NATIONAL BANK OF KAZAKHSTAN

Inflation Report

The third quarter of 2015

Almaty, Kazakhstan

CONTENTS

FOREWORD

The main objective of Kazakhstan's monetary policy is to ensure the price stability.

In 2015, the National Bank of Kazakhstan started to implement a set of measures to adopt the inflation targeting regime. In the environment of significant external shocks, including the fall in oil prices and depreciation of domestic currencies of main trading partners of Kazakhstan, on August 20, 2015 the National Bank and the Government of Kazakhstan made the decision to move to the floating exchange rate of the Tenge.

With a view to achieve the inflation target in the medium term on September 2, 2015 the National Bank introduced a base rate at 12.0% and set the interest rate band. Due to increased inflationary expectations and risks that the inflation would exceed the target level on October 2, 2015 the National Bank increased the base rate up to 16%. In the future the National Bank will revise the its base rate on a monthly basis subject to the changes in the medium term inflation forecasts.

In the near term, the National Bank has the objective to stabilize foreign exchange market since a high volatility of the tenge exchange rate leads to increase in inflationary expectations and inflation.

In January-June 2015, the real GDP growth accounted for 1.7%. The slowdown in the GDP growth rates has been impacted, mainly, by external factors that economies with the raw-material orientation to a large extent. First of all, these include declining prices for Kazakhstan's export items such as oil, metals and wheat.

Secondly, it's the slowdown in the economic growth of main trading partners of Kazakhstan as well as persisting tense geo-political situation in the region.

According to our estimates, despite a sustainable economic growth in the EU and China, the downturn in Russia will be limiting economic growth in Kazakhstan. In the second half of 2015 and in 2016, a further slowdown in the GDP growth rates is anticipated in Kazakhstan.

Low economic growth rates will "cool down" the inflation background in the economy. Slowing rates of the GDP growth in the mining and manufacturing industries as well as low prices for industrial output of Kazakhstani enterprises will constrain the business activity growth.

Another factor of a decreasing inflation background is a significant decrease in the consumer demand. Household real cash income is expected to decrease, thus resulting in the reduced demand of the population.

Amidst low business activity and decreased consumer demand, the volumes of domestic lending are expected to decrease. As a consequence, the growth rates of money supply in the economy will remain limited.

The inflation rate is expected to accelerate in the near term. However, there are no fundamental factors that would keep a high inflation background in the economy. As a result, inflation surges will be of a short term nature.

With a view to ensure the price stability, the National Bank will take monetary policy measures which will allow to keep the inflation in near term within the target level of 6-8%.

I. MACROECONOMIC ENVIRONMENT AND THE FINANCIAL SECTOR DEVELOPMENT

1. EXTERNAL MACROECONOMIC ENVIRONMENT

Developments the global financial and commodity markets in the first half of 2015 in played an important role in forming economic conditions in the domestic market of Kazakhstan. The global economy growth was moderate. Development in some countries was ambivalent because of the level of development and specifics of how national economies were functioning.

Assessment of the impact of economic activity and inflation in other countries on the situation in the Kazakh economy is made with the help of indicators which include GDP and inflation and are computed on the basis of the structure of Kazakhstan's international trade (further – weighted indicators). Since about 60% of commodity turnover are represented by the trade with Russia, China and countries of the European Union, these countries are considered for assessment of potential impact on Kazakh economy.

The situation in the countries-trading partners was diverse in terms of their impact on the economic growth and inflation in Kazakhstan, with significant domination of Russian trends. Continued slowdown of economic growth in China due to decrease in domestic consumption and external demand. Economic activity in the EU countries was gradually recovering, which was driven by depreciation of the exchange rate of the Euro versus the US Dollar. In addition, there was a significant downturn in the Russian economy as a result of falling oil prices, economic sanctions against Russia.

Downward trends in prices are prevailing in commodity markets due to the excess supply of goods in the markets over demand.

The U.S. Fed's intention to increase its policy rate influences the global economy that reflects upon the dynamics of financial indicators. The increase of base rate will lead to a change in financial flows, which will contribute to an increase in volatility in the financial markets.

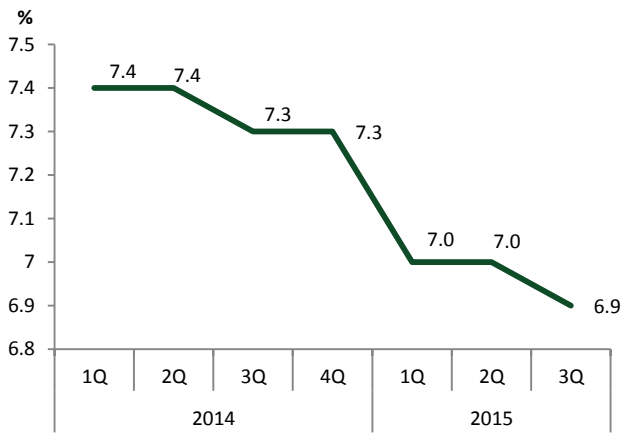
Although key factors affecting the domestic economic indicators are outlining in the domestic economy, the aggregate contribution of external indicators may be characterized as slowing down the economic growth and accelerating inflation in Kazakhstan.

1.1. Economic Situation in the Countries-Kazakhstan's Trading Partners

1.1.1. GDP growth

The GDP growth rates in China continue to slow down (Figure 1), driven by the low domestic consumption, a slow recovery of external demand for the Chinese products and, as a consequence, decreasing exports. Other factors include decreasing investments, reduced labor migration, problems in the real estate market. In summer of 2015, the Chinese stock market was demonstrating a significant decline: the Shanghai Stock Exchange Composite Index has fallen almost by 40%. In order to prevent a further slowdown of the economy and to solve the problems of the falling Chinese stock market, the People's Bank of China decided to

Figure 1. China's real GDP growth, YOY



Source: Bloomberg

loosen its monetary policy and lowered interest rates and the reserving ratio. In addition, the domestic currency of China depreciated and the exchange rate band of the Yuan was expanded. A further slowdown in China's growth rates is anticipated. Structural reforms, optimization of the economic development methods and implementation of innovations will take some time to be implemented and to be given additional incentives for growth.

The economic situation in the EU is gradually improving (Figure 2). Since 2010, the European Central Bank has been taking measures to stir up the economy, such as the quantitative easing policy as well as introduction of negative interest rates.

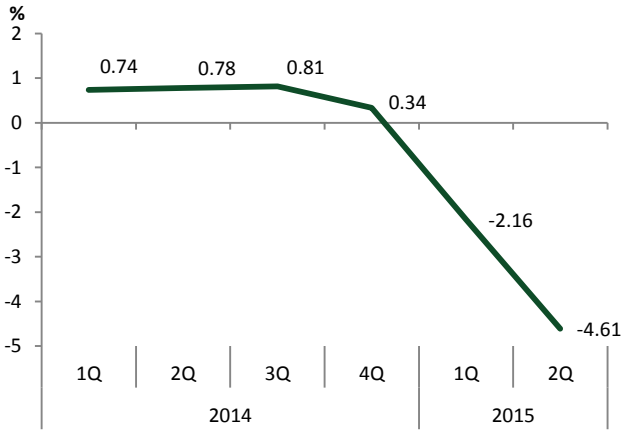
With depreciation of the Euro against the US Dollar and with declining world oil prices the economic growth in the EU is gradually increasing. Depreciation of the Euro leads to an increasing net exports. Falling oil prices resulted in the increased disposable income of the population and increased consumption. However, risks of slowing rates of the economic growth in Europe are still there, because of retaliatory sanctions on the part of Russia, among other things. In addition, the "cooling" of China's economy may slow down recovery in the EU countries. In future, the current growth rates are expected to persist, promoted by the intention to continue pursuing the stimulating monetary policy of the ECB.

At present Russian economy is in recession (Figure 3). A dramatic drop in the world oil prices and deterioration in the terms of trade have negatively affected the economic activity. In the environment of increased devaluation expectations observed the consumer demand shrunk and the slump in the investment activity accelerated. These factors continue to affect the Russian economy in a negative way, which may have impact on future growth rates. However, the rate of decline in the GDP is expected to slow down in the coming quarters.

Figure 2. EU's real GDP growth, YOY

Source: Eurostat

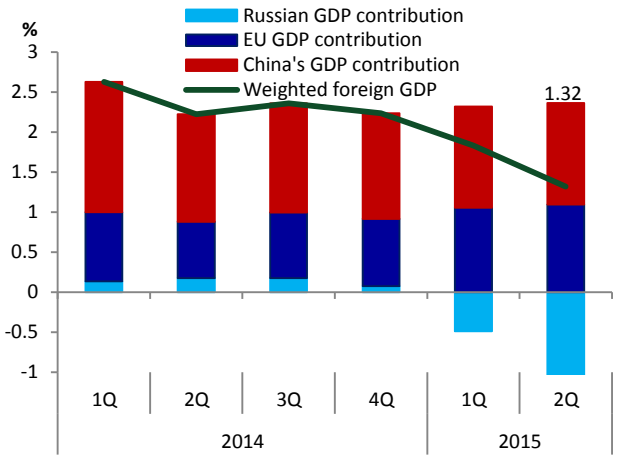
Figure 3. Russia's real GDP growth, YOY



Source: Rosstat

Weighted external GDP calculated on the basis of Kazakhstan's international trade structure, serves as evidence that the cumulative impact of the economic growth in the countries-main trading partners slows down the GDP growth in Kazakhstan (Figure 4). So, the situation in the European Union and China is generally positive and stable in terms of the economic growth. However, the decreasing economic activity in Russia is conductive to the decline in the growth rates in Kazakhstan.

Figure 4. Weighted external GDP, YOY



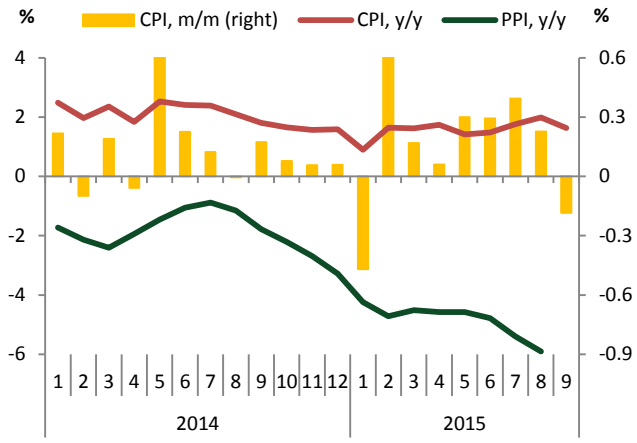
Source: NBRK's derivations

1.1.2. Price Indices

Inflation in China is at a fairly low level, which is mainly determined by the slowing economic growth in the country (Figure 5). The main reason for the decrease in the food price index (FPI) is the fall in prices for foodstuffs because of declined world food and energy prices.

A steady, months-long decline in producer prices reflects the downturn in the housing market in China, which resulted in excessive supply of construction materials that were used. Continuing decline in the producer prices may serve as a signal of a further decrease in the inflation rates.

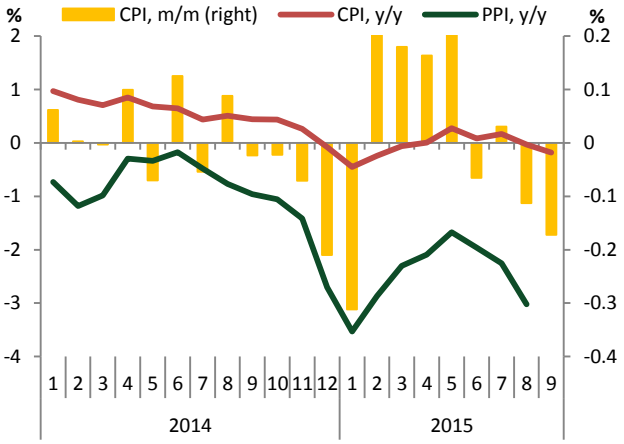
Figure 5. Inflation in China



Source: National Bureau of Statistics of China

Inflationary processes in the European Union in July and August 2015 reflected positive trends in the economic growth of the European Union, remaining positive in annual terms (Figure 6). However, in September 2015 consumer prices decreased in annual terms. The deflation was observed in Spain, Greece, and Germany. Given further positive forecasts regarding recovery of the economic growth, the inflation is expected to slowly move upwards. At the same time, deflation risks still exist.

Figure 6. Inflation in the EU

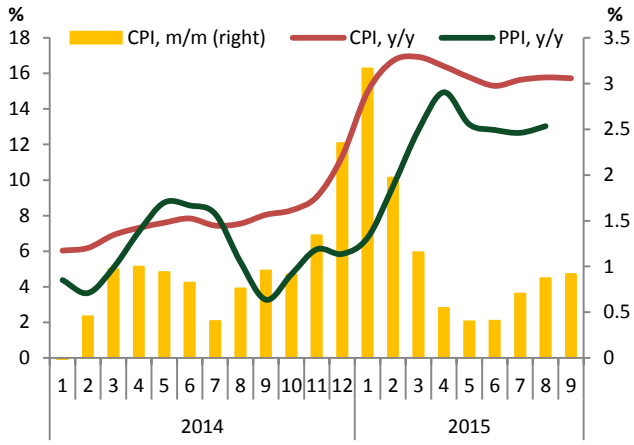


Source: OECD

Inflation in Russia remains high (Figure 7). In the third quarter of 2015, consumer prices were growing because of depreciating ruble in July-August 2015. The factors which count in favor of the decreasing inflation are low level of consumer demand against the decreasing household real income, constrained monetary environment and prices in foreign markets. However, depreciation of the ruble has led to the inflation pass-through which overweighs the impact of all other factors. Further deceleration of inflation will depend primarily on the behavior of oil prices, behavior of the exchange rate of the Russian ruble and the rates of recovery of the demand. If the current conditions remain gradual deceleration of inflation will be expected.

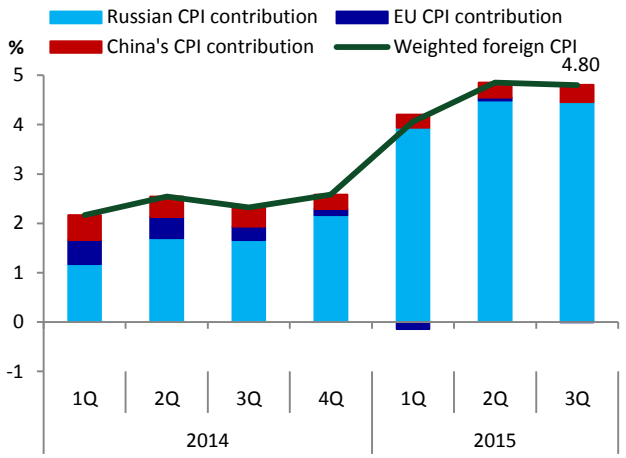
Weighted external food price index calculated for Kazakhstan's trade with main trading partners is conductive to the increasing inflation in Kazakhstan (Figure 8). Inflation in the EU and China is low and does not have a significant impact on their domestic inflation. At the same time, high inflation in Russia leads to the growth in the effective external food price index. Thus, a cumulative external contribution to inflationary processes in Kazakhstan is conductive to their acceleration.

Figure 7. Inflation in Russia



Source: Rosstat

Figure 8. Weighted external CPI

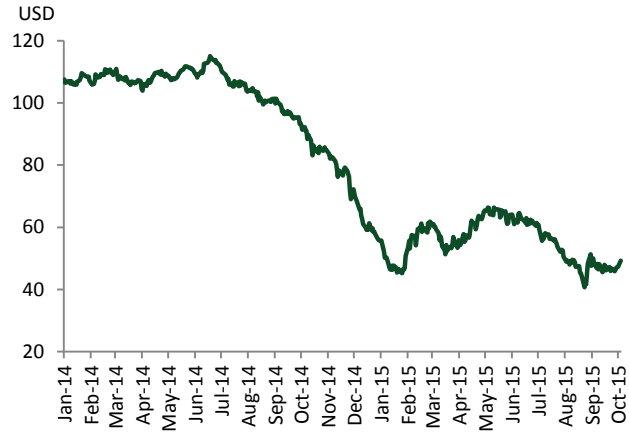


Source: NBRK's derivations

1.2. Situation in the Global Markets

The ratio between the demand for and supply of oil in the global markets **still represents a key factor in the dynamics of oil prices** (Figure 9). After recovery in March-May 2015, the world oil price resumed its decline in June-August 2015. The ratio between the demand and supply in the global markets played a key role in the price decline; this was supported by the OPEC's decision not to decrease the production level. A downward pressure on the price was triggered by concerns about significant expansion in oil deliveries from Iran and anxiety about the demand from China. Another factor for the decline in oil price was appreciation of the US Dollar against the

Figure 9. Price of oil (Brent)



Source: Bloomberg

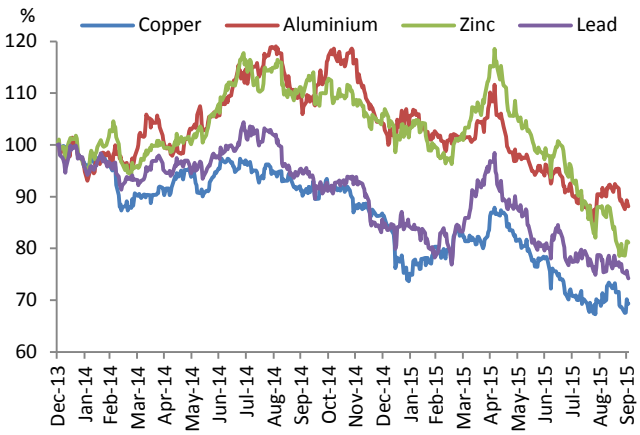
expected increase of the Fed's policy rate. At the same time, the oil price was kept from falling by decreased investments and decreased oil production in the US, as well as by a low volume of oil deliveries from regions of geo-political tension. As a result, the oil price is still at a relatively low level and fluctuates within USD 45-50 range per barrel. Forecasts about the future behavior of oil prices are different. So average expectations of market players suggest the possibility that oil prices would remain at present level till the end of 2015 and will slightly grow in future.

There is still a downward trend in the metals market virtually for all positions (Figure 10). The main reasons are slowing rates of growth in developed and developing countries, which accounts for about a half of the global consumption of metals, as well as appreciation of the US Dollar. In addition, development of a surplus in certain markets, for instance, the copper market, was also conductive to the price decline. Expectations about a further decrease in the growth rates of China which, in its turn, has a slowdown impact on the economic growth in other developing countries including metal exporting countries, will contribute to a further downward trend in the metals market. Upcoming plans to increase the Fed's policy rate may result in the outflow of funds from commodity markets to financial markets and may also enable the decrease in prices for raw commodities.

The foodstuffs market also demonstrates a downward trend (Figure 11).

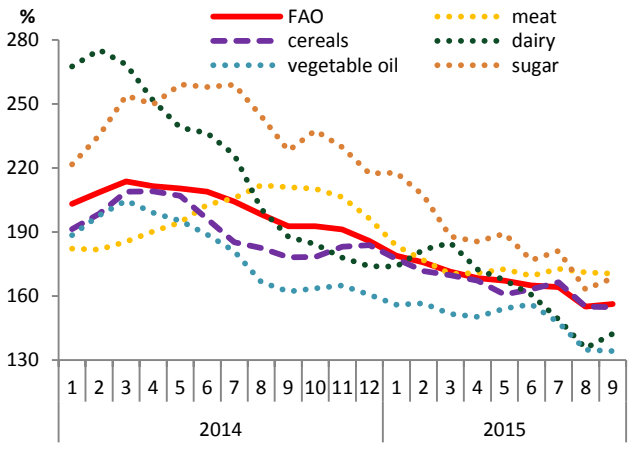
The FAO (UN's Food and Agriculture Organization) Index is gradually decreasing, caused by sufficient accumulations of food stocks including grain and falling world energy prices. The record-high crop in 2015 also influenced the decline in food index on grain cultures. The FAO Index is expected to go down further. However it should be noted that generally a downward trend is limited due to a low elasticity of foodstuffs consumption versus the price. To this end, the decreasing trend may slow down and stabilize at a certain level.

Figure 10. Metals price index



Source: Bloomberg

Figure 11. FAO Index



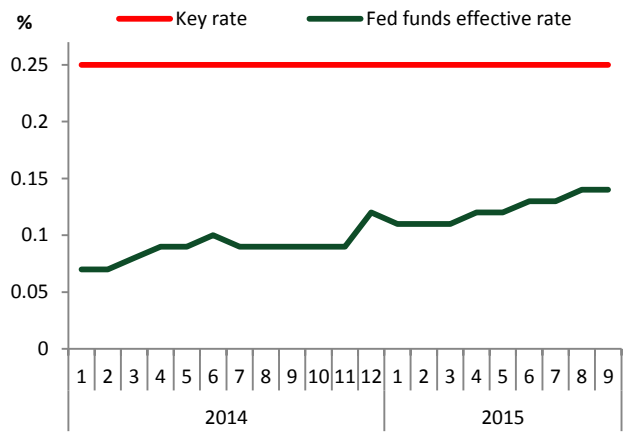
Source: UN FAO

1.3. Financial Environment in Foreign Markets

1.3.1 Money Market Rates

At present, **the US Federal Reserve System Policy Rate** and market rates remain low (Figure 12). Nonetheless, the economic growth indicators and other indicators in the US have a positive trend. So, sustainable growth of consumer expenditures is observed. Due to this there is a probability that the Fed's policy rate will be increased soon and the monetary policy will "normalize". At the same time, less favorable prospects of developments in the emerging economies and in the global markets may be a reason increase the rate sometime later.

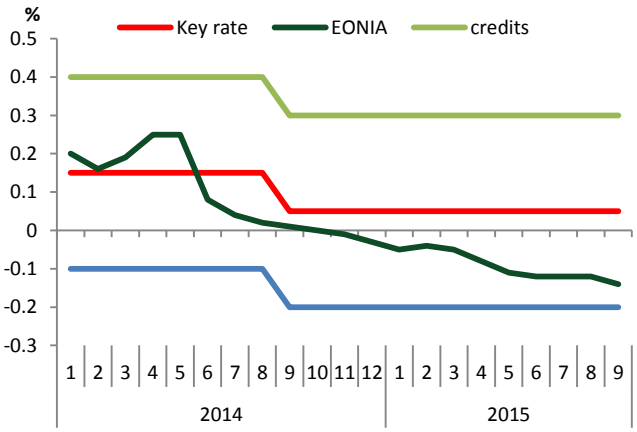
Figure 12. US rates



Source: Reuters

Europe demonstrates moderate rates of recovery; therefore, the refinancing rate was left at a record low level of 0.05% (Figure 13). Moreover, the European Central Bank pointed to the possibility of expanding the quantitative easing program, should there be a need in economic stimulus, which may be dictated by downside risks of the emerging markets.

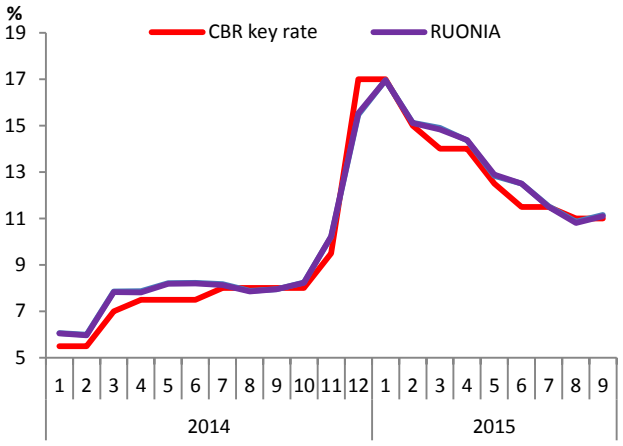
Figure 13. EU rates



Source: Reuters

High interest rates are observed in the Russian market (Figure 14). The Bank of Russia takes decisions about the level of its key rate subject to the change in the balance of inflation risks and risks of economic slowdown. In August 2015, the Bank of Russia lowered its key rate to 11% per annum because of lower inflation risks and permanent risks of significant economic slowdown. In future, the speed and the magnitude of the interest rate change will depend on the behavior of world energy prices, as well as the ability of the economy to adapt to external shocks.

Figure 14. Russia's rates

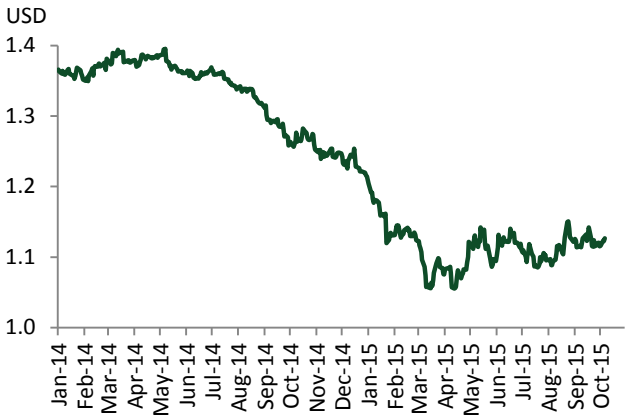


Source: Reuters

1.3.2 Foreign Exchange Rates

In the third quarter of 2015, **the exchange rate of the Euro** remained stable, fluctuating within 1.09-1.15 versus the US Dollar (Figure 15). The factors contributed to a more stable behavior of the Euro may include the impact from solution of the Greece issue. Worries about expansion of the credit crisis in Europe and possible collapse of the Euro zone fell short; this has become a supporting factor for the Euro and discontinued the trend of a steady depreciation.

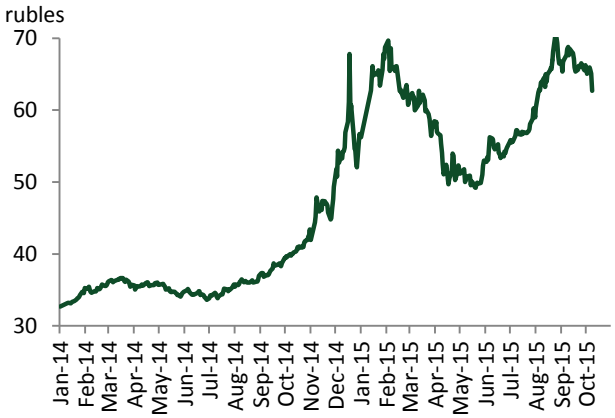
Figure 15. EUR/USD exchange rate



Source: Reuters

The Russian ruble has been demonstrating a steady depreciation trend throughout the third quarter; this resulted from the decline in oil prices in the global markets (Figure 16). Prevalence of commodities in the export and decline in oil prices lead to deterioration in the terms of trade and determine the behavior of the domestic currency exchange rate.

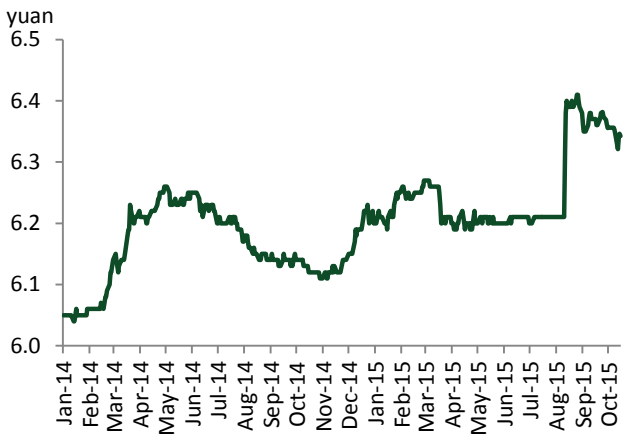
Figure 16. RUB/USD exchange rate



Source: Reuters

Chinese authorities **devaluated their domestic currency** in August 2015 in order to boost up exports and support economic growth (Figure 17), and changed approach to implementation of the exchange rate policy. According to Chinese authorities, the Yuan exchange rate will become more flexible and the market framework for setting its exchange rate will be improved.

Figure 17. CNY/USD exchange rate



Source: Reuters

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 January-August 2015, the situation in the money market was generally stable after a significant upsurge in the level of interest rates in the money market in December 2014 (Figure 18), resulted from decrease in the excess tnge liquidity amid high devaluation expectations of market players.

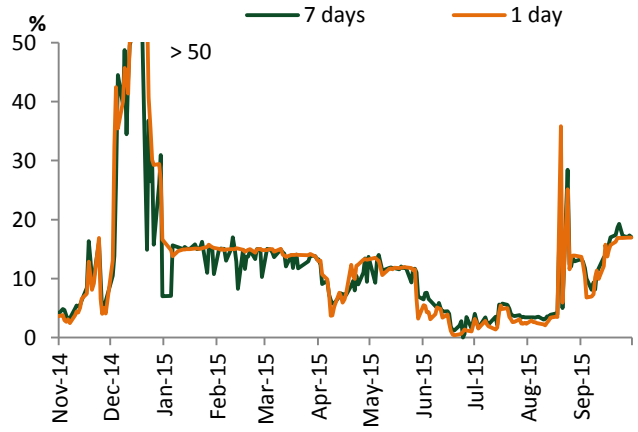
The National Bank in order to manage short term liquidity in the domestic money market in January-August 2015 carried out open market operations and standing facilities operations through the reverse repo "overnight" operations in the sector of automatic repo on Kazakhstan Stock Exchange and FX swaps "overnight" (Figure 19).

As a result of the National Bank's operation on provision of tenge liquidity from January 2015, the money market rates decreased. As the demand for liquidity stabilized during the first half of 2015, the volumes of the National Bank's participation were gradually decreasing. In April 2015, the National Bank discontinued reverse repos overnight, and in May 2015 – FX swaps overnight. In June and July 2015, the money market rates were forming without the National Bank's involvement.

As part of the liquidity withdrawal, in the first half of 2015 the National Bank attracted deposits and conducted foreign currency interventions in the foreign exchange market. The main instrument for liquidity withdrawal was the sale of foreign exchange that was conducted in order to reduce the pressure on the exchange rate.

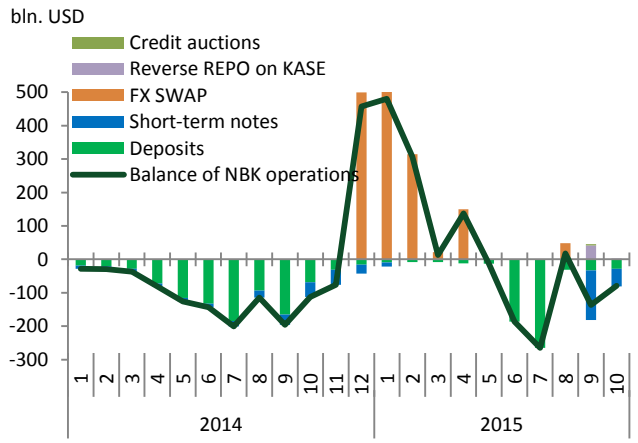
Because of unfavorable external conditions of a long term nature such as low price of oil and other raw commodities, depreciation of domestic currencies of countries-main trading partners of Kazakhstan, as well as realization of measures to implement the inflation targeting regime as provided for in the Monetary Policy of the Republic of Kazakhstan till 2020, on August 20, 2015 the exchange rate band was abolished and a move to a floating exchange

Figure 18. Daily repo rates



Source: KASE

Figure 19. NBRK's operations in the domestic market



Source: NBRK

rate was made. As a result, a short term jump in the money market rates was observed at end-August 2015.

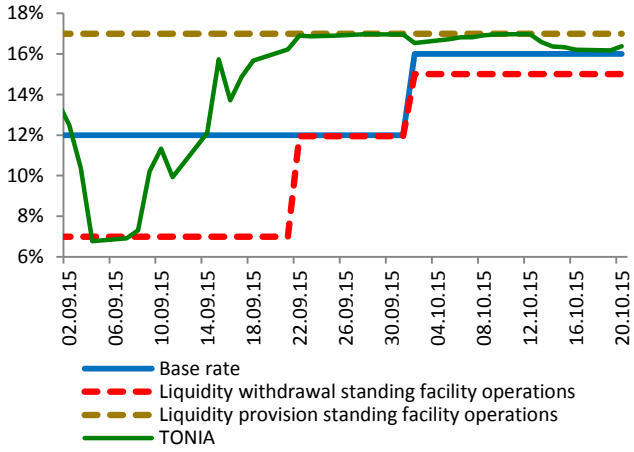
The transition to the floating exchange rate of the tenge allowed the National Bank taking measures to increase the interest rate channel. On September 2, 2015, the National Bank announced the introduction of a base rate – a target rate on one-day operations of the National Bank in the money market at 12%. Interest rates on standing facilities for liquidity provision and withdrawal that set a cap and a floor for fluctuations of the money market rates were set at 17% and 7%, respectively. With a view to reduce volatility of interest rates in the money market, on September 22, 2015, the interest rate floor was increased to 12% (Figure 20).

In the environment of increased pressure on the exchange rate caused by a speculative demand for US Dollars, from October 2, 2015, the National Bank increased the base rate to 16% and narrowed the interest rate band to ±1 pp (Table 1). The base rate was increased with a view to diminish inflationary expectations. The decision to narrow the interest rate band was also aimed to ensure a better control over interest rates and to strengthen their role in achieving inflation target.

With introduction of the base rate in September 2015, the National Bank started to conduct operations to regulate the Tenge liquidity via the open market instruments and standing facilities. As part of open market operations for liquidity provision, credit auctions were launched. With a view to withdraw the Tenge liquidity, the National Bank issued short term notes and conducted direct repo operations on the stock exchange. As a result, the TONIA rate in the money market had stabilized around the base rate level.

Thus, as a result of tightening of its monetary policy by the National Bank, based on results of operations conducted in September 2015, the volume of liquidity withdrawal exceeded that of liquidity provision, whereas in the first half of the 2015 the National Bank was

Figure 20. Interest rates on the NBRK's current operations



Source: NBRK

Table 1. Monetary policy Instruments of the NBRK

	Type of Instrument	Instrument	Timeframe for Provision/ Withdrawal
Liquidity provision	Standing facilities	Reverse repos on KASE	1 day
	Open market operations	Reverse repo[1]	1 day
Liquidity withdrawal		Direct repo on KASE	1 day
		NBRK's notes[2]	1 month
	Standing facilities	NBRK's deposits	7 days
		Direct repo on KASE	1 day

[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 of about 17%

Source: NBRK

mainly providing the Tenge liquidity.

However, the minimum reserve requirement framework did not have a significant impact on the situation with the Tenge liquidity of the banking sector. Despite the shortage of the Tenge liquidity in the money market, during January-September 2015 the volume of reserve assets of banks exceeded the required reserving volume by 2.1 times on average (Figure 21).

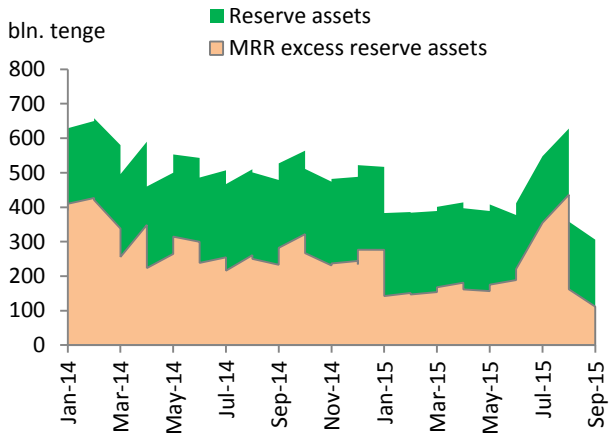
As part of enhancement of this framework, from March 20, 2015 the "Rules on minimum reserve requirements including the structure of bank liabilities taken for calculation, conditions for compliance with minimum reserve requirements, and the reserving procedure" were approved and minimum reserve requirement ratios were also set.

With a view to further promote the growth in bank liabilities in the domestic currency and to reduce the financial sector's dollarization, a more detailed framework of reserve liabilities was introduced. It suggests separation of liabilities in the Tenge and in foreign currency while preserving the principle of residency and maturity.

Additionally, with a view to improve banks' abilities to manage their liquidity, the procedure for calculation of minimum reserve requirements was changed, while preserving the averaging principle. From June 23, 2015, the periods for determining minimum reserve requirements and for building reserve assets is 28 calendar days and the two periods directly follow one another. This allows the National Bank assessing the need for conducting open market operations and improving the quality of liquidity management.

Apart from that, with a view to determine a required volume of demand for liquidity on the part of banks as part of compliance with minimum reserve requirements, the National Bank limited the share of cash in the structure of reserve assets. The volume of the Tenge cash in the banks' cash departments for the purpose of compliance with minimum reserve requirements accounts for not more than 70%

Figure 21. Minimum reserve requirements



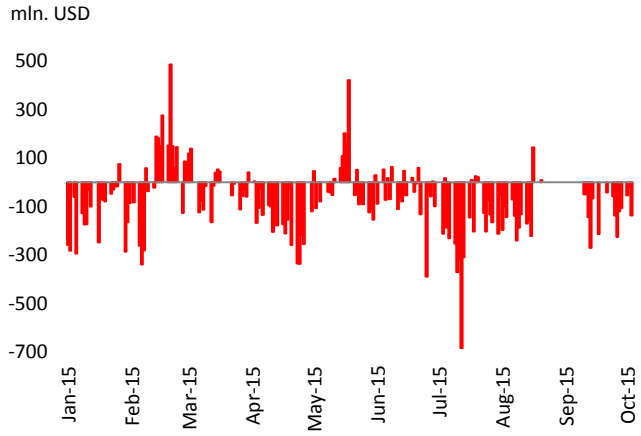
Source: NBRK

from June 23, 2015, and from January 5, 2016 – for not more than 50% of the average amount of minimum reserve requirements for the period for which minimum reserve requirements are determined.

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

In 2015, due to unfavorable external environment with low prices of raw commodities, low value of the Russian ruble as well as expectations about the increase in the Fed's rate, depreciation expectations of tenge versus the US Dollar persisted. One of this the foreign exchange market was encountering significant pressure caused by excessive speculative demand for the US Dollars both on the part of large players and the population. Within framework of its exchange rate policy the to smooth dramatic fluctuations of the exchange rate, the National Bank conducted interventions to satisfy the speculative demand (Figure 22).

Figure 22. Dynamics of the NBRK's interventions

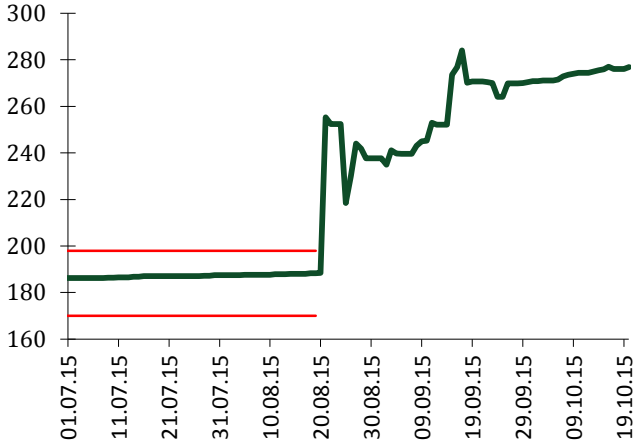


Source: NBRK

From the beginning of 2015 and up to the time when the decision to move to a floating exchange rate was made, the exchange rate of the Tenge was maintained within the set exchange rate band and was characterized by a gradual depreciation.

From August 20, 2015, free float exchange rate of the tenge was set based on the market factors of demand and supply. At the same time, the National Bank reserved the right to conduct interventions to ensure the price and financial stability (Figure 23). At the close of the morning session on the Kazakhstan Stock Exchange (KASE) on August 20, 2015, the tenge depreciated to KZT 255.26 per 1 US Dollar. At the end of August and at the beginning of September 2015, the situation in the foreign exchange market had stabilized and the exchange rate was mainly maintained within KZT 240-245 per 1 Dollar. However, in mid-September 2015, speculative demand for the US Dollars increased which triggered dramatic depreciation of the tenge. During these periods trading volumes in the foreign exchange market

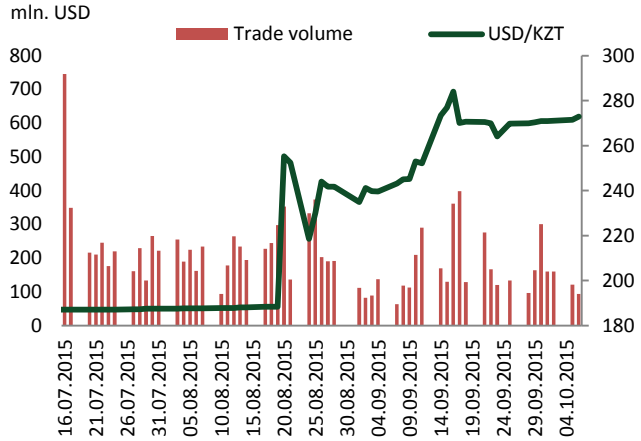
Figure 23. Dynamics of the exchange rate of the Tenge versus the US Dollar



Source: NBRK

were insignificant, and this fact also serves as an evidence of a speculative motivation of the demand for foreign exchange. Given excessive exchange rate volatility, the National Bank made the decision to conduct foreign currency interventions to stabilize the situation in the domestic foreign exchange market. Foreign currency interventions were aimed to decrease the exchange rate volatility (Figure 24).

Figure 24. Dynamics of the stock exchange rate and the trading volume in the FX market

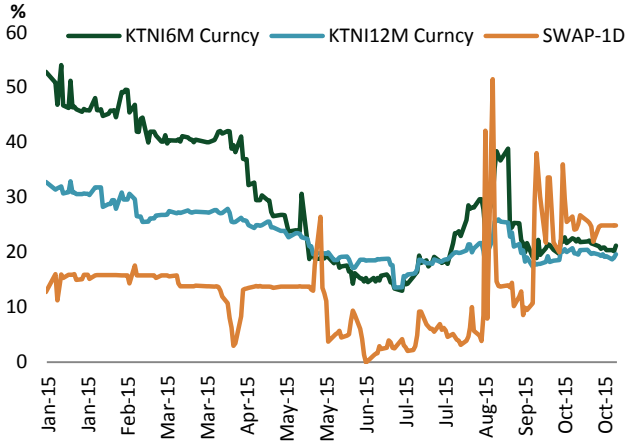


Source: KASE

Despite significant depreciation of the tenge as a result of transition to the floating exchange rate regime, high devaluation expectations still persist, which is amply demonstrated by the dynamics of NDF quotes of the USD/KZT currency pair (Figure 25).

Thus, in August-September 2015, the situation in the foreign exchange market significantly influenced money market. High devaluation expectations and the tenge exchange rate volatility intensified inflation expectations and increased the risks of inflation exceeding its target band in the medium term. To this end, the National Bank's participation in the foreign exchange market contributed to stabilization of the foreign exchange market and the money market.

Figure 25. Yield dynamics on NDF of the USD/KZT currency pair and FX swap overnight



Source: Bloomberg

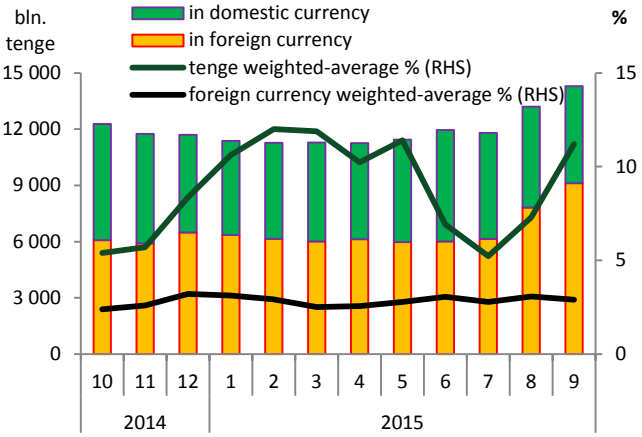
2.1.3 Deposit Market

From the beginning of 2015, the funding base of banks has been building up under external economic shocks and moderate growth of the economy. A high cost of foreign funding encouraged banks to build up the funding base from the domestic sources, mainly non-bank legal entities. The share of deposits of legal entities in the overall deposit volume accounts for 60.4% at end-September 2015 (Figure 26).

In the structure of funding sources, the share of foreign currency deposits increased significantly (63.8%) as a result of persisting devaluation expectations among market entities and the population.

In the first half of 2015, weighted average rates on attracted deposits in the Tenge remained relatively stable. Stabilization and the decrease in short term money market rates from June 2015 have helped decreasing interest rates on deposits in the domestic currency. In August-September 2015, the increased short term money market rates and their high volatility led to the increase in interest rates on the Tenge deposits from 6.9% in June 2015 to 11.2% in September 2015.

Figure 26. Volumes and interest rates in deposits in the Tenge and in foreign currency



Source: NBRK

2.1.4 Credit Market

During 2015, the growing dollarization of deposits that resulted in the decreased funding of banks in the tenge, the falling demand for foreign currency credits as well as subdued business activity and purchasing capacity of households negatively influenced bank credits to the economy.

In the first half of 2015, the volume of credits to the economy remained virtually at the same level. In June 2015, the volume of credits to the economy decreased significantly, mainly, as a result of a merger of two large banks along with the transfer of assets and liabilities and exit of one of the two banks from the banking system (Figure 27).

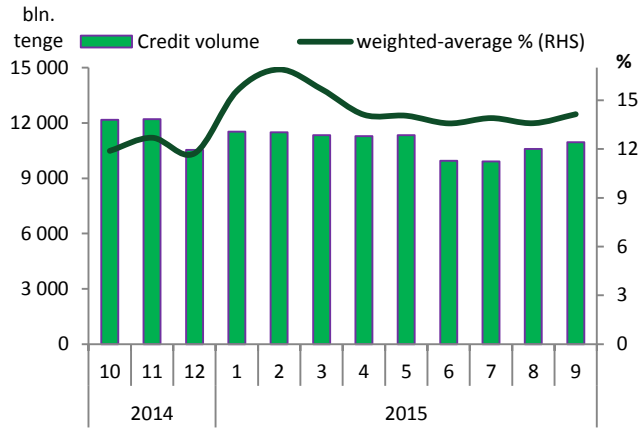
Measures taken by the National Bank to reduce the share of non-performing loans also contributed to decrease in the volume of lending.

Besides, high devaluation expectations limited the capacity of banks to provide credits to the economy.

As of the end of September 2015 versus the beginning of 2015, the volume of credits to the economy decreased by 2.2%.

Weighted average interest rates on credits in the domestic currency remained high and accounted for 14.4% in case of non-bank legal entities and for 17.1% – in case of individuals.

Figure 27. Credit volumes and interest rates



Source: NBRK

2.1.5 Monetary Aggregates

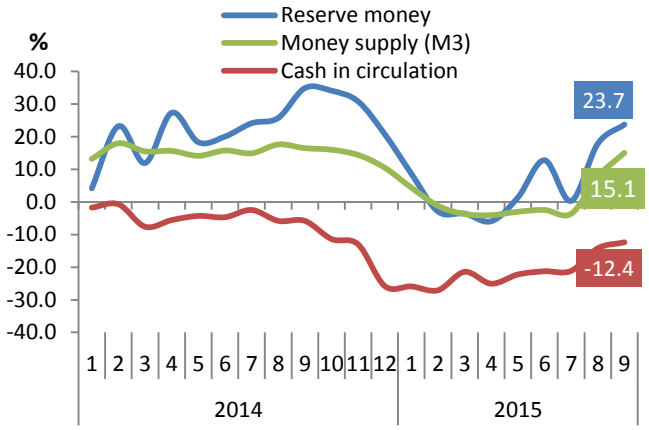
In August-September 2015, after transition to a floating exchange rate of the Tenge, the money supply (M3) increased significantly in annual terms, reversing its downward trend that has been observed since February 2015. In September versus September 2014, the reserve money expanded significantly. In August-September 2015, cash in circulation demonstrated positive growth; however, on a year-over-year basis the growth rates were still negative (Figure 28).

In September 2015 versus September 2014, the reserve money expanded by 23.7%, mainly as a result of the Tenge depreciation. Alongside with that, net claims on the Government and claims on banks decreased.

The main source for the growth in the money supply in September 2015 versus September 2014 was the growth in liabilities of non-bank financial organizations to banks (Figure 29).

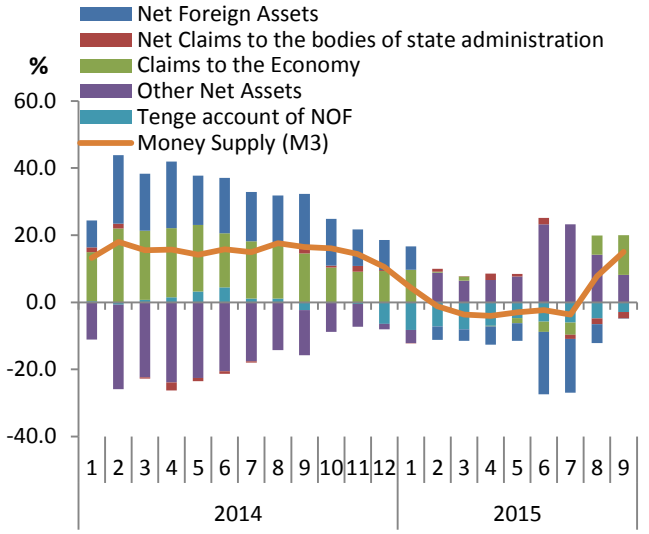
During February through July 2015, the decreasing money supply is explained by weak lending to the real sector of the economy by banks.

Figure 28. Dynamics of monetary aggregates, YOY



Source: NBRK

Figure 29. Dynamics of contributions to the formation of money supply, YOY

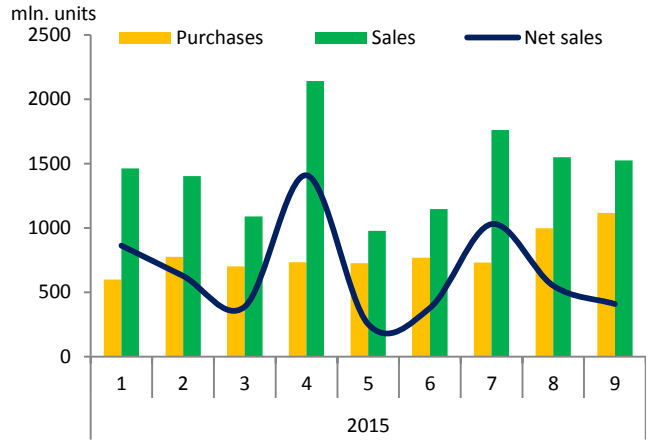


Source: NBRK

The increase in the cash in circulation is explained by decreased volumes of purchases of foreign cash by population, which is proved by the data on foreign exchange purchase/sale in the domestic market (Figure 30).

In general, by the end of 2015 no significant acceleration in the growth of money supply is expected, given a weak growth of bank lending to the economy and a limited potential of influence by budget expenditures. Thus, the money supply did not have a significant impact on inflationary expectations of population.

Figure 30. Purchase/sales of US Dollar cash by foreign exchange offices



Source: NBRK

2.2 Prices and Inflationary Processes

Consumer Price Index

Since the beginning of 2015, inflationary processes in Kazakhstan have been slowing. Since the second quarter of 2015, the annual inflation has been below the target band of 6-8% set for 2015.

One of the factors that decreased the inflation rate in 2015 was low business activity accompanied by decreased growth rates of output in key sectors of the Kazakh economy. Amidst low business activity and limited consumer demand, the domestic lending volumes are decreasing and the growth rates of the money supply are still not high.

The impact of external factors also contributed to decrease in inflation background in the economy. In particular, declining world prices of oil, metals as well as foodstuffs became the key factors that decelerated inflation.

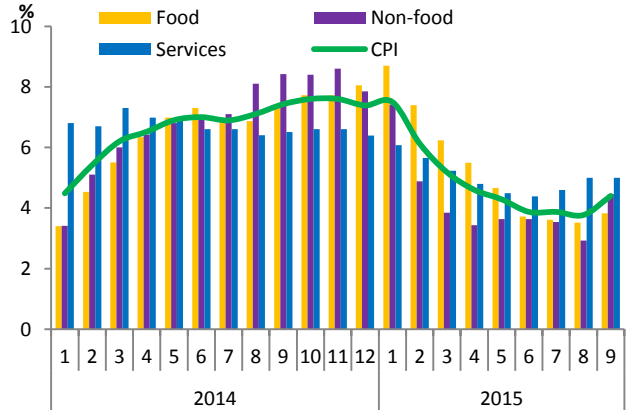
At the beginning of 2015, a constraining factor for inflation in Kazakhstan was the imbalance between the Russian ruble and the Kazakhstani tenge, when the ruble depreciated significantly at the end of 2014. Depreciation of the ruble versus the Tenge led to the cheapening of Russian goods in the Kazakhstani market. Relatively cheap goods from Russia increased the pricing competitiveness in the Kazakhstani market. This influenced the growth in the demand for Russian products among consumers in Kazakhstan; producers of goods were forced to reduce prices for their goods. This caused the decrease in the inflation rate

In March 2015, prices for gasoline regulated by the government were lowered. Given the multiplicative effect, in the environment of decreased transport costs within the cost of goods, goods were cheapening.

An important factor accountable for slowdown in the inflation rates is the decreasing consumer demand against declining world oil prices and household cash income.

In September 2015, the annual inflation accounted for 4.4%, having increased versus

Figure 31. CPI and its components, YOY



Source: CS MNE RK

August (3.8%) (Figure 31). The main factor for accelerating inflation is the effect of the Tenge depreciation pass-through on the price growth.

The major price growth was among paid services, which increased by 5.0% in terms of price on a year-over-year basis. The growth in tariffs for services was mainly associated with such internal factors as a high level of losses during transportation, a high wear and tear of equipment and networks. With a view to finance modernization of networks and equipment, in addition to financial support from the government (including subsidies), natural monopolists fall back on increasing tariffs.

Foodstuff prices increased by 3.8% on a year-over-year basis. An emerging imbalance between the Russian ruble and the Tenge as well as falling consumer demand were conductive to the decreased rates of growth in prices for foodstuffs.

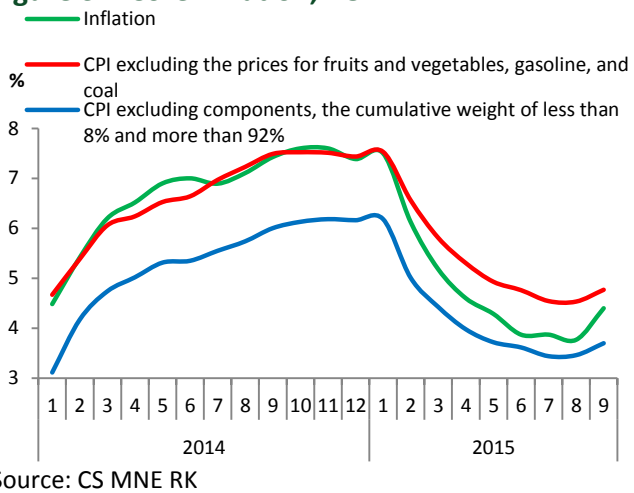
Non-food products increased by 4.5% in terms of price on a year-over-year basis. The main factor for that is the cheapening of goods imported from the neighboring countries as well as cheapening of gasoline against declining oil prices and depreciation of the Russian ruble.

Core Inflation

The dynamics of core inflation has been showing a downward trend since the beginning of 2015, both as the inflation (Figure 32). Decreasing overall business activity, decreasing consumer demand and disparity between the exchange rate of the Tenge and the Russian ruble were conductive to the slowdown in inflation as compared to the core inflation.

Declining prices for fruits and vegetables during the harvest season represent a constraining factor for the slowdown in the core inflation. It is also worth noting that after the decision made by the Government of the Republic of Kazakhstan about its deregulation of prices for gasoline AI-92/93 with a view to eliminate the shortage in the country's fuel market, the price of gasoline AI-92/93 increased from KZT 108 to KZT 125-130 on average from September 2015.

Figure 32. Core Inflation, YOY



Source: CS MNE RK

Prices for Industrial production

In September 2015, producer prices (including production services) declined significantly (by 23.7%). The increased supply of relatively cheap consumer goods from the neighboring countries created the pricing competitiveness in the Kazakhstani market, which became the main reason for declined prices of industrial products. Prices for industrial output and manufactured products decreased significantly (by 23.7% and 26.2%, respectively), whereas production services increased in terms of price (by 8.7%) (Figures 33, 34).

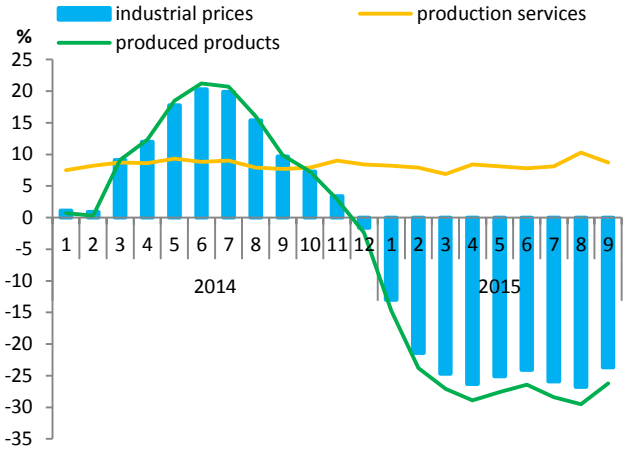
Apart from that almost a two-fold drop in world oil prices contributed to the price decline. Prices for the output of the mining industry and quarry operations declined significantly (by 36.8%).

The growth in prices for production services continues due to the increased prices for electricity supply, gas and vapor supply and air conditioning as well as for water supply, sewage system and control over waste collection and distribution.

In September 2015, prices for agricultural production increased insignificantly (by 2.1%). The prices of plant production increased (by 6.6%), whereas the animal production cheapened (by 4.7%). The growth in prices for the plant production is to a larger extent related to the increased prices for rice, buckwheat, cabbage, onions and durum wheat (Figure 35).

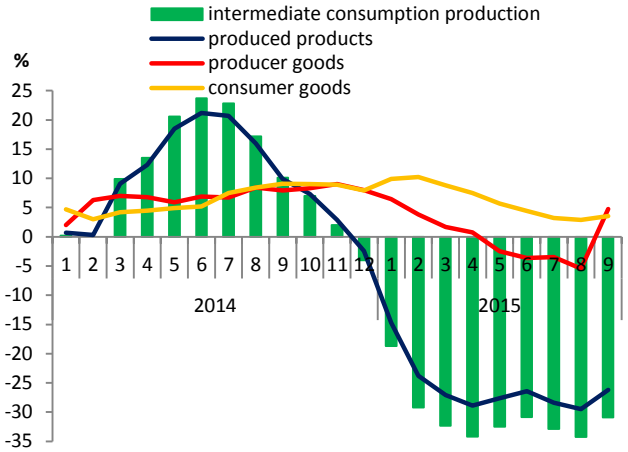
In the structure of energy resources, in the environment of declining world oil prices, virtually all positions demonstrate the decline in prices. Since the beginning of 2015, prices for energy resources have declined significantly (by 22.4%). Primary energy resources and oil products cheapened, and electricity fees increased.

Figure 33. Producer prices, YOY



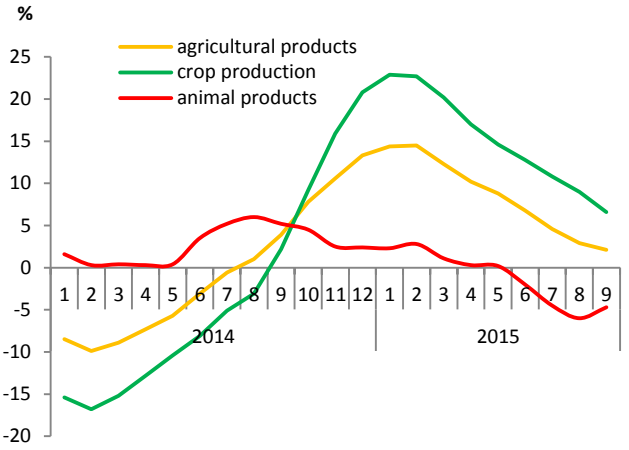
Source: CS MNE RK

Figure 34. Prices of output, YOY



Source: CS MNE RK

Figure 35. Prices for agricultural production, YOY



Source: CS MNE RK

2.3 The Real Sector Developments

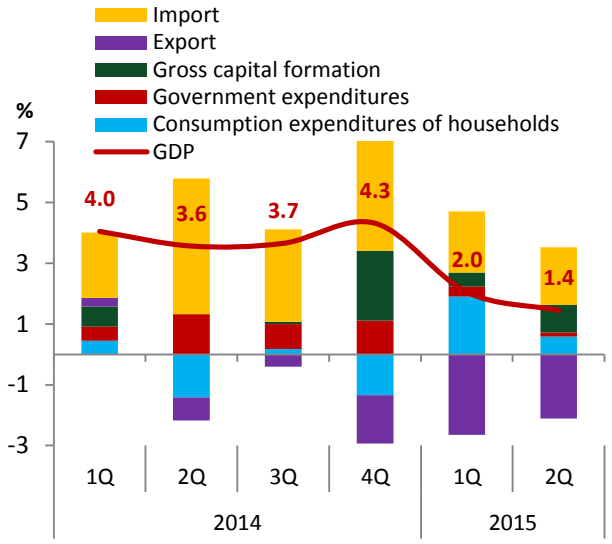
The external factors contributing to the slowdown of the economic growth and deterioration in the terms of trade were the

significant decline in the world prices of oil and metals, the reduced external demand due to deceleration of the Chinese economy and the decreased economic activity in Russia. The internal factor for the decreased rates of GDP growth was the slowdown in the consumer demand. In the first half of 2015, the economic activity remained moderate. In general, the economic activity is expected to slow down further in the environment of negative impact by external factors as well as the pressure on the consumer demand made by depreciation of the domestic currency

2.3.1 Domestic Demand

Increase the net exports still makes positive impact to the economic growth, whereas sizeable contribution of household consumption that was observed in the first quarter of 2015 already dropped in the second quarter. A fall in the prices of oil and metals, the buildup of geopolitical risks, the slowdown of economic activity in China increased the trend of cutback in exports at half-year end. As a result, the GDP growth rates in the first half of 2015 decreased to 1.4% from 2.0% in the first quarter of 2015 (Figure 36).

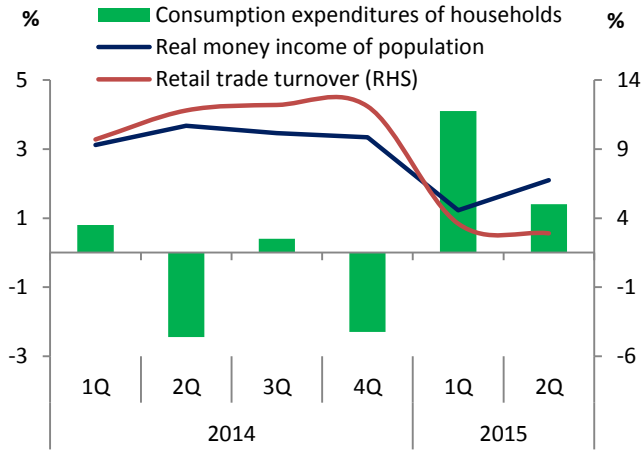
Figure 36. Decomposition of the GDP components by the final consumption method, YOY



Source: CS MNE RK

The decreased rates of growth in the household income and the decreased consumer lending against the tightened lending policy of banks caused the slowdown in the consumer demand. In the second quarter of 2015, the growth in household spending on consumption slowed down causing the slowdown in the growth of retail sales to 2.9%. The growth of retail sales was supported by increased sales of non-food products, which is most likely explained by devaluation expectations and households' propensity to stock up on (Figure 37).

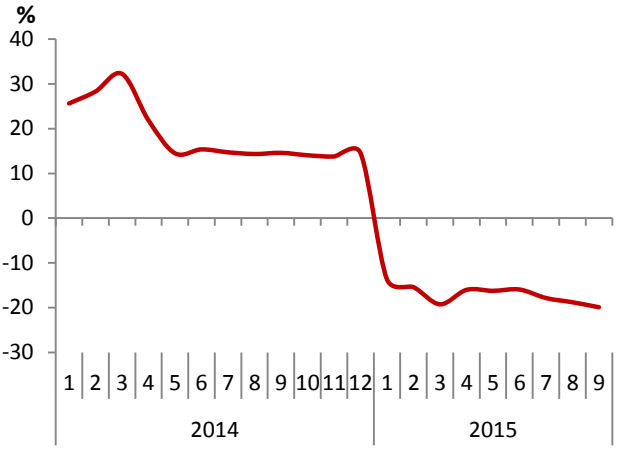
Figure 37. Household consumption, household real cash income and retail sales, YOY



Source: CS MNE RK

A high cost of servicing of retail loans (17% in September 2015) as well as the slowdown in the income growth prevents from taking new loans and puts a strong burden on households. Therefore, based on the performance in January-September 2015, volumes of provided retail loans decreased by 19.9% versus the corresponding period of the previous year (Figure 38).

Figure 38. Growth in the volumes of provided retail loans, YOY

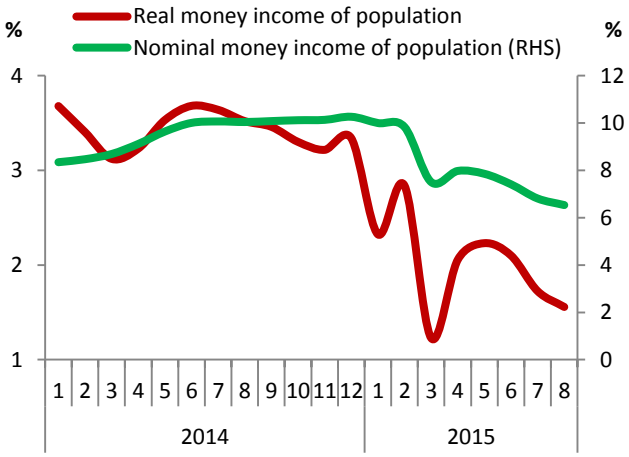


Source: CS MNE RK

Household Income

Deterioration in the financial performance of enterprises caused by the loss of competitiveness by domestic producers because of overvaluation of the real exchange rate of the Tenge and by decreased export revenues, led to optimization of expenditures with regard to decreasing salaries and wages to employees. So, in January-August 2015, the growth in the real cash income versus the corresponding period of the previous year decreased to 1.6% (Figure 39).

Figure 39. Dynamics of Indices of households' nominal and real cash income, YOY



Source: CS MNE RK

Reduction in the budget revenues because of the decreased taxation base as well as the government's plans about the necessity of gradual reduction in the budget deficit resulted in the decreased growth rates of government consumption to 1.9% in January-June 2015 from 4.2% in the first quarter of 2015.

Implementation of government economic stimulus packages helped accelerate the growth rates of gross formation to 3.8% as of the first half of 2015.

Investment Activity

Fixed capital investments have a positive impact on the economic growth rates. During January-September 2015, the growth in fixed capital investments accounted for 3.5% as compared to the same period of 2014 (Figure 40).

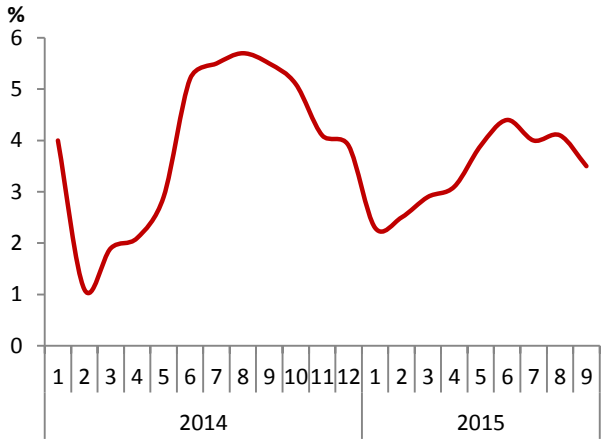
Due to deterioration in the financial performance of enterprises in the first half of

2015, the growth in fixed capital investments was supported by the disbursement of funds allocated from the budget as part of the economy support effort (the share in the total investment volume is 17.1%). However, given high interest rates on bank loans (as of the end of September 2015, the interest rate on the Tenge loans to non-bank legal entities was 13.4%), own funds of economic agents remain the main source of funding for fixed capital investments (the share in the total investment volume is 59.3%). In 2015, the share of government funding of investments increased. Under the "Nurly Zhol" Program, in 2015 KZT 686 bln. will be used from the National Fund to develop the transport and social infrastructure, agriculture, to modernize the public utilities sector, for residential construction and support of the small and medium-sized business in the manufacturing industry.

As per the plant-equipment ratio, there is an increase in investments for construction works and major overhaul of buildings and structures (4.0%), whose share accounted for 54% in the third quarter of 2015 (Figure 41).

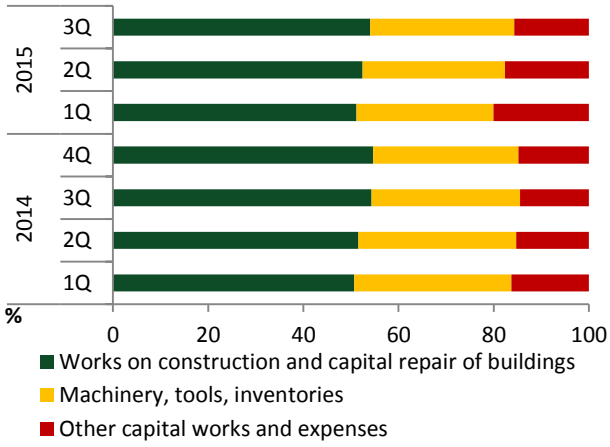
On a year-to-date basis, a significant portion of fixed capital investments falls on the mining industry (33.7%), transport and warehousing (15.5%) and real estate operations (12.9%).

Figure 40. Growth in fixed capital investments, YOY



Source: CS MNE RK

Figure 41. Plant-equipment ratio of fixed capital investments



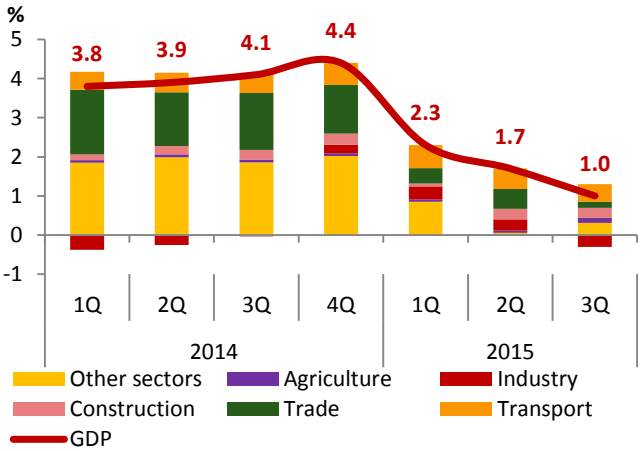
Source: CS MNE RK

2.3.2 Domestic Production

GDP growth rates slowed down and accounted for 1.0% based on the performance of 9 months of 2015.

Decreased volumes of industrial output that reflect the falling prices in the global commodity markets and weakening external demand as well as decreased growth rates in the trade as a result of slowing domestic consumer demand are among the main reasons for slowdown in the economic growth rates. If oil prices remain at the present level, the GDP growth rates are expected to slowdown further. Apart from that, a weakened demand on the part of Russia and China as well as ongoing

Figure 42. GDP decomposition. Contribution by economic sectors to the GDP growth, YOY

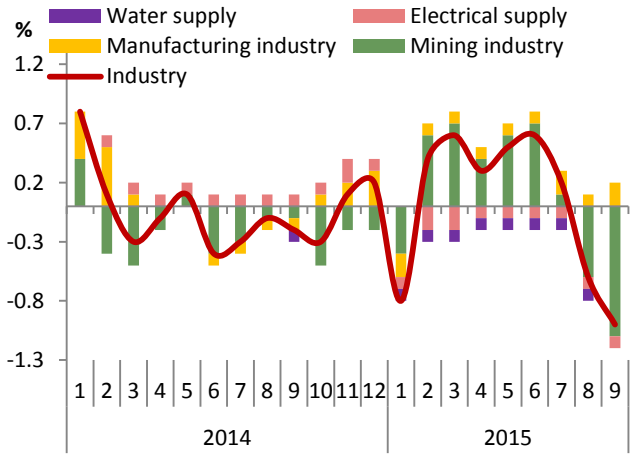


Source: CS MNE RK, NBRK's derivations

delays with the commissioning of the Kashagan offshore oil field will continue putting a downward pressure on the GDP growth (Figure 42).

The decline in the industrial output was caused by reduced production volumes in the mining industry, which decreased by 1.8% as of three quarters of 2015 versus the same period of the last year. The decline in world oil prices was a main factor for cutting oil production, with its share in the industrial output in September 2015 accounting for 38%. Apart from that, decreased external demand on the part of China and Russia and the drop in world prices of metals and metallurgical products resulted in the decreased volumes of production of metal and iron ores. Since the beginning of 2015, extraction volumes have decreased by 2.4% and 18.7%, respectively, versus the same period of 2014 (Figure 43).

Figure 43. Index of physical volume of industrial output, YOY



Source: CS MNE RK

Positive contribution to the industrial production was made by branches of the manufacturing industry. As of the end of 9 months of 2015, the growth accounted for 0.7% versus the corresponding period of the previous year. The factor that contributed to the growth in the manufacturing industry was the implementation of anti-crisis government policy measures aimed to support the economic growth, including the Government Program for Industrial and Innovation Development (GPIID). Such measures were also aimed at implementation of structural reforms for diversification of the Kazakh economy, for increasing the private sector involvement and reducing the reliance on raw commodities. Thus, as part of the "Nurly Zhol" Program, KZT 100 bln. were allocated in 2015 to finance small and medium-sized and large businesses in the manufacturing industry. In addition to that, KZT 70 bln. were designated to finance the domestic machine building enterprises as well as to support exporters in the mining industry, food industry and metallurgy.

Depreciation of the Russian ruble at the end of 2014 – beginning of 2015 resulted in the loss of competitiveness of domestic producers

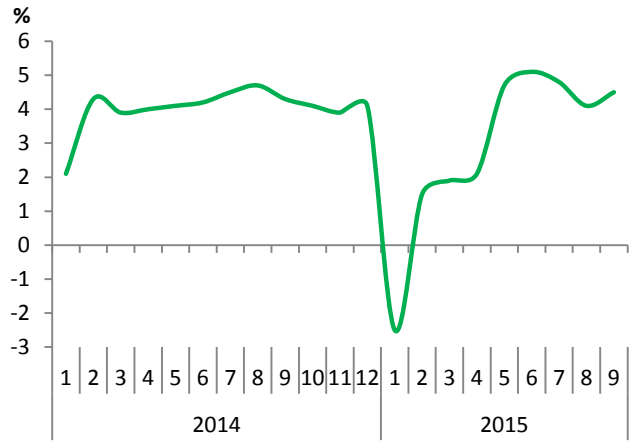
and redistribution of the domestic consumer demand towards imported goods, thus having a negative impact on the manufacturing industry at the beginning of the year.

Along with the manufacturing industry, positive growth was recorded in the construction sector. During January-September 2015, the volume of construction works increased by 4.5% versus indicators of the corresponding period of 2014 (Figure 44). The main growth factors were the growth of investments in residential construction (18.0%) and commissioning of residential buildings (30.5%) (Figure 45). High growth rates of the above factors are determined by allocations from the National Fund for Implementation of the Second Five-Year Industrialization Plan (GPIID), as well as implementation of the "Nurly Zhol" Program. As part of those programs, construction of infrastructure facilities within the territories of free economic zones, residential facilities and shopping and entertainment malls within the territory of EXPO-2017 in Astana, as well as construction and reconstruction of roads of national subordinance were funded. In addition to that, required infrastructure is laid out in implementation of projects under the "Road Map-2020" Program; residential facilities are constructed as part of the "Affordable Housing" Program implementation, and modernization of the public utilities sector is also under way. As a consequence, industrial facilities, transport, warehousing facilities and real estate properties represent the largest share within construction works by types of projects under construction.

As a result of the decreased domestic demand, reduced oil production and the decrease in export revenues, the growth of the services sector which had been the main factor for the GDP growth over the last five years, also slowed down and accounted for 2% for 9 months of 2015 (for 9 months of 2014 – 6%).

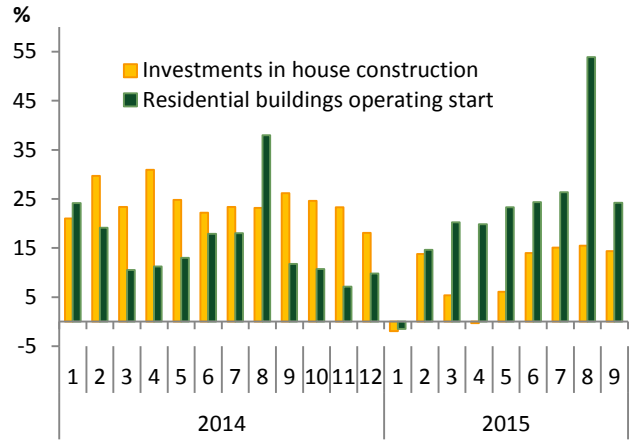
Decreased growth rates of real cash income and persistence of high devaluation expectations of the population coupled with slowing rates of growth in consumer lending

Figure 44. Index of physical volume of construction, YOY



Source: CS MNE RK

Figure 45. Growth of investments in housing construction and commissioning of buildings, YOY

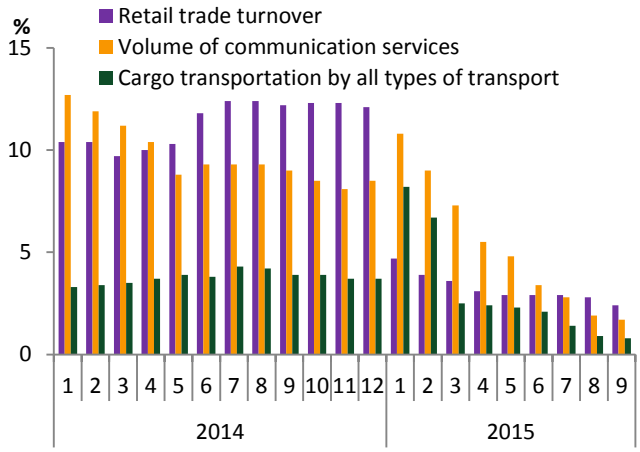


Source: CS MNE RK

due to the tightened lending policy of banks caused the decrease in the consumer demand of the population, thus resulting in the decreased growth rates of key sectors in the production of services. During January-September 2015, the growth rates of retail sales slowed down. Services of telecommunication companies also slowed down their growth and increased by 1.7% during 9 months of 2015 as compared to the same period of the last year. Decreased exports of the mining and industrial output and slowed rates of growth in retail sales caused the decrease in the cargo turnover of the railway transport during January-September 2015 (by 16.7%) and the pipeline transport (by 3%). Which was triggered by decreased exports of the mining and industrial output and slowed rates of growth in retail sales (Figure 46).

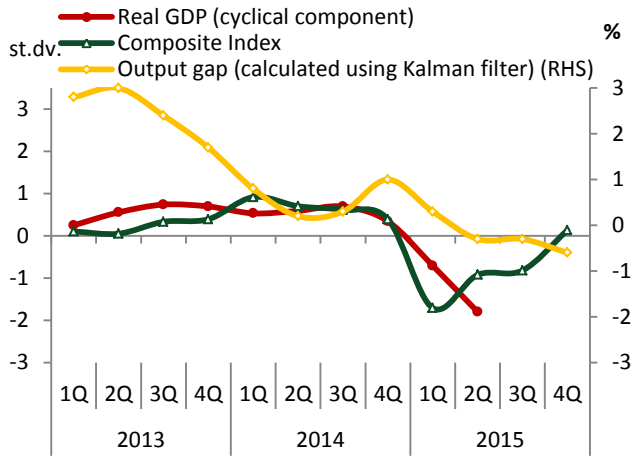
The market research of enterprises from the real sector of the economy indicates that the economic activity has a potential to improve in the second half of 2015 (Figure 47). Nonetheless, given the existing weak demand on the part of main foreign economic partners, primarily Russia and China, as well as the decreasing domestic demand because of slowing rates of growth in household cash income and depreciation of the domestic currency, growth rates of the Kazakh economy are expected to remain low. Besides, negative values of the output gap in the second half of 2015 prove the downward effect of a low consumer demand on the GDP growth.

Figure 46. Index of physical volume of trade, transport and communication, YOY



Source: CS MNE RK

Figure 47. Dynamic of the composite indicator, the GDP cyclical component and output gap



Source: NBRK

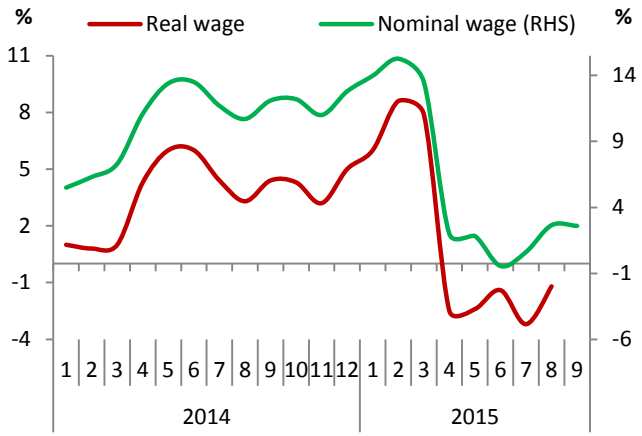
2.3.3 Labor Market and Unemployment

Kazakhstani enterprises, which found themselves under the pressure of substitution of domestic products by imported ones as a result of depreciation of currencies of Kazakhstan's trading partners and a significant decline in commodities prices, encountered the need to optimize their costs as regards payroll expenses.

Thus, the slowdown in economic activity put pressure on the labor market via changes in salaries and wages, and not via the change in

the employment pattern of the population. So, the growth rates of nominal wages decreased dramatically from 15.3% in February to 2.0% in April 2015. For the first time since 2013, the real wage index went down by 1.2% (Figure 48).

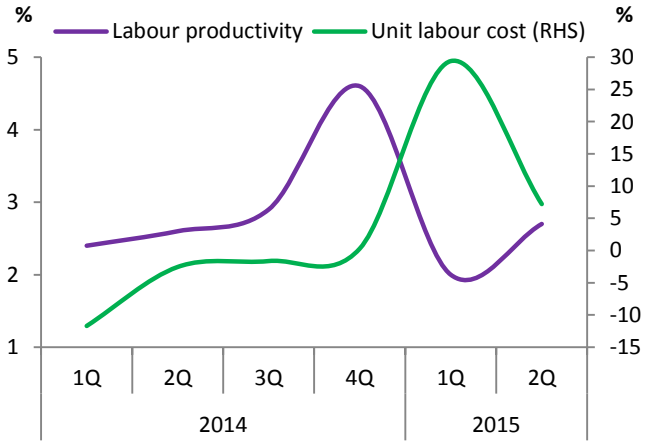
Figure 48. Dynamics of nominal and real wages, YOY, %



Source: CS MNE RK

The imbalance in the rates of growth in nominal wages and the volumes of output in the first quarter of 2015 contributed to the growth in unit labor costs (by 29.4%) and decline rates of growth in labor productivity (2.0%). In the second quarter of 2015 increase in labor productivity (2.7%) and a reduction in growth of unit labor costs (7.2%) was observed against background of slowdown in rates of growth in nominal wages (Figure 49).

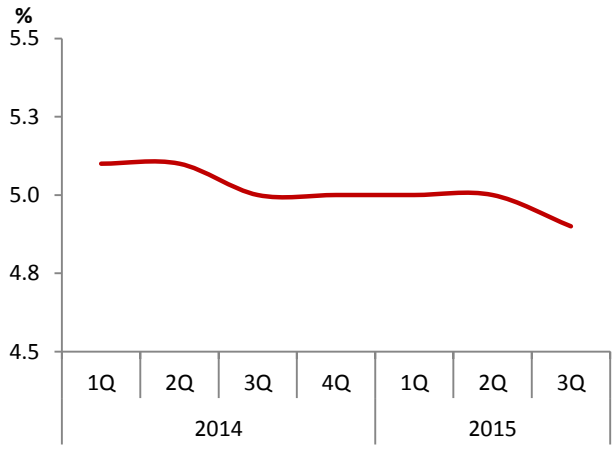
Figure 49. Labor productivity and unit labor costs, YOY



Source: CS MNE RK

A plausible reason for a low level of unemployment (4.9-5.1% over the recent months) is the retention of jobs by companies, although with part-time employment or with unpaid leaves, as well as the government's economic stimulus programs which provide for the creation of additional jobs (Figure 50).

Figure 50. Unemployment rate



Source: CS MNE RK

2.4 Fiscal Policy

As of October 1, 2015, the state budget spending amounted to KZT 5 795.6 bln., exceeding its level of the same period of 2014 by 4.0%. The reason for the growth in costs is a more intensive execution of expenditures approved in the national budget for 2015, including spending on public services of a general nature, debt service and expenses for transport and communication.

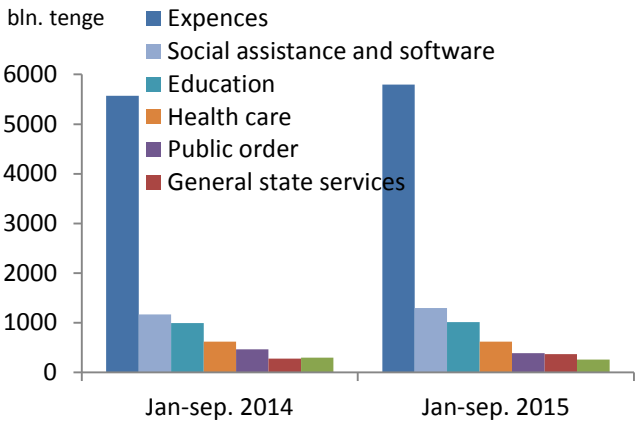
In the structure of the state budget spending, the following items still prevail: expenses related to social aid and social security (22.4%), education (17.5%), and healthcare (10.7%) (Figure 51).

A significant decline in oil prices resulted in decreased tax revenues from the oil sector to the National Fund of the Republic of Kazakhstan. As of October 1, 2015, receipts to the National Fund decreased by 53.3% as compared to the same period of 2014. In the structure of revenues, tax revenues and proceeds from the sale of fixed capital decreased. At the same time, revenues from receipts of transfers increased (Figure 52).

In 2015, the Government has continued to implement the counter-cyclical policy, under which fixed transfers from the National Fund to the budget were increased by 15%; also, additional money was allocated for the "Nurly Zhol" Program. Thus, the decline in oil prices has not made a significant impact on the state budget revenues.

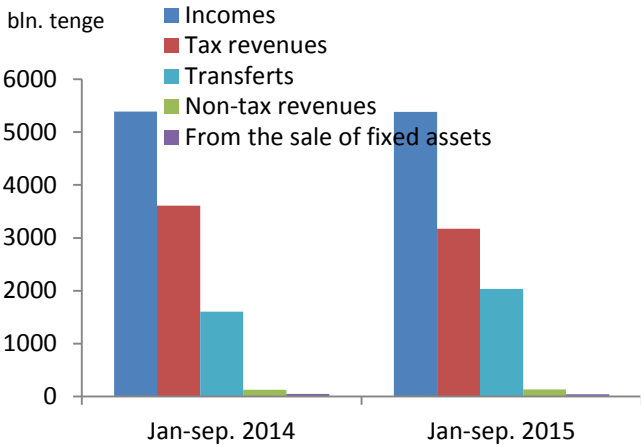
In 2015, resources were allocated from the National Fund to finance the "Nurly Zhol" Program with a view to implement infrastructure projects, develop the public utilities sector, and finance joint projects with international financial organizations as well as to support programs in the field of education and science. Volumes of resources for the government economic support from the National Fund supported the growth of the economy; however, they had a limited impact on the banking sector liquidity.

Figure 51. State budget spending



Source: Ministry of Finance of the RK

Figure 52. State budget revenues

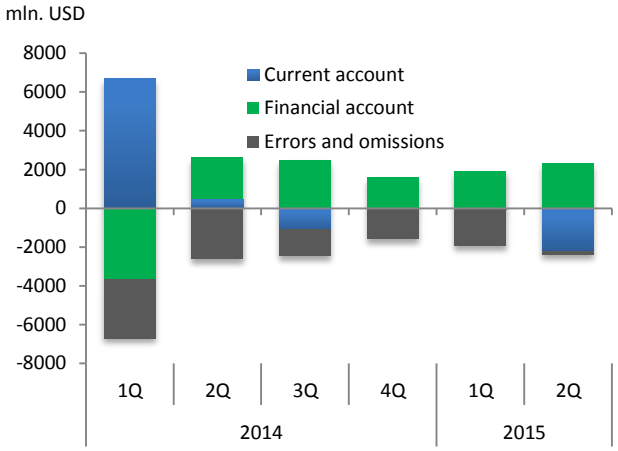


Source: Ministry of Finance of the RK

2.5 Balance of Payments

Over the last year, sharp fall in prices for energy resources and metals – main export items of Kazakhstan – has made a significant impact on the current account and on the balance of payments items in general (Figure 53).

Figure 53. Balance of Payments, Quarterly



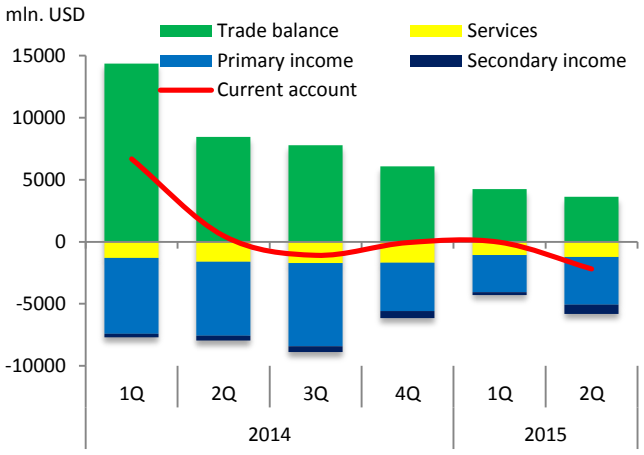
Source: NBRK

Current Account

The overall current account balance in 2014 was in surplus of USD 6 bln., which was determined by the performance in the first quarter. The current account balance has turned to a deficit since the third quarter of 2014.

As of the first half of 2015, the current account deficit exceeded USD 2.2 bln. (Figure 54).

Figure 54. Current account, Quarterly



Source: NBRK

Despite a significant decrease in the balance of trade surplus, shrinkage of negative imbalances on other current account components reduces the pressure on the current account and curbs it from further expansion of its deficit. The highest drop in the negative balance occurred in operations on primary income as a result of decreased proceeds of foreign direct investors from investments into enterprises operating in primary industries of Kazakhstan.

Starting from the third quarter of 2014, export volumes of goods and services have been gradually decreasing amidst declining world oil prices (Figure 55). The decrease in export volumes virtually in all of its components was impacted both by the deteriorating price factor and decreased volumes of physical supplies.

Imports of goods and services have been decreasing since the third quarter of 2014 (Figure 55). Alongside with that, in the first

quarter of 2014 in the environment of adjusted exchange rate of the domestic currency, the decrease in imports was significant. The decrease in imports is mainly caused by the decrease in consumer non-food products, imports of interim products and foodstuffs. Over 30% 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 imports was mainly secured by the drop in average contract prices against the increase in physical volumes of deliveries.

A negative balance on primary income in the first half of 2015 demonstrated nearly a twofold decrease as compared to the same indicator for 2014; this was caused by decreased investment returns of non-residents on direct investments. As of the first half of 2015, a negative balance on returns on foreign direct investments of other sectors amounted to USD 5.2 bln. (USD (-)10.48 bln. in the first half of 2014).

In the economic sectors, a positive balance of investment returns is only in the government sector and the NBRK, mainly due to revenues received from gold and foreign currency reserves and resources of the National Fund of the Republic of Kazakhstan invested into foreign assets.

As for the banking sector and other sectors (other than direct investment operations), the balance on investment operations has been traditionally negative; in the first half of 2015 it decreased by less than 10% as compared to the same indicator of 2014.

Financial Account

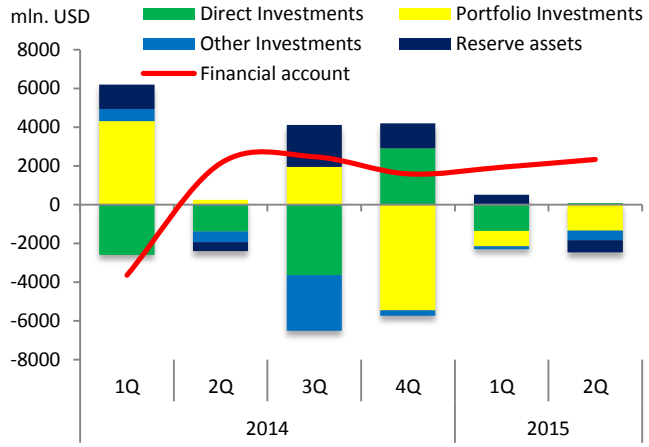
As for the financial account (excluding operations with reserve assets of the National Bank), there has been a negative balance because assets were decreasing at high rates against a minor decrease in liabilities, thus leading to a net capital inflow (Figure 56). This was secured by the decrease in external assets of the National Fund, foreign assets of Kazakh banks and the decreased liabilities to non-residents.

Figure 55. Exports and imports of goods and services, Quarterly

Source: NBRK

As for foreign direct investments (FDIs), there was a negative balance 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.

Figure 56. Financial account, Quarterly



Source: NBRK

A net inflow of FDIs amounted to USD 1.3 bln., which is 3 times less than in the first half of 2014. FDIs in crude oil and natural gas production, geological exploration and surveying, wholesale and retail trade, and motor maintenance decreased. This may have a negative impact on energy exports in the medium term, whereas investments in the metallurgical industry, manufacturing of finished metal products, other than machinery and equipment, increased.

A negative balance on portfolio investments occurred because assets have been decreasing at higher rates than liabilities. Reduction in net foreign assets of the National Fund and foreign assets of domestic banks was the reason for a negative balance on net acquisition of financial assets on portfolio investments. Operations conducted by non-bank organizations to redeem debt securities abroad reduced net incurred liabilities on portfolio investments. Net capital exports by the private sector have decreased.

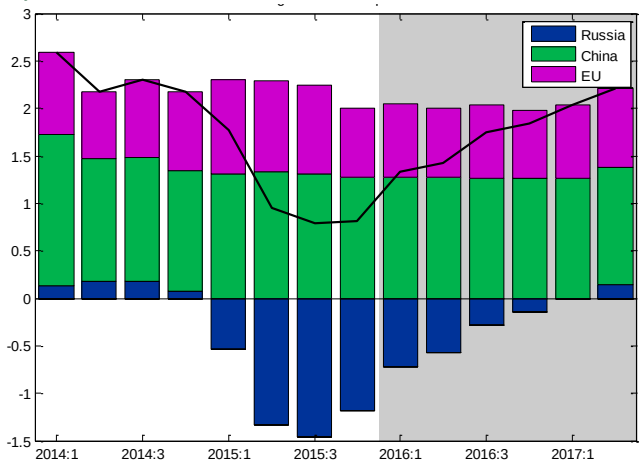
International reserves of the National Bank, having slightly increased, amounted to USD 28.9 bln; this covers 6.2 months of imports of goods and services by Kazakhstan. The growth in reserve assets is associated with operations on reconversion of foreign currency resources of the National Fund into Tenge, with receipts to foreign currency accounts of banks at the National Bank, foreign exchange purchases from the Ministry of Finance and swap transactions.

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

1. Key Assumptions for External Forecast Parameters

Primary external pre-requisites for the economic growth of Kazakhstan include, among others, the terms of trade related to the demand for Kazakhstani export commodities on the part of Russia, EU and China, which account for over 55% of the total foreign trade turnover of Kazakhstan as of the second quarter 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 giving way to a weak recovery after the first quarter of 2017 (Figure 57). Therefore, the external demand is expected to recover from the beginning of 2016 as a result of the Russian economy's getting out of recession.

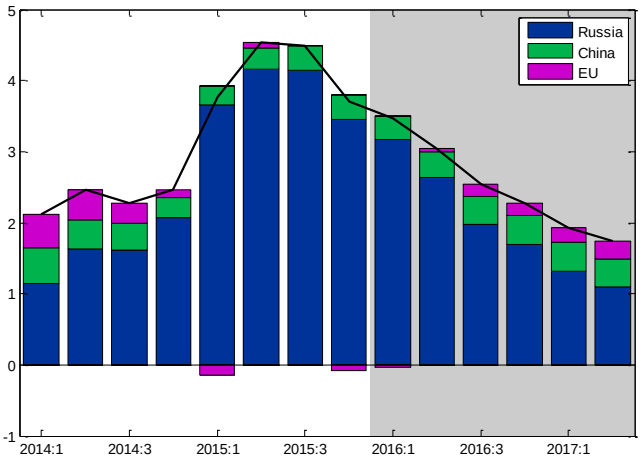
Figure 57. External GDP decomposition, broken down by Kazakhstan's main trading partners, %, YOY



Source: NBRK's derivations

Another important foreign economic factor taken into account by the National Bank in building its medium term forecasts is the external inflation, which is approximated as the average weighted consumer inflation in the countries-main trading partners, and world foodstuff prices. Throughout the forecast period, the external inflation is expected to decrease till the second quarter of 2017 (Figure 58). Such assumption is based on low rates of inflation in China and the EU caused by deceleration and a slow growth in the real GDP in these countries, respectively. The main reason for the decreased external inflation in the medium term refers to the decreasing growth rates of annual inflation in Russia as a result of decreased inflation expectations and the reduced GDP.

Figure 58. Average-weighted inflation, broken down by Kazakhstan's main trading partners, %, YOY



Source: NBRK's derivations

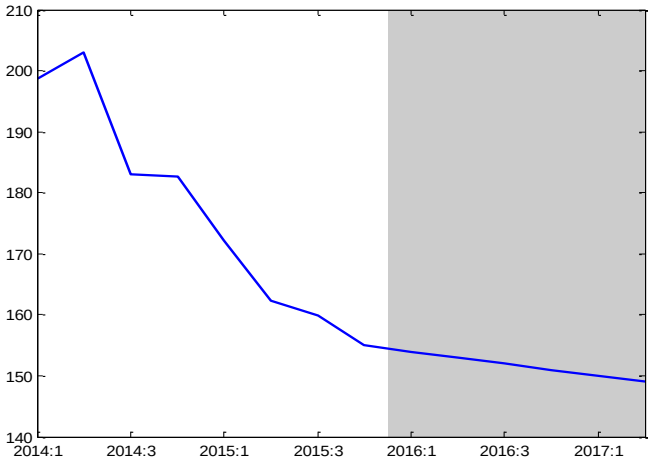
In addition, world food prices are expected to fall further, the wheat price in particular, as a result of record-high world volumes of crops during 2013-2015 (Figure 61). Thus, during the forecast period the expected decrease in the external consumer inflation would be putting a

low pressure on prices and inflationary processes in Kazakhstan.

The National Bank, when building its medium term forecasts, assumes that throughout the forecast period the oil price (Brent) would be at USD 50 per barrel. A low price of oil is associated with the persisting trend of excess supply over demand in the oil products market, the decreased demand on the part of China, the lifting of sanctions imposed by western countries on Iran, along with various technological factors. Alongside with that, oil prices could be positively influenced by such factors as the decreased profitability of slate oil fields in the USA and subsequent reduction of investments in this sector; by a low recovery of the economic growth in the EU and by the growth rates of the demand for oil on the part of Japan, along with increasing geopolitical risks in the Middle East.

As for external monetary conditions, the National Bank expects tightening their in the medium term, caused by the expected increase of the U.S. Fed's interest rate. 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.

Figure 59. Wheat price index (FAO Index Cereals), % of the base of 2002-2004

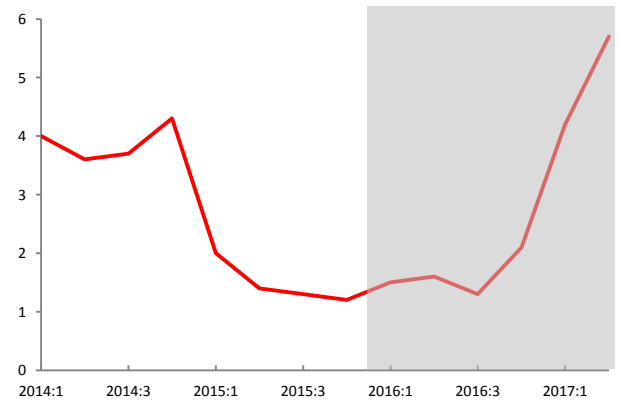


Source: NBRK's derivations

2. Forecast under the Baseline Scenario

By the end of 2015 the GDP growth rate of the Kazakh economy would decrease to the minimum of 1.2% cumulative, on a year on year basis. Afterwards, the economy will be recovering. The main drivers for recovery of the growth rates would be the domestic demand, exports and government consumption (Figure 60).

Figure 60. The GDP real growth, YOY

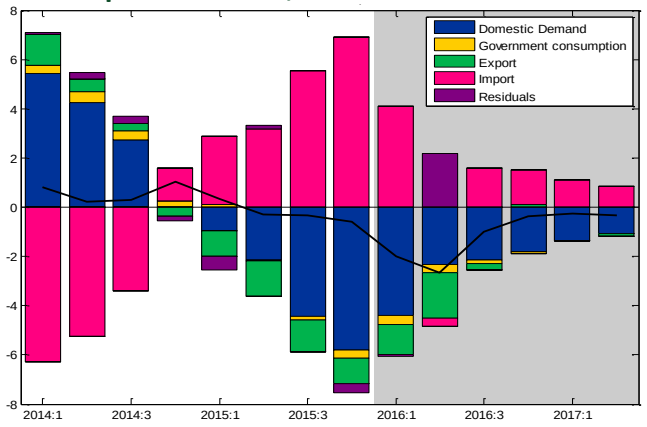


Source: NBRK's derivations

According to the National Bank estimates the output gap would be negative, i.e. below a potential level until the second quarter of 2017.

From the third quarter of 2016, the domestic consumption is expected to be recovering owing to the effect of the "Nurly Zhol" anti-crisis program. Meantime, imports would start growing as a result of revived domestic consumption and this would be a constraining factor for the growth in net exports. Exports would start recovering from the third quarter of 2016. This is related to the growth in non-oil exports as a result of recovering competitiveness of producers oriented at the external market as well as with the beginning of recovery in the external demand as a result of Russia's recovery from recession (Figure 61).

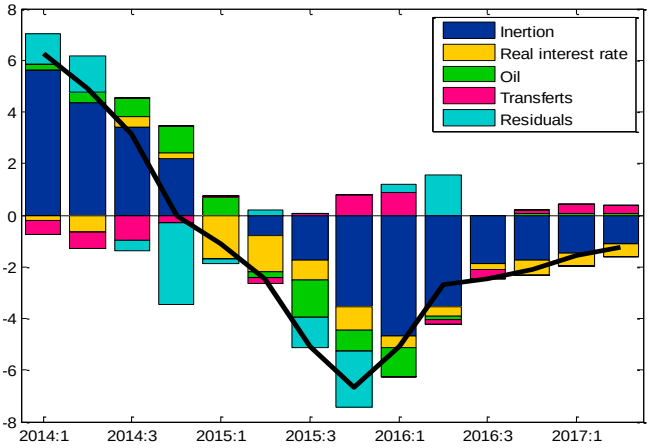
Figure 61. The GDP output gap by the final consumption method, %



Source: NBRK's derivations

As a result of stabilization of the Tenge exchange rate, the domestic demand is expected to gradually recover. With oil prices at USD 50 per barrel in the medium term the economic agents would to adapt to new foreign economic conditions already by the third quarter of 2016 (Figure 62).

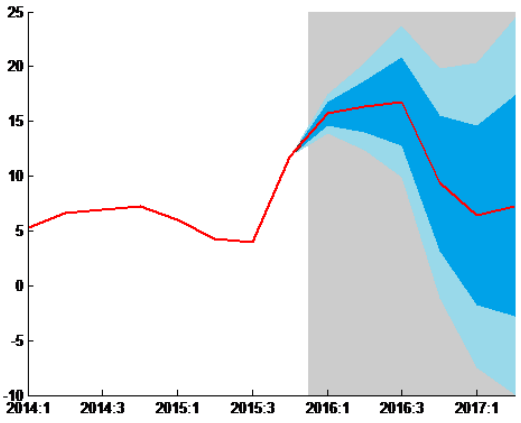
Figure 62. Domestic consumption gap, %



Source: NBRK's derivations

As a result of transition to the inflation targeting regime which implies a free float of the Tenge exchange rate, inflationary processes in Kazakhstan would significantly accelerate in the near term. Because of a significant depreciation of the Tenge and the inflation pass-through, inflationary expectations would grow. Current constraining into account moderate monetary policy the average quarterly inflation growth in the near term, may reach the peak of 18.3% in the third quarter of 2016 (Figure 63). Considerable contribution to the inflation growth would be made by non-food inflation. As inflationary expectations go down, the inflation rate would fall and in the medium term reach its target. The main factor that would be curbing the inflation during the forecast period would be a negative output gap.

Figure 63. Inflation, average on quarter, YOY, % (confidence intervals of 75% and 95%)



Source: NBRK's derivations

3. Risks in the Medium Term

The key risk would be the decline in oil price (Brent) to USD 40 per barrel throughout the entire forecast period.

Such assumption will affect the prerequisites about the external sector, particularly, the Russian economy, whose recovery would be delayed because of a more prolonged recession. The ruble is expected to further depreciate, leading to a more slow decrease in the inflation in Russia.

For the Kazakh economy, the decline in oil prices to USD 40 per barrel would lead to a probable depreciation of the Tenge, to a slower decrease in the inflation and lower rates of GDP growth. The GDP growth would reach its minimum in the fourth quarter of 2015 and would remain at a relatively low level during 2016.

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 legal entities – residents and households – residents 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 the 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 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 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 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 mechanisms. 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 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, used 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 targets.

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.

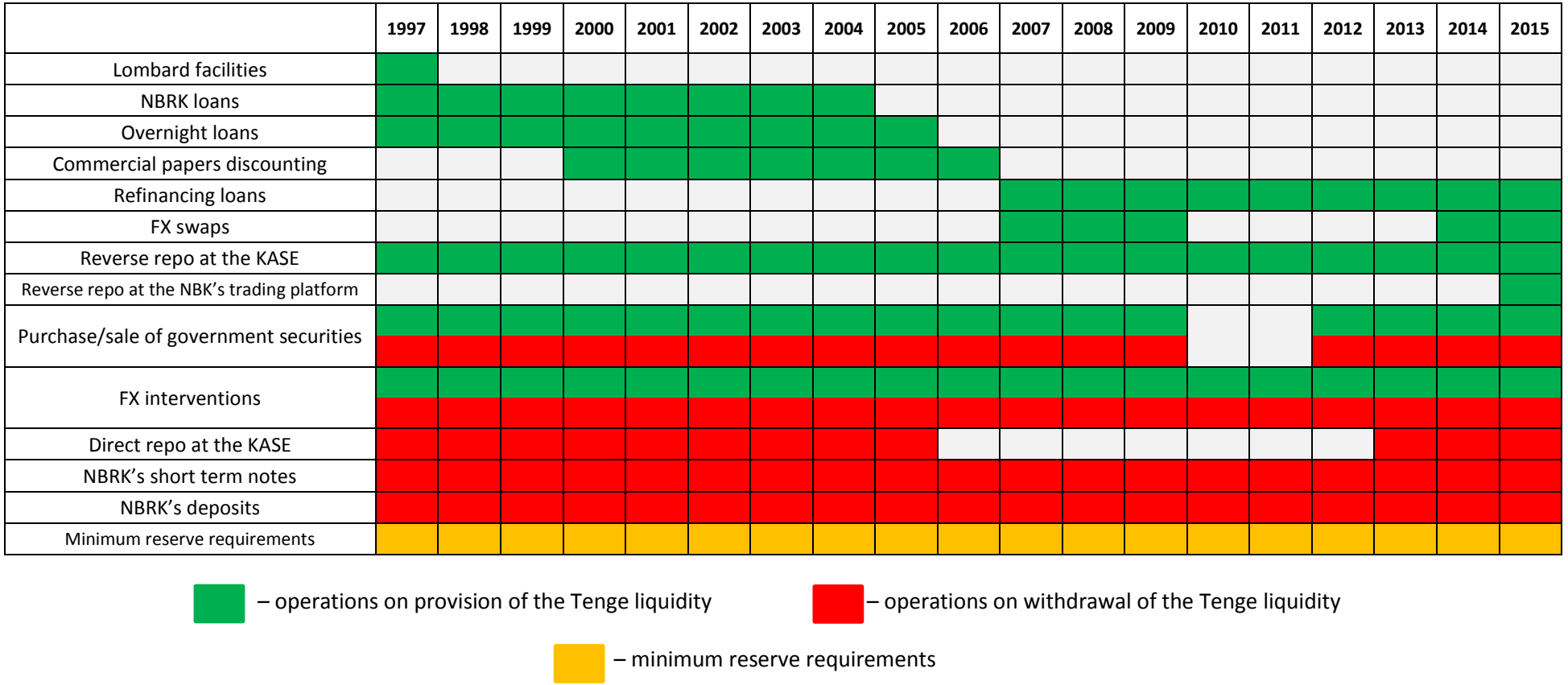
At present, the National Bank, as part of its effort to implement the inflation targeting, is in the process of designing the system for modeling and forecasting of macroeconomic indicators, developing and improving monetary policy tools.

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 INSTRUMENTS IN KAZAKHSTAN



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 02.10.15
Liquidity provision	standing facilities	direct 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

*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 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.*	*%, YOY*	*KZT mln.*	*%, YOY*
01.01.14	2 861 003	*4.2*	11 882 162	*13.2*	1 397 708	*-1.7*
01.02.14	3 240 023	*23.3*	12 432 486	*18.0*	1 399 675	*-0.7*
01.03.14	3 408 022	*11.9*	12 796 182	*15.5*	1 319 887	*-7.6*
01.04.14	3 633 316	*27.4*	12 782 103	*15.7*	1 359 033	*-5.6*
01.05.14	3 595 581	*18.3*	12 921 548	*14.2*	1 397 801	*-4.3*
01.06.14	3 715 258	*20.1*	13 411 461	*15.8*	1 452 216	*-4.7*
01.07.14	3 859 730	*24.1*	13 424 662	*14.9*	1 439 601	*-2.5*
01.08.14	3 654 727	*25.8*	13 352 628	*17.6*	1 382 569	*-5.8*
01.09.14	3 753 134	*34.9*	13 466 829	*16.5*	1 369 299	*-5.8*
01.10.14	3 723 626	*34.1*	13 550 620	*16.0*	1 274 397	*-11.4*
01.11.14	3 414 322	*30.8*	12 973 924	*14.4*	1 221 633	*-13.0*
01.12.14	3 413 841	*20.8*	12 816 554	*10.5*	1 122 319	*-25.8*
01.01.15	3 109 020	*8.7*	12 403 086	*4.4*	1 035 712	*-25.9*
01.02.15	3 144 815	*-2.9*	12 287 224	*-1.2*	1 020 848	*-27.1*
01.03.15	3 287 005	*-3.6*	12 322 119	*-3.7*	1 037 126	*-21.4*
01.04.15	3 418 576	*-5.9*	12 266 760	*-4.0*	1 018 439	*-25.1*
01.05.15	3 644 795	*1.4*	12 533 824	*-3.0*	1 086 948	*-22.2*
01.06.15	4 191 185	*12.8*	13 082 850	*-2.5*	1 143 598	*-21.3*
01.07.15	3 871 600	*0.3*	12 938 179	*-3.6*	1 135 293	*-21.1*
01.08.15	4 307 271	*17.9*	14 391 689	*7.8*	1 186 211	*-14.2*
01.09.15	4 644 278	*23.7*	15 494 985	*15.1*	1 199 959	*-12.4*

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	MOM	YOY
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

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

Source: CS MNE RK

Table 5

Deposits and credits to the economy

	01.10.2014	01.11.2014	01.12.2014	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
Deposits with depository institutions (by sectors and currencies), KZT bln. at month-end													
Deposit volumes	12 097,5	12 276,2	11 752,3	11 694,0	11 367,4	11 266,4	11 285,0	11 248,3	11 446,9	11 960,0	11 802,9	13 205,5	14 295,0
out of the total deposit amount													
relative share in the domestic currency, %	0,54	0,50	0,50	0,44	0,44	0,45	0,47	0,45	0,48	0,50	0,48	0,41	0,36
relative share in foreign currency, %	0,46	0,50	0,50	0,56	0,56	0,55	0,53	0,55	0,52	0,50	0,52	0,59	0,64
out of the total deposit amount													
relative share of non-bank legal entities, %	0,64	0,65	0,63	0,62	0,62	0,62	0,62	0,62	0,63	0,64	0,63	0,61	0,60
relative share of individuals, %	0,36	0,35	0,37	0,38	0,38	0,38	0,38	0,38	0,37	0,36	0,37	0,39	0,40
Weighted average interest rates of banks on attracted deposits, %, for a month													
in the domestic currency	5,65	5,73	5,45	8,37	10,61	12,00	11,89	10,23	11,40	6,92	5,23	7,29	11,17
in foreign currency	1,93	2,02	2,24	1,60	2,18	2,37	2,10	1,78	2,17	2,42	2,50	2,52	2,13
Loans in banks (by sectors and currencies), KZT bln., at month-end													
Volume of bank lending	12 228,3	12 163,4	12 212,9	12 106,1	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
Weighted average interest rates of banks on provided loans, %													
total	11,8	11,9	12,7	11,7	15,6	16,9	15,7	14,1	14,0	13,6	13,9	13,6	14,1
in the domestic currency	10,1	10,3	11,3	14,4	17,4	19,0	18,1	15,1	15,3	14,2	14,0	13,8	14,4
in foreign currency	18,5	19,2	18,9	18,7	20,4	21,4	18,5	16,6	17,6	16,3	17,3	17,2	17,1

Table 6

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

	2014				2014	2015	
	1 qtr.	2 qtr.	3 qtr.	4 qtr.		1 qtr.	2 qtr.
Current Account	6677.9	477.8	-1093.4	-68.3	5994.0	-38.7	-2191.6
Trade balance	14373.3	8445.8	7789.6	6090.0	36698.7	4246.4	3622.2
Exports	23099.7	19778.0	19848.8	17554.9	80281.5	12217.6	12703.3
Imports	8726.4	11332.3	12059.2	11465.0	43582.8	7971.2	9081.1
Balance of services	-1302.4	-1622.2	-1728.6	-1701.1	-6354.3	-1064.1	-1215.6
Exports	1396.3	1649.5	1749.6	1775.7	6571.1	1489.8	1535.6
Imports	2698.7	3271.7	3478.2	3476.8	12925.4	2553.9	2751.2
Balance on primary income	-6116.4	-5961.2	-6686.4	-3893.8	-22657.9	-2994.0	-3866.2
Payroll (net)	-437.6	-436.5	-451.8	-467.1	-1793.0	-434.4	-434.8
Investment returns	-5713.8	-5559.6	-6269.5	-3461.7	-21004.6	-2594.5	-3466.4
Income payable	506.5	498.9	433.4	453.6	1892.3	513.2	464.1
Returns on direct investments	24.6	36.8	25.2	40.3	127.0	60.0	79.3
Returns on portfolio investments	325.9	309.0	270.0	278.0	1183.0	296.4	271.4
Returns on other investments	155.9	153.1	138.1	135.3	582.4	156.8	113.4
incl. interest on the National Fund's reserves and assets	323.3	321.7	273.0	258.7	1176.8	264.9	276.3
Income payable	6220.3	6058.6	6702.9	3915.2	22897.0	3107.7	3930.5
Returns on direct investments	5485.1	5266.8	5790.9	3201.7	19744.4	2430.5	3120.6
Returns on portfolio investments	352.8	370.6	567.5	376.2	1667.1	342.5	466.5
Returns on other investments	382.4	421.1	344.5	337.4	1485.5	334.8	343.4
Other primary income (net)	34.9	34.9	34.9	34.9	139.8	34.9	34.9
Balance on secondary income	-276.6	-384.5	-468.0	-563.4	-1692.4	-227.0	-731.9
Capital account balance	16.0	2.9	2.2	8.3	29.3	-3.6	44.3

Source: NBRK

Table 6
(continued)

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

	2014				2014	2015	
	1 qtr.	2 qtr.	3 qtr.	4 qtr.		1 qtr.	2 qtr.
Financial Account (excl. the NBRK's reserve assets)	2384.6	-1663.5	-4639.2	-2879.7	-6797.8	-2438.1	-1709.3
Direct investments	-2593.4	-1391.2	-3633.4	2900.6	-4717.4	-1358.0	76.0
Net acquisition of financial assets	-748.2	476.4	414.5	2190.7	2333.4	1166.6	820.0
Net incurred liabilities	1845.2	1867.5	4047.9	-709.9	7050.7	2524.6	744.0
Portfolio investments	4313.5	239.7	1947.0	-5462.4	1037.8	-796.0	-1342.3
Net acquisition of financial assets	4038.6	2527.2	1908.7	-2001.8	6472.7	-2115.2	-2665.9
Government of Kazakhstan and the National Bank of Kazakhstan	4107.9	3091.0	1561.5	-1960.6	6799.7	-1529.5	-2531.8
Banks	-91.3	-158.7	44.6	-13.1	-218.5	-632.2	-36.3
Other sectors	22.1	-405.1	302.6	-28.0	-108.5	46.5	-97.7
Net incurred liabilities	-274.8	2287.4	-38.3	3460.6	5434.9	-1319.2	-1323.6
Government of Kazakhstan and the National Bank of Kazakhstan	-12.5	0.0	0.0	1982.1	1969.6	47.8	-122.5
Banks	-298.3	-220.5	57.8	-348.9	-809.9	-52.0	-121.2
Other sectors	36.0	2507.9	-96.1	1827.4	4275.2	-1315.0	-1079.9
Derivatives (net)	42.9	29.7	-66.8	-42.9	-37.1	-137.5	58.3
Other investments	621.6	-541.7	-2886.0	-275.0	-3081.1	-146.7	-501.3
Equity participation instruments (net)	202.2	1.1	2.7	4.6	210.7	26.9	-0.5
Medium-and long-term instruments	-850.5	-509.3	-468.2	-711.1	-2539.1	-1538.0	-536.7
Net acquisition of financial assets	301.8	-99.4	-422.6	589.4	369.2	-1999.7	272.2
Net incurred liabilities	1152.3	409.9	45.6	1300.5	2908.3	-461.7	809.0
Short-term debt instruments	1269.9	-33.5	-2420.5	431.4	-752.7	1364.5	36.0
Net acquisition of financial assets	1060.9	644.5	-2210.2	960.1	455.3	19.7	-87.6
Net incurred liabilities	-209.0	678.0	210.2	528.7	1208.0	-1344.8	-123.6
Errors and omissions	-3046.7	-2616.9	-1378.5	-1524.2	-8566.3	-1885.5	-182.8
Overall balance	-1262.6	472.7	-2169.5	-1295.5	-4254.9	-510.4	620.8
Financing	1262.6	-472.7	2169.5	1295.5	4254.9	510.4	-620.8
NBK's reserve assets	1262.6	-472.7	2169.5	1295.5	4254.9	510.4	-620.8
IMF credits	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

Source: NBRK