5.5	2.3	0.2	-3.7	2.1
Salaries and wages (as % of the corresponding period of the previous year)					
Nominal wages	9.1	2.9	2	3.8	11.9
Real wages:					
Country total	2.7	-1.4	-1.9	-7.2	-2.7
Agriculture, forestry and fishery	3.2	1.3	4.4	-7	-8.9
Industry	9.6	-2.1	-0.7	-6	-5.6
Mining industry and quarry operations	15.8	-3.6	0.3	-4.4	-3.9
Manufacturing industry	3.8	-2	0	-6.2	-4
Construction	1.8	-2	3	-1.9	2
Wholesale and retail trade; repair of bicycles and motorcycles	2.5	2.6	0	-4.7	-7.6
Transport and warehousing	2.8	-2.2	-4.5	-11.9	-9.5
Information and communication	6.1	0.8	-1	-7.8	-3.2
Real estate operations	3.3	-0.8	-1.5	-3.1	1.1
Public administration and defense; compulsory social security	-6.1	-3.3	-3.2	-8.1	-4.9
Education	1.9	3.3	-4.2	-7.3	4.1
Public healthcare and social services	4	-0.3	-0.9	-8.4	-1.3

* - The indicator is calculated on the basis of a survey among the CEOs of the real sector enterprises. The value of the indicator shows the share of enterprises in the sampling frame where the number of the employed had not decreased

Table 5

Deposits and Credits to the Economy

	01.04.2015	01.07.2015	01.10.2015	01.01.2016	01.04.2016
Deposits with depository institutions (by sectors and currencies), KZT bln. at month-end					
Deposit volumes	11 285.0	11 939.3	14 295.0	15 970.5	16485.0
out of the total deposit amount					
relative share in the domestic currency, %	0.47	0.50	0.36	0.31	0.37
relative share in foreign currency, %	0.53	0.50	0.64	0.69	0.63
out of the total deposit amount					
relative share of non-bank legal entities, %	0.62	0.64	0.60	0.57	0.58
relative share of individuals, %	0.38	0.36	0.40	0.43	0.42
Weighted average interest rates of banks on attracted deposits, %, for a month					
in the domestic currency	11.89	6.92	11.17	19.13	13.57
in foreign currency	2.52	3.07	2.85	2.44	2.58
Loans in banks (by sectors and currencies), KZT bln., at month-end					
Volume of bank lending	12 045.4	10 711.5	11 834.1	12 674.2	12486.5
Weighted average interest rates of banks on provided loans, %					
total	15.7	13.6	14.1	13.9	14.3
in the domestic currency	18.2	14.9	15.0	16.3	18.1
in foreign currency	8.0	8.1	7.5	7.7	7.7

Table 6

Balance of Payments of the Republic of Kazakhstan
(USD mln.)

	2014			2014	2015			
	2 Q	3 Q	4 Q		1 Q	2 Q	3 Q	4 Q
Current Account	477.8	-1093.4	-68.3	5994.0	-125.3	-2251.71	-1799.0	-1647.2
Trade balance	8445.8	7789.6	6090.0	36698.7	4247.9	3369.5	2778.7	2252.9
Exports	19778.0	19848.8	17554.9	80281.5	12144.3	12637.0	11372.8	10140.2
Imports	11332.3	12059.2	11465.0	43582.8	7896.4	9267.4	8594.1	7887.3
Balance of services	-1622.2	-1728.6	-1701.1	-6354.3	-1080.5	-1199.2	-1518.1	-1573.0
Exports	1649.5	1749.6	1775.7	6571.1	1476.0	1551.4	1730.9	1722.1
Imports	3271.7	3478.2	3476.8	12925.4	2556.5	2750.6	3248.9	3295.1
Balance on primary income	-5961.2	-6686.4	-3893.8	-22658	-3005.6	-3664.74	-2663.9	-2181.0
Payroll (net)	-436.5	-451.8	-467.1	-1793.0	-423.2	-416.3	-433.6	-393.5
Investment returns	-5559.6	-6269.5	-3461.7	21004.6	-2617.4	-3283.3	-2265.2	-1822.5
Income payable	498.9	433.4	453.6	1892.3	509.5	465.04	432.7	436.1
Returns on direct investments	36.8	25.2	40.3	127.0	57.9	82.6	85.5	89.8
Returns on portfolio investments	309.0	270.0	278.0	1183.0	296.4	271.2	236.7	231.1
Returns on other investments	153.1	138.1	135.3	582.4	155.2	111.2	110.5	115.1
<i>incl. interest on the National Fund's reserves and assets</i>	321.7	273.0	258.7	1176.8	264.9	276.3	249.3	236.9
Income payable	6058.6	6702.9	3915.2	22897.0	3126.9	3748.38	2697.9	2258.6
Returns on direct investments	5266.8	5790.9	3201.7	19744.4	2454.7	2943.3	1880.8	1564.2
Returns on portfolio investments	370.6	567.5	376.2	1667.1	341.6	465.6	485.6	348.6
Returns on other investments	421.1	344.5	337.4	1485.5	330.7	339.4	331.5	345.8
Other primary income (net)	34.9	34.9	34.9	139.8	34.9	34.9	34.9	34.9
Balance on secondary income	-384.5	-468.0	-563.4	-1692.4	-287.1	-757.3	-395.7	-146.0
Capital account balance	2.9	2.2	8.3	29.3	-3.6	44.3	3.6	87.3

Source: NBRK

Table 6
(cont.)

Balance of Payments of the Republic of Kazakhstan
(USD mln.)

	2014			2014	2015			
	2 Q	3 Q	4 Q		1 Q	2 Q	3 Q	4 Q
Financial Account (excl. the NBRK's reserve assets)	-1663.5	-4639.2	-2879.7	-6797.8	-2574.7	-1637.5	-3401.6	-2997.1
Direct investments	-1391.2	-3633.4	2900.6	-4717.4	-1437.6	229.2	-1441.8	-754.6
Net acquisition of financial assets	476.4	414.5	2190.7	2333.4	1120.0	874.4	297.7	917.6
Net incurred liabilities	1867.5	4047.9	-709.9	7050.7	2557.7	645.3	1739.5	1672.3
Portfolio investments	239.7	1947.0	-5462.4	1037.8	-797.6	-1270.4	-5173.8	1363.5
Net acquisition of financial assets	2527.2	1908.7	-2001.8	6472.7	-2115.6	-2667.3	-1581.2	-3148.8
Government of Kazakhstan and the National Bank of Kazakhstan	3091.0	1561.5	-1960.6	6799.7	-1529.5	-2531.8	-1619.1	-2678.0
Banks	-158.7	44.6	-13.1	-218.5	-632.2	-36.3	7.0	-158.3
Other sectors	-405.1	302.6	-28.0	-108.5	46.1	-99.2	30.9	-312.6
Net incurred liabilities	2287.4	-38.3	3460.6	5434.9	-1318.0	-1396.9	3592.6	-4512.3
Government of Kazakhstan and the National Bank of Kazakhstan	0.0	0.0	1982.1	1969.6	47.8	-122.5	3495.1	-63.3
Banks	-220.5	57.8	-348.9	-809.9	-51.7	-121.3	-55.7	-643.7
Other sectors	2507.9	-96.1	1827.4	4275.2	-1314.1	-1153.2	153.1	-3805.3
Derivatives (net)	29.7	-66.8	-42.9	-37.1	-137.5	58.3	-62.0	25.8
Other investments	-541.7	-2886.0	-275.0	-3081.1	-201.9	-654.6	3275.9	-3631.8
Equity participation instruments (net)	1.1	2.7	4.6	210.7	26.9	-0.5	0.6	59.5
Medium-and long-term instruments	-509.3	-468.2	-711.1	-2539.1	-1427.9	-791.0	515.3	-2555.6
Net acquisition of financial assets	-99.4	-422.6	589.4	369.2	-1996.5	222.3	-425.4	-244.6
Net incurred liabilities	409.9	45.6	1300.5	2908.3	-568.6	1013.3	-940.7	2310.9
Short-term debt instruments	-33.5	-2420.5	431.4	-752.7	1199.1	137.0	2760.0	-1135.7
Net acquisition of financial assets	644.5	-2210.2	960.1	455.3	-10.2	-81.0	2310.8	-1079.1
Net incurred liabilities	678.0	210.2	528.7	1208.0	-1209.4	-218.0	-449.2	56.6
Errors and omissions	-2616.9	-1378.5	-1524.2	-8566.3	-1935.5	-49.0	-2325.1	-1373.2
Overall balance	472.7	-2169.5	-1295.5	-4254.9	-510.4	618.9	719.0	-64.1
Financing	-472.7	2169.5	1295.5	4254.9	510.4	-618.9	-719.0	64.1
NBK's reserve assets	-472.7	2169.5	1295.5	4254.9	510.4	-618.9	-719.0	64.1
IMF credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exclusive financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: NBRK