NATIONAL BANK OF KAZAKHSTAN

Inflation Report

The Fourth Quarter of 2015

Almaty, Kazakhstan

CONTENTS

FOREWORD

The main objective of the National Bank of the Republic of Kazakhstan is to ensure the price stability in the Republic of Kazakhstan.

Ensuring the price stability means achieving and keeping a stable and fairly low inflation based on the existing level of macroeconomic development.

In the fourth quarter of 2015, the development of Kazakhstan's economy was impacted by unfavorable external and internal factors. In the environment of excessive supply of oil, prices in the global markets continued to fall having reached their minimum value since December 2008. Furthermore, the increased policy interest rate of the US Federal Reserve System made additional pressure on the situation, giving impetus to the overflow of financial resources from developing markets to the markets of developed countries.

In these conditions, in the environment of flexible exchange rate regime the domestic currency was devaluating further. Money market rates remained volatile reflecting devaluation expectations.

Amidst unfavorable external developments, in November 2015 the National Bank changed its approach to the monetary policy implementation and minimized its participation in the foreign exchange market. Actions were aimed, first of all, at stabilizing the situation in the foreign exchange market and limiting the overflow of resources from the money market to the foreign exchange market.

This objective had been met by the end of 2015. The National Bank resumed monetary policy operations for liquidity provision and the share of the National Bank's participation in the money market increased.

The effect of the exchange rate pass-through to inflation was realized in the fourth quarter of 2015, when inflation was at 10.4%, accounting for over 75% of the price growth throughout 2015.

Insignificant inflation in December 2015 (1.2%) which corresponds to the usual historical trend is an evidence of a short-term influence of the Tenge depreciation on inflation. In future, according to our estimates, the monthly inflation pattern will be of a damped nature.

However, high monthly inflation rates in October-November 2015 will be reflecting in the annual inflation till the end of the third quarter of 2016. By the end of 2016, the annual inflation will slow down significantly and will come close to the upper boundary of the inflation target of 6-8% in 2016.

In the long term, the prospects of increased inflationary background in the economy are minimal.

With a view to ensure the price stability, the National Bank will be taking monetary policy measures which will help keeping the inflation within the target band of 6-8%.

In the medium term, the National Bank intends to bring the inflation down to 4% by the year 2020.

I. MACROECONOMIC ENVIRONMENT AND THE FINANCIAL SECTOR DEVELOPMENT

1. EXTERNAL MACROECONOMIC ENVIRONMENT

In the fourth quarter of 2015, the pricing environment in the global commodity markets was following the trends unfavorable for oil, metals and food exporting countries and associated with the excessive supply of these products as well as with deterioration of the economic situation in the consuming countries, especially in China.

Positive changes in the US economy enabled increasing the policy interest rate of the US Federal Reserve System in December 2015. The US Dollar appreciation improved the terms of trade for the EU countries as a result of depreciation of the Euro exchange rate. Along with incentives implemented by the ECB and the declining world energy prices, the economic situation in the EU has been gradually improving.

In the third quarter, the downturn in Russia's economic growth slowed due to some increase in net exports, and reduced rates of decrease in the gross fixed capital formation. In the fourth quarter of 2015, the trend of decreasing annual inflation outlined in Russia as compared to the corresponding period of the previous year. Along with that, the declining prices of exported goods and economic sanctions against Russia keep creating an unfavorable background for one of the main trading partners of Kazakhstan.

Weakened domestic and external demand, low investment level, redundant production capacities slow the economic growth of China and contribute to low inflation in the country. With a view to encourage business activity, the Central Bank of China lowered its policy interest rate to the historical minimum and also reduced reserve requirement ratios.

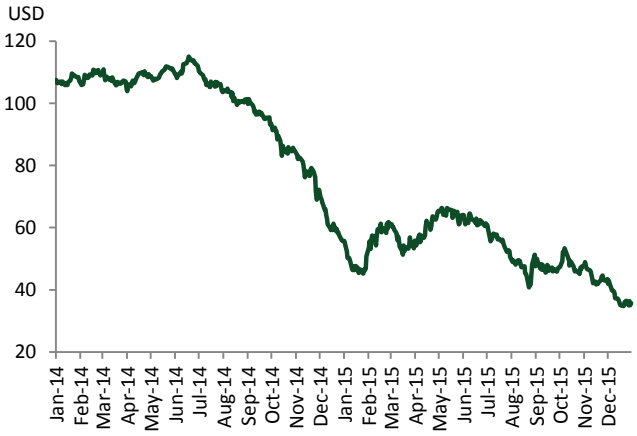
Thus, during the third and the fourth quarters of 2015, the situation in the international commodity markets was creating mainly an unfavorable external economic environment for Kazakhstan's economy and led to deterioration in the terms of trade. The aggregate effect of external indicators may be characterized as the one which slows the economic growth and accelerates inflation in Kazakhstan.

1.1 Situation in the Global Commodity Markets

The excessive supply of oil in the global markets remained as the main factor for the oil price behavior in the fourth quarter of 2015. The oil price continued to fall in October-December 2015 (Figure 1). The production level in large oil producing countries remains high. American slate production companies appeared to be more sustainable than it was expected. The US abolished the embargo for crude oil exports. The anticipated resumption of production in Iran increased the imbalance in the oil market.

Concerns about a further slowdown in the growth rates of the Chinese economy exacerbated by the stock market collapse represent yet another factor of pressure on the prices. As a result of the impact made by all

Figure 1. Oil prices (Brent)



Source: Bloomberg

factors the price of oil remained at about USD 30 per barrel. There are different forecasts regarding its future behavior. The Energy Information Administration of the US Department of Energy downgraded its previous oil price forecast by over 20%.

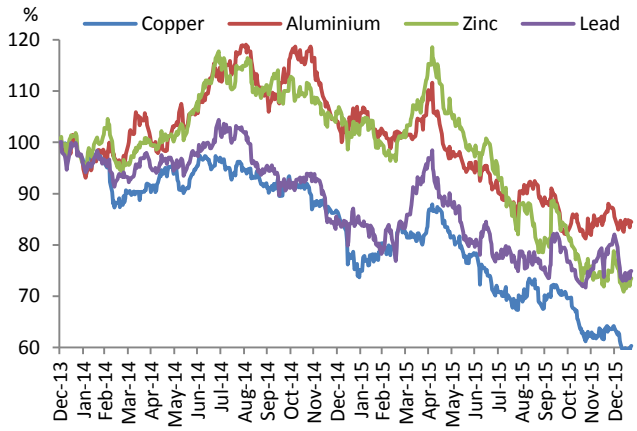
In the metals market, the downward trend is persisting virtually for all positions (Figure 2). The main reasons for that are the decreasing growth rates in developing countries. So, reduced business activity in the manufacturing industry of China causes the decline in the demand for metals. The excessive supplies of metals to the markets over a period of several years result from low interest rates which enable low-margin industrial companies to continue production and supply. The US Dollar depreciation due to a further increase in the Fed's policy interest rate may also result in an outflow of finances from the mineral commodity markets. Expectations about the decreasing growth rates in China may be conductive to the persisting downward trend in the metal market.

The downward trend is also observed in the foodstuffs market (Figure 3). The FAO (UN's Food and Agriculture Organization) Index continues to gradually go down, which is caused by plentiful supplies of foodstuffs amidst reduced global demand and the US Dollar appreciation.

The decline in the grain index was affected by the expectation about growing supplies to the global markets after cancellation of export duties for wheat in Argentina, by the increased competition and decreased international demand for other grain cultures.

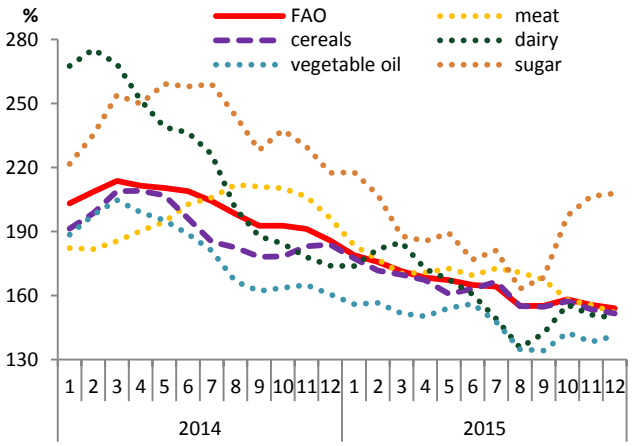
US Fed's Policy Interest Rate Band in December 2015 was increased to 0.25-0.50 per cent (Figure 4). Indicators of the economic growth and the employment level in the US have a positive trend. In these conditions, the inflation rate will be the determining factor for the speed of interest rate increases in future. At the same time, less favorable prospects for

Figure 2. Metals Price Index



Source: Bloomberg

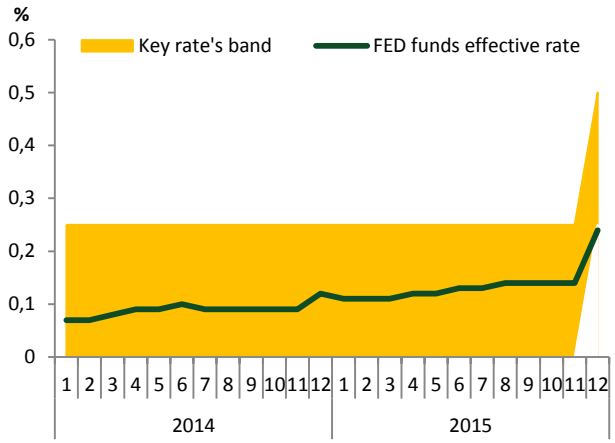
Figure 3. FAO Index



Source: UN FAO

developments in developing countries and in the global markets may be the reason for slowing the speed of interest rate increases.

Figure 4. US Rates



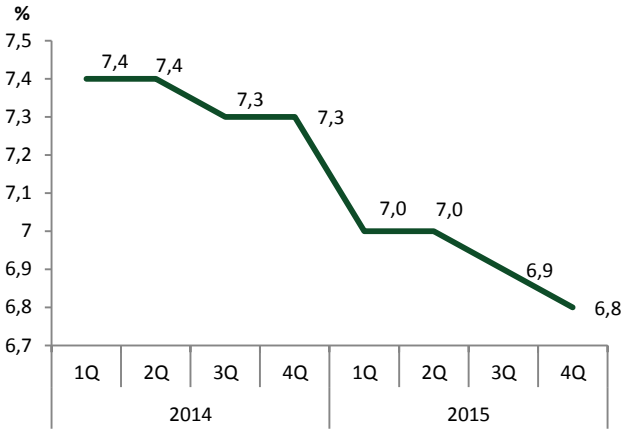
Source: Reuters

1.2 Economic Situation in Countries-Kazakhstan's Trading Partners

1.2.1 China

In China, the GDP growth rates continue to slow down (Figure 5), being associated with a slack domestic and external demand, insufficient investments, and redundancy of production capacities. Moreover, this is related to the transition to a new development model which, according to the Chinese authorities, would be able to ensure a more balanced growth of the economy based on the domestic consumption. The GDP growth in the fourth quarter, according to the preliminary data, accounted for 6.8%.

Figure 5. China's Real GDP Growth, YOY

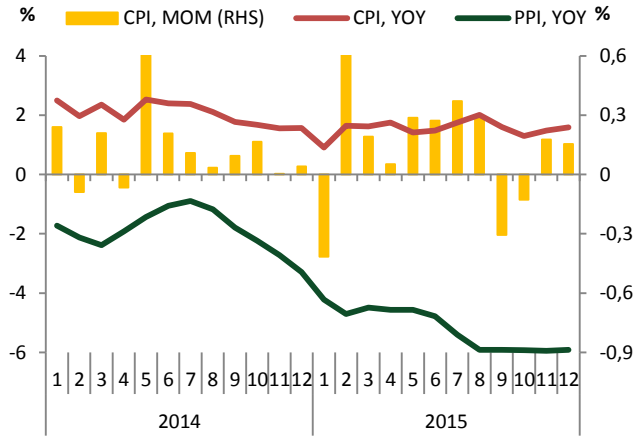


Source: Bloomberg

In China, inflation is well below the target of 3% set by the government for the past year. Low inflation was driven, mainly, by slowing pace of growth of the economy (Figure 6). The decline in foodstuff prices because of the decline in energy prices serves as a main reason for the decrease in the consumer price index (CPI).

In China, the producer price index (PPI) which reflects the change in wholesale prices for goods and services was declining every month by 5.9% in annual terms during the fourth quarter.

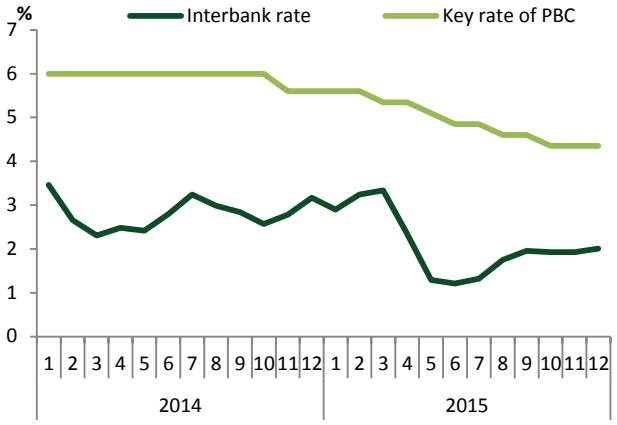
Figure 6. Inflation in China



Source: National Bureau of Statistics of China

In October 2015, the Central Bank of China lowered its policy interest rate (on one-year loans) to 4.35% to "encourage a stable and even development of the real sector" (Figure 7). Before that, in September reserve requirements were lowered by 50 basis points to 18% for the majority of banks.

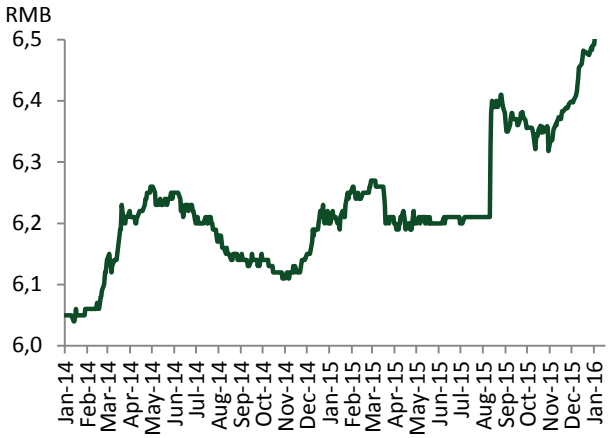
Figure 7. China's Rates



Source: Reuters

After the change in the exchange rate policy by the Central Bank of China implying that it will be set up by the market, the exchange rate of the Yuan was demonstrating gradual depreciation in November and December. The main reason for that was the capital outflow which increased after the central bank's statement about pegging the Yuan to a broad basket of currencies and not to the US Dollar (Figure 8).

Figure 8. RMB/USD Exchange Rate



Source: Reuters

1.2.2 European Union

The economic situation in the EU is gradually improving (Figure 9). Low oil prices in the global markets, a weak Euro versus the US Dollar, low interest rates as well as the quantitative mitigation program stimulate the economic growth in the EU. In the third quarter of 2015, the real GDP increased by 1.9%. However, the downside risks for the economic growth rates in Europe still persist, including those related to the downturn in China and other developing economies; this, in its turn, negatively affects the global trade. Apart from that, the increasing geopolitical tension along the European borders may have a potential of an adverse effect on the economic growth. The existing growth rates are expected to remain in

Figure 9. EU's Real GDP Growth, YOY

Source: Eurostat

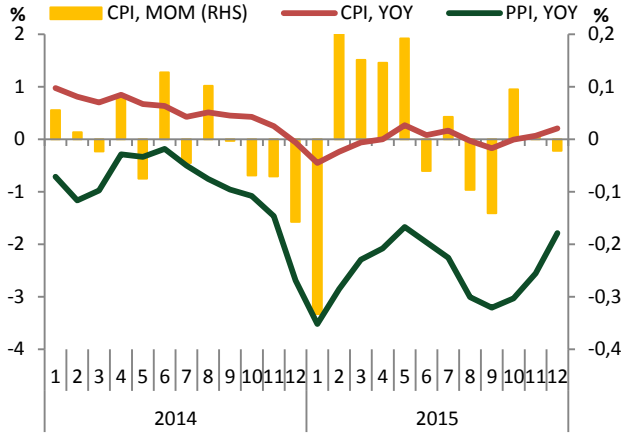
future, being brought about by the ECB's intentions to continue pursuing expansionary monetary policy.

Inflationary processes in the European Union in annual terms remained weak positive in November and December 2015 (Figure 10). However, deflation risks which were observed in a number of European countries in autumn still exist.

The downward pressure on prices is put by such factors as the declining cost of energy-intensive goods and services because of cheapened energy commodities.

Low oil prices are also likely to defer acceleration of inflation in future.

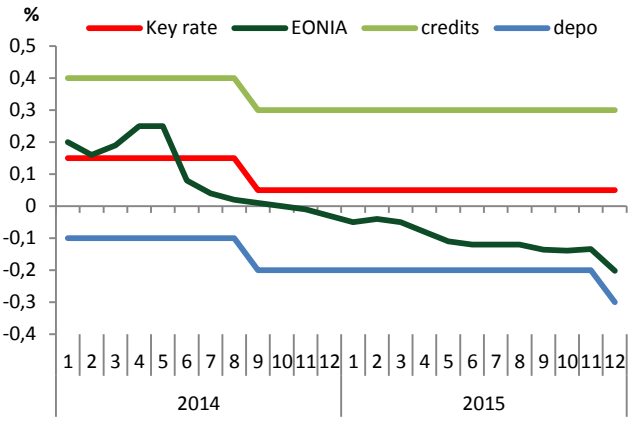
Figure 10. Inflation in EU



Source: OECD

Due to moderate signs of recovery, the **ECB's refinancing rate was** left unchanged at 0.05% based on its meeting in October (Figure 11). In December 2015, the ECB extended the quantitative mitigation program and also reduced the deposit rate to (-)0.3%, while trying to maintain the economic growth and keep the inflation in the environment of falling oil prices. Besides, the ECB intends to consider a new stimulus package in future.

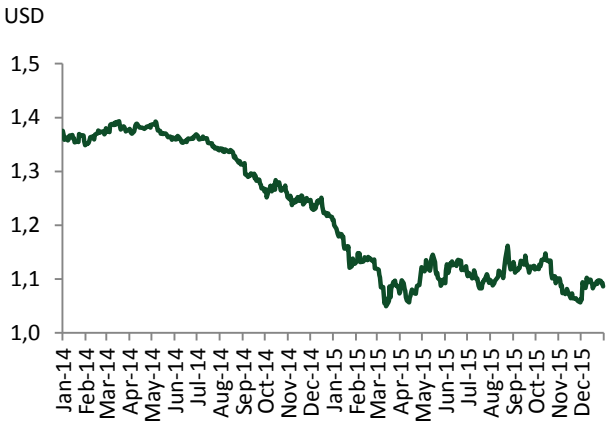
Figure 11. EU Rates



Source: Reuters

In the fourth quarter of 2015, **the Euro exchange rate** notably depreciated. While during the previous quarter the European currency remained stable moving within 1.08-1.16 versus the US Dollar (0.4% depreciation), the Euro had depreciated by 2.8% in the reviewed period being within the band of 1.06-1.15 (Figure 12). The US Fed's intentions to increase its interest rates served as the main factor for depreciation of the Euro in October-November 2015.

Figure 12. Euro/USD Rate



Source: Reuters

1.2.3 Russia

In Russia, recession processes are continuing but the decline in the economic

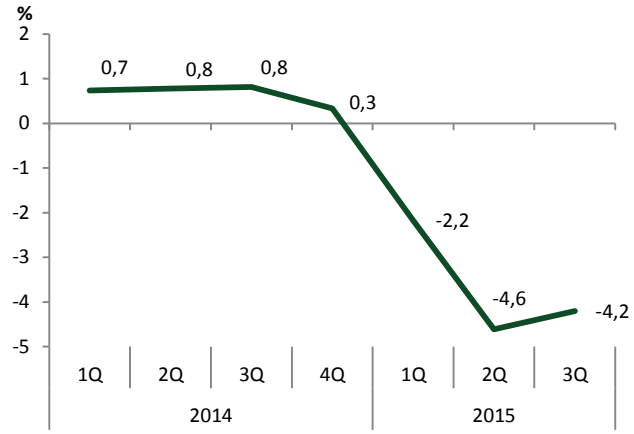
growth in the third quarter slowed down (Figure 13). This was caused by a minor increase in the annual growth rates of net exports and the reduced rates of decline in gross fixed capital formation during the third quarter of 2015 as compared to the previous quarter. The declining household consumption, investment demand and stocks once again acted as negative factors which continued putting pressure on the economic growth in Russia. All of them were occurring in the environment of persisting negative foreign economic conditions including low oil prices and economic sanctions imposed by the US and the EU countries, depreciation of the Russian ruble and high values of the key rate of the Bank of Russia. The economic downturn in Russia is expected to slow down in the nearest term.

The annual inflation in Russia continues to demonstrate high rates (Figure 14). Inflation risks are associated with a negative impact of continuing depreciation of the ruble and a further deterioration in external economic conditions.

Nonetheless, its downward trend outlined in the fourth quarter of 2015. Being influenced by the decreased consumer demand and a moderately tight monetary policy, during October-December 2015 the monthly inflation was demonstrating the rates below 1%. All of these factors, coupled with the "high base effect" enabled the annual inflation to be at 12.9% at the end of 2015 and to end up with the persisting downward trend. If the current trends persist, the inflation in Russia will continue decelerating in the future period. So, according to the forecasts made by the Bank of Russia annual growth rates of consumer prices should reach 6% by the end of 2016, and 4% - by the end of 2017.

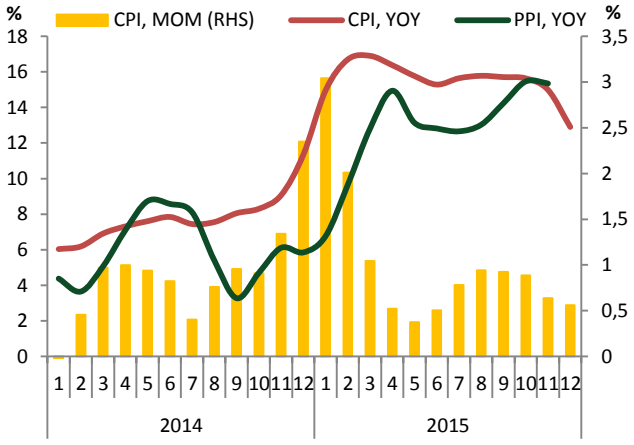
During the fourth quarter of 2015, there were no changes of interest rates in the Russian market (Figure 15). The Board of Directors of the Bank of Russia, based on its meeting of December 11, 2015 retained the key rate at 11%, explaining such decision by increased inflation risks with the persisting risks

Figure 13. Russia's Real GDP Growth, YOY



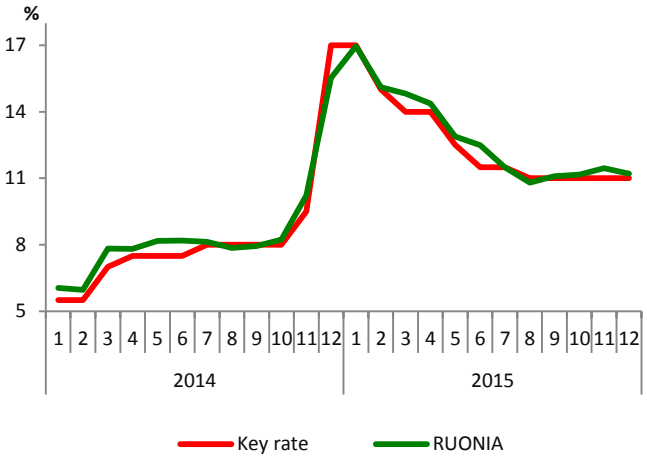
Source: Rosstat

Figure 14. Inflation in Russia



Source: Rosstat

Figure 15. Russia's Rates



Source: Reuters

of a further economic downturn. In a longer term, if inflation risks diminish and once the price growth rates in the economy slowdown in line with the forecasts of the CBR, it's quite probable that the key rate would be lowered.

During October-December 2015, amidst the fall in oil prices below the multi-year low, the Russian ruble was depreciating (Figure 16). So, by the beginning of 2016 as compared to September 2015, the nominal exchange rate of the Russian currency lost 15% of its value versus the US Dollar against the 20% decline in oil prices. Oil quotations significantly affect the terms of trade but they do not determine the depreciation pattern of Russia's domestic currency versus the US Dollar to the full extent.

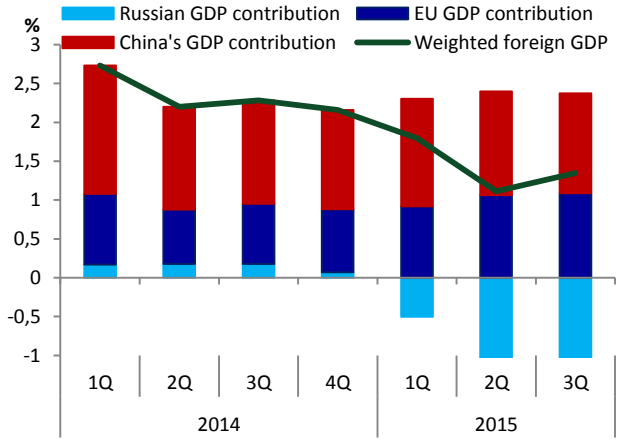
Weighted external GDP which is calculated on the basis of Kazakhstan's international trade structure and which characterizes the demand for Kazakhstan's exports had demonstrated a weak growth during the third quarter of 2015 versus the previous quarter (Figure 17). This happened because of a smaller decline in Russia's real GDP and a larger growth of EU's real GDP in the third quarter of 2015 versus the second quarter of the same year. Despite insignificant growth in the weighted external GDP, the impact of the economic growth in countries-main trading partners on the growth of economy in Kazakhstan is positive.

Growth in the weighted external food price index calculated for Kazakhstan's trade with main trading partners contributes to acceleration of inflation in Kazakhstan (Figure 18). In the fourth quarter, this index slightly decreased. At the same time, inflation in the EU and China similarly to the previous period remained low and it does not have a significant impact on the domestic inflation. The weighted external CPI decreased because of the slowing price growth rate in Russia in the fourth quarter. However, the annual inflation in Russia remains high. In general, just as in the previous period, the overall external contribution to inflation in Kazakhstan is conductive to its acceleration.

Figure 16. RUB/USD Exchange Rate

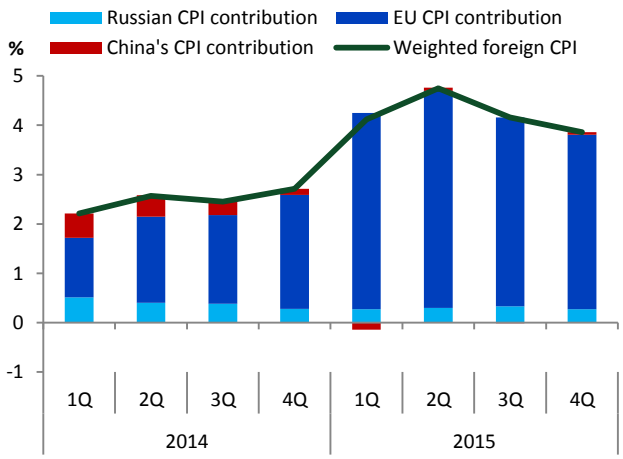
Source: Reuters

Source 17. Weighted External GDP, YOY



Source: NBRK's derivations

Figure 18. Weighted External CPI



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 fourth quarter of 2015, the situation in the money market was characterized by high volatility.

On October 2, 2015, the National Bank, with a view to bring down inflation expectations, increased its base rate to 16% and narrowed the interest rate band to ±1 pp. The decision to narrow the band was also aimed to ensure better management of interest rates and to enhance their role in order to achieve the inflation target. In general, in October 2015 the short-term liquidity of market participants was regulated mainly through transactions in the automatic repo sector at the Kazakhstan Stock Exchange.

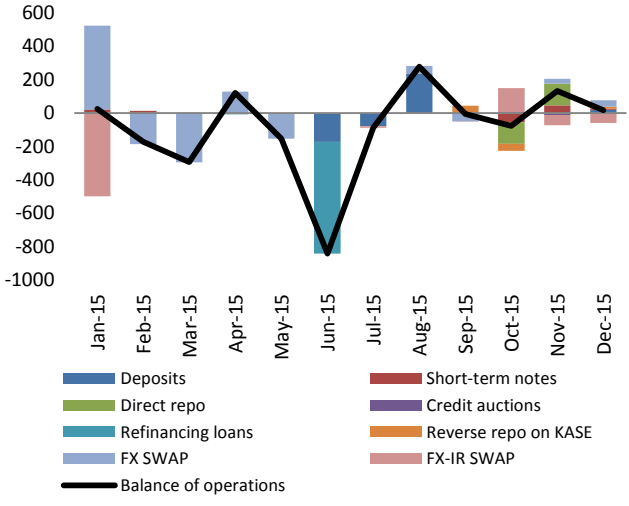
In November-December 2015, the situation in the external sector had deteriorated. Declining oil prices, depreciation of currencies of Kazakhstan's main trading partners amidst the expected increase in the Fed's rate were conductive to depreciation of the Tenge.

In November 2015, the National Bank changed its approaches to the monetary policy implementation and minimized its participation in the foreign exchange market. To stabilize the situation, the National Bank retreated from its earlier commitments to maintain the interest rate band within a certain range since its existence suggested the unconditional provision or withdrawal of liquidity at the boundaries of the interest rate band.

In November-December 2015, the interest rate policy of the National Bank was aimed to prevent an unjustified overflow of resources from the money market to the foreign exchange market. The National Bank reduced the volumes of provided systemic liquidity while covering short-term liquidity gaps only (Figure 19). The National Bank was withdrawing liquidity through direct repos and FX swaps overnight at the stock exchange.

From mid-September to mid-December 2015, interest rates in the money market remained relatively stable.

Figure 19. NBRK's Operations in the Domestic Market



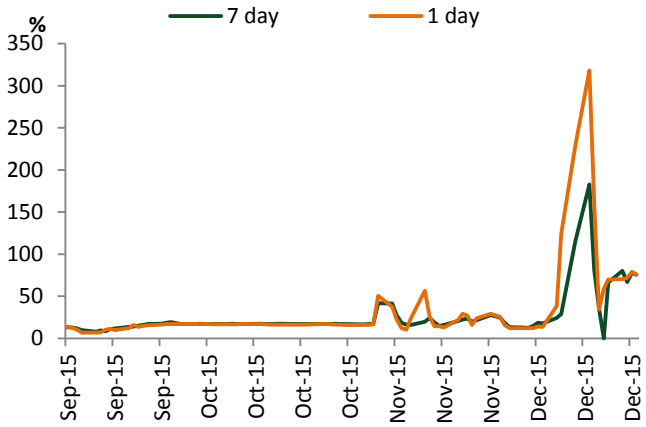
Source: NBRK

The depreciation of the Tenge exchange rate in the foreign exchange market against a limited supply of the Tenge liquidity resulted in the growth in the money market rates by mid-December. The money market rate - TONIA increased from 17.0% on October 1, 2015 to the maximum value of 318.44% (Figure 20). In the fourth quarter, the weighted average TONIA rate was 33.73%.

The MM Index (Money market index) was 39.92% on average in the fourth quarter with the maximum of 350.36% (Figure 21). The increased volatility of market interest rates reflected the market's response to the change in the nature of the National Bank's monetary policy.

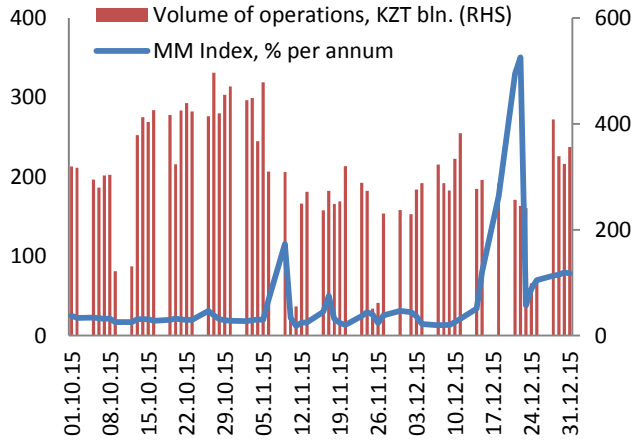
The restored balance in the domestic foreign exchange market such that the Tenge exchange rate started to be setting up under the impact of fundamental factors enabled the National Bank to increase its presence in the money market. From December 24, 2015 the National Bank significantly increased the volumes of operations in the money market. The National Bank started to supply banks with the short-term Tenge liquidity in a sufficient volume.

Figure 20. Daily Repo Rates



Source: KASE

Figure 21. Ghanges in the MMI and the Volume of Transactions



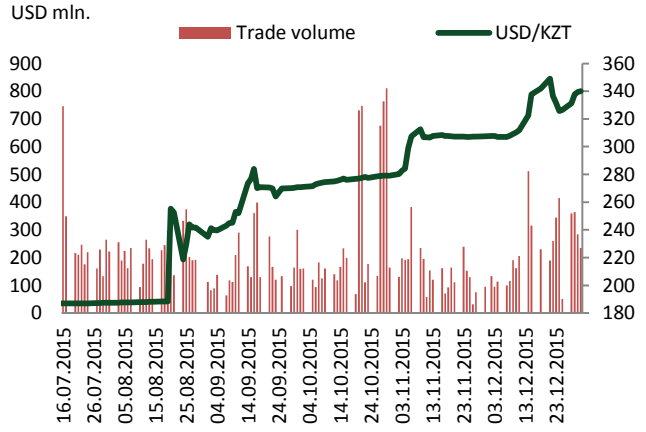
Source: KASE

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

In the fourth quarter of 2015, in the environment of continuing decline in oil prices and depreciation of the Russian ruble and the Chinese Yuan, expectations about devaluation of the Tenge persisted. The foreign exchange market was experiencing significant pressure driven by the increased speculative demand for the US Dollars on the part of the market participants.

In October 2015, the exchange rate of the Tenge versus the US Dollar demonstrated gradual depreciation and was fluctuating within the range of KZT270-280 per 1 USD. (Figure 22). With a view to smooth dramatic exchange rate fluctuations, in October 2015 the National Bank was selling foreign currency thus satisfying the

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



Source: KASE

arising speculative demand.

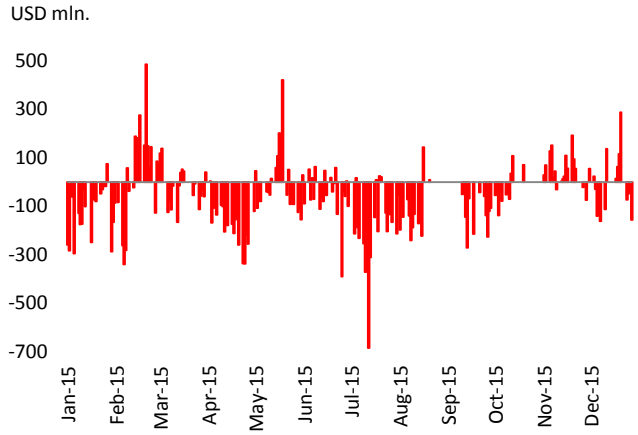
With an aim to preserve its gold and foreign exchange reserves, from November 2015 the National Bank reduced its participation in the foreign exchange market. The market was given an opportunity to determine the Tenge exchange rate on its own, subject to the existence of fundamental factors such as world oil prices and the behavior of the world currencies' exchange rates.

On the whole, after a dramatic depreciation of the Tenge exchange rate at the beginning of the month in November 2015 its behavior demonstrated stability and the exchange rate was about KZT 303 per 1 USD.

A further decline in oil prices, depreciation of currencies of oil exporting countries and Kazakhstan's main trading partners in December 2015 increased the demand for foreign currency in the domestic market. A minor supply of foreign exchange, including on the part of the National Bank, resulted in a further depreciation of the Tenge. In the absence of exchange rate benchmarks, the market participants tried to determine its maximum value. Having reached the maximum of KZT 349.1 per 1 USD, the Tenge exchange rate bounced back to KZT 325.8 per 1 USD and, while demonstrating certain fluctuations, it virtually reached the fundamentally justified level.

The National Bank's participation in the foreign exchange market was aimed to smooth big exchange rate fluctuations which do not reflect the relation between the demand and supply and the influence of fundamental factors, without impacting the overall trend (Figure 23).

Figure 23. NBRK's Interventions



Source: NBRK

2.1.3 Deposit Market

In the fourth quarter of 2015, in the environment where the Tenge depreciation rates were accelerating, the extent of deposit dollarization increased and interest rates on the Tenge deposits increased, too. From September 2015, the growth rate of attraction of short-term (less than 1 month) deposits in the Tenge

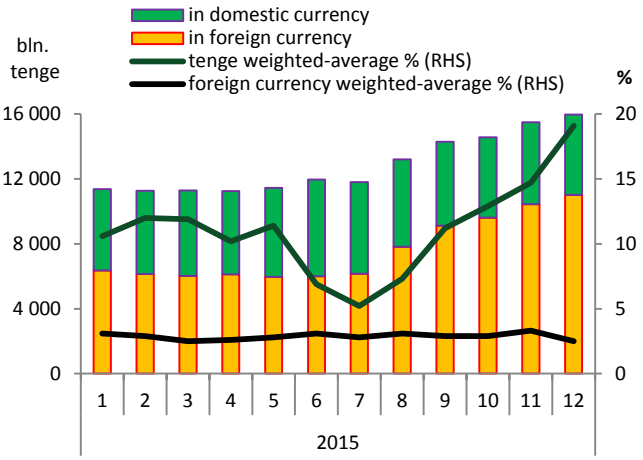
increased significantly. Such liquidity, given high volatility of the level of interest rate in the money market and foreign exchange market, indicated the growing interest of banks in speculative transactions.

In the fourth quarter of 2015 as compared to the third quarter, the deposit volume increased by 11.7%; this was secured by the growth in foreign currency deposits, mainly because of their revaluation as a result of depreciation of the Tenge. At end-December, the deposit dollarization increased to 69.0% (Figure 24).

Given the increased dollarization of the resource base of banks in the fourth quarter of 2015 the interest rates on the Tenge deposits continued to grow. Thus, the weighted average rates in Tenge increased to 19.1% in December 2015 (September 2015 – 11.2%) amidst the increasing rates on term deposits of legal entities. On the contrary, the interest rates on foreign currency deposits decreased in December 2015 to 2.5% (September 2015 – 2.9%) due to lowered rates on the term deposits of individuals and legal entities.

Thus, by the end of 2015 the weighted average interest rates on attracted deposits in Tenge and in foreign currency demonstrated a divergent trend, which is an indication that the demand of banks for the Tenge liquidity, coupled by excessive foreign currency liquidity increased by the end of the year.

Figure 24. Volumes and Interest Rates on Deposits in Tenge and in Foreign Currency



Source: NBRK

2.1.4 Credit Market

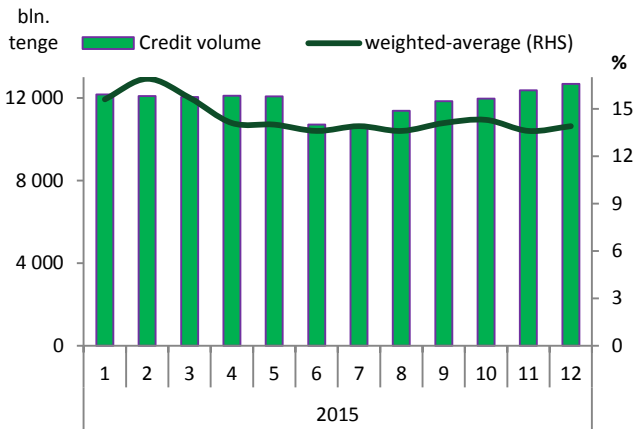
In the fourth quarter of 2015, the increased dollarization of the economy amid the of developing negative expectations regarding the situation in the domestic foreign exchange market resulted in volatile interest rates on loans by the end of the year that were generally moving within the trend outlined in the money market.

Anti-crisis measures implemented to stabilize the economy and the financial sector at the end of 2015 while making no significant change to the overall level of lending at the same time allowed maintaining the lending

activity for banks. As a result, in the fourth quarter of 2015 the volume of bank loans to economy increased by 7.1% compared to the third quarter, mainly due to revaluation of foreign currency loans (Figure 25).

The weighted average interest rate on loans decreased compared to the third quarter of 2015 but it still remained high accounting for 13.9% in December 2015 (in September 2015 – 14.1%).

Figure 25. Volumes and Interest Rates on Loans



Source: NBRK

2.1.5 Monetary Aggregates

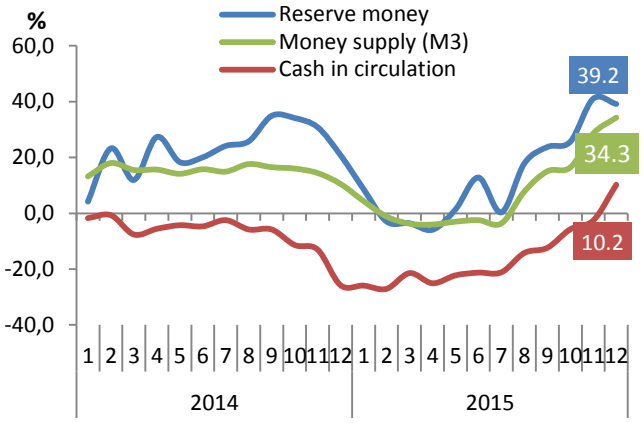
In the fourth quarter of 2015, the money supply continued growing (11.1%) against a further depreciation of the Tenge. During October-December 2015, the reserve money expanded by 2.3%. Along with that, net claims on the Government and claims on banks decreased. In the fourth quarter of 2015, cash in circulation increased by 3.1% (Figure 26).

In the fourth quarter of 2015, the money supply increased against the growth in claims of the banking system on non-bank financial organizations associated with revaluation of their foreign currency component. Apart from that, in the environment of depreciating Tenge and increased preference to foreign currency deposits on the part of depositors, banks were building up their foreign assets including with a view to even up their own foreign currency positions (Figure 27).

Cash in circulation increased mainly as a result of the seasonality factor typical for the end of the year. In addition, due to limited resources held by the general public the volume of foreign cash purchases decreased; this fact is confirmed by the data on foreign exchange purchases and sales by exchange offices (Figure 28).

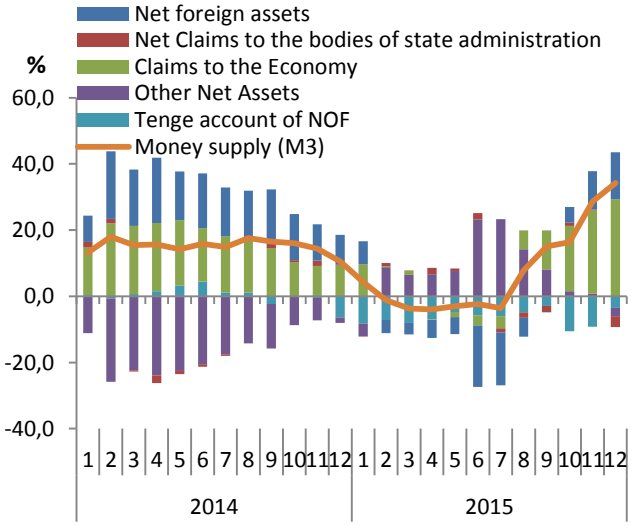
Based on the decreased effect from the movement in the exchange rate of the Tenge on monetary aggregates, the money supply growth is expected to be moderate in the short run

Figure 26. Growth in Monetary Aggregates, YOY



Source: NBRK

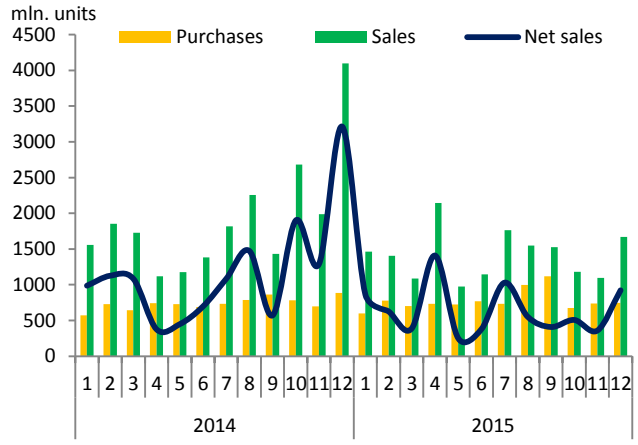
Figure 27. Dynamics of Contributions to the Formation of Money Supply, YOY



Source: NBRK

given that the growth in the bank credits to the economy slows down and that budget expenditures have a limited potential of influence. Therefore, the supply of money will have a minimal impact on inflationary expectations of the general public.

Figure 28. Purchase/Sale of the US Dollar Cash by Exchange Offices



Source: NBRK

2.2 Prices and Inflationary Processes

Consumer Price Index

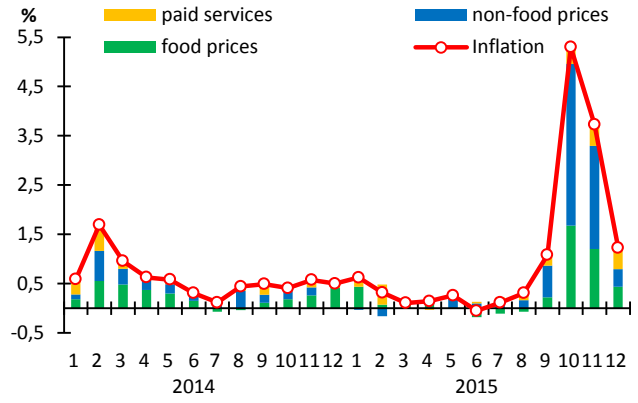
In the fourth quarter of 2015, there was a sharp acceleration of inflation in Kazakhstan. The maximum monthly inflation rate was observed in October and November (Figure 29). The effect from the exchange rate pass-through to inflation as well as the import of inflation because of higher price growth rates in Russia should be emphasized among the main reasons for the dramatic growth in consumer prices.

As a result of a negative impact on inflation by the behavior of the Tenge exchange rate, in the fourth quarter of 2015 there was an increase in prices for virtually all major groups of consumer goods and services.

In the fourth quarter, the highest price growth accounting for 18.7% occurred in the price of non-food products (their significant portion is imported to Kazakhstan). The price of foodstuffs increased by 9.3%, and the price of paid services – by 4.0%.

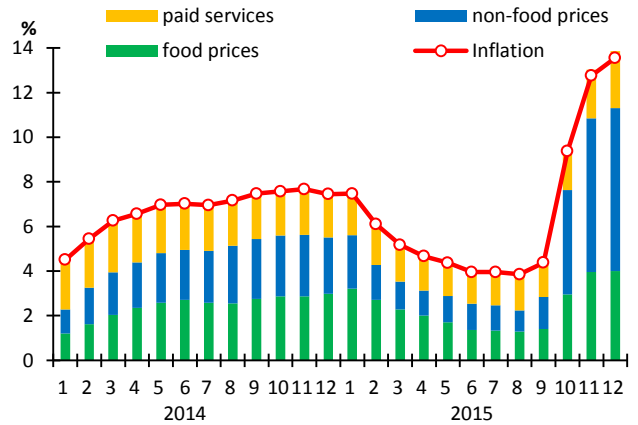
As a whole, at the end of 2015 the annual inflation accounted for 13.6% (Figure 30). During 2015, annual growth rates of prices for non-food products accounted for 22.6%, prices for foodstuffs increased by 10.9%, and for paid services – by 8.1%.

Figure 29. Monthly Inflation and the Contribution of its Components, MOM



Source: CS MNE RK

Figure 30. Annual Inflation and the Contribution of its Components, YOY



Source: CS MNE RK

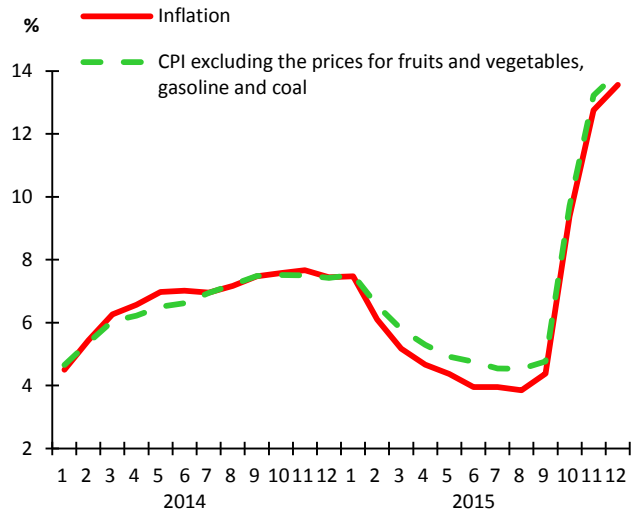
Core Inflation

In the fourth quarter of 2015, the level of core inflation excluding the growth in prices for fruits and vegetables, gasoline and coal (10.3%) was virtually in line with the level of the headline inflation (10.4%).

The main reason for such core inflation pattern is the fact that generally prices of fruits and vegetables, gasoline and coal which are excluded from the calculation of core inflation in the fourth quarter of 2015 were at growing at the rates similar to the rate of the headline inflation.

At the end of 2015, the annual core inflation slightly exceeded the headline inflation (by 0.3 pp) and made up 13.9% (Figure 31).

Figure 31. Core Inflation, YOY



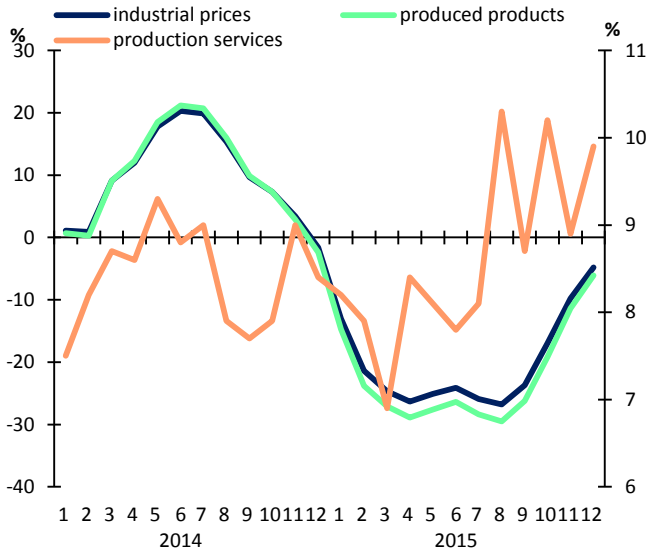
Source: CS MNE RK

Prices for Industrial Production

The decline in the producer prices and prices for the industrial output that was observed throughout nine months of 2015, during the fourth quarter of 2015 slowed down significantly. So, while in September 2015 producer prices declined by 23.7% in annual terms, at the end of December 2015 their decline accounted for 4.8% (Figure 32).

At the same time, in the fourth quarter of 2015 industrial output prices increased by 10.2%. Such price movement was mainly driven by the growth in prices for output of the mining and manufacturing sectors.

Figure 32. Price Changes in the Industry, YOY



Source: CS MNE RK

Prices for Agricultural Production

In the fourth quarter of 2015, the trend of slowing growth rates of prices for the plant production which outlined at the end of 2014 (Figure 33) and related to the fall in world prices in the plant production, persisted. According to the FAO, in the fourth quarter of 2015 the world wheat price index fell by 15% versus the corresponding quarter of the previous year.

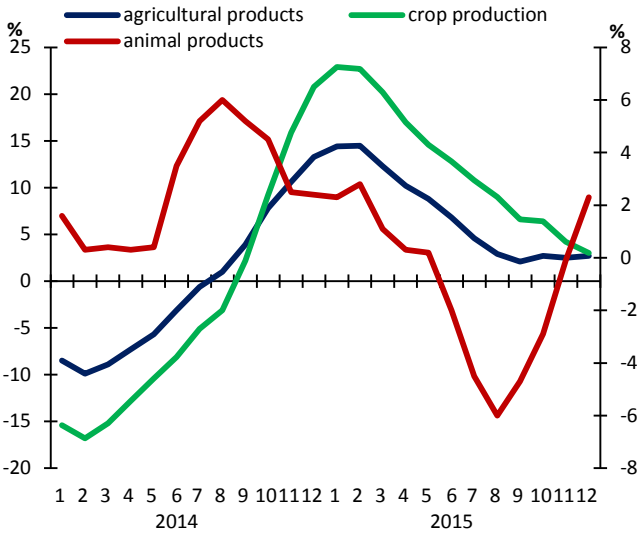
Also, the downward pressure on prices for the plant production was put by a significant growth in the production volumes in this sector.

So, during the fourth quarter of 2015 the volume of plant production increased by over 10% as compared to the corresponding period of the previous year.

The movement in prices for the animal production in the fourth quarter of 2015 had a downward trend which outlined in September. In December 2015, the annual change in prices for the animal production had become positive for the first time since June 2015 and accounted for 2.3%. In the fourth quarter of 2015, a significant growth in the selling prices in the livestock sector is related to the increased cost of production in the sector.

Therefore, as a result of a divergent pattern in the change in prices for the plant production and the animal production, annual rates of growth in prices for the agricultural production in the fourth quarter of 2015 as a whole had stabilized.

Figure 33. Price Changes in Agriculture, YOY



Source: CS MNE RK

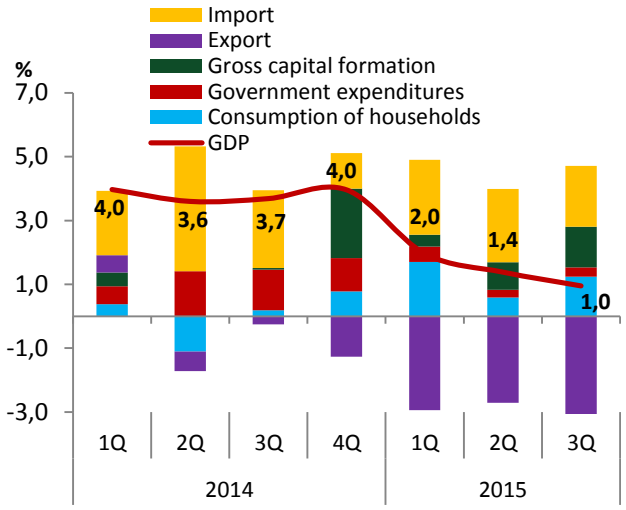
2.3 Real Sector Development

An unfavorable external environment and deteriorating terms of trade keep affecting the economic growth rates in a negative way. At the same time, government economic support programs as well as the increased household consumption against high inflationary expectations made a positive contribution to the GDP growth. However, the economic activity is generally expected to slow down in the environment of negative impact of external factors and the pressure put by depreciation of the Tenge exchange rate on the consumer demand.

2.3.1 Domestic Demand

In the third quarter of 2015, the economic activity continued slowing down. Gross capital formation against the background of increased household consumption still makes the main positive contribution to the economic growth. However, the drop in prices of oil and metals, the deteriorating external economic environment brought about the decrease in export volumes. As a result, the GDP real growth rates slowed to 1.0% as of the end of nine months of 2015 (Figure 34).

Figure 34. Decomposition of the GDP Components by the Final Consumption Method, year-to-date total, YOY

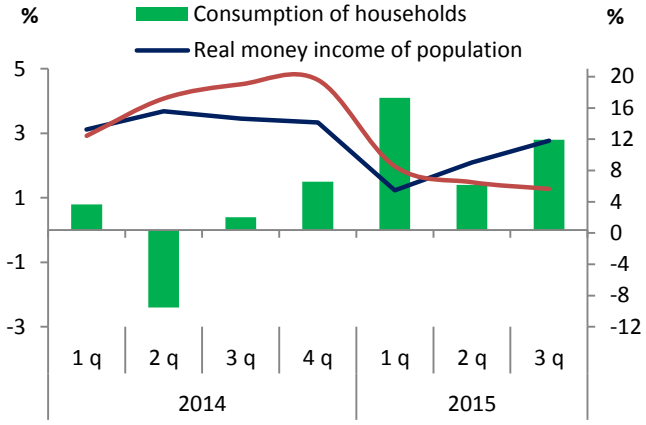


Source: CS MNE RK

Low inflation which was observed in September 2015 was conductive to the growth in real cash income of the general public. Nonetheless, the consumer demand remained low: the growth rates in retail sales slowed, and the consumer lending decreased as banks tightened their lending policies.

As of the end of nine months of 2015, the growth rates of household spending on consumption accelerated, despite the slowing growth in retail sales to 5.6% (Figure 35).

Figure 35. Household Consumption, Household Real Cash Income and Retail Sales, year-to-date total, YOY

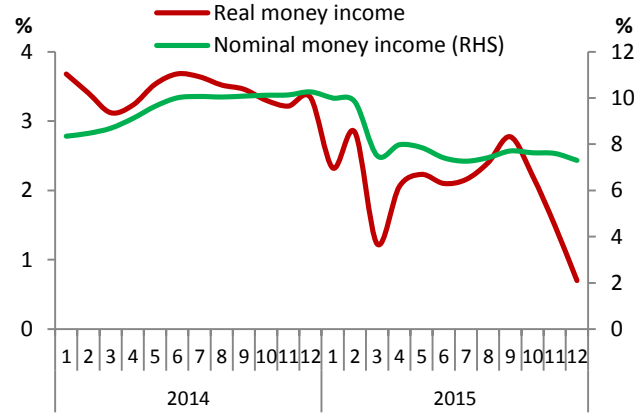


Source: CS MNE RK

Household Income

Significant deterioration in the financial performance of enterprises in the third quarter of 2015 caused by the decreased external and domestic demand as well as high inflation in the fourth quarter of 2015 slowed the rates of growth in real cash income of the general public. So, in the fourth quarter real cash income increased by 2.1%, in January-December 2015 versus the corresponding period of 2014 – by 0.7% (Figure 36).

Figure 36. Indices of Households' Nominal and Real Cash Income, year-to-date total, YOY



Source: CS MNE RK

Investment Activity

In the fourth quarter of 2015, fixed capital investments where the growth accounted for 41.0% continued to have a positive impact on the economic development.

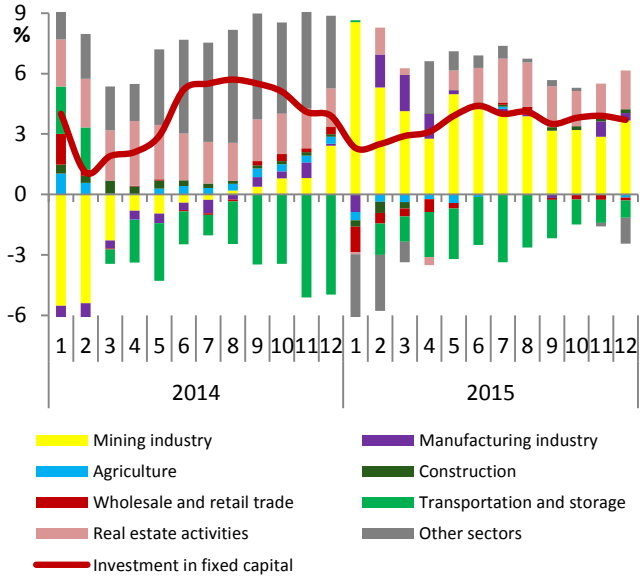
During 2015 as compared to the previous year, the volume of fixed capital investments increased by 3.7% and amounted to KZT 7.0 trln. (Figure 37).

As per the breakdown by sector, a significant contribution to the growth in fixed capital investments in 2015 was made by capital investments in the mining industry, whose share accounted for 32.6% in the total investment volume. Among other capital-intensive sectors, the highest growth was demonstrated by real estate operations (18.8%), construction (17.4%) and the manufacturing industry (3.4%). Decreased fixed capital investments in the transport sector and trade made a negative contribution to the investment behavior.

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 (54%), whose growth accounted for 1.4% in 2015 as compared to the previous year (Figure 38).

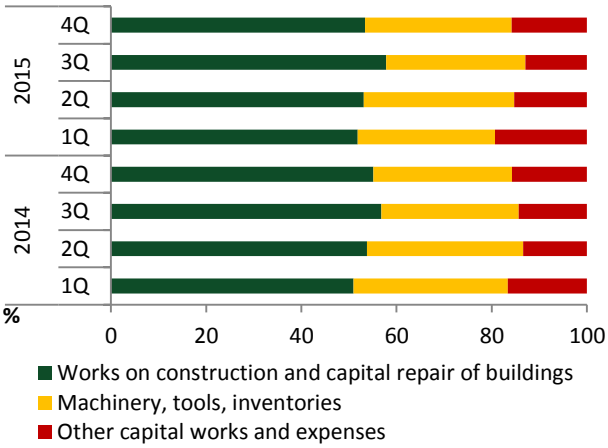
Own funds of economic agents (the share in the total investment volume in the fourth quarter of 2015 – 57.3%) still represent the main source of funding of fixed capital investments. The share of public funding and funding with bank credits increased by 18% and 8%, respectively (Figure 39).

Figure 37. Fixed Capital Investments by Types of Economic Activity, Input, year-to-date total, YOY



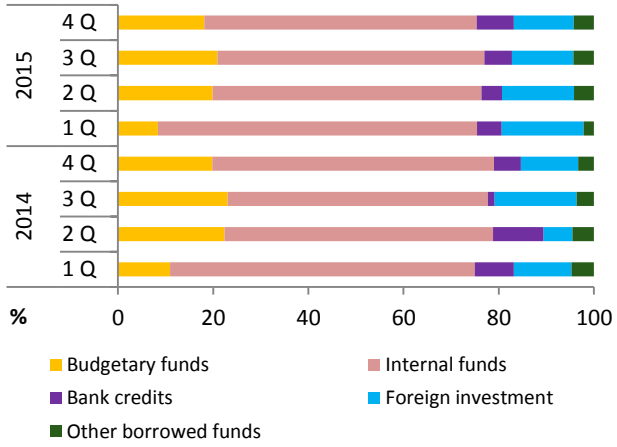
Source: CS MNE RK, NBRK's derivations

Figure 38. Plant-Equipment Ratio of Fixed Capital Investments, year-to-date total as % of the Total Volume



Source: CS MNE RK

Figure 39. Structure of Fixed Capital Investments by Funding Sources, year-to-date total as % of the Total Volume



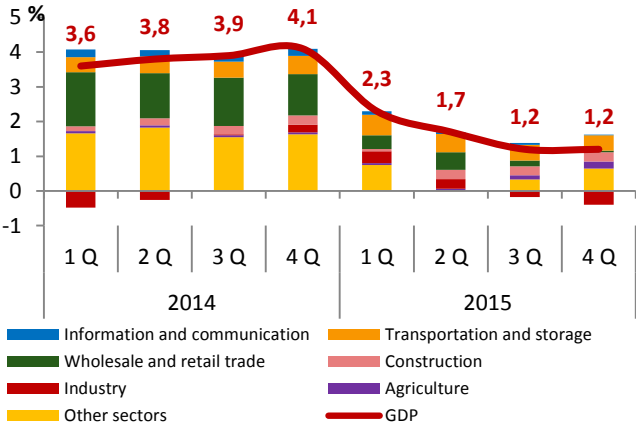
Source: CS MNE RK

2.3.2 Domestic Production

GDP growth rates decreased and, according to preliminary data, accounted for 1.2% in 2015.

Unfavorable external market environment, along with decreased growth rates in the services sector as a result of reduced consumer activity appeared to be the main reasons for the decreased rates of the economic growth. Given the persisting trend in external factors and the expected reduction in the oil production volumes as well as growing inflation in the fourth quarter of 2015 due to depreciation of the Tenge, the economic activity is expected to slow down further (Figure 40).

Figure 40. GDP Decomposition. Contribution by Economic Sectors to the GDP Growth, year-to-date total, YOY



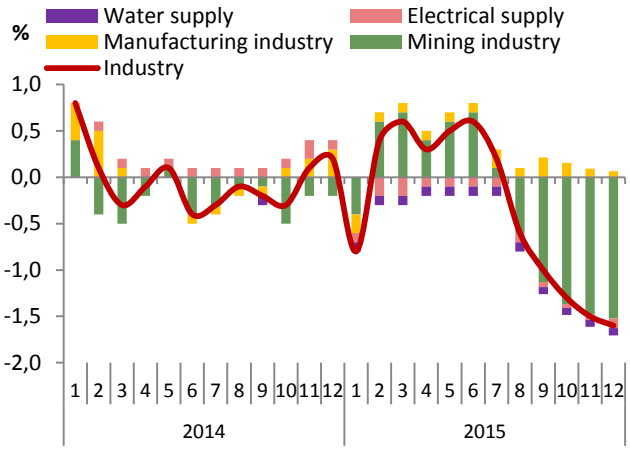
Source: CS MNE RK, NBRK's derivations

In the fourth quarter of 2015, the industrial production continued falling. During 2015 in general, the production decreased by 1.6% as compared to the previous year, being caused by decreased volumes of production in the mining industry by 2.5% (Figure 41).

Declining world prices of oil and metals, the decreasing external demand on the part of China and Russia were the main factors for the decreased volumes of production of crude oil (by 1.7%), coal and lignite (by 7.2%) and iron ore (by 22%) in 2015.

A positive contribution to the industrial production was made by branches of the manufacturing industry. Measures taken by the

Figure 41. Index of Physical Volume of Industrial Output, year-to-date total, YOY



Source: CS MNE RK

government to support the economic growth (GPIID and "Nurly Zhol" programs) helped maintain moderate growth rates of the manufacturing industry. In 2015, the growth rates in the sector accounted for 0.2%; this was secured by the increase in production volumes in the metallurgical industry by 14.4%, light industry – by 3.4% and in the food production – by 0.1%.

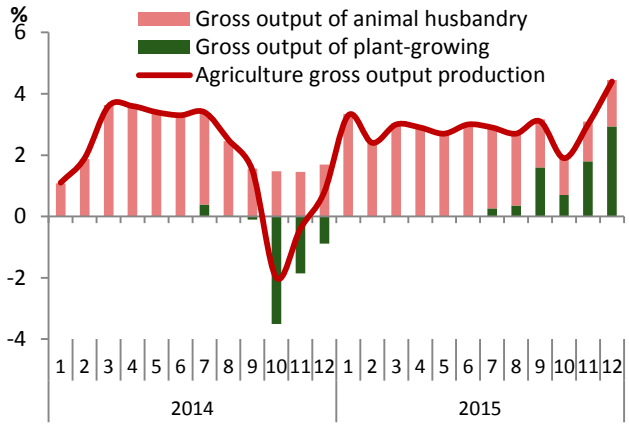
The growth rates in agriculture retained their positive trend showing improvement in the fourth quarter of 2015; this was fostered by favorable weather conditions and good harvest. The growth of production in the sector accounted for 4.4% in 2015 as compared to the previous year. The volume of plant production increased by 5.6%, and that of the animal production – by 3.2% (Figure 42).

Along with agriculture, positive growth rates were recorded in the fourth quarter of 2015 in the construction sector. During 2015, the volume of construction works increased by 4.3% as compared to 2014. Such growth rates were secured by persisting high rates of growth in fixed capital investments in the construction sector (17.4%) and investments in the housing construction (14.1%) (Figure 43). In addition, the development of this sector is positively influenced by implementation of the government economic support programs (GPIID and "Nurly Zhol") in the areas of infrastructure and housing construction, construction of residential facilities.

Continuing reduction in the industrial production volumes in the fourth quarter of 2015, which resulted in decreased export revenues, along with a weak domestic demand, caused the slowdown in the growth rates of services production to 2.3% in 2015 (in 2014 – 5.7%).

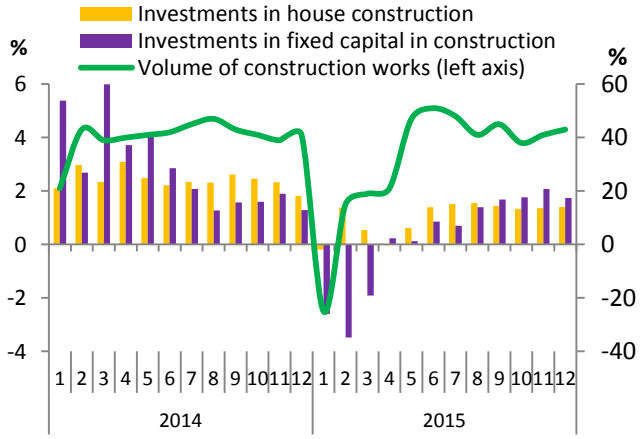
The decreased real cash income of the general public coupled with the reduced retail lending and the growth in prices for imported consumer goods as a result of the domestic currency depreciation continued putting a

Figure 42. Index of Physical Volume of Gross Output (Services) in Agriculture, year-to-date total, YOY



Source: CS MNE RK

Figure 43. Index of Physical Volume of Construction and the Growth in Fixed Capital Investments in the Construction Sector and Investments in the Housing Construction, year-to-date total, YOY

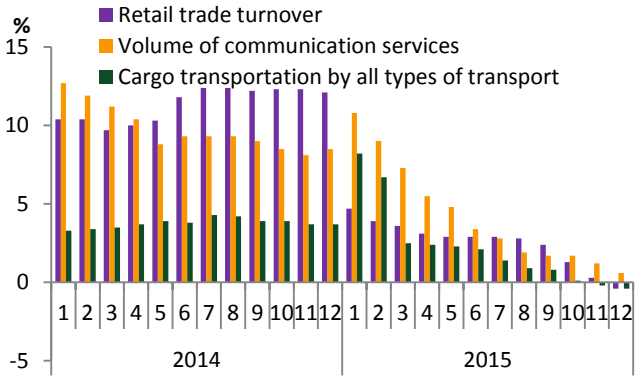


Source: CS MNE RK

downward pressure on the consumer demand of the general public in the fourth quarter of 2015. Given the decreasing demand, the volumes of retail sales decreased by 0.4% during 2015. In addition to that, the volumes of freight transportations by all means of transport had decreased by 0.4%, as a consequence of reduced exports of mining products and the decreased retail sale volumes. Services provided by companies in the communication sector retained their positive trends, with the growth in the volumes of such services accounting for 0.6% in 2015 (Figure 44).

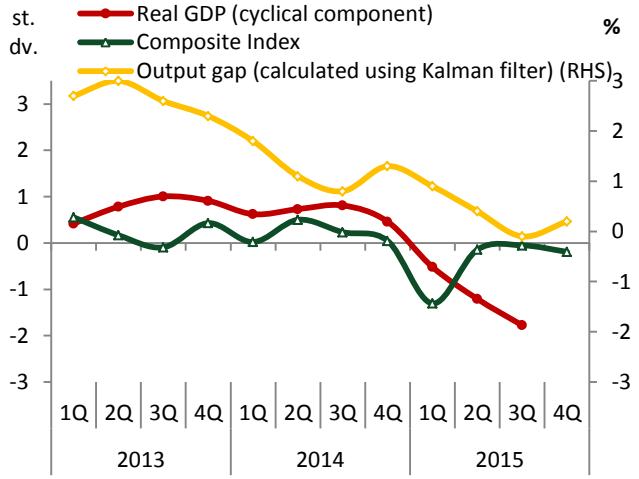
The aggregate composite indicator which reflects the assessment of the existing situation and expectations of managers of companies in the real sector of the economy was still going down relative to a long-term GDP trend (zero point) and it was still indicating that low rates of the economic growth and negative pattern in the economic activity remain (Figure 45).

Figure 44. Index of Physical Volume of Trade, Transport, Communication, year-to-date total, YOY



Source: CS MNE RK

Figure 45. Behavior of the Composite Indicator, Cyclical Component of GDP and Output Gap



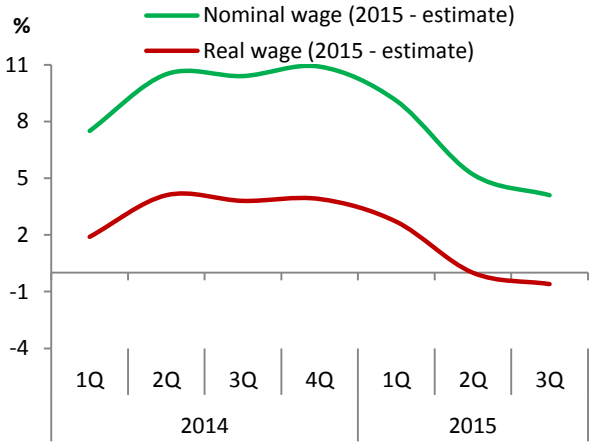
Source: NBRK

2.3.3 Labor Market and Unemployment

Kazakhstani enterprises which found themselves under the pressure of the deteriorating external and domestic demand as well as a significant decline in world prices for export commodity items encountered the need to optimize costs as regards payroll expenses.

Therefore, the slowdown in the economic activity had put pressure on the labor market via changes in salaries and wages but not via changes in the employment pattern of the general public. So, the growth in nominal wages had kept slowing down throughout the last three quarters and accounted for 4.1% in the

Figure 46. Nominal and Real Wage Indices, YOY

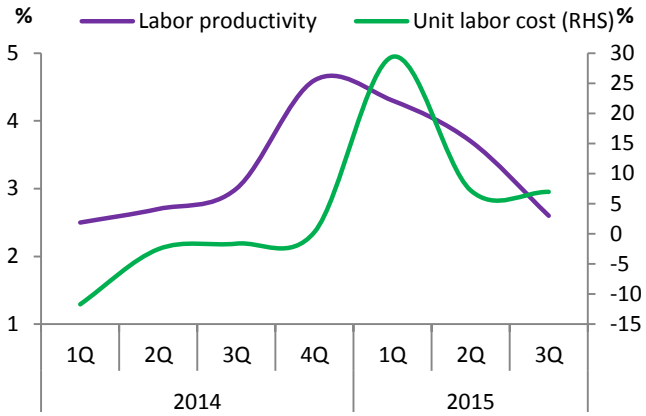


Source: CS MNE RK

third quarter of 2015. In the third quarter of 2015, the real wage index had turned negative for the first time since 2008 (Figure 46).

The imbalance between the wage growth and the volumes of output in the third quarter of 2015 caused the slowdown in the growth of unit costs related to payroll expenses by 0.2%. Amidst a slowing economic activity, growth rates of labor productivity had been decreasing three quarters in a row accounting for 2.6% in the third quarter of 2015 (Figure 47).

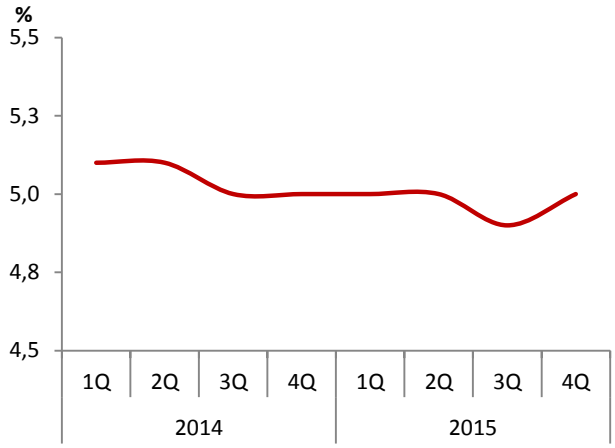
Figure 47. Labor Productivity and Unit Labor Costs, YOY



Source: CS MNE RK

Reduction of real wages and the retention of jobs by companies, although with part-time employment or with unpaid leaves, appeared to be the main instrument for adaptation of employers in the deteriorating economic situation. The government's economic stimulus programs which provide for creation of additional jobs also helped maintain the employment at a stable level: throughout 2014-2015, the unemployment rate had been within the range of 4.9%-5.1% (Figure 48).

Figure 48. Unemployment Rate



Source: CS MNE RK

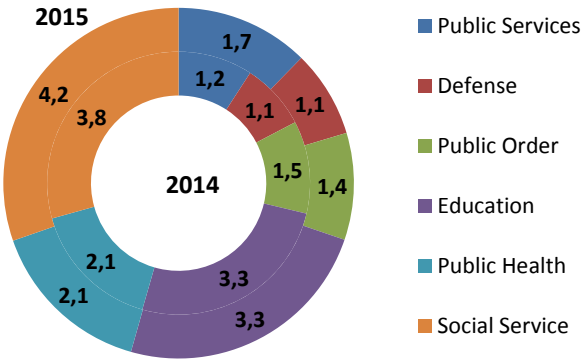
2.4 Fiscal Policy

During 2015, the state budget spending increased by 5.3% as compared to 2014. The reason for the growth in expenditures is a more intensive execution of spending approved in the national budget for 2015, including expenditures for government services of a general nature, expenditures for the industry, architecture, urban planning and construction, debt service and expenditures for welfare and social security.

In the structure of the state budget spending, expenditures for welfare and social security (20.9%), education (16.6%), and public healthcare (10.5%) still prevail (Figure 49).

The decreased proceeds and revenues and, respectively, the non-taxable base of oil-producing companies as a result of a significant decline in the oil price led to the decrease in tax

Figure 49. State Budget Spending, as % of GDP



Source: MoF RK, NBRK's derivations
* GDP for 2015 according to updated information

revenues from the oil sector to the National (Oil) Fund of the Republic of Kazakhstan. Receipts to the National Fund in the form of direct taxes from oil-sector companies in 2015 decreased by 53.5% as compared to 2014.

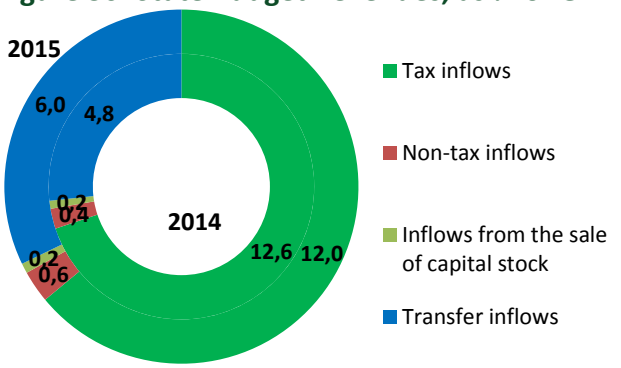
In the structure of the state budget revenues, tax revenues and proceeds from the sale of fixed capital decreased (Figure 50). As of the end of 2015, the growth in the state budget revenues was secured by the growth in transfers from the National Fund and by depreciation of the Tenge exchange rate.

In 2015, the Government implemented the counter-cyclical policy, under which a guaranteed transfer from the National Fund to the budget was increased by 15% by 2014. Additionally, in 2015 earmarked transfers were allocated for the "Nurly Zhol" Program from the National Fund to implement the infrastructure programs, develop housing and municipal construction, to finance joint projects with international financial organizations as well as to support the programs in the field of education and science. Transfers from the National Fund supported the growth of the economy; however, they had a limited impact on the banking sector liquidity.

In 2015, the state budget deficit decreased as compared to 2014. However, without transfers allocated from the National Fund to the state budget, the year 2015 would have ended with a higher non-oil deficit (Figure 51).

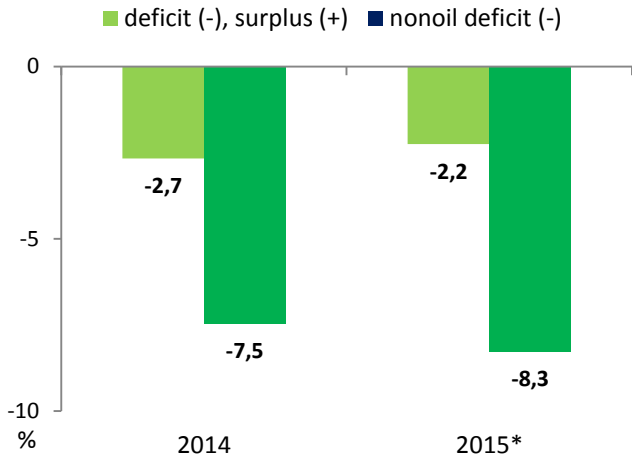
In general, the budget policy in 2015 may be assessed as a stimulating policy since the implemented government programs were aimed to support the real sector of the economy.

Figure 50. State Budget Revenues, as % of GDP



Source: MoF RK, NBRK's derivations
* GDP for 2015 according to updated information

Figure 51. State Budget Execution, as % of GDP

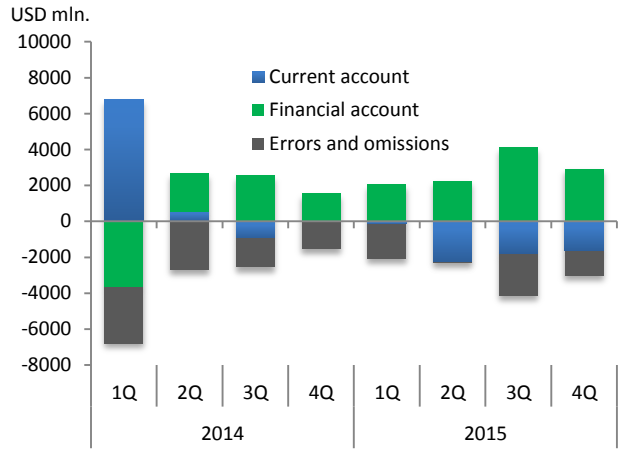


Source: MoF RK, NBRK's derivations
* GDP for 2015 according to updated information

2.5 Balance Payments

Over the last year, a continuing decline in prices for energy resources and metals, main export items of Kazakhstan, had made a significant impact on the current account and on the balance of payments items in general (Figure 52).

Figure 52. Balance of Payments, Quarterly



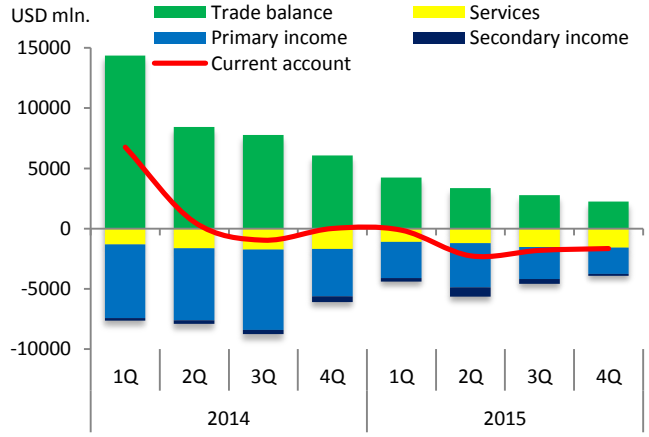
Source: NBRK

Current Account

As of the end of 2015, the current account deficit accounted for 3.1% of GDP (Figure 53).

During 2015 the decrease in export volume almost in all of its components was due to a larger extent impacted by the deteriorating price factor while the decrease in volumes of physical supplies was less significant. (Figure 54).

Figure 53. Current Account, Quarterly



Source: NBRK

During 2015 imports decreased in all of its major components. The largest decrease in imports was noted among non-food consumer products, investment goods and, to a smaller extent, among foodstuffs. About 33% of imports of goods fall on goods imported from the Russian Federation; the contract prices for such goods are fixed mainly in the Russian rubles. Therefore, the decrease in the total imports to Kazakhstan was mainly ensures by the drop in average contract prices against the increase in physical volumes of deliveries (Figure 55).

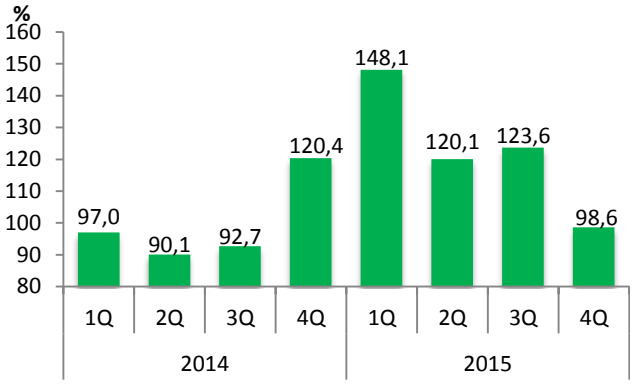
Figure 54. Exports and Imports of Goods and Services, Quarterly

Source: NBRK

A negative balance on primary income during 2015 demonstrated more than a twofold decrease as compared to 2014; this was caused by a significant decrease in investment returns

of non-residents on direct investments. As of 2015, there was a negative balance on returns on foreign direct investments of other sectors.

Figure 55. Real Exchange Rate of the Tenge versus the Russian Ruble



Source: NBRK

Financial Account

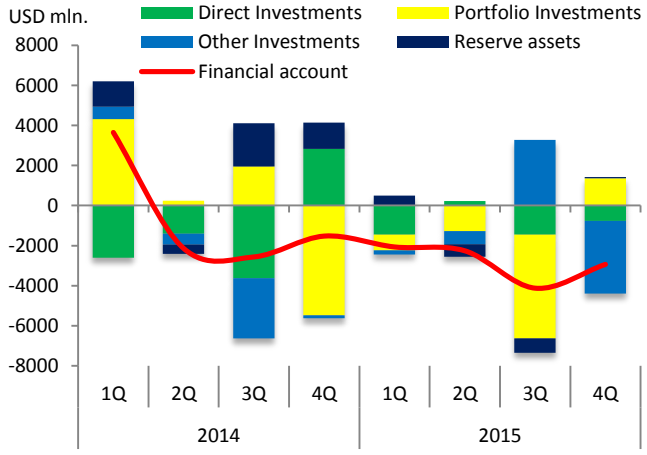
As for the financial account (excluding operations with reserve assets of the National Bank), there has been a negative balance because of a significant decrease in assets in the first half of 2015 and increase in liabilities, mainly due to operations in the second half of 2015, thus leading to a net capital inflow or to "a net borrowing from the rest of the world" (Figure 56).

As for foreign direct investments (FDIs), there was a net inflow due to the outstripping growth in liabilities over assets. At the same time, disbursement of loans by Kazakhstani enterprises to their foreign "sister" companies allowed ensuring a net growth in financial assets on direct investment operations.

A net inflow of FDIs decreased by more than two times as compared to the same indicator of 2014. This was caused by a significant drop in the world oil prices and by reduced attractiveness of the oil and gas sector as an investment project. Investments in financial services increased except services provided by insurance companies and pension funds.

As for portfolio investments, the decrease in foreign assets of the National Fund and foreign assets of domestic banks was the cause for a negative balance of net acquisition of financial assets on portfolio investments in the environment of declining oil prices and decreasing investment opportunities in the oil and gas sector and the mining sector in general.

Figure 56. Financial Account, Quarterly



Source: NBRK

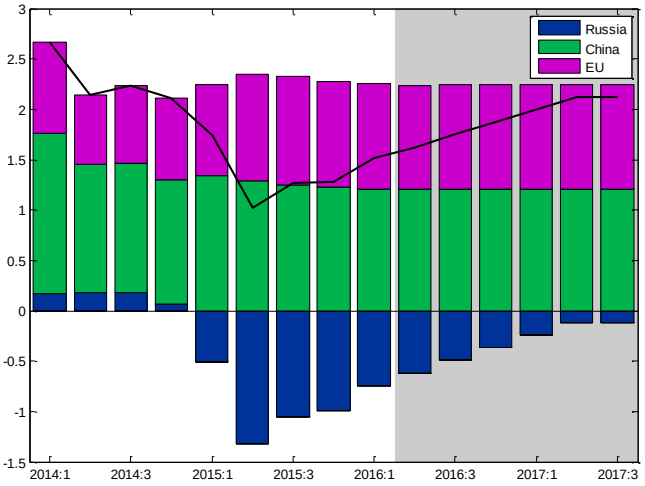
The increase in liabilities on portfolio investments was secured by the Eurobond issue operations conducted by the Ministry of Finance of the Republic of Kazakhstan in the third quarter of 2015 and attraction of a loan from the Asian Development Bank amount of 1 bln. USD. As of the 2015, a net capital export by the private sector exceeded the corresponding volume of 2014.

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

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 56% of the total foreign trade turnover of Kazakhstan in the third quarter of 2015, remained unchanged as compared to the earlier forecasts made in the Inflation Report for the 3rd quarter of 2015. According to the National Bank's expectations which take into account estimates of international organizations, in the medium term the trend of slowing economic development in China will remain, the economic growth in the EU will be slowly recovering and Russia's real GDP will decrease (Figure 57). Therefore, a moderate recovery of the investment demand is anticipated from the beginning of 2016.

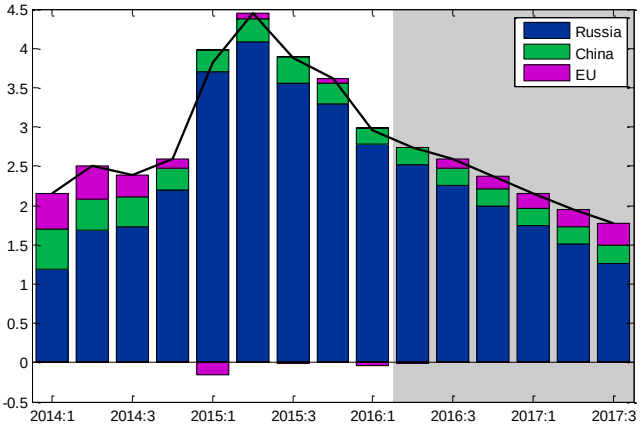
Figure 57. External GDP Decomposition Broken Down by Kazakhstan's Main Trading Partners, %, YOY



Source: NBRK's derivations

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, the external inflation is expected to go down until the third quarter of 2017 (Figure 58). As predicted in the previous forecast, inflation in China and the European Union will be low and in Russia inflationary processes will be slowing down as a result of the decreased GDP and reduced inflationary expectations.

Figure 58. Average-Weighted Inflation Broken Down by Kazakhstan's Main Trading Partners, %, YOY



Source: NBRK's derivations

World food prices continue to demonstrate the decline. An excessive food supply in the market as a result of a good harvest and falling energy prices may be one of the main factors. Sugar may serve as an exception; its price increased because of delays with harvesting in Brazil due to weather conditions. Wheat prices are expected to decline in the medium term due to accumulated reserves as well as a record-high harvest in 2015. Alongside with that, cancelled export duties for wheat in Argentina will be putting a downward pressure

on the price. Therefore, a prior assumption remained unchanged and world cereals prices will continue to decline up to the third quarter of 2017 (Figure 59). Therefore, an expectation that the external consumer inflation would decrease will have a slight downward pressure on inflationary processes in Kazakhstan.

Realization of a risk scenario where the excess of supply over demand in the oil products market was more significant and of a more long-term nature resulted in the need to revise parameters in the baseline scenario reducing the oil price from USD 50 per barrel to USD 30 per barrel throughout the entire forecast period.

The assumption about external monetary conditions in the medium term turned true, as the US Fed's interest rate was raised by 0.25 pp. As a result, Kazakhstan will face a number of risks associated with a possible capital outflow, depreciation of currencies of emerging economies as well as with the increased cost of funding in external markets.

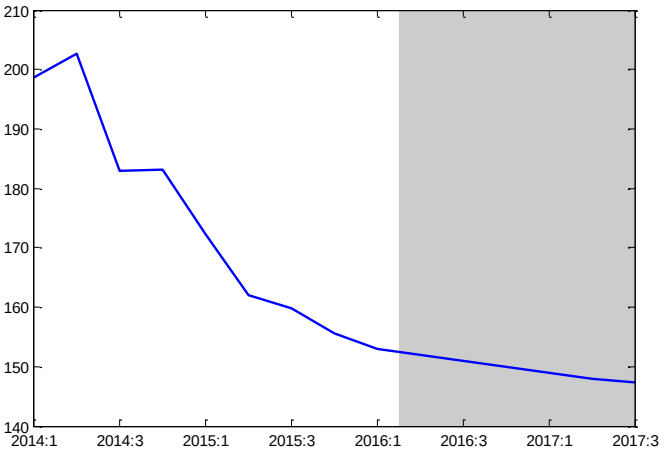
2. Forecast under the Baseline Scenario

The National Bank's assumptions demonstrate that the economy's growth rates would slow down to 1.1% in 2015 (4.3% in 2014). As the oil price drops to USD 30 per barrel, the economic activity is expected to slow down significantly and will only start recovering by the third quarter of 2017.

In 2017, gradual adaptation to new economic realities will be observed. The GDP will start to feebly recover and its recovery will be dependent on effectiveness of investments made as part of implementation of the economic stimulus programs and dedollarization that are supposed to decrease devaluation expectations in the medium term.

According to the National Bank's estimates, the output gap would be negative, i.e. the GDP would be below its potential level until the third quarter of 2017. The decreased domestic consumption coupled with the growing propensity to save serve as the main factors for idle capacities in the economy. The shock of the

Figure 59. Wheat Price Index (FAO Index Cereals), % of the Base of 2002-2004



Source: NBRK's derivations

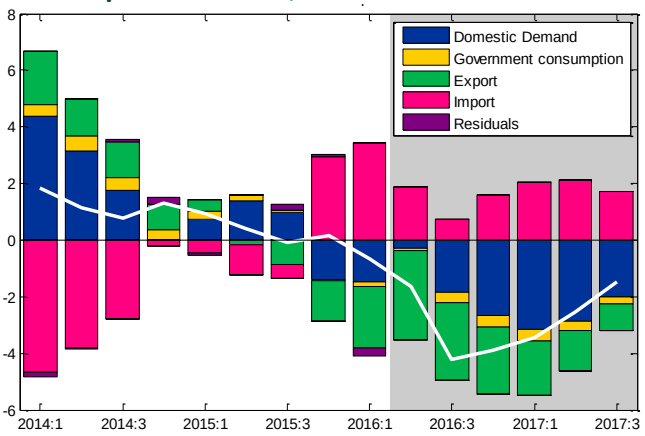
oil price affects the oil production volume in a negative way; this would cause underutilization of capacity in the mining sector. A drop in imports as a result of the decreased domestic consumption will make a positive contribution to the net exports pattern. At the same time, this effect is limited by implementation of long-term investment projects which imply the use of imported services and equipment (Figure 60).

A significant drop in exports makes a negative contribution to the output gap. The oil production will be decreasing since an increasing number of oil fields in Kazakhstan are approaching to the point of unprofitability. In these circumstances, a critical issue is the use of advantages associated with undervaluation of the real effective exchange rate which will 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 is estimated at 30% in total exports in 2015 may have a positive effect on diversification of the economy and the growth in export volumes. The external demand for Kazakhstan's products will be increasing as the Russian economy recovers from the external shock.

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. Low real interest rates will be having a stimulating effect on consumption from the second quarter of 2016.

As the expected rate of inflation will be going down in the medium-term, interest rates will be decreasing. The monetary policy implemented will be of a moderately stimulating nature until the third quarter of 2017; this will help recover the domestic consumption from the first quarter of 2017 driven by implementation of anti-crisis measures and other stimulus measures for the economy ("Nurly Zhol" Program, in particular) as well as by stabilization of the Tenge exchange rate. Recovery rates of the domestic consumption will be depending on good quality investments into the manufacturing sector,

Figure 60. The GDP Output Gap by the Final Consumption Method, %



Source: NBRK's derivations

expansion of the non-oil sector in the economy as well as on a significant reduction in dollarization.

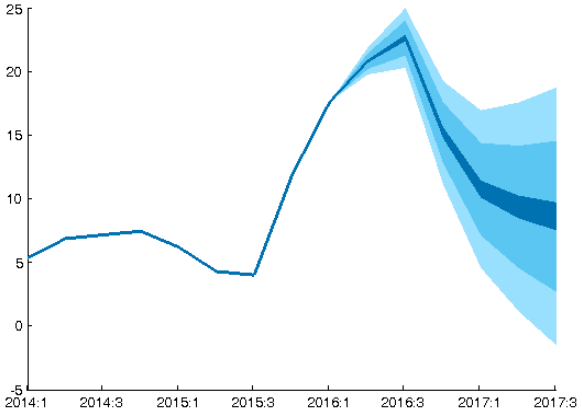
The government consumption will be limited by reduction in tax revenues as a result of a drop in the domestic consumption. The government does not plan to expend the state budget deficit; on the contrary, there is a strategy to reduce both the oil deficit and non-oil deficit versus the GDP by the end of 2017; this speaks for a neutral nature of the fiscal policy in the medium term.

Depreciation of the Tenge in the second half of 2015 enhanced inflationary processes. Because of the exchange rate pass-through to inflation, inflationary expectations will remain in 2016. The average quarterly inflation may reach its peak in the third quarter of 2016 (Figure 61). A significant contribution to the inflation growth will be made by the non-food component. In the short term, the non-food inflation will be affected by depreciation of the Tenge exchange rate and a high inflationary background in Russia.

A food component of the inflation in the medium term will be building up under the impact of the behavior of the Tenge exchange rate and of the world prices for food, cereals and wheat in particular. A negative output gap will be serving as a constraining factor for the food inflation and non-food inflation.

The slowdown in the inflation rate will be observed already at the end of 2016 and it will be continuing in 2017 provided that the REER will reach its equilibrium values by the third quarter of 2017. A moderately stimulating monetary policy of the Republic of Kazakhstan will be oriented at the medium-term inflation goal.

Figure 61. 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 would be the decline in oil price (Brent) to USD 20 per barrel and its persistence at such level throughout the entire forecast period.

Implementation of this scenario will result in revising the rates of recovery of Russia's

economy and the behavior of the ruble exchange rate that would affect the external sector pre-requisites in a negative way.

For the Kazakh economy, the decline in oil prices to USD 20 per barrel would lead to a significant reduction in GDP, due to a deeper drop in the domestic consumption, reduced government spending and export revenues. All of it would be happening amidst a high level of dollarization of the economy, the decreasing volumes of retail trade, growth in prices for imported products, deterioration of conditions in foreign capital markets and the reduced external demand.

The largest reduction in GDP would fall on the fourth quarter of 2016. But the economic growth is expected to recover in 2017 as a result of adaptation by the economy to new economic conditions. The growth of the economy is anticipated already in the third quarter of 2017.

The decline in oil prices and reduction in GDP would also lead to a probable depreciation of the Tenge, which would result in a slower decrease in the inflation. As a result, a high risk of a failure to hit the inflation goal in 2016 (6-8%) would arise.

In these conditions, the monetary policy of the Republic of Kazakhstan would be contractory and would be expressed in the lower rate of the base rate reduction. This would result in tightening of conditions 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 reduced 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.

The Inflation Report uses two types of core inflation:

а) a consumer price index excluding the growth in prices for vegetables, fruits, gasoline, and coal;

б) a consumer price index where components with the cumulative weight of less than 8% and more than 92% are excluded, i.e. those goods and services whose prices have changed (increased or decreased) most of all are not taken into account.

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: а) acquisition, less retirement, of new and existing fixed assets; б) costs for major improvements of tangible produced assets; в) costs for improvement of tangible non-produced assets; г) 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 reime 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 – 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. 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.

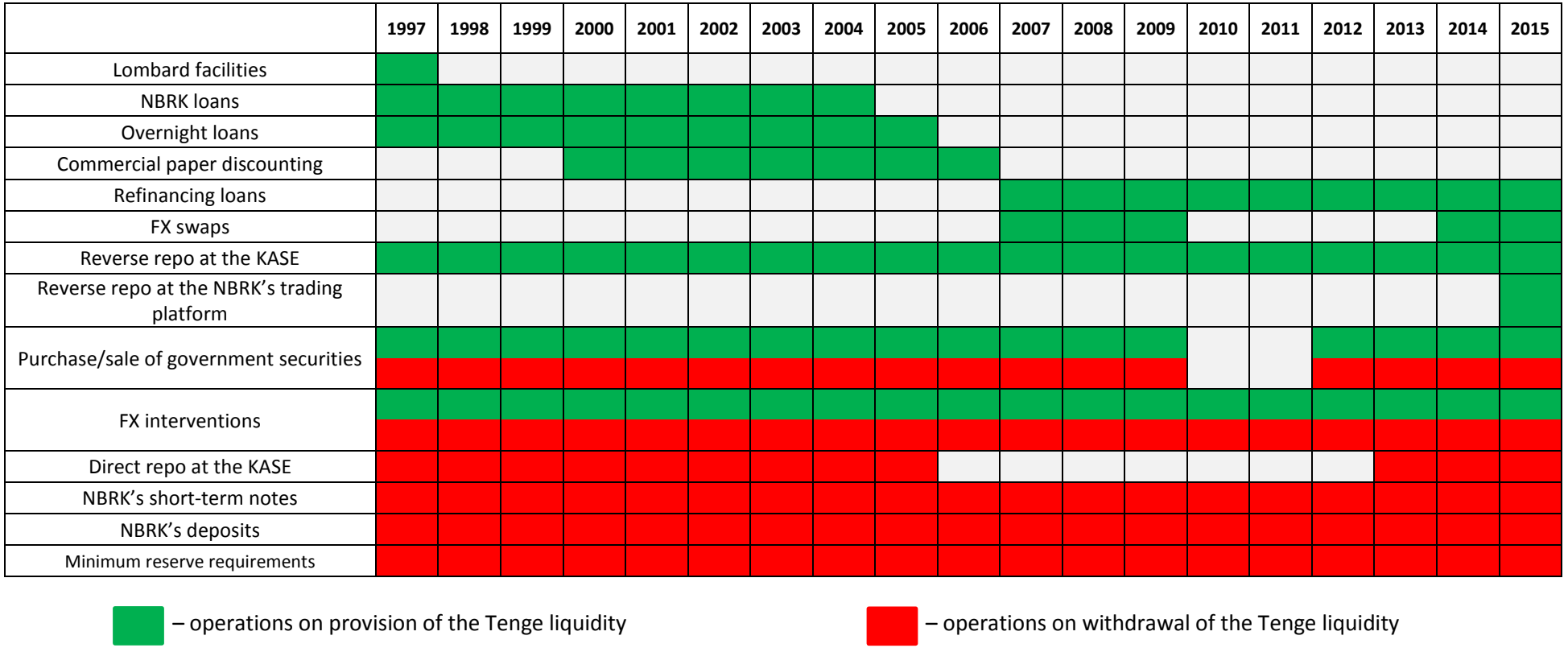
At present, the National Bank, as part of its effort to implement the inflation targeting, is in the process of designing the system for modeling and forecasting of macroeconomic indicators, developing and improving monetary policy tools.

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.

EVOLUTION OF MONETARY POLICY INTRUMENTS IN KAZAKHSTAN



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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 2015 (% pa)

Purpose	Instrument Type	Instrument	Collateral	Frequency	Timeframe for provision/ withdrawal	Rates (%)				
						Year-to-date	From 08.05.15	From 02.09.15	From 22.09.15	From[3] 02.10.15
Liquidity provision	standing facilities	reverse repo at the KASE	government securities	at banks' request	1 day	At the market rate	12	17	17	17
	open market operations	reverse repo[1]	government securities, IFI bonds, issuers' bonds *	daily	1 day	--	--	12	12	16
Liquidity withdrawal		direct repo at the KASE	government securities	daily	1 day			7	12	16
		NBRK's notes[2]	-	once a week	1 month	--	--	8	8	17
	standing facilities	NBRK's deposits	-	at banks' request	7 days	3,05		7	12	15
		direct repo at the KASE	government securities	at banks' request	1 day	--	--	7	12	15
Refinancing rate						5,5		5,5	5,5	5,5

[1] the NBRK's securities buy/sell back auction

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

[3] in November 2015, the National Bank made a retreat from its earlier commitments to maintain the interest rate band within a certain range and the interest rate on deposits was set at 12% from November 23, 2015.

* 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

	Reserve Money		Money Supply (M3)		Cash	
Date	*KZT mln.*	*%, YOY*	*KZT mln.*	*Date*	*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*

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, %	
	MOM	YOY	MOM	YOY	MOM	YOY	MOM	YOY	MOM	YOY	YOY	MOM
01.01.14	100.6	104.5	100.5	103.2	100.3	103.3	101.0	106.8	101.4	101.3	99.8	91.4
01.02.14	101.7	105.4	101.5	104.4	101.9	105.1	101.7	106.7	101.5	101.0	99.7	90.1
01.03.14	101.0	106.3	101.3	105.5	101.0	105.9	100.5	107.2	108.1	109.1	101.6	91.1
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

Source: CS MNE RK

Table 4

GDP Components by the Final Consumption Method
(real growth, year-to-date total, YOY)

	GDP	Household consumption	Government consumption	Gross fixed capital formation	Exports	Imports
1 qtr. 14	4,0	0,8	4,5	2,2	1,1	-6,9
2 qtr. 14	3,6	-2,4	11,5	0	-1,3	-12,5
3 qtr. 14	3,7	0,4	11,2	0,2	-0,6	-8,1
4 qtr. 14	4,3	-2,3	10,3	7,1	-4,6	-15,7
1 qtr. 15	2	4,1	4,2	2	-5,7	-9,7
2 qtr. 15	1,4	1,4	1,9	3,8	-5,4	-8,1
3 qtr. 15	1,0	2,8	2,5	5,0	-8,2	-6,7

Source: CS MNE RK

Таблица 5

Deposits and Credits to the Economy

	01.01.2015	01.02.2015	01.03.2015	01.04.2015	01.05.2015	01.06.2015	01.07.2015	01.08.2015	01.09.2015	01.10.2015	01.11.2015	01.12.2015	01.01.2016
Deposits with depository institutions (by sectors and currencies), KZT bln. at month-end													
Deposit volumes	11 694,2	11 367,4	11 266,4	11 285,0	11 248,3	11 446,9	11 939,3	11 802,9	13 205,5	14 295,0	14 573,7	15 494,2	15 970,5
out of the total deposit amount													
relative share in the domestic currency, %	0,44	0,44	0,45	0,47	0,45	0,48	0,50	0,48	0,41	0,36	0,34	0,33	0,31
relative share in foreign currency, %	0,56	0,56	0,55	0,53	0,55	0,52	0,50	0,52	0,59	0,64	0,66	0,67	0,69
out of the total deposit amount													
relative share of non-bank legal entities, %	0,62	0,62	0,62	0,62	0,62	0,63	0,64	0,63	0,61	0,60	0,60	0,60	0,57
relative share of individuals, %	0,38	0,38	0,38	0,38	0,38	0,37	0,36	0,37	0,39	0,40	0,40	0,40	0,43
Weighted average interest rates of banks on attracted deposits, %, for a month													
in the domestic currency	8,37	10,61	12,00	11,89	10,23	11,40	6,92	5,23	7,29	11,17	12,92	14,70	19,13
in foreign currency	3,20	3,12	2,93	2,52	2,56	2,80	3,07	2,79	3,09	2,85	2,87	3,25	2,45
Loans in banks (by sectors and currencies), KZT bln., at month-end													
Volume of bank lending	12 105,7	12 166,0	12 080,8	12 045,4	12 103,0	12 068,3	10 711,5	10 640,0	11 378,9	11 834,1	11 964,4	12 368,6	12 674,2
Weighted average interest rates of banks on provided loans, %													
total	11,7	15,6	16,9	15,7	14,1	14,0	13,6	13,9	13,6	14,1	14,3	13,6	13,9
in the domestic currency	15,9	18,3	19,8	18,2	15,5	16,0	14,9	15,0	14,7	15,0	15,3	16,1	16,3
in foreign currency	8,1	7,7	8,0	8,0	7,2	8,0	8,1	7,5	7,6	7,5	8,4	5,5	7,7

Table 6

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

	2014			2014	2015			
	2 qtr.	3 qtr.	4 qtr.		1 qtr.	2 qtr.	3 qtr.	4 qtr.
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
incl. interest on the National Fund's reserves and assets	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 qtr.	3 qtr.	4 qtr.		1 qtr.	2 qtr.	3 qtr.	4 qtr.
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