

National Bank
National Bank
of the Republic of Kazakhstan
of the Republic of Kazakhstan

Inflation Report
for the Second Quarter of 2015

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Basic Terms and Definitions

In Section 1. Inflationary Processes

Inflation in the Republic of Kazakhstan is calculated based on the consumer price index (CPI) that characterizes changes in the overall prices for goods and services purchased by the population for personal consumption in the cities of Astana and Almaty, in all regional centers and in a selected number of towns and district centers. The consumer basket 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.

Core inflation – is the inflation that excludes short-term uneven price changes under the influence of certain factors of an administrative, circumstantial, and seasonal nature.

Since 2004 the Agency of Statistics of the Republic of Kazakhstan has been calculating core inflation using five different methods:

- core inflation-1: inflation that does not take into account the rise in prices for vegetables, fruit, gasoline, and coal;
- core inflation-2: inflation that does not take into account the rise in prices for vegetables, fruit, regulated services, and energy resources;
- core inflation-3: does not take into account the five largest and five smallest price hikes;
- core inflation-4: trimmed mean – in the calculation of CPI the components with the cumulative weight of less than 8% and more than 92% are excluded, i.e. the goods and services whose prices have changed (increased or decreased) most of all are not taken into account;
- core inflation-5: median CPI – in the calculation of CPI all price changes are intercepted except for the one which is in the middle of the series ranged by the change in prices, i.e. static median. Median CPI will be equal to the change in the price of the first component which cumulative weight is equal to or exceeds 50%.

Inflationary expectations among enterprises in the real sector are surveyed within framework of **Monitoring of Enterprises**, which has been performed by the National Bank since 2002. These surveys are characterized by qualitative estimates by the managers of the enterprises surveyed of the enterprises' production activity ("will rise," "will fall," "will remain unchanged"), including demand and prices for finished products and for the raw materials and supplies used in the previous quarter and the coming quarter.

The diffusion index is derived as the sum of "will rise" responses and half of the "remain unchanged" responses. This index is a generalized indicator that characterizes the trends in the change of a reviewed indicator. An index value above 50 means a positive change in the indicator, and the value below 50 means a negative change.

In Section 2. Inflation Factors

Proceeds to the budget include revenues (tax revenues, non-tax revenues, proceeds from disposal of capital assets), repayment of budget credits, and proceeds from disposal of the national financial assets.

Budget expenditures are the expenses (both current and capital expenditures), budget credits, and acquisition of financial assets.

In Section 3. Money Supply

Base Money (reserve money) includes cash issued by the National Bank excluding cash in till of the National Bank (currency outside the National Bank), transferable and other bank deposits, transferable deposits of non-bank financial institutions, and current accounts of public and private non-financial institutions in Tenge with the National Bank.

Narrow money refers to base money not including other bank deposits with the National Bank.

The M1 Monetary Aggregate is calculated as the sum of cash in circulation and transferable deposits held by non-bank legal entities and the public in Tenge.

The M2 Monetary Aggregate is equal to the M1 monetary aggregate plus other deposits in Tenge and transferable deposits of non-bank legal entities and the public in foreign currency.

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.

Transferable 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.

The **KazPrime Index** represents the average weighted rate of interest on interbank deposits with the banks that are the parties to the Agreement on Formation of the KazPrime Index of Kazakhstan Interbank Deposits with Banks. Each quotation includes the rate for the attraction and placement of funds to the deposit of one of the parties to the Agreement, as well as the volumes of attracted and placed funds. The minimum quotation amount is KZT 150 mln. The maximum spread between quotations is one hundred basis points (1.00% per annum). The standard term for an interbank deposit was three months at the time when the project was launched.

In Section 4. Monetary Policy Instruments and Operations

The National Bank's **participation coefficient** in currency auctions at the Kazakhstan Stock Exchange (KASE) is calculated as the ratio of the National Bank's net participation (purchase minus sale of foreign currency) and the net volume of trading at the KASE.

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Summary

At end-June 2015, the annual inflation accounted for 3.9%, which represents the minimum inflation rate since 1999.

During April-June 2015, the inflation accounted for 0.3% (in the second quarter of 2014 – 1.5%), which is less than in the first quarter of 2015 (1.1%). In the second quarter of 2015, inflation rates slowed down due to declined foodstuff prices amidst falling world oil prices and decreasing real cash income of the population as well as decreasing rates of growth in tariffs for paid services. Prices for non-food products increased significantly as a result of increased prices for “social grade” of gasoline.

In the structure of the consumer price index, prices for non-food products were growing at the highest rates. The main reasons for the increase in prices for non-food products were increased prices for gasoline, clothes and footwear, household utensils, as well as medications.

The decreased payments for the utility services and transport services offset the increase in prices for out-patient services, communication services, services of restaurants and hotels in the structure of paid services; as a result, prices for services remained unchanged as a whole.

The decline in foodstuff prices in the domestic market was primarily caused by the seasonality factors and cheapened goods from the neighboring countries.

In the second quarter of 2015, monetary factors had virtually no impact on the inflation. The money supply (M3) as the main indicator of the supply of money in the economy, during April-June 2015 increased by 6.3% and amounted to KZT 13 103.6 bln. (June 2015 to June 2014 – the decrease of 2.3%). On the whole, the money supply corresponds to the nominal growth rates of the economy.

Real GDP growth during the first half of 2015, according to the preliminary data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, accounted for 1.7%.

The real sector of the economy demonstrated positive development trends. During January-June 2015 as compared to the same period of 2014, the industrial production increased by 0.6% in terms of volume, among other things, due to the production growth in the mining industry and quarry operations – by 1.1% and in the manufacturing industry – by 0.3%, whereas the volume of electricity supply, gas and vapor supply and air conditioning decreased by 1.4%. During the period, the trade volumes increased by 2.9%, the gross agricultural output increased by 3.0% and the construction volume – by 5.1%. The volume of cargo turnover decreased by 5.6%.

As part of its monetary policy implementation, in the second quarter of 2015 the National Bank continued to conduct operations aimed to regulate the short-term Tenge liquidity in the money market. In January-June 2015, the official refinancing rate remained unchanged at 5.5% per annum.

In the environment of sluggish demand of banks for securities issued by the National Bank, no short-term notes were issued in the second quarter of 2015. The volume of deposits attracted by the National Bank decreased by 3.2 times as compared to the same period of 2014 and amounted to KZT 500.9 bln. in the second quarter of 2015. As part of the liquidity provision to banks, the volume of refinancing loans provided during April-June 2015 increased by 13.6% versus the second quarter of 2014.

At end-June 2015, total deposits with banks amounted to KZT 11960.0 bln., having increased by 6.0% versus March 2015. Along with that, during the same period, the volume of foreign currency deposits decreased by 0.1% (the share of foreign currency deposits accounted for 52.1%).

In June 2015 versus March 2015, credits to the economy decreased by 11.1% to KZT 10711.5 bln. The increase in the volume of credits to the population accounted for 1.4% (the relative share – 37.3%).

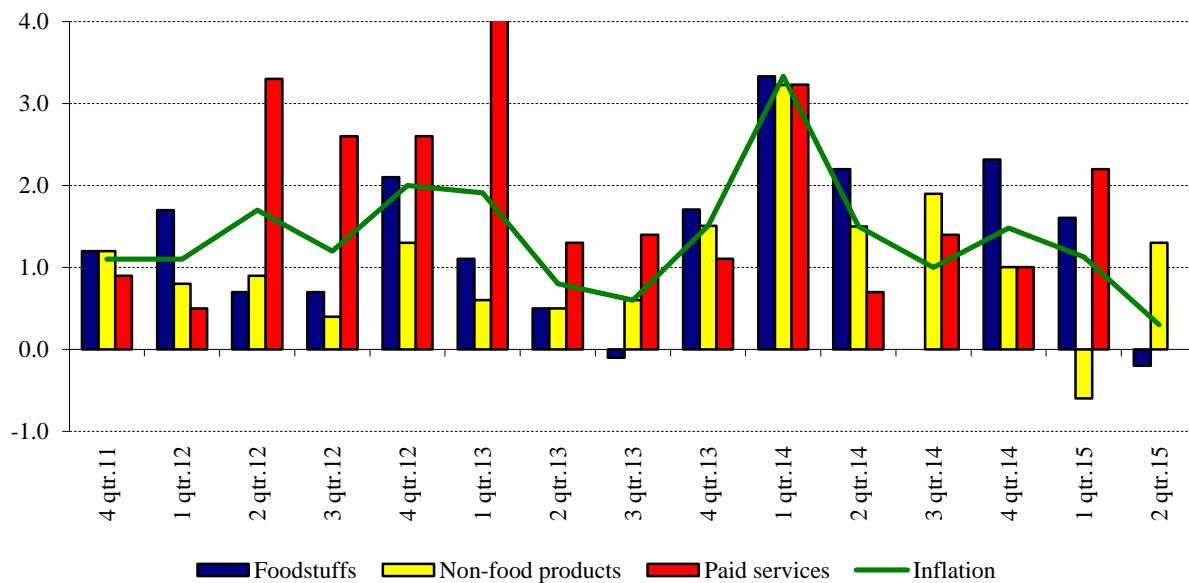
1. Inflationary Processes

1.1. Consumer Prices

In the second quarter of 2015 as compared to the first quarter of 2015, the inflation slowed down. Slowing business activity and decreasing real cash income of the population as well as the seasonality factors were conducive to the decrease in the inflation rate. During April-June 2015, the inflation rate accounted for 0.3% (in the second quarter of 2014 – 1.5%). The growth in prices during the reviewed period was to a larger extent caused by the 1.3% increase in prices for non-food products (during the second quarter of 2014 – 1.5%). Foodstuffs cheapened by 0.2% (the growth of 2.2%), and tariffs for paid services remained unchanged (the growth of 0.7%) (Figure 1).

Figure 1

Dynamics of quarterly inflation and its components (as % of the previous period)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In April-June 2015, the highest increase in prices among foodstuffs occurred in the prices for fruits – by 2.8%, non-alcoholic beverages – by 2.7%, bread – by 1.1%, macaroni products – by 0.7%, fish and sea food – by 1.1%. There was the 14.7% decline in prices for eggs, 5.4% decline in prices for vegetables, sugar cheapened by 2.0%, cereals – by 1.8%, oils and fats – by 1.8%, meat and meat products – by 0.9%, and dairy products cheapened by 0.6%.

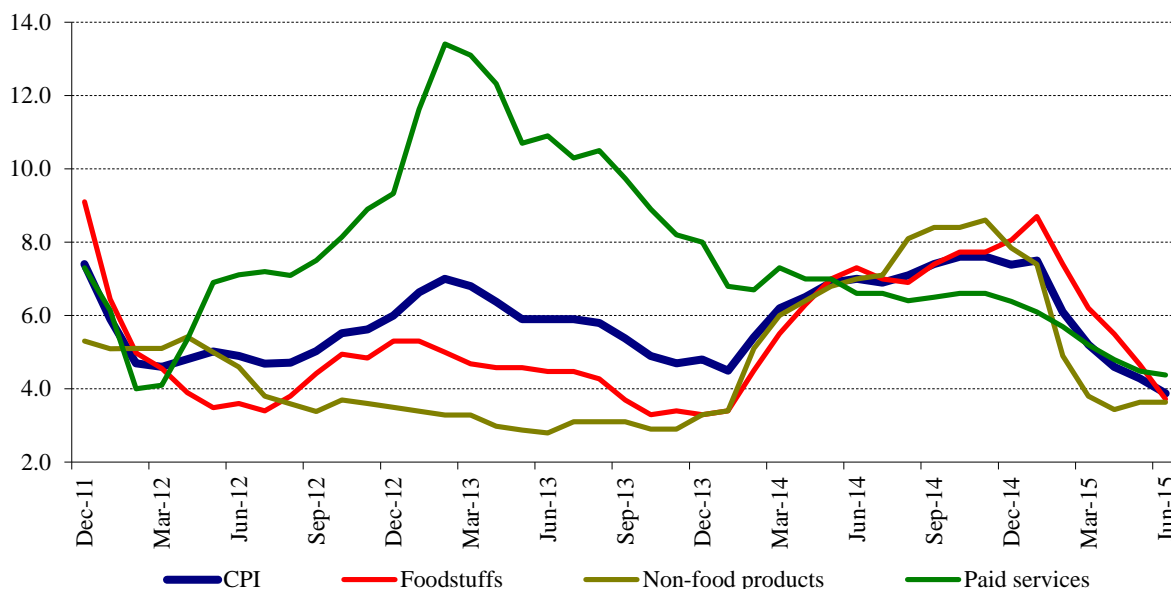
In the market of non-food products, prices for clothes and footwear increased by 1.3%, for household utensils – by 1.3%, medications – by 1.9%. The price of gasoline increased 6.8%, and diesel fuel declined by 2.3% in terms of price.

In the group of paid services, utility payments decreased by 0.4%. Along with that, tariffs for liquefied gas decreased by 9.8%, tariffs for gas transported through distribution networks decreased by 1.9%, and hot water fees – by 1.7%. In addition, prices for outpatient services increased by 1.7%, education services – by 0.1%, for services of restaurants and hotels – by 0.8%, and for communication services – by 0.1%; transport services decreased by 2.4% in terms of price.

In June 2015, the annual inflation accounted for 3.9% (in December 2014 – 7.4%). Over the last 12 months, foodstuffs have increased by 3.7% (by 8.0%) in terms of price, the price for non-food products increased by 3.6% (by 7.8%), and for paid services – by 4.4% (by 6.4%) (Figure 2).

Figure 2

**Dynamics of annual inflation and its components
(as % of the corresponding month of the previous year)**



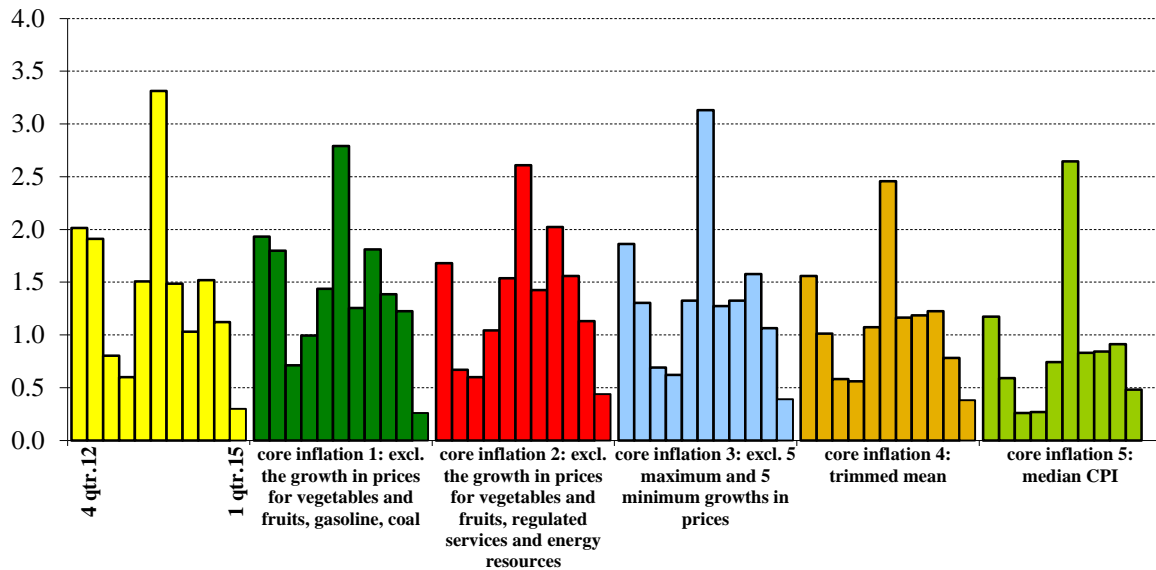
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.2. Core Inflation

In the second quarter of 2015, all core inflation indicators were decreasing as compared to the first quarter of 2015 and the second quarter of 2014. In the second quarter of 2015, core inflation-2, core inflation-3, core inflation-4 and core inflation-5 exceeded the level of the headline inflation (Figure 3). This was associated, among other things, with the decrease in prices and tariffs for regulated services (including utility services, railway transport), which were excluded when computing these core inflation indicators.

Figure 3

**Dynamics of quarterly inflation and core inflation
(as % of the previous period)**



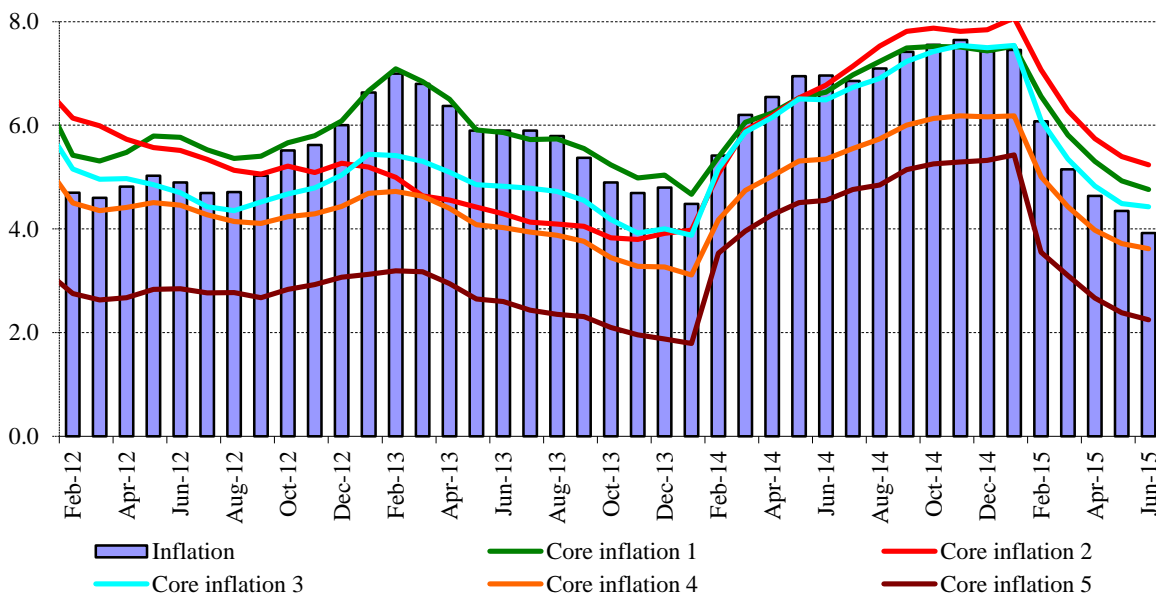
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In the second quarter of 2015, the annual core inflation level decreased (Figure 4). As of the end of June 2015, core inflation-1, core inflation-2 and core inflation-3 exceeded the level of the headline inflation in annual terms. This was associated with declining prices for fruits and vegetables, gasoline, diesel fuel, which are excluded when computing these core inflation indicators.

As of the end of June 2015, all annual core inflation indicators had been at a lower level versus the indicators of December 2014 (Figure 4).

Figure 4

**Dynamics of annual inflation and core inflation
(as % of the corresponding month of the previous year)**



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.3. Prices in the Real Sector of the Economy

1.3.1. Prices in the Industry

In the second quarter of 2015, the producer prices increased by 3.2% (in the first quarter of 2015 – the decline of 14.8%). The cost of output increased by 3.5% in terms of price; at the same time, in its composition the price of interim consumption products increased by 4.6%, the price of the means of production declined by 3.8%, and consumer goods cheapened by 1.3%. Production services increased by 1.6% in terms of price.

In the second quarter of 2015, prices in the mining industry increased by 6.3% (in the first quarter of 2015 – the decline of 23.8%); such increase was caused by the growth in oil prices, after their decline in the first quarter of 2015.

The price of energy resources, after its 22.6% decline in the first quarter of 2015, in the second quarter of 2015 increased by 5.9% (in the second quarter of 2014 – the growth of 2.2%). Within raw energy resources, the price of oil extraction increased by 6.8% (in the second quarter of 2014 – the growth of 3.0%), and the price of gas condensate increased by 16.6% (in the second quarter of 2014 – the growth of 0.4%).

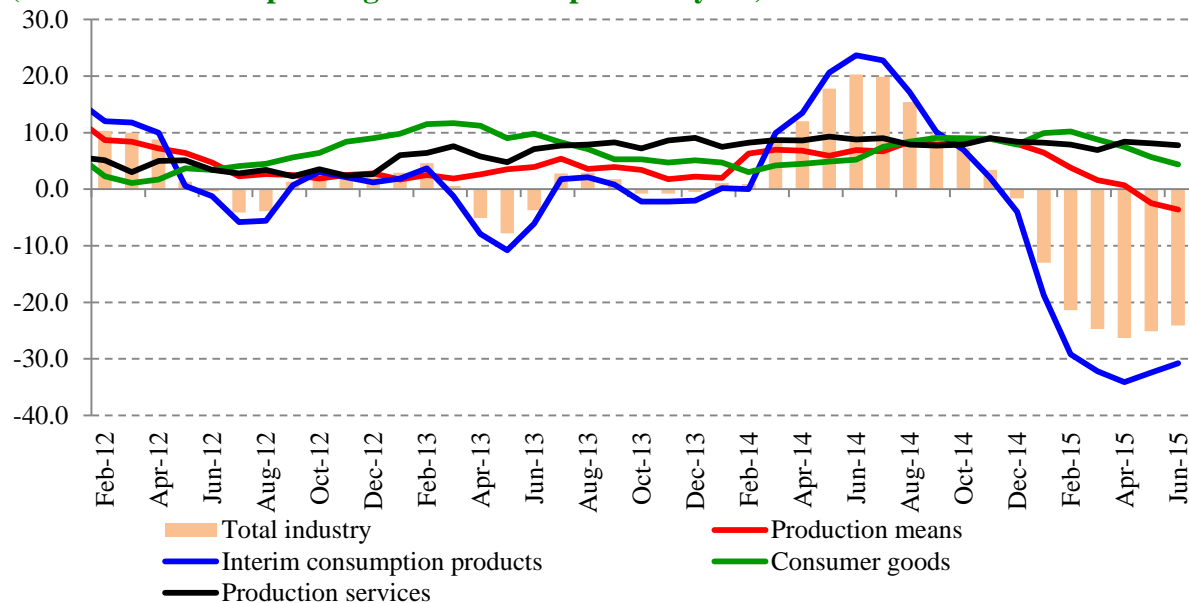
Prices in the manufacturing industry continued to go down, having declined by 0.9% in the second quarter of 2015 (in the second quarter of 2014 – the growth of 2.2%). Along with that, in the second quarter of 2015 prices in the metallurgical industry declined by 0.4%, and oil refinery products cheapened by 1.8%.

In the second quarter of 2015, prices in the sector of electricity, gas and vapor supply and air conditioning did not change (in the second quarter of 2014 – the growth of 0.3%).

In June 2015, the year-to-year decline in prices in the industrial production (June 2015 to June 2014) accounted for 24.1% (Figure 5).

Figure 5

Dynamics of the producer price index (as % of the corresponding month of the previous year)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

The cost of output decreased by 26.4% in annual terms, while interim consumption products decreased by 30.8% in terms of price, the price of consumer goods increased by 4.4%, and production means decreased by 3.6% in terms of price. Production services increased by 7.8% in terms of price.

1.3.2. Prices in Agriculture

In the second quarter of 2015, prices for agricultural production realized across all channels decreased by 2.0% (in the second quarter of 2014 – the growth of 3.1%). The dynamics of prices in agriculture was impacted by a higher rate of decline in prices in the livestock sector as compared to the plant production.

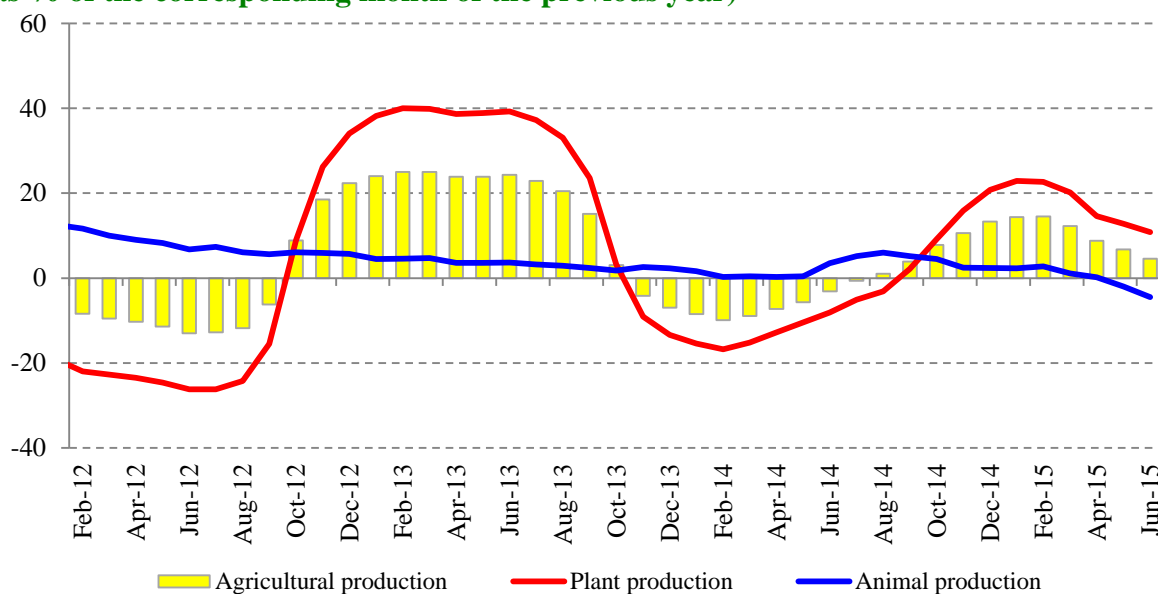
As compared to the 1.2% growth in the first quarter of 2015, during April-June 2015 the plant production decreased by 0.2% in terms of price (in the second quarter of 2014 – the growth of 6.3%). Within the plant production, prices for vegetables decreased by 4.7%, prices for potatoes – by 4.0%, and grain cultures increased by 0.2% in terms of price.

The price of animal production, after its 0.8% decline in the first quarter of 2015, decreased by 4.7% in the second quarter of 2015 (in the second quarter of 2014 – the decline of 1.7%). During April-June 2015, prices for flesh meat and poultry declined by 0.3%, the price of unpasteurized milk declined by 7.6%, and eggs cheapened by 21.6%.

As of the end of June 2015, prices for agricultural products increased by 4.6% in annual terms. The price of plant production increased by 10.8%, and animal production decreased by 4.5% in terms of price (Figure 6).

Figure 6

Dynamics of the agricultural price index (as % of the corresponding month of the previous year)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.3.3. Monitoring of Enterprises

In the second quarter of 2015, rates of decline in the demand for final products of enterprises in the real sector as a whole slowed down; this is evidenced by the diffusion index (DI) which has risen to 46.3 (from 31.4 in the first quarter of 2015). The indicator improved because of the increased percentage of enterprises which noted the increased demand for their products (to 23.3% from 9.8% in the first quarter of 2015) as well as because of the decreased percentage of enterprises with the decreased demand for their products (to 30.7% from 47.1% in the first quarter of 2015).

The growth in the demand for final products was recorded in the following sectors: “water supply; sewage system, control over waste collection and distribution”, “agriculture,

forestry and fishery” and “information and communications”, with their DIs in the second quarter of 2015 accounting for 65.6, 57.0 and 53.7, respectively (43.8, 47.9 and 32.2 in the first quarter of 2015, respectively). The slowdown in the rates of decline in the demand was observed in such sectors as “the manufacturing industry” (to 48.7 from 27.7 in the first quarter of 2015), “construction” (the DI has risen to 48.3 from 26.7 in the first quarter of 2015), “wholesale and retail trade” (to 43.3 from 28.6 in the first quarter of 2015) and “transport and warehousing” (to 43.2 from 28.0 in the first quarter of 2015). Along with that, a significant decrease in the demand was recorded only in the sector of “electricity supply, gas and vapor supply and air conditioning” (the DI has fallen to 37.2 from 57.0 in the first quarter of 2015).

According to expectations of enterprises, in the third quarter of 2015 versus the second quarter of 2015, the demand for final products will increase in the real sector as a whole: the DI made up 56.5.

In the third quarter of 2015, the increase in the demand is anticipated in all sectors of the economy. To a larger extent, the growth in the demand is anticipated in the following sectors: “the manufacturing industry” (the DI – 59.6) and “agriculture, forestry and fishery” (59.3).

In the second quarter of 2015, the rates of growth in prices for final products of enterprises in the real sector as a whole slightly slowed: the DI of the change in prices for final products was 47.2 (in the first quarter of 2015 – 45.2). The rates of growth in prices for final products slowed in the sector of “electricity supply, gas and vapor supply and air conditioning” (the DI had fallen to 54.3 c 62.2 in the first quarter of 2015). Apart from that, prices for final products in the first quarter of 2015 declined in the sector of “information and communications” (the DI had fallen to 48.8 from 55.6 in the first quarter of 2015). At the same time, a slight increase in the rates of growth in prices for final products was recorded in the following sectors: “agriculture, forestry and fishery” and “construction”, where the DI has risen to 50.3 and 50.5 from 44.4 and 48.2 in the first quarter of 2015, respectively.

In the second quarter of 2015, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) were still declining: the DI made up 47.7 (in the first quarter of 2015 – 46.1).

In the third quarter of 2015 versus the second quarter of 2015, a minor growth in prices for final products is anticipated in the real sector of the economy as a whole (the DI made up 52.1). The increase in the price growth rates is anticipated in the following sectors: “electricity supply, gas and vapor supply and air conditioning” (the DI made up 58.5), “construction” (53.0) and “agriculture, forestry and fishery” (51.7). The price growth is also anticipated in such sectors as: “wholesale and retail trade” (the DI has risen to 54.5 from 46.6 in the second quarter of 2015); “transport and warehousing” (to 51.3 from 44.3 in the second quarter of 2015) and “information and communications” (to 51.2 from 48.8 in the second quarter of 2015). At the same time, it should be noted that the slowdown in the growth rates of prices for final products is expected in the sector of “water supply; sewage system, control over waste collection and distribution” (the DI has fallen to 54.7 from 56.3 in the second quarter of 2015).

In the third quarter of 2015, according to expectations of enterprises, prices for consumer products and services will increase: the DI of the change in prices made up 52.0 (47.8 in the second quarter of 2015).

In the second quarter of 2015, the growth in prices for raw materials and supplies slightly accelerated: the DI of the change in prices made up 64.0 (in the first quarter of 2015 – 61.7). Acceleration in the price growth rates was observed in the following sectors: “agriculture, forestry and fishery” (the DI has risen to 72.4 from 66.3 in the first quarter of 2015); “construction” (to 67.8 from 65.2 in the first quarter of 2015); “transport and

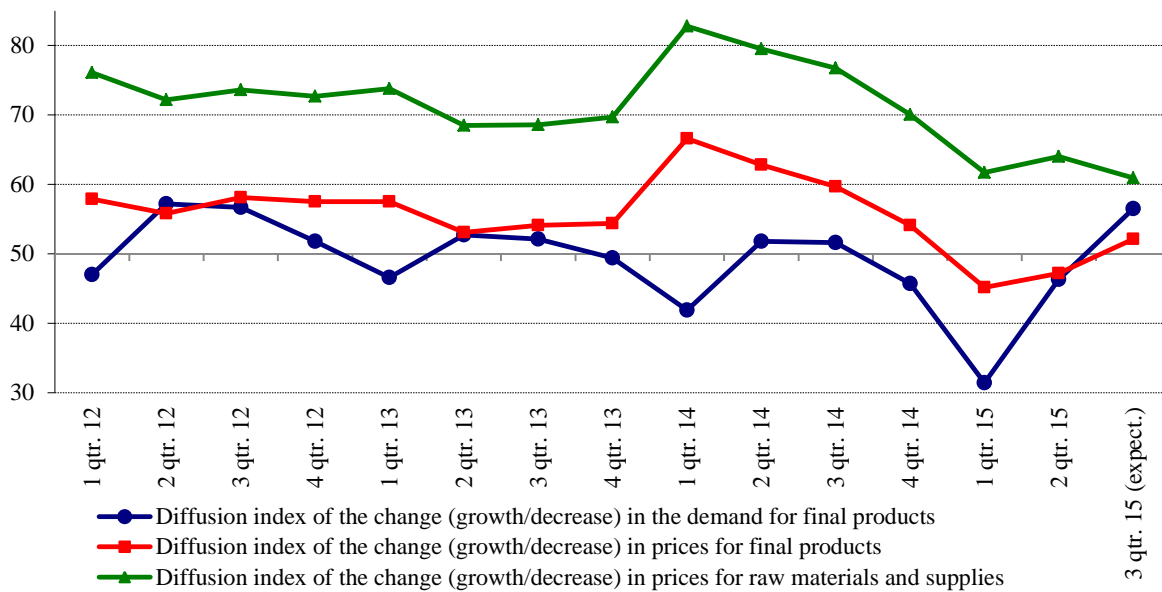
warehousing” (to 64.9 from 62.5 in the first quarter of 2015) and “the manufacturing industry” (to 63.7 from 59.3 in the first quarter of 2015). Along with that, the growth rates of prices for raw materials and supplies in the second quarter of 2015 as compared to the first quarter of 2015 slowed down in such sectors as “information and communications” (the DI has fallen to 68.3 from 76.7 in the first quarter of 2015) and “electricity supply, gas and vapor supply and air conditioning” (to 70.7 from 76.2 in the first quarter of 2015).

According to expectations of enterprises, in the third quarter of 2015 the growth in prices for raw materials and supplies will slow down (the DI made up 60.9).

Thus, judging from the dynamics of relevant diffusion indices, according to estimates of enterprises, the increased demand and prices for final products are expected in the third quarter of 2015. At the same time, the price growth for raw materials and supplies will slow down, according to expectations of enterprises (Figure 7).

Figure 7

Diffusion indices of the change in demand and prices



Source: National Bank of the Republic of Kazakhstan

2. Inflation Factors

2.1. Aggregate Demand

In the first quarter of 2015, GDP based on the final consumption method, as compared to the corresponding period of 2014, increased in real terms, according to estimate, by 2.0% (the growth in the fourth quarter of 2014, according to estimate, accounted for 4.3%).

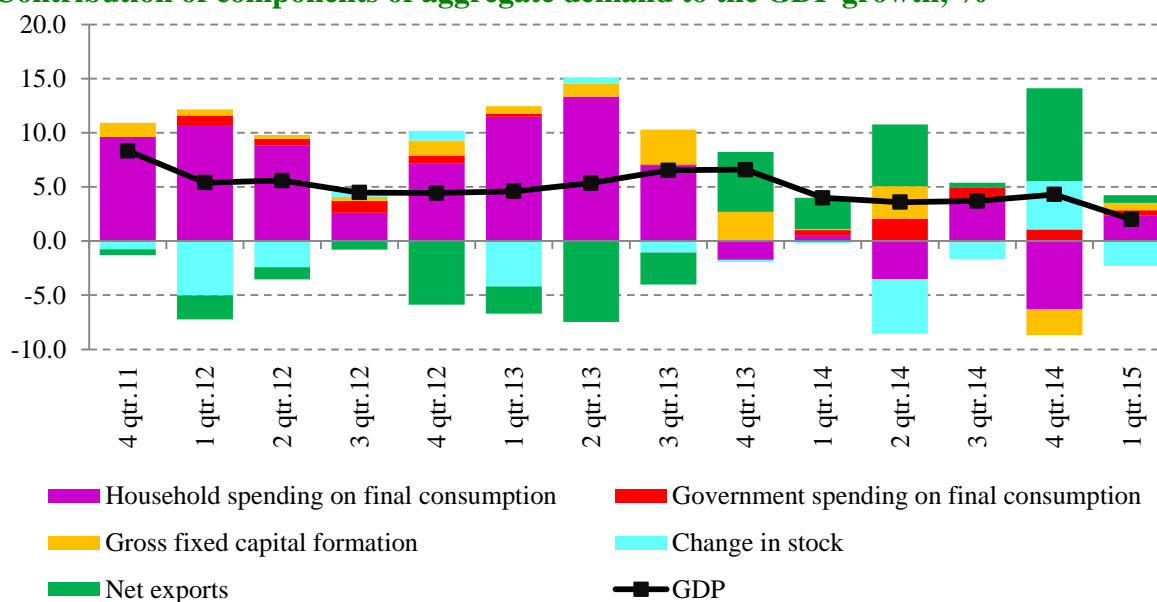
The GDP growth in the first quarter of 2015 was impacted by the growth in government spending on final consumption and household spending on final consumption, growth in net exports and decreased gross formation.

In the first quarter of 2015, according to estimate, spending on final consumption in general increased versus the corresponding quarter of 2014 by 4.1% (the fourth quarter of 2014 – the decrease of 5.7%), gross formation decreased by 8.0% (the growth of 9.3%), and net exports increased by 7.9% (the decrease of 16.9%).

As a result, spending on final consumption made a positive contribution to the formation of the GDP growth of (+) 2.9%, net exports had positive impact on the GDP growth of (+) 0.7%, and gross formation decreased GDP by (-) 1.6 % (Figure 8).

Figure 8

Contribution of components of aggregate demand to the GDP growth, %



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.1. Individual Consumption and Investment Demand

In the first quarter of 2015, household spending on final consumption increased versus the corresponding period of 2014 by 4.1% (in the fourth quarter of 2014 – the decrease of 8.9%).

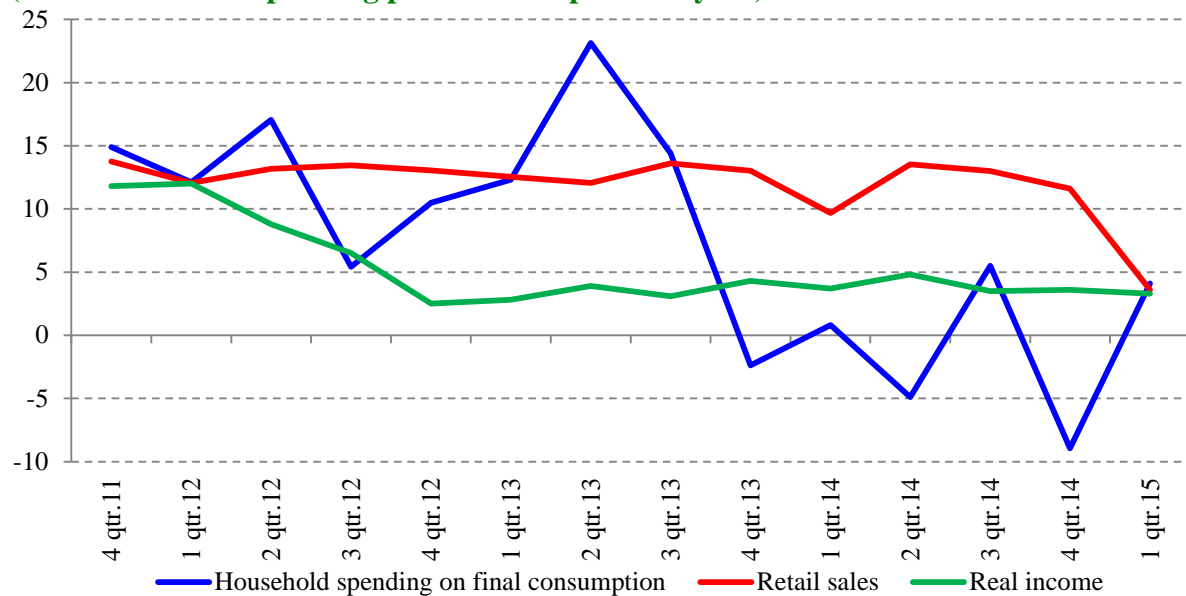
In the first quarter of 2015, the growth rate of per capita income in nominal terms slowed down to 9.7% (in the fourth quarter of 2014 – the growth of 11.4%), and in real terms it increased by 3.3% (the growth of 3.6%). The growth in household income, however, did not have a significant positive impact on retail sales, where the growth rate slowed down versus the fourth quarter of 2014, accounting for 3.6% (in the fourth quarter of 2014 – the growth of 11.6%).

The slowdown in the growth of household income resulted in slowing rates of growth in retail sales. At the same time, one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption, increased in the first quarter of 2015 by 4.1%, whereas in the fourth quarter of 2014 it demonstrated the decrease (Figure 9).

Decreased household spending on final consumption in the fourth quarter of 2014, in all likelihood, was caused by growing devaluation expectations towards the end of the year and depreciation of the Russian ruble. The weakening ruble increased the price attractiveness of Russian products and re-oriented a part of the household spending to the territory of the Russian Federation in the fourth quarter of 2014, whereas in the first quarter of 2015 the demand somewhat recovered.

Figure 9

**Dynamics of personal spending and income
(as % of the corresponding period of the previous year)**

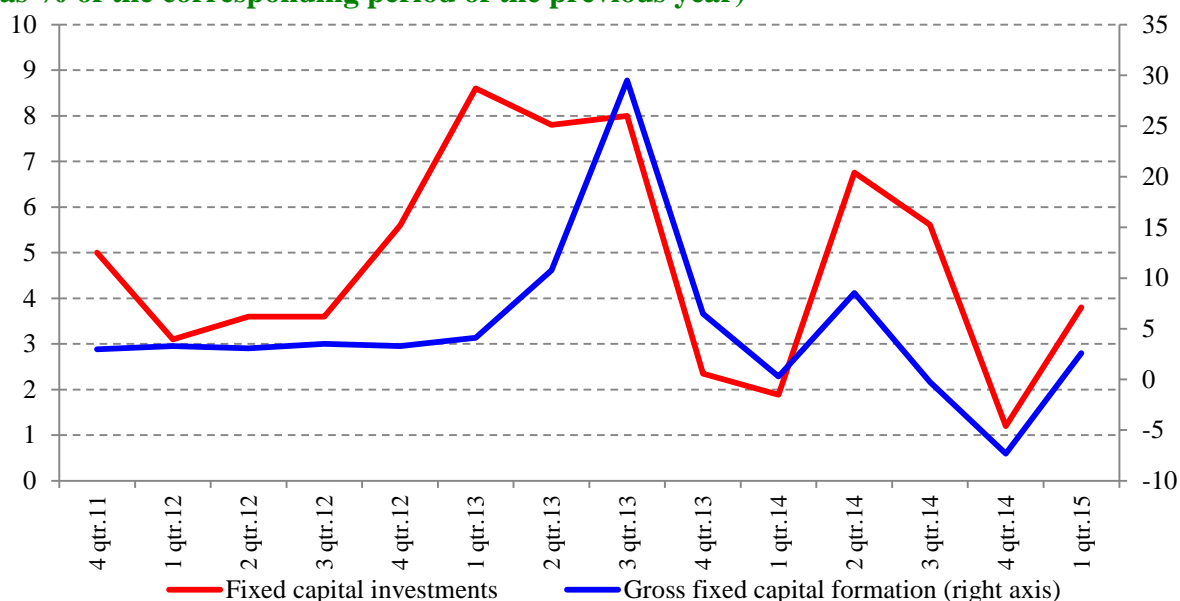


Source: Данные Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

After deceleration during the prior two quarters, in the first quarter of 2015 the investment attractiveness of enterprises increased; this helped accelerate the growth rates of the volume of fixed capital investments. In the first quarter of 2015, the investment volume increased by 3.8%, (in the fourth quarter of 2014 the growth accounted for 1.2%). Alongside with that, gross fixed capital formation within the GDP composition also increased and such increase accounted for 2.6% versus the corresponding quarter of the last year (the fourth quarter of 2014 – the decrease of 7.3%) (Figure 10).

Figure 10

**Dynamics of spending on investments in fixed capital
(as % of the corresponding period of the previous year)**



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.2. Government Consumption

In the first quarter of 2015 as compared to the corresponding period of 2014, government spending on final consumption increased by 4.2% (in the fourth quarter of 2014 – the growth of 8.3%).

During the first quarter of 2015 as a whole, the state budget spending was financed in the amount of KZT 1779.7 bln. or 21.6% of GDP (the increase of 10.0% as compared to the first quarter of 2014).

Current state budget expenditures totaled KZT 1546.9 bln., exceeding those of the first quarter of 2014 by 8.4%. Within the current expenditures, the following items dominate: expenditures related to purchases of services and works (29.4%), current transfers to legal entities (28.0%), salaries and wages (16.7%), other current expenditures (12.7%), budget subsidies (4.0%), stock acquisition (3.3%), interest payments on the domestic loans (3.1%) and employer contributions (1.3%).

In the first quarter of 2015, capital expenditures in the state budget decreased by 6.5% as compared to the same period of 2014, mainly because of decreased expenditures for major overhaul of property, plant and equipment (by 25.7%), acquisition of property, plant and equipment, intangible and biological assets (by 6.8%) and capital expenditures for development (by 4.9%).

Budget credits in the first quarter of 2015 increased by 10.2 times as compared to the first quarter of 2014, and expenditures related to acquisition of financial assets decreased by 6.7%.

During the first quarter of 2015, state budget revenues amounted to KZT 1764.6 bln. or 21.4% of GDP, exceeding those in the first quarter of 2014 by 1.3%. In the structure of state budget revenues two items are still prevailing: tax revenues – 57.1% (in the first quarter of 2014 – 65.2%), and official transfers – 39.0% (31.7%). A large share of official transfers

was secured by the receipt of transfers from the National Fund of the Republic of Kazakhstan to the republican budget in the amount of KZT 687.4 bln.

In the first quarter of 2015 as a whole, tax revenues decreased by 11.3% as compared to the first quarter of 2014, because of decreased revenues from the value-added tax. At the same time, revenues from excises, social tax, individual income tax and mineral tax increased.

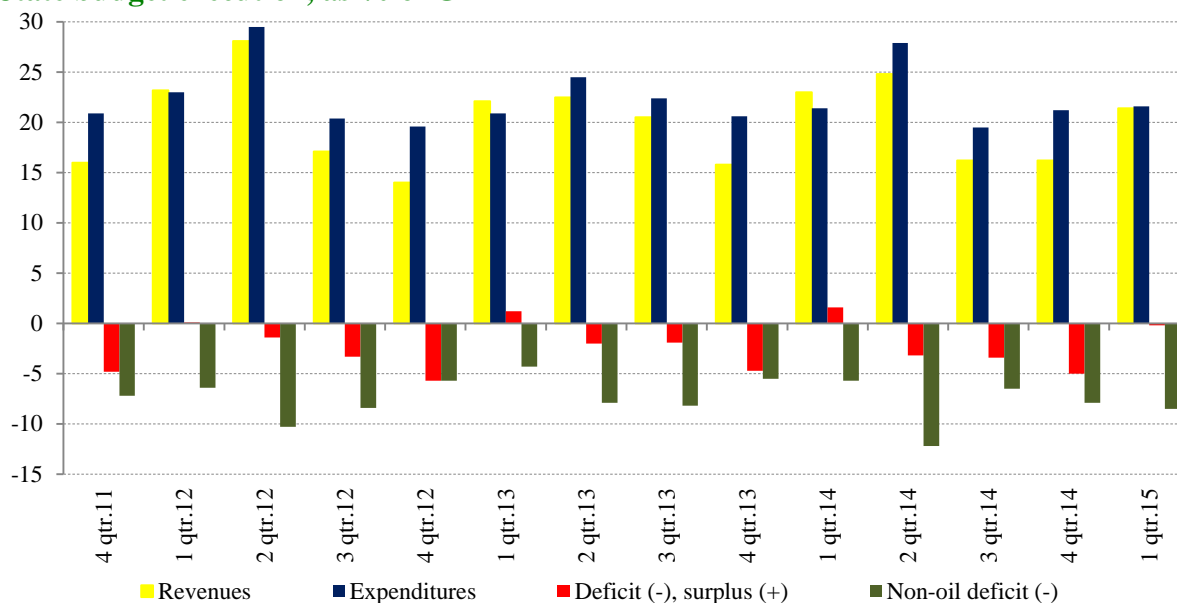
In the first quarter of 2015 as compared to the first quarter of 2014, non-tax revenues increased by 46.8%, mainly due to increased revenues from public property, cash proceeds from public procurements arranged by state-owned entities which are funded from the state budget, and proceeds from penalties, fines, sanctions, charges imposed by state-owned entities which are funded from the state budget as well as those entities which are maintained and funded from the budget (cost estimate) of the National Bank of the Republic of Kazakhstan.

In the first quarter of 2015 as compared to the first quarter of 2014, revenues from transfers increased by 24.5%, whereas revenues from the sale of fixed capital decreased by 27.5%.

Since expenditures were in excess of revenues in the first quarter of 2015, the state budget showed up a deficit of KZT 15.1 bln. (0.2% of GDP), in the first quarter of 2014 – the surplus of KZT 124.4 bln. (1.6% of GDP) (Figure 11). It should be noted that without the transfers of KZT 687.4 bln. to the republican budget from the National Fund, the first quarter of 2015 would have ended with the non-oil deficit of KZT 702.5 bln.

Figure 11

State budget execution, as % of GDP



Source: Ministry of Finance of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

During the first quarter of 2015, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 300.7 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 151.0 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 134.6 bln.

As of April 1, 2015, the government domestic debt amounted to KZT 4323.5 bln. (52.4% of GDP), exceeding the same indicator as of April 1, 2014 by 17.7% (48.5% of GDP). The growth was secured by the issue of government long-term savings treasury obligations

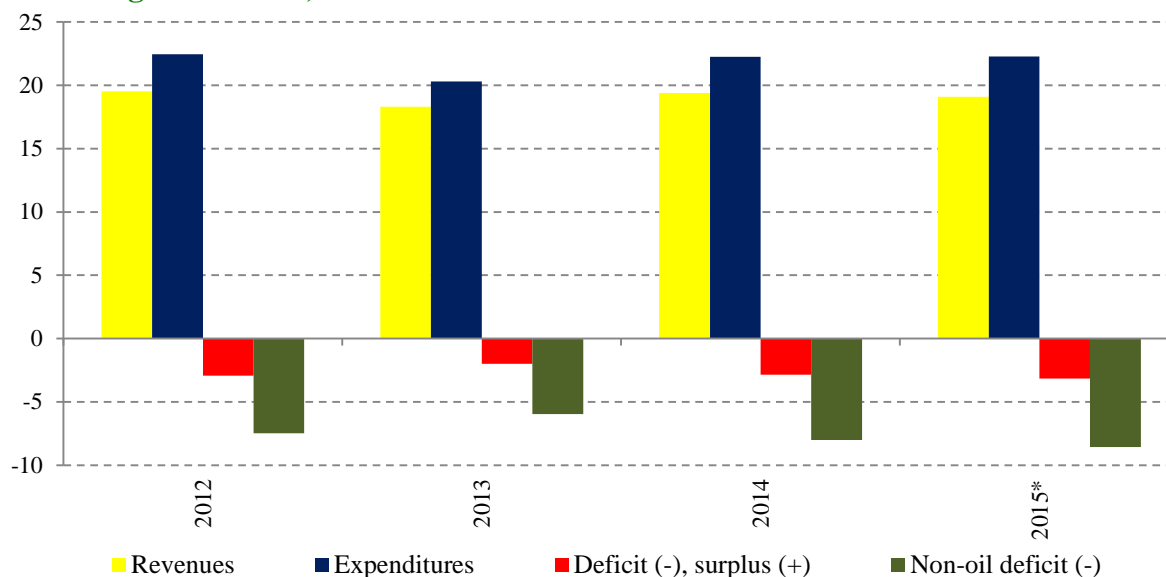
(MEUZHKAM), government short-term treasury obligations (MEKKAM), government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of April 1, 2015, the government external debt amounted to KZT 1423.7 bln. (17.3% of GDP), having increased by 56.5% versus its volume at April 1, 2014 (12.0% of GDP).

In the first quarter of 2015, the state budget deficit accounted for (-)3.2% of GDP (in the first quarter of 2014 – the deficit of (-)1.8% of GDP) in annual terms (Figure 12).

Figure 12

State budget execution, as % of GDP in annual terms



Source: Ministry of Finance of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

* – for the period from the second quarter of 2014 through the first quarter of 2015

2.1.3. External Sector

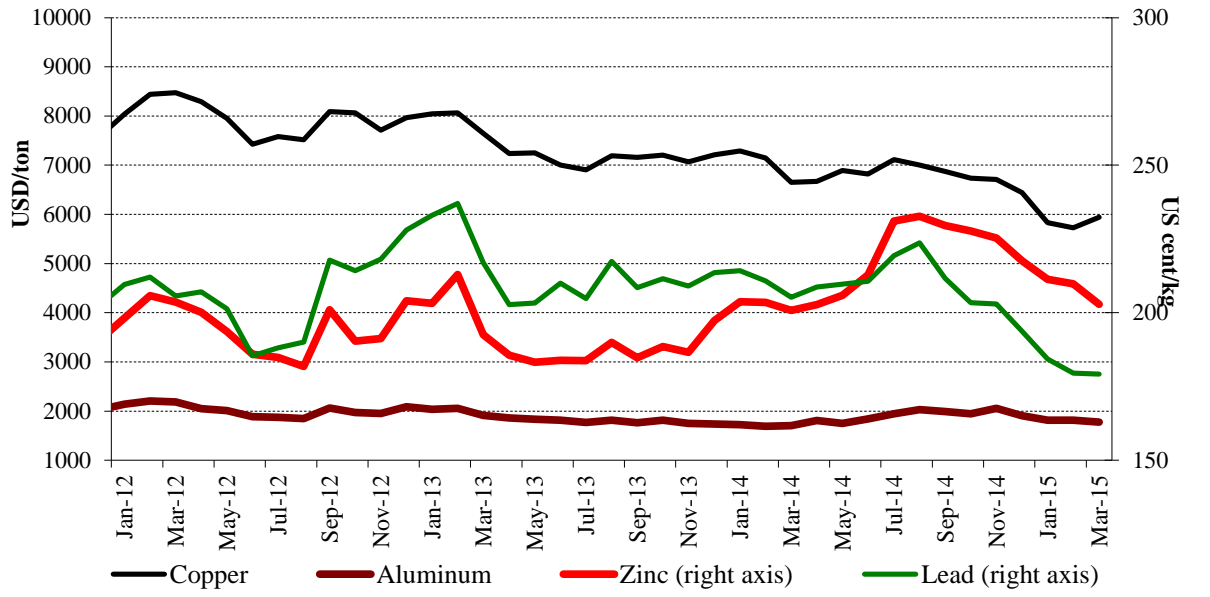
– **World Prices**

In the fourth quarter of 2014, the situation in the global commodity markets was characterized by multi-directional trends.

In the first quarter of 2015, world prices for lead declined by 9.5%, amounting to 181.0 US cents per kilogram on average during the period. Prices for zinc decreased by 7.0% with the average price for the period of 208.0 US cents per kilogram. Prices for copper and aluminum in the first quarter of 2015 demonstrated multi-directional trends: the growth was followed by the fall. During the first quarter of 2015 as a whole, aluminum cheapened by 8.5% and reached USD 1802.1 per ton and copper cheapened by 12.0%, reaching the level of USD 5833.2 per ton (Figure 13).

Figure 13

Dynamics of world prices for metals



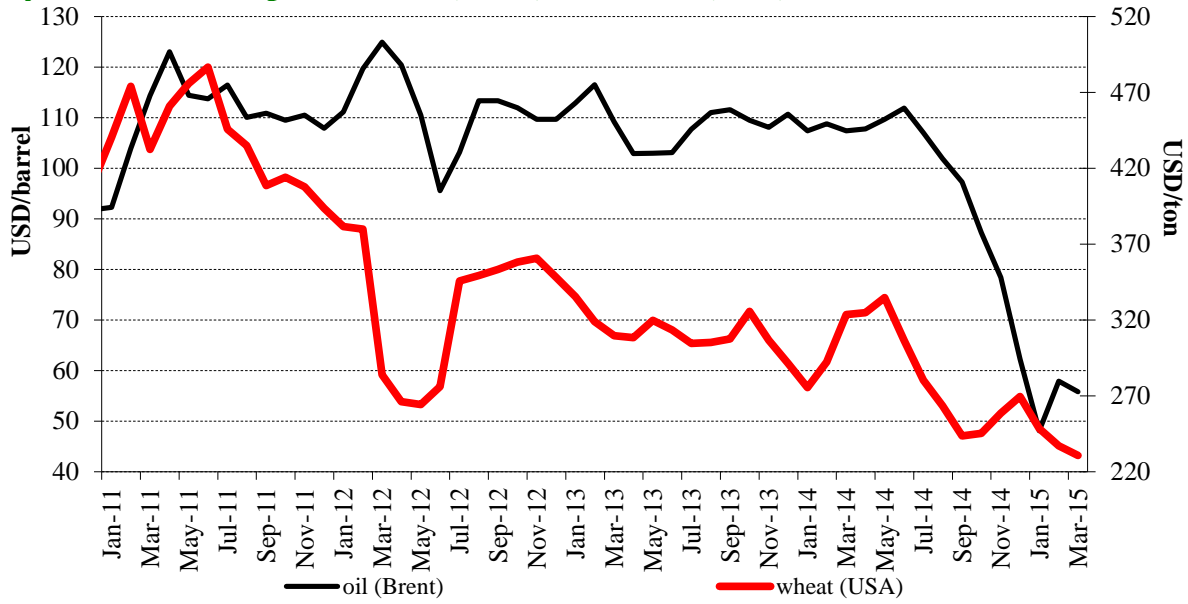
Source: World Bank

After their fall in the second half of 2014, in the first quarter of 2015 world oil prices stabilized. During the first quarter of 2015 as a whole, oil (Brent) cheapened by 29.0% versus the previous quarter and had been at USD 53.9 per barrel on average during the period (Figure 14).

In the first quarter of 2015, world wheat prices declined. In general, during the first quarter of 2015 as compared to the previous period, the world wheat price (USA) declined by 7.4% and had been at USD 238.8 per ton on average (Figure 14).

Figure 14

Dynamics of world prices for oil (Brent) and wheat (USA)



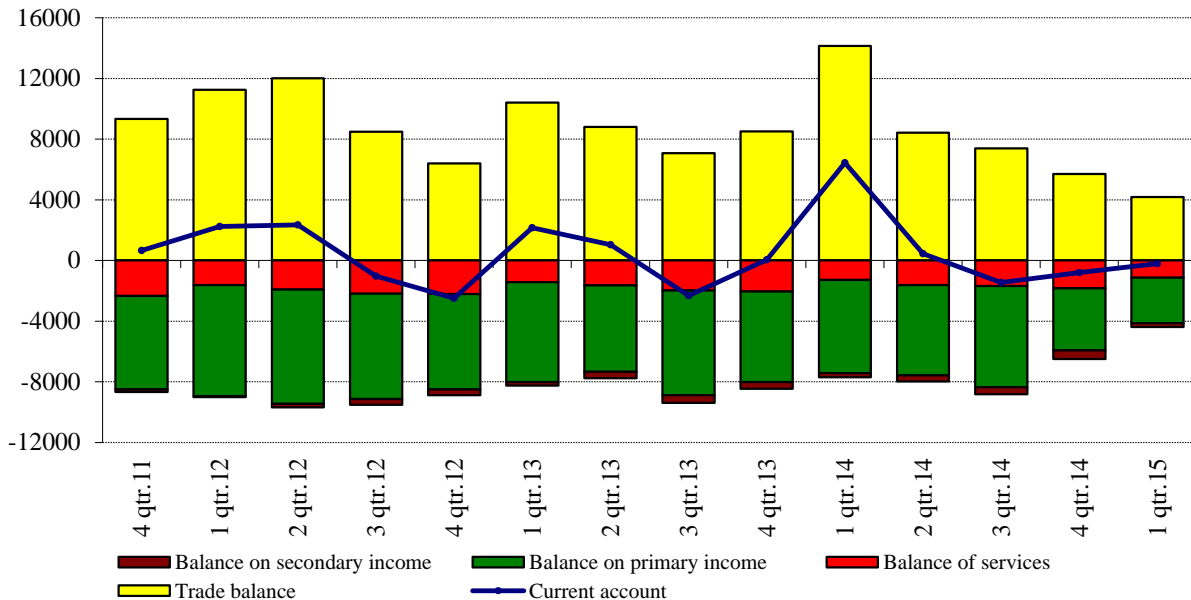
Source: World Bank

Balance of Payments

As of the end of the first quarter of 2015, the current account balance was in deficit of USD 205.4 mln. or (-)0.5% of GDP of the corresponding period (Figure 15).

Figure 15

Current account balance, USD mln.



Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2015, proceeds from the exports of goods decreased versus the corresponding indicator for the first quarter of 2014 by 46.9% to USD 12.1 bln., and expenditures on commodity imports decreased by 8.5% as compared to the first quarter of 2014, amounting to USD 7.9 bln. The trade surplus decreased by 3.4 times and amounted to

USD 4.2 bln. In the first quarter of 2015 as compared to the first quarter of 2014, the deficit in the balance of services decreased by 10.7% to USD 1.1 bln. and the deficit in the balance on primary income (salaries and wages, investment return and other primary income) decreased by 2.0 times and amounted to USD 3.0 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to USD 235.1 mln.

In the first quarter of 2015, the balance of the financial account (excluding reserve assets) had been negative and amounted to USD 2.4 bln. (a positive balance of USD 2.2 bln. in the first quarter of 2014). Net acquisition of foreign assets of residents (less reserve assets) amounted to USD (-)2.9 bln. (net acquisition of USD 4.9 bln. in the first quarter of 2014). Net incurred liabilities had a negative balance of USD 0.5 bln. (a positive balance of USD 2.7 bln. in the first quarter of 2014).

As a result, as of the end of the first quarter of 2015, the balance of payments was in deficit of USD 510.3 mln. (in the first quarter of 2014 – a positive balance of USD 1.3 bln).

– **Terms of Trade and the Real Effective Exchange Rate**

In the first quarter of 2015, the aggregate terms of trade index was by 17% lower than the corresponding indicator for the first quarter of 2014. Alongside with that, the terms of trade with the Euro zone countries increased by 40%, and with Russia – by 29% (Table 1).

Table 1

**Change in price indices and terms of trade
(as % of the corresponding period of the previous year)**

	4 qtr.13	1 qtr.14	2 qtr.14	3 qtr.14	4 qtr.14	1 qtr.15
Export prices	-3	-5	-5	4	-13	-34
Import prices	-3	6	3	-9	-9	-20
Terms of trade	0	-10	-8	14	-4	-17
including:						
Euro zone countries						
Export prices	1	-1	-6	7	-15	-41
Import prices	9	70	-36	-33	-14	-58
Terms of trade	-6	-42	47	59	-1	40
Russia						
Export prices	-10	-13	-6	-3	-10	-11
Import prices	-6	-6	-7	-2	-14	-31
Terms of trade	-4	-7	0	-1	5	29

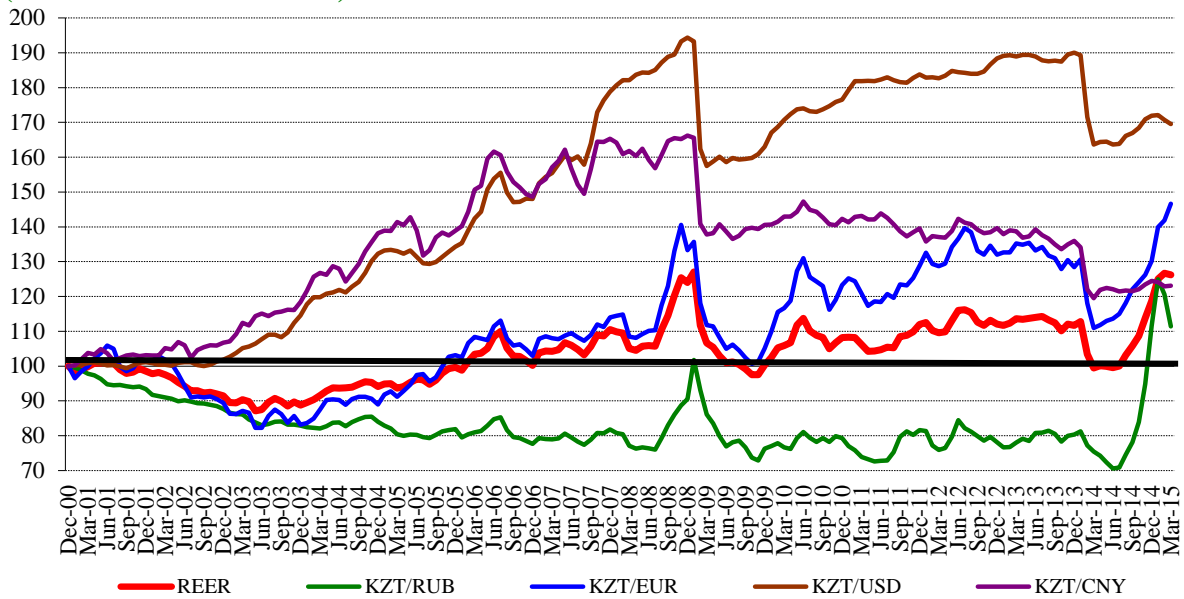
Source: National Bank of the Republic of Kazakhstan

As of the end of the first quarter of 2015 versus the previous period, the index of the real effective exchange rate of the Tenge appreciated by 10.8%. The Tenge has appreciated versus the CIS currencies basket by 23.0% and versus the basket of other currencies – by 7.1%.

During the first quarter of 2015 versus the previous period, the Tenge appreciated in real terms versus the US Dollar by 0.2%, versus the Euro – by 12.6%, and versus the Russian ruble – by 23.0% (Figure 16).

Figure 16

**Indices of real exchange rates of the Tenge
(December 2000 = 100%)**



Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the second quarter of 2015 was KZT 185.27 per 1 US Dollar. The stock exchange rate at end-period was KZT 186.20 per 1 US Dollar. Since the beginning of the year, the Tenge had depreciated versus the US Dollar by 2.1% in nominal terms (Figure 17).

Figure 17

Dynamics of the nominal exchange rate of the Tenge against the U.S. Dollar



Source: National Bank of the Republic of Kazakhstan

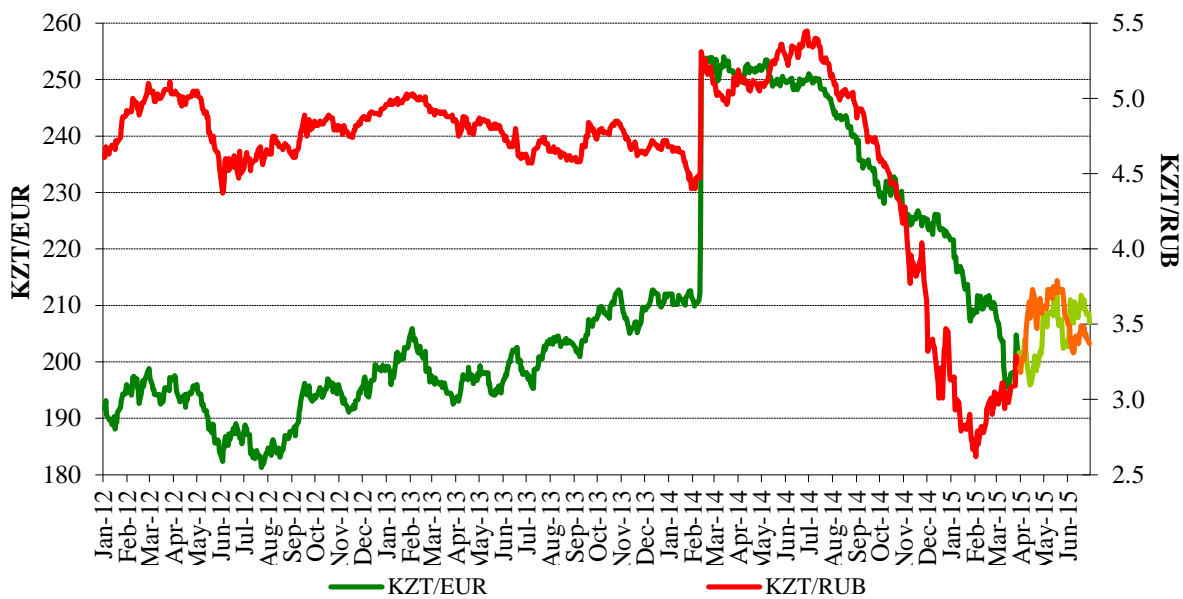
In April, May and June 2015, the Tenge was depreciating against the US Dollar by 0.1%.

Since the transaction volumes in the Euro and the Russian ruble remain insignificant in the stock exchange segment of the domestic foreign exchange market, the exchange rate of the Tenge versus those currencies is calculated based on the cross-rate to the US Dollar. So, the dynamics of the exchange rate of the Tenge versus the Euro and the Russian ruble was driven by the dynamics of the exchange rate of the Tenge versus the US Dollar, the status of the common European currency in the international financial market and the policy implemented by the Central bank of Russia in respect of the exchange rate of the Russian ruble against the currency basket.

In general, during the second quarter of 2015, the official exchange rate of the Tenge versus the US Dollar depreciated by 0.3%, versus the Russian ruble – by 5.0%, and versus the Euro – by 2.7% (Figure 18).

Figure 18

Dynamics of the official exchange rate of the Tenge against the Euro and the Russian ruble



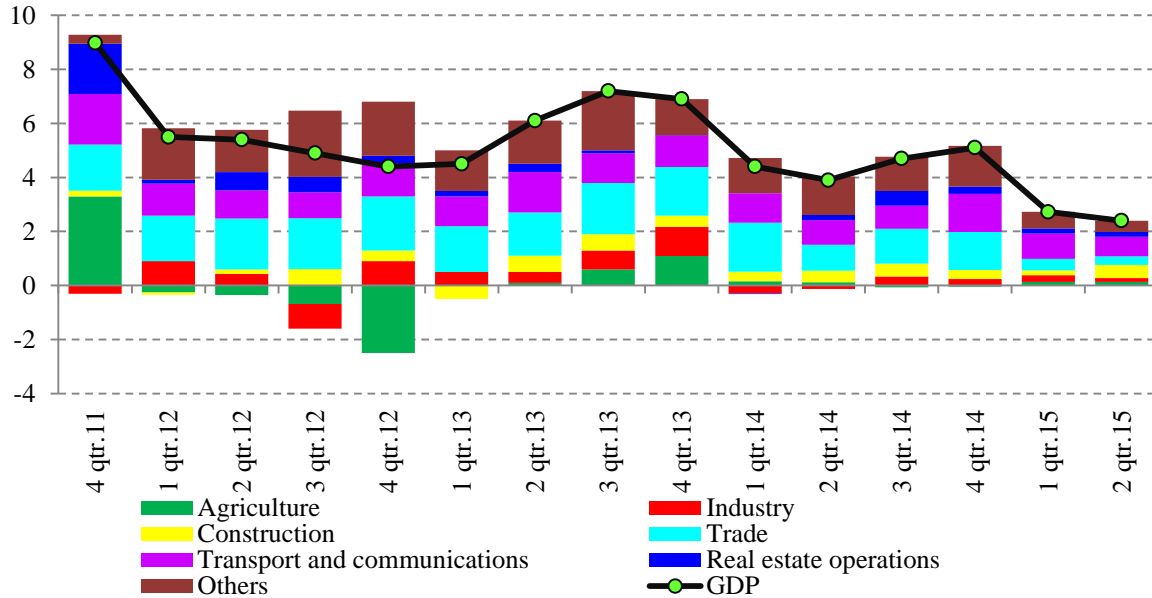
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the second quarter of 2015, the volume of GDP output amounted to KZT 8843.3 bln. in current prices. Being positively influenced by the growth of production virtually in all key sectors of the economy, the GDP increased versus the second quarter of 2014, according to estimates, by 2.4% (Figure 19).

Figure 19

**Contribution of key sectors of the economy to the growth in real GDP
(as % of the corresponding period of the previous year)**



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

Production of goods. In the segment of the production of goods, indicators increased virtually in all key sectors comprising this component of the gross domestic product, except electricity supply and water supply. According to estimate, in the second quarter of 2015 the construction volume increased by 5.1% (in the first quarter of 2015 – the growth of 1.9%); the agricultural volume increased by 3.0% (the growth of 2.9%); and the volume of industrial output increased by 0.6% (the growth of 1.0%). As a result, the segment of the production of goods made positive contribution to the GDP formation of (+)0.8%.

Production of services. In the production of services, all key sectors comprising this component of the gross domestic product demonstrated growth. As a result, the sectors that comprise the production of services sector on aggregate ensured positive contribution to the GDP growth of (+)1.9%.

Net taxes on foodstuffs and imports. The 4.1% decrease in the volume of net taxes on foodstuffs and imports has negatively influenced the formation of GDP growth of (-) 0.2% (in the first quarter of 2015 the contribution accounted for (+)0.01%).

Therefore, the main driver for the GDP growth in the second quarter of 2015 (just like in the first quarter of 2015) was the production of services sector.

2.3. Labor Market

2.3.1. Employment and Unemployment

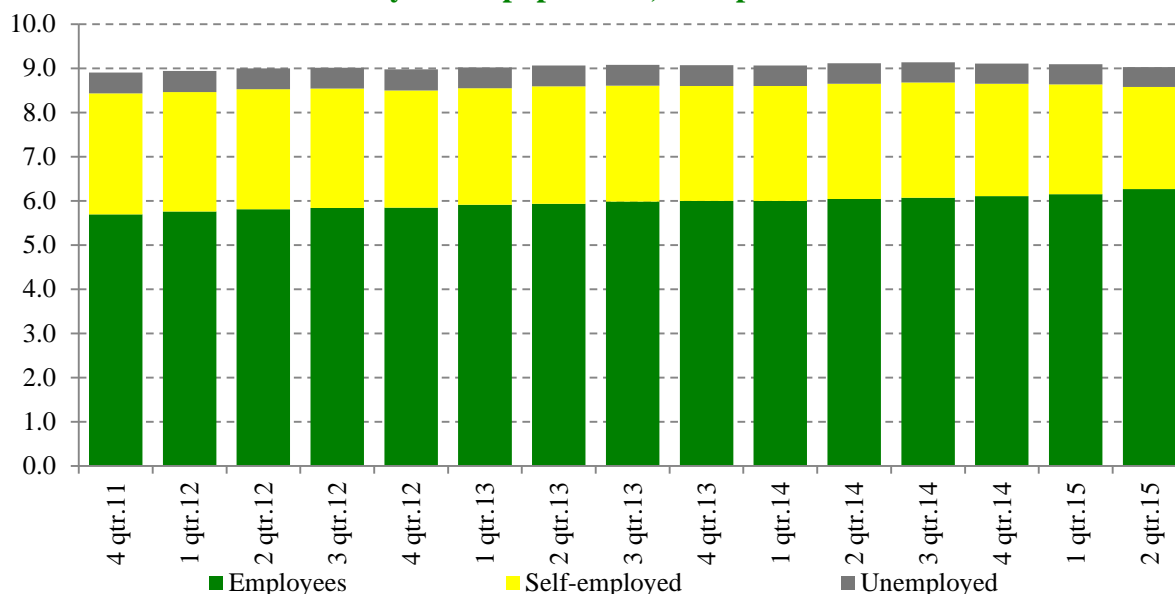
According to preliminary estimates, in the second quarter of 2015 the number of people employed in the economy amounted to 8.6 million, having decreased by 0.7% versus the previous period (the decrease versus the second quarter of 2014 accounted for 0.9%). At the same time, the number of employees reached 6.3 million, having increased by 1.9% versus the first quarter of 2015, and the number of self-employed – 2.3 million (the decrease of 7.1%).

Within the employee structure, public and non-public institutions employee number accounted for 5.5 million persons (88.5% of all employees), the number of people working for individuals – 0.6 million persons (9.4%), and at farms – 0.1 million persons (2.2%).

In the second quarter of 2015, the number of the unemployed stood at 448 500 persons, which is by 0.5% less than in the previous quarter and by 1.6% less than in the first quarter of 2014 (Figure 20).

Figure 20

Structure of the economically active population, mln. persons



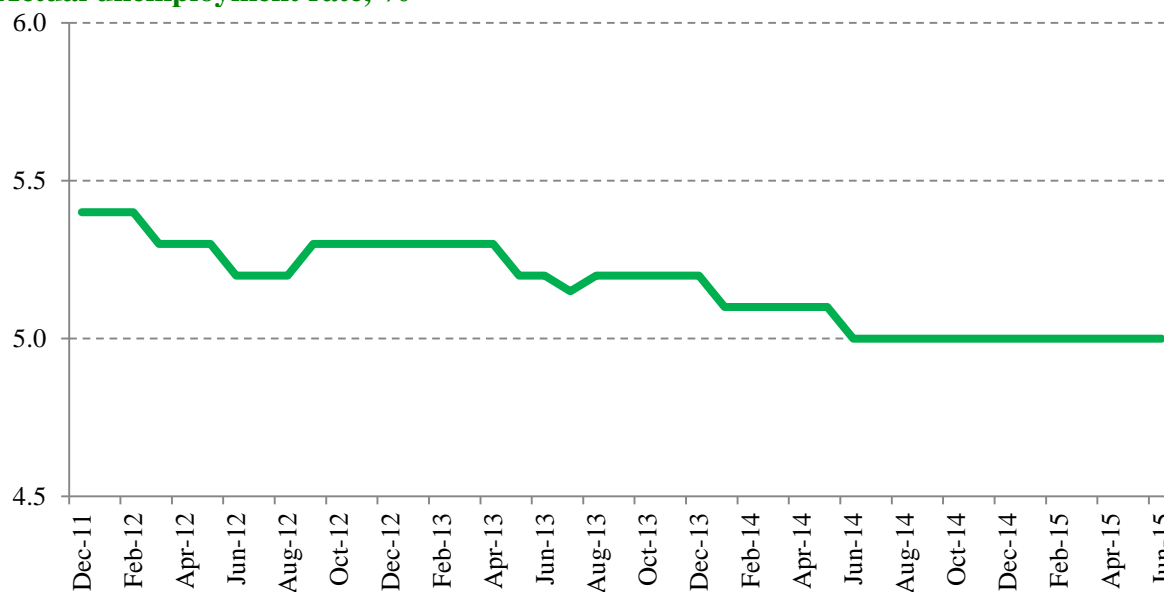
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In the second quarter of 2015, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

The key sectors that promoted the growth in employment versus the second quarter of 2014 were as follows: real estate operations; accommodation and catering services; arts, entertainment and leisure; public administration and defense; compulsory social security; construction; wholesale and retail trade; repair of cars and motorcycles; financial and insurance activity.

The decrease in the number of the employed in some sectors was fully compensated by their growth in other sectors. As a result, the unemployment rate in the second quarter of 2015 accounted for 5.0%, and it decreased by 0.1 percentage points versus the second quarter of 2014 (Figure 21).

Figure 21

Actual unemployment rate, %

Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the second quarter of 2015, as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 2.9% (in the first quarter of 2015 – the growth of 9.1%), and real wages decreased by 1.4% (the growth of 2.7%).

Compared to the previous quarter, nominal wages increased by 4.7%, and real wages increased by 4.3%.

In the second quarter of 2015, as compared to the second quarter of 2014, the highest increase in nominal wages was observed in the following sectors: accommodation and catering services – by 9.6%; education – by 7.7%; wholesale and retail trade – by 7.0%; arts, entertainment and leisure – by 7.0%; agriculture, forestry and fishery – by 5.6%; and information and communications – by 5.2%.

In the second quarter of 2015, the highest wages in money terms were observed in the sector of “Activities of parent companies; advising on management matters” (KZT 473 700), and the lowest – in the sector of “Fishery and aqua culture” (KZT 40 700).

The 1.4% decrease in the real monthly wages in the second quarter of 2015 as compared to the corresponding period of the previous year, as well as the decreased number of people employed in the economy influenced the rate of growth in the labor productivity index which accelerated to 3.7% (according to the National bank’s estimate), whereas a quarter before the index accounted for 2.3% (Figure 22).

Figure 22

**Dynamics of labor productivity and real wages
(as % of the corresponding period of the previous year)**



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

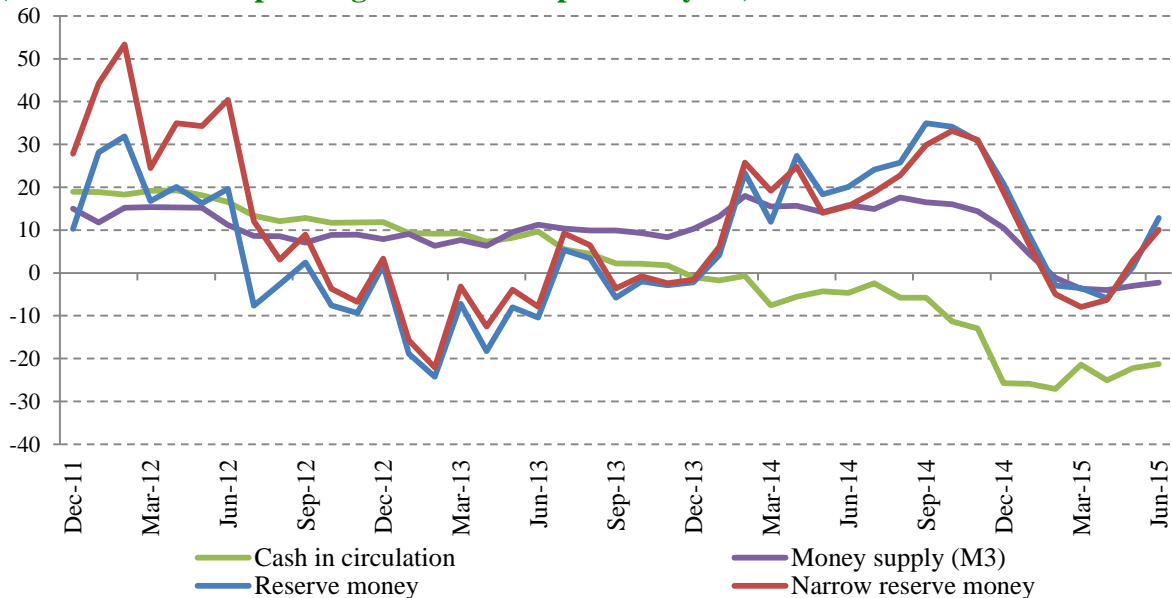
3. Money Supply

3.1. Monetary Aggregates

In June 2015 as compared to the corresponding period of 2014, the reserve money expanded by 12.8%, narrow reserve money expanded by 10.0%, money supply (M3) decreased by 2.3%, and cash in circulation decreased by 21.3% (Figure 23).

Figure 23

Dynamics of monetary aggregates
(as % of the corresponding month of the previous year)



Source: National Bank of the Republic of Kazakhstan

3.1.1. Reserve Money

During the second quarter of 2015, the reserve money expanded by 27.5% and amounted to KZT 4191.2 bln. Narrow reserve money expanded by 24.6% to KZT 3877.9 bln.

In June 2015 versus June 2014, the reserve money expanded by 12.8% as a result of growth both in foreign and domestic assets of the National Bank excluding the National Fund.

In June 2015 against the corresponding month of 2014, net international reserves of the National Bank increased by 9.5% to USD 28.1 bln., of which net currency reserves (CQTR) grew by 6.5% during the reviewed period, and assets denominated in gold – by 18.1%.

In June 2015 versus June 2014, net domestic assets of the National Bank less the National Fund's assets increased, mainly as a result of increased claims on the domestic economy (Table 2).

Table 2

**Dynamics of changes in assets and liabilities of the National Bank
(as % of the corresponding period of the previous year)**

	Sep. 14	Dec. 14	Mar. 15	Jun.15
Net international reserves	14.8	15.7	10.6	9.5
Net domestic assets, excl. NF	-78.5	-167.1	84.2	157.0
Net claims on the Government	60.2	-3.5	-14.8	62.7
Claims on sectors of the economy other than the Government	8.6	25.9	-3.1	25.8
Other net domestic assets	-61.6	-72.3	3.8	7.1
Reserve money	34.9	20.8	-3.6	12.8
Narrow reserve money	29.9	18.9	-7.9	10.0

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply (M3)

During the second quarter of 2015, the money supply (M3) increased by 6.3% to KZT 13103.6 bln.

In June 2015 versus June 2014, its decrease accounted for 2.3% as a result of decreased net foreign assets of the banking system (Table 3).

Table 3

**Dynamics of changes in money supply
(as % of the corresponding period of the previous year)**

	Sep. 14	Dec. 14	Mar. 15	Jun.15
Net foreign assets, excl. NF	29.8	15,3	-5.6	-30.8
Domestic assets, excl. NF	6.0	16.0	17.5	50.6
Claims on the Government	78.8	6.8	-12.0	96.5
Claims on sectors of the economy other than the Government	11.7	5.7	-0.5	-3.3
Other net domestic assets	-19.2	-1.5	8.2	30.6
Money supply (M3)	16.5	10.5	-3.7	-2.3
Cash in circulation	-5.8	-25.8	-21.4	-21.3
Deposits of residents	19.7	15.9	-1.7	0.0

Source: National Bank of the Republic of Kazakhstan

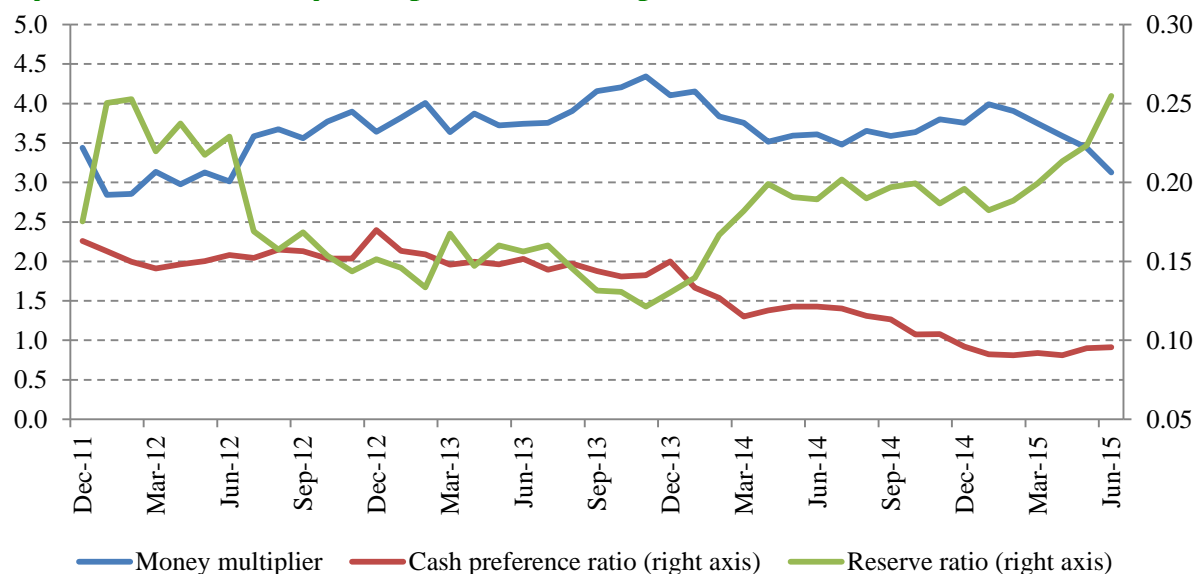
The money supply was decreasing against the decrease in net foreign assets of the banking system, excluding the National Fund. In the structure of net foreign assets of the banking system in June 2015 against the corresponding month of 2014, net foreign assets of banks decreased. The decrease in net foreign assets of banks occurred mainly due to the decrease in liabilities from non-residents.

During the reviewed period, in the structure of main components of the money supply cash in circulation decreased and deposits remained unchanged. As a result, the share of deposits of residents in the structure of the money supply increased from 89.2% in June 2014 to 91.3% as of the end of June 2015.

The money multiplier decreased from 3.61 in June 2014 to 3.13 in June 2015 as a result of expansion in the reserve money against the reduction in the money supply. At the same time, during the reviewed period the cash preference ratio decreased against the increase in the reserve ratio (Figure 24).

Figure 24

Dynamics of the money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

During the second quarter of 2015, the volume of cash in circulation increased by 10.3% to KZT 1143.6 bln.

In June 2015 versus June 2014, cash in circulation decreased by 21.3%. At the same time, receipts to cash departments of banks decreased by 8.5% to KZT 1560.9 bln., and cash payouts from cash departments of banks decreased by 14.2% to KZT 1529.9 bln.

The decrease in cash in circulation in June 2015 against the corresponding month of 2014 was associated with the preponderance of receipts over payouts in realization of goods, services and delivered works, on foreign exchange operations, on loans, on lump-sum transfers (without opening an account) and other items in the reviewed period. The impact of the above factors was not neutralized by payouts associated with the labor compensation, payment of retirement benefits and social allowances, payouts to support ATMs through which the population cashes out its earnings, as well as preponderance of payouts over receipts to accounts of individuals.

3.2. Financial Market

3.2.1. Deposits of Residents

At the end of June 2015, deposits of residents amounted to KZT 11960.0 bln., having increased by 6.0% during the second quarter of 2015. Deposits of legal entities increased by 8.7%, and deposits of individuals – by 1.6%.

Within the structure of deposits, the volume of term deposits (under the IMF classification – “other deposits”¹) increased during the second quarter of 2015 by 3.3% and amounted to KZT 8033.0 bln. at the end of June 2015. Term deposits in the domestic currency increased by 7.0% to KZT 3474.6 bln., and term foreign currency deposits – by

¹ Other deposits - savings and fixed-term deposits which may be withdrawn only upon expiry of a certain time period or may have various restrictions that make them less convenient in terms of their use in the day-to-day commercial operations and which basically comply with the requirements to the savings vehicles.

0.7% to KZT 4558.4 bln. During the quarter, the relative share of term deposits in the total deposit base decreased from 68.9% to 67.2%.

In the second quarter of 2015, the status of the deposit base was characterized by the growth in the domestic currency deposits caused by the increase in the Tenge holdings of legal entities and individuals and decreased foreign currency deposits of legal entities and individuals.

As a result, the volume of deposits in the domestic currency increased by 13.0%, amounting to KZT 5954.1 bln., despite a minor decrease in April 2015 (by 2.9%). Deposits of legal entities in the Tenge increased by 16.5%, whereas savings of individuals increased by 3.2%.

In the second quarter, foreign currency deposits decreased by 0.1%, amounting to KZT 6005.9 bln. The volume of foreign currency deposits of legal entities decreased by 0.9%, whereas the volume of deposits of individuals increased by 0.8%.

In general, high rates at which foreign currency deposits were decreasing resulted in the reduced degree of the deposit market dollarization and the growth in the relative share of deposits in the domestic currency from 44.5% to 49.8%.

Thus, the inflow of the domestic currency to the accounts of legal entities served as a main source for the bank deposit base growth in the second quarter of 2015, which was noted in May (the decrease of 2.4%), despite the subsequent growth in June 2015 (by 0.9%) (Table 4).

Table 4

**Dynamics of changes in deposits of residents
(as % change from December of the previous year)**

	June 2012	June 2013	June 2014	June 2015
Deposits of residents	7.5	11.8	18.6	2.3
<i>individuals</i>	<i>10.6</i>	<i>6.9</i>	<i>10.7</i>	<i>-1.6</i>
<i>non-bank legal entities</i>	<i>6.0</i>	<i>14.7</i>	<i>23.5</i>	<i>4.6</i>
Deposits in the Tenge	7.4	4.6	4.8	14.5
Deposits in foreign currency	7.7	28.7	41.6	-7.5

Source: National Bank of the Republic of Kazakhstan

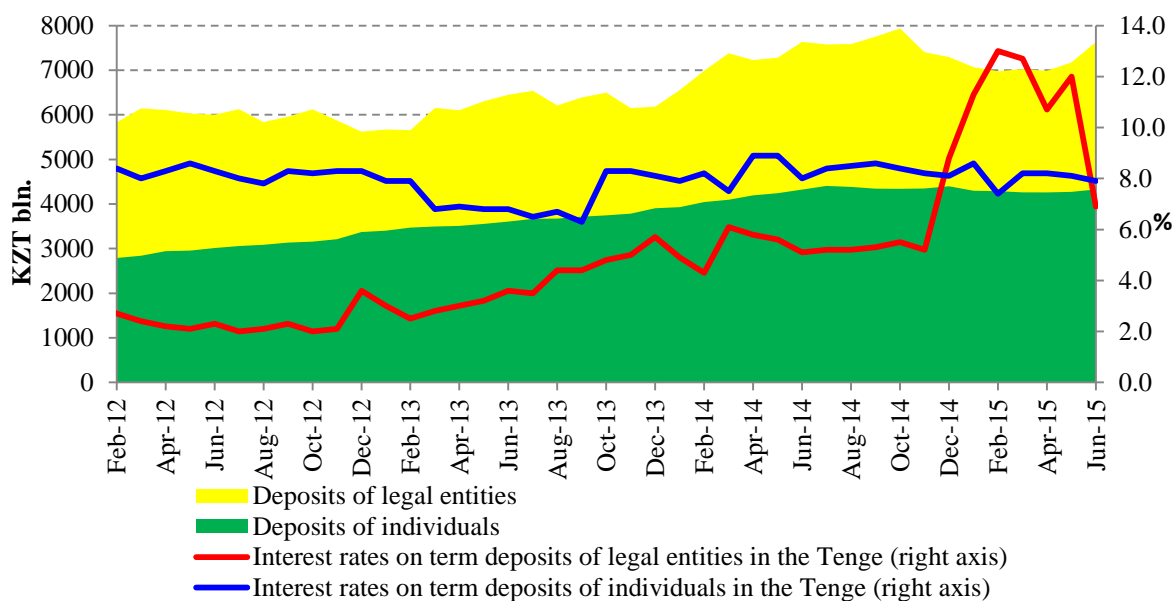
In general, at end-June 2015, interest rates on attracted deposits in the domestic currency decreased (to 6.9%), despite the fact that the growth in interest rates on the Tenge deposits was recorded in April and May (10.2% and 11.4%, respectively). Interest rates on foreign currency deposits increased to 3.1%.

As a result, the average rate on the Tenge deposits in the second quarter of 2015 decreased to 9.5% (in the first quarter of 2015 – 11.5%), and on deposits in freely convertible currency – to 2.8% (2.9%).

The weighted average interest rate on Tenge term deposits of non-bank legal entities in June 2015 was 6.9% (in December 2014 – 8.8%), and on deposits of individuals – 7.9% (8.1%) (Figure 25).

Figure 25

Dynamics of deposit volumes and interest rates on term deposits

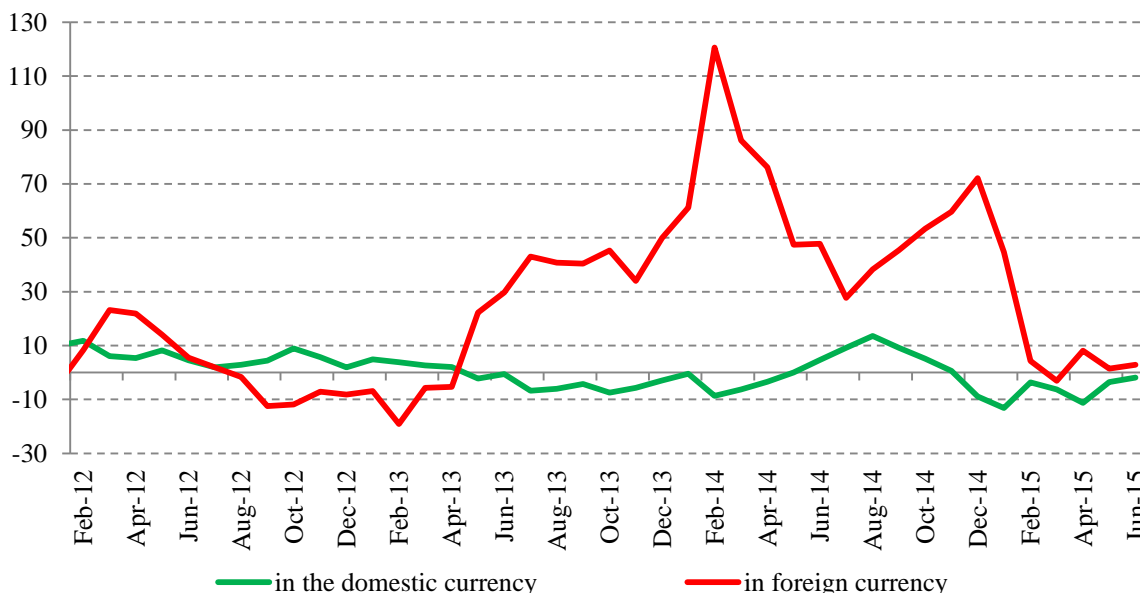


Source: National Bank of the Republic of Kazakhstan

During the second quarter of 2015, the volume of deposits of legal entities increased by 8.7% to KZT 7632.6 bln., with their annual growth (June 2015 to June 2014) remaining unchanged. In annual terms, deposits of legal entities in the domestic currency decreased by 1.9% and the volume of foreign currency deposits increased by 2.8% (Figure 26).

Figure 26

**Dynamics of the flow of deposits of legal entities
(as % change to the corresponding period of the previous year)**



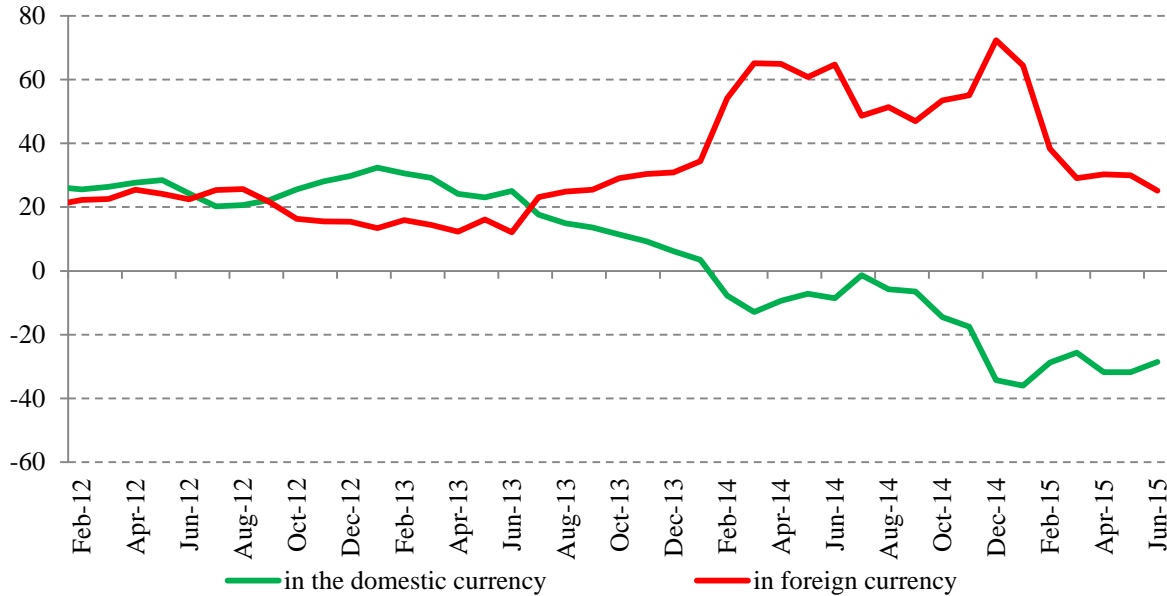
Source: National Bank of the Republic of Kazakhstan

During the second quarter of 2015, the volume of deposits of individuals slightly increased by 1.6% to KZT 4327.4 bln., with their annual growth (June 2015 to June 2014) accounting for 0.1%. In annual terms, the volume of deposits of individuals in the domestic

currency decreased by 28.6%, and the volume of foreign currency deposits increased by 25.2% (Figure 27).

Figure 27

**Dynamics of the flow of deposits of individuals
(as % of the corresponding period of the previous year)**



Source: National Bank of the Republic of Kazakhstan

3.2.2. Credits to the Economy

During the second quarter of 2015, bank credits to the economy decreased by 11.1% to KZT 10711.5 bln. Such decrease was caused by an operation of concurrent transfer of assets and liabilities between Kazkommertsbank and BTA Bank, as well as the license termination of BTA Bank and its withdrawal from the banking system. During April-June 2015, credits to legal entities decreased by 17.2%, amounting to KZT 6713.2 bln., and credits to individuals increased by 1.4% to KZT 3998.3 bln.

The volume of credits in the domestic currency decreased by 3.7% to KZT 8107.6 bln., and the volume of foreign currency credits decreased by 28.2% to KZT 2603.8 bln.

During April-June 2015, long-term lending decreased by 10.8% to KZT 8660.0 bln. and short-term lending decreased by 12.3%, amounting to KZT 2051.5 bln. As a result, the relative share of long-term credits in June 2015 versus March 2015 increased from 80.6% to 80.8%.

In June 2015, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities decreased to 14.2% (in March 2015 – 18.1%), and the weighted average interest rate on the Tenge credits provided to individuals accounted for 16.3% (in March 2015 – 18.5%). As a whole, in the second quarter of 2015 the cost of borrowing decreased against the level of the previous period (Figure 28).

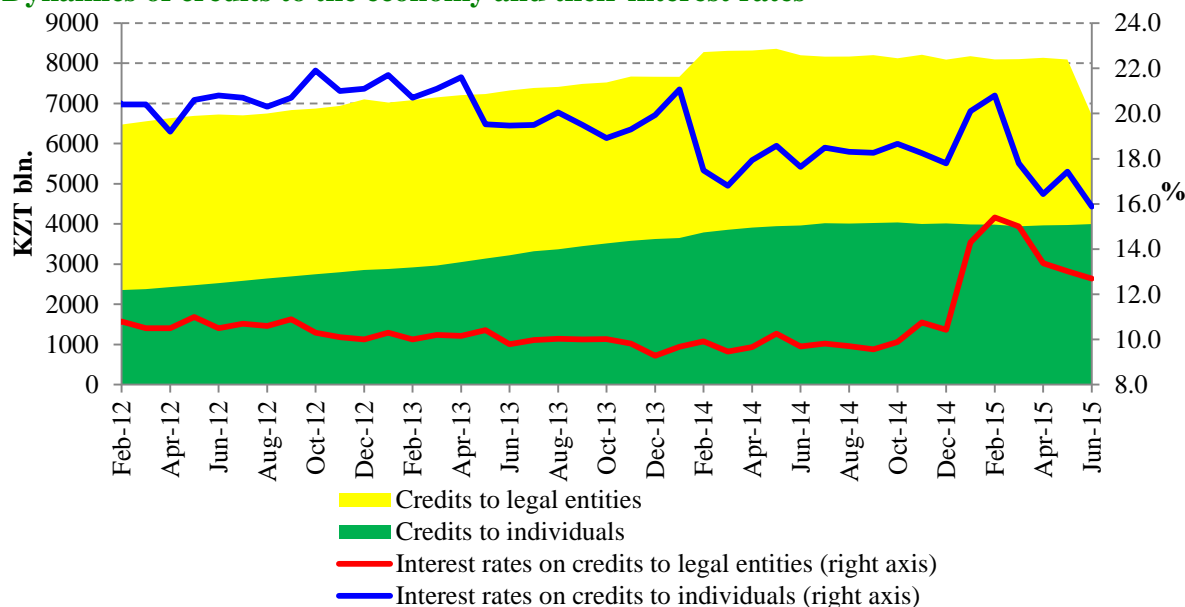
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.3%), consumer needs of individuals (24.2%), other purposes (29.5%), as well for acquisition of fixed assets (9.3%).

As per the breakdown by sector, the largest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 50.1%, trade – 20.3%, industry – 12.2%, and construction – 8.1%.

During the second quarter of 2015, credits delivered to the sector of trade decreased by 7.8%, to industry – by 4.6%, construction sector – by 25.3%, transport sector – by 7.3%. Credits to the communications sector increased by 36.1%, and credits to agriculture – by 1.2%.

Figure 28

Dynamics of credits to the economy and their interest rates



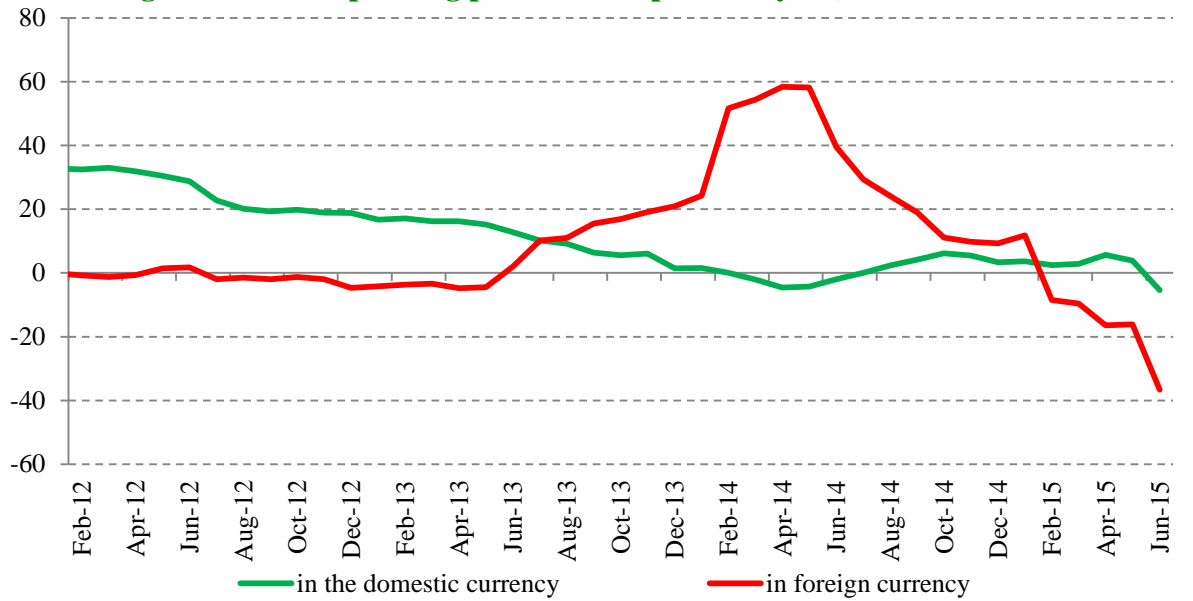
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities on a year-to-year basis (June 2015 to June 2014) decreased by 18.1%. There were changes in the structure of credits by their tenors. At end-June 2015, the share of medium- and long-term credits in total credits to legal entities accounted for 72.1%, whereas in March 2015 it reached 73.3%.

On a year-to-year basis (June 2015 to June 2014), credits to legal entities in the domestic currency decreased by 5.4%, and foreign currency credits decreased by 36.6% (Figure 29).

Figure 29

**Dynamics of credits to legal entities
(as % change to the corresponding period of the previous year)**



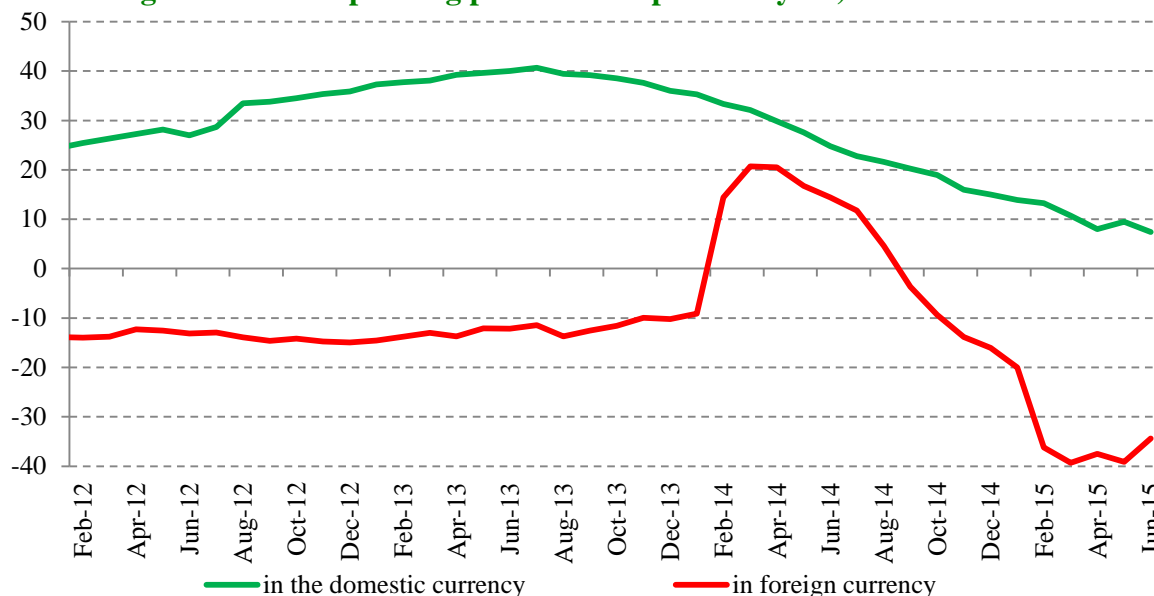
Source: National Bank of the Republic of Kazakhstan

In June 2015 as compared to the corresponding month of 2014, the volume of credits to individuals increased by 7.4%. At end-June 2015, the share of medium- and long-term credits in total credits to individuals remained unchanged and accounted for 95.6%.

In annual terms, credits disbursed to the population in the domestic currency demonstrated significant growth of 7.4%, and foreign currency credits – the decrease of 34.4% (Figure 30).

Figure 30

Dynamics of credits to the population
(as % change to the corresponding period of the previous year)



Source: National Bank of the Republic of Kazakhstan

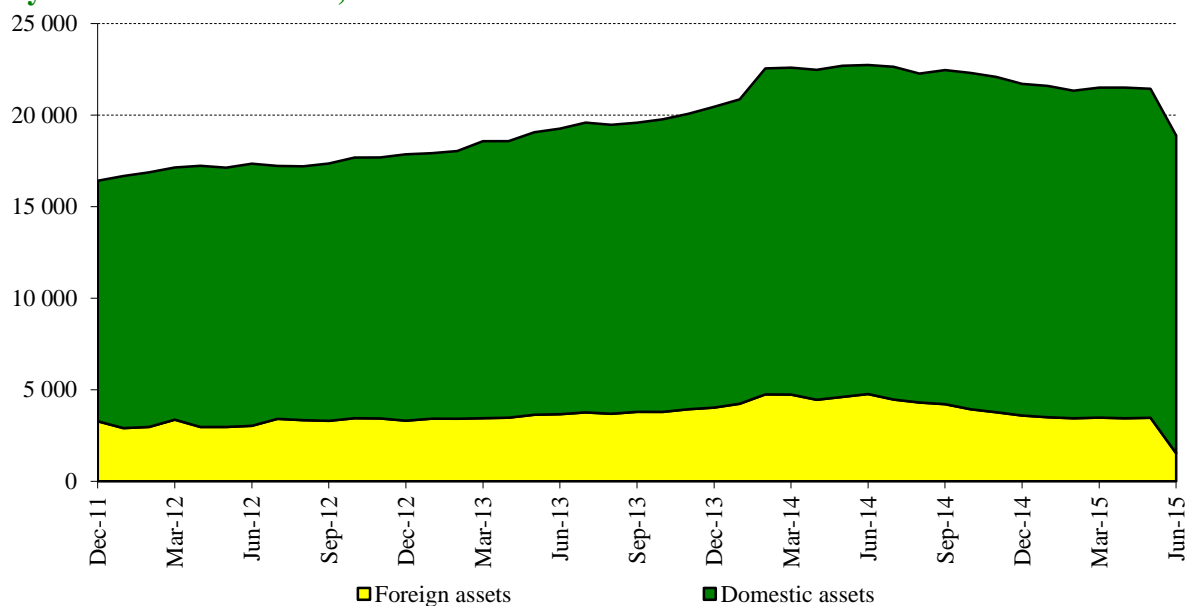
3.2.3. Bank Assets and Liabilities

– **Assets**

In the second quarter of 2015, the amount of bank assets calculated on the basis of the Monetary Survey decreased by 12.2% to KZT 18.9 trln. On a year-to-year basis (June 2015 to June 2014), bank assets decreased by 16.9% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

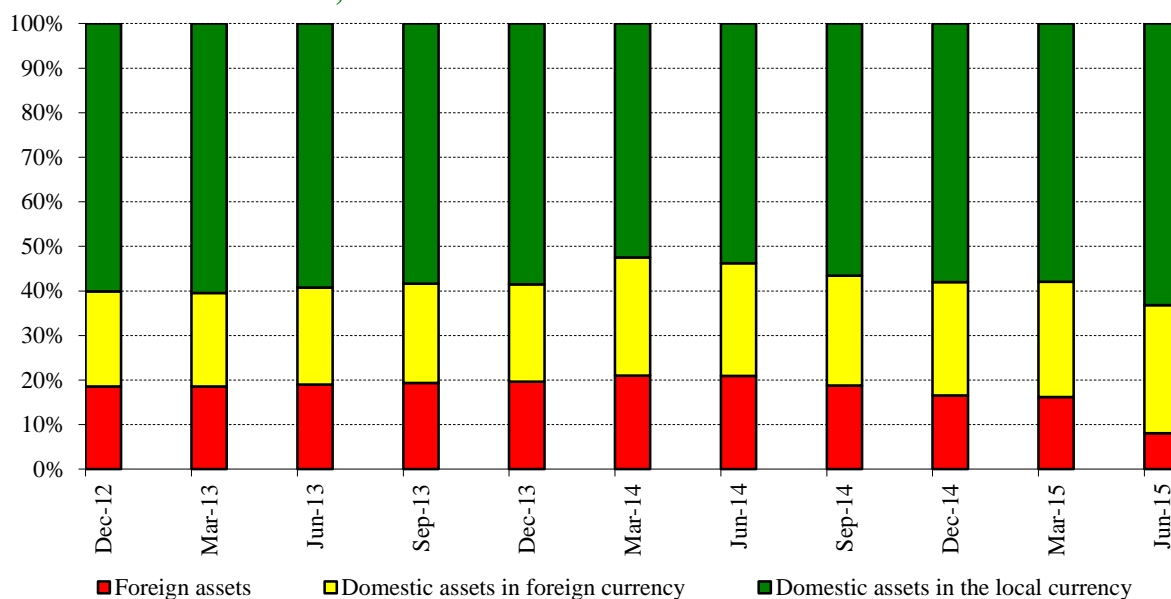
In June 2015, foreign assets of banks accounted for 8.1% of the total volume of assets or KZT 1.5 trln. As compared to June 2014, they decreased by 68.0%.

Within the structure of foreign assets in June 2015, credits to non-residents accounted for 20.5% (in March 2015 – 57.0%); deposits placed with non-residents – 36.1% (in March 2015 – 15.7%); securities issued by non-residents – 3.8% (in March 2015 – 3.5%); and other accounts receivable – 39.6% (in March 2015 – 23.9%).

In June 2015, domestic assets accounted for 91.9% or KZT 17.4 trln., with domestic assets in the local currency accounting for 68.8% or KZT 11.9 trln., and foreign currency assets – 31.2% or KZT 5.4 trln. During the second quarter of 2015, domestic assets decreased by 3.7%, where assets in the local currency decreased by 4.2% and foreign currency assets – by 2.6% (Figure 32).

Figure 32

Structure of bank assets, %

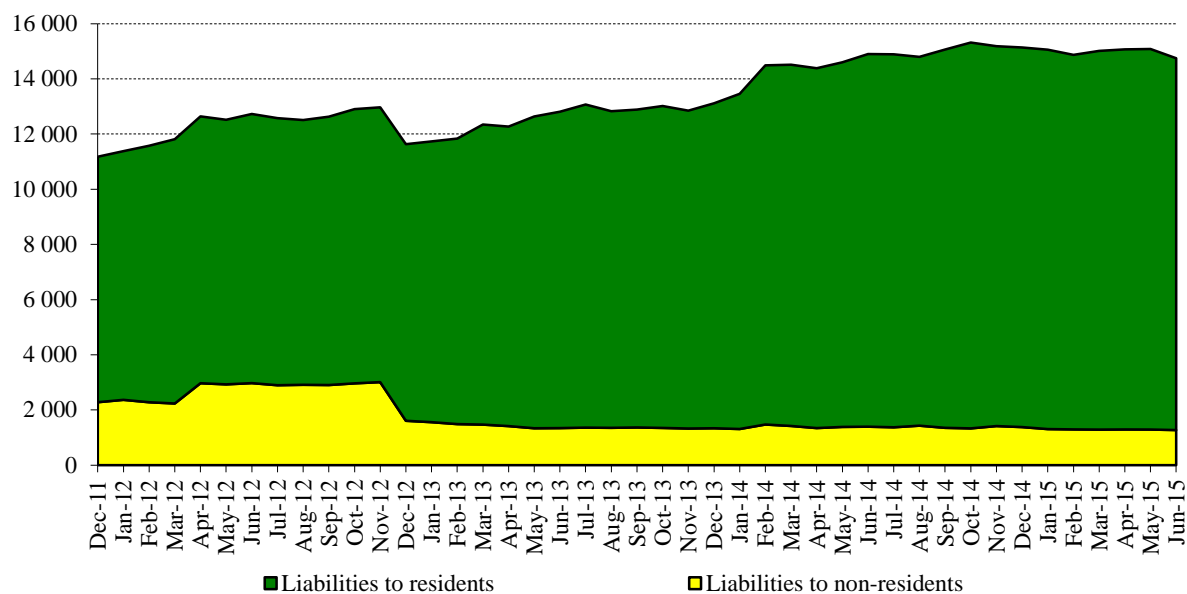


Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the second quarter of 2015, total bank liabilities calculated on the basis of the Monetary Survey decreased by 1.8% and amounted to KZT 14.7 trln. at end-June 2015 (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

In June 2015 versus March 2015, bank liabilities to non-residents decreased by 1.3% to 1.3 trln. (USD 6.8 bln.) and decreased by 8.8% versus the corresponding month of 2014. At end-June 2015, bank liabilities to non-residents accounted for 8.6% of the total volume of bank liabilities.

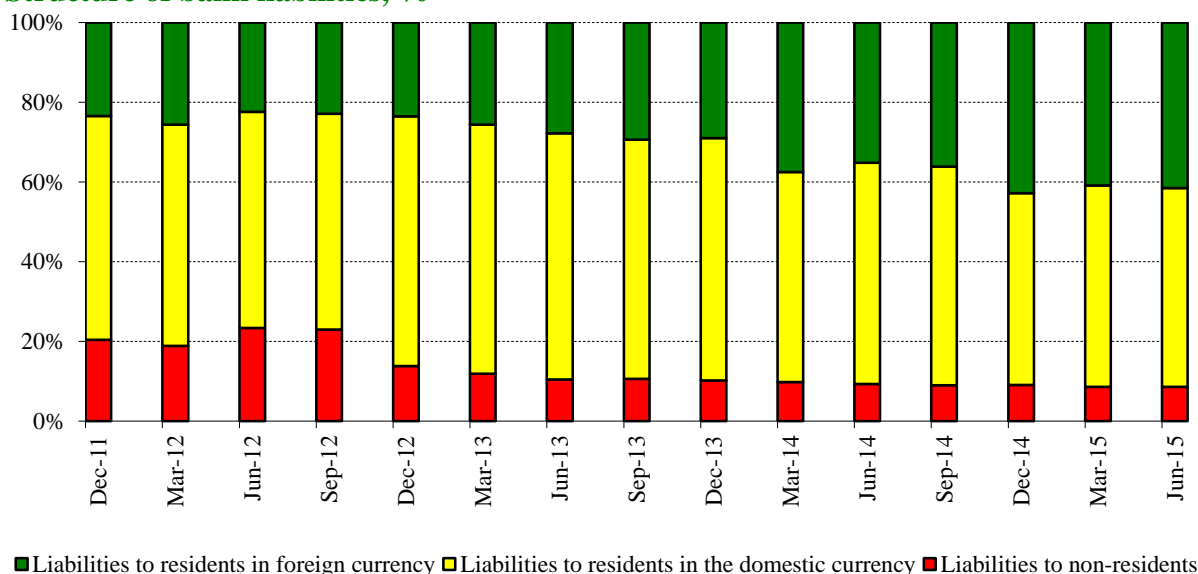
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in June 2015 decreased from 21.6% to 20.9% against March 2015; the share of liabilities on securities increased from 63.5% to 64.1%; and credits received from non-residents increased from 10.8% to 11.4%, respectively.

During the second quarter of 2015, liabilities to residents decreased by 1.8% to KZT 13.5 trln., with the 3.1% decrease in liabilities in the domestic currency to KZT 7.4 trln., and the 0.3% decrease in foreign currency liabilities to KZT 6.1 trln. (Figure 34).

Thus, in the second quarter of 2015, there was a decrease both in bank liabilities to residents and in liabilities to non-residents.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

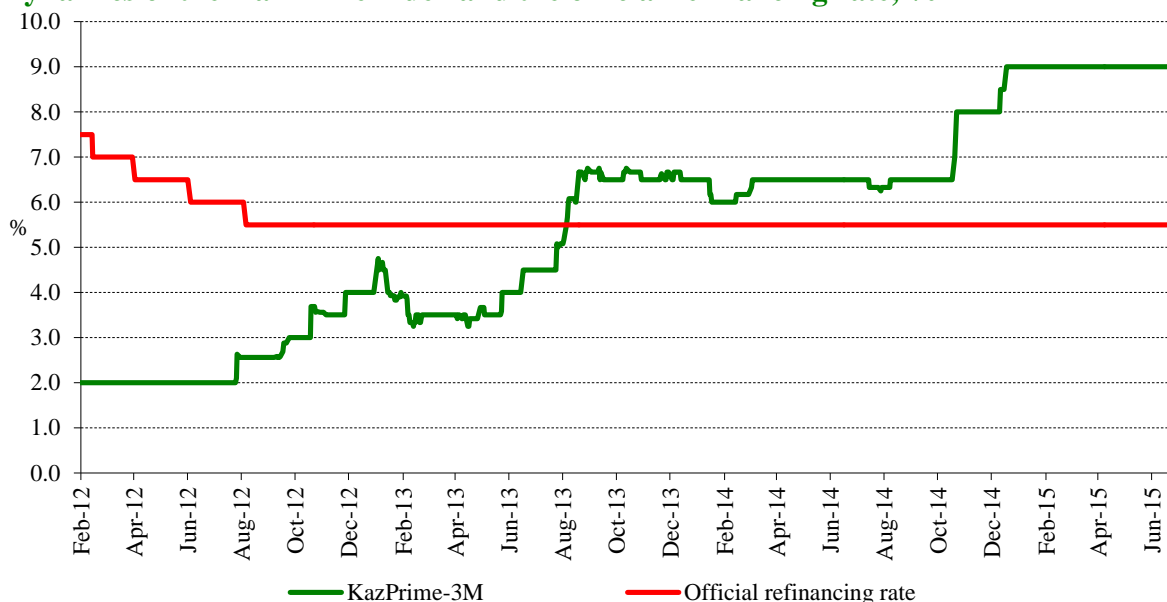
3.2.4. Financial Market Rates

In the second quarter of 2015, interest rates in the interbank market were decreasing.

The KazPrime index decreased from 9.00% on average during the first quarter of 2015 to 8.98% on average during the second quarter of 2015. At end-June 2015, the index accounted for 8.35% (Figure 35).

Figure 35

Dynamics of the KazPrime index and the official refinancing rate, %



Source: Kazakhstan Stock Exchange, National Bank of the Republic of Kazakhstan

In the sector of automatic REPO, the decreased level of rates was observed.

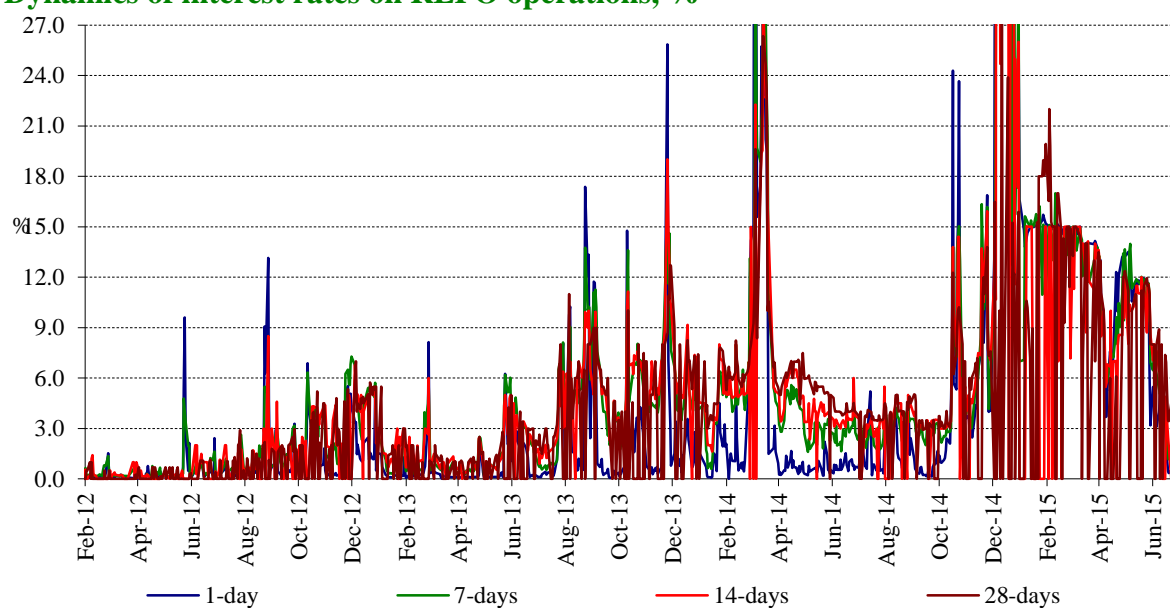
In the second quarter of 2015, the weighted average rate on 1-day operations in the sector of automatic REPO decreased and accounted for 9.37% (in the first quarter of 2015 – 14.87%). Its maximum level was 13.50%, and its minimum level – 0.35%.

The weighted average rate on 7-day REPO operations in the second quarter of 2015 was fluctuating within the range from 0.58% to 13.98% (during the period as a whole, the weighted average rate accounted for 8.89%), on 14-day REPO operations – from 2.0% to 13.0% (during the period as a whole, the weighted average rate accounted for 8.92%), and on 28-day REPO operations – from 3.43% to 13.0% (during the period as a whole, the weighted average rate accounted for 9.79%) (Figure 36).

In the second quarter of 2015, the transaction volumes in the sector of automatic REPO decreased by 41.4% as compared to the first quarter of 2015.

Figure 36

Dynamics of interest rates on REPO operations, %



Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

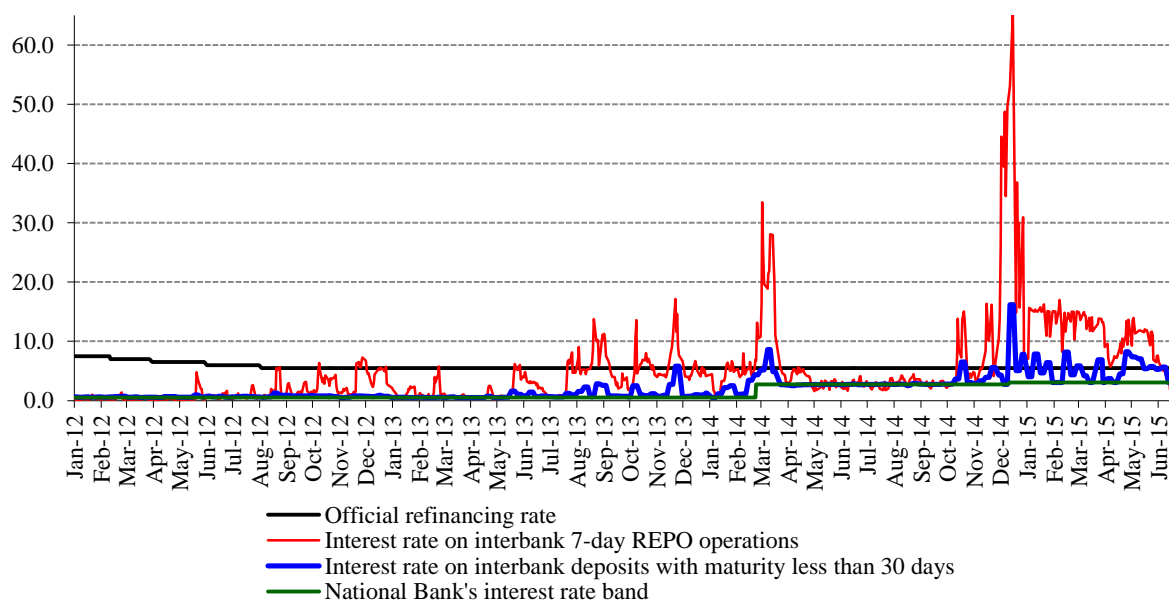
In the second quarter of 2015, the dynamics of interest rates in the money market was accompanied by the increased volatility. Throughout the period as a whole, interest rates were gradually decreasing and only in May 2015 the interest rate level somewhat increased.

In the second quarter of 2015, the National Bank's interest rate band remained unchanged. The official refinancing rate remained at 5.5% per annum and interest rate on 7-day deposits attracted from banks was at 3.05%.

The weighted average rate on interbank deposits with maturity less than 30 days decreased from 5.38% in the first quarter of 2015 to 4.98% in the second quarter of 2015. The weighted average rate on 7-day interbank REPO operations decreased from 13.96% in the first quarter of 2015 to 8.89% in the second quarter of 2015 (Figure 37).

Figure 37

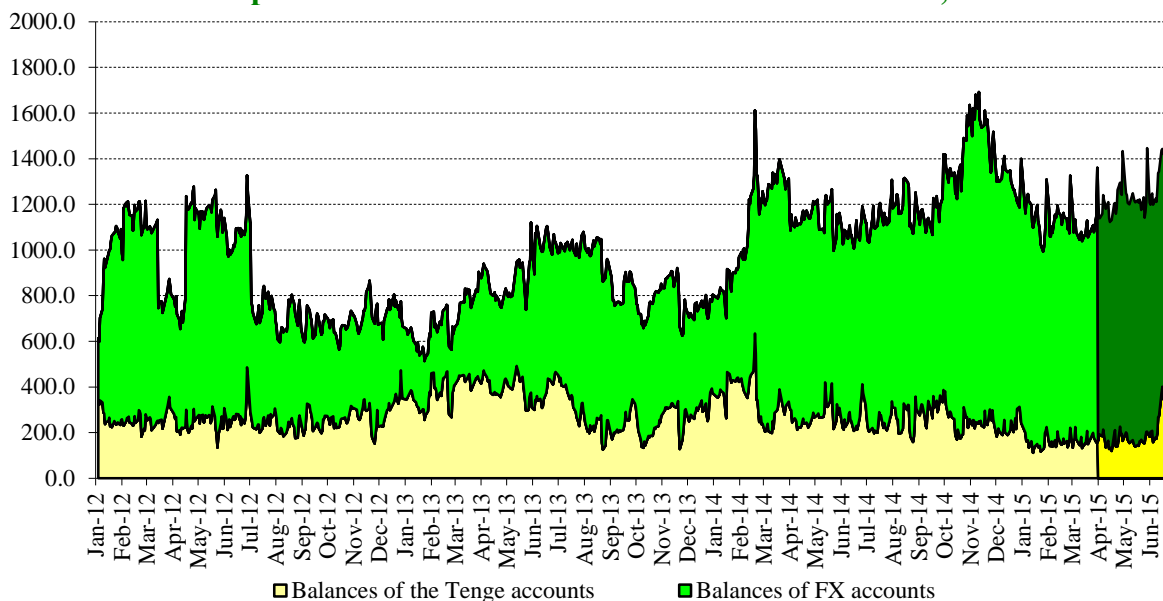
Interest rates in the money market, %



Source: National Bank of the Republic of Kazakhstan

Correspondent account balances of banks in the domestic currency were gradually increasing throughout the period, whereas correspondent account balances of banks in foreign currency remained relatively stable. As a whole, the volume of correspondent account balances in the domestic currency at end-June 2015 as compared to December 2014 increased by 2.3 times, and correspondent account balances in foreign currency increased by 8.2% (Figure 38).

Figure 38

Balances of correspondent accounts of banks with the National Bank, KZT bln.


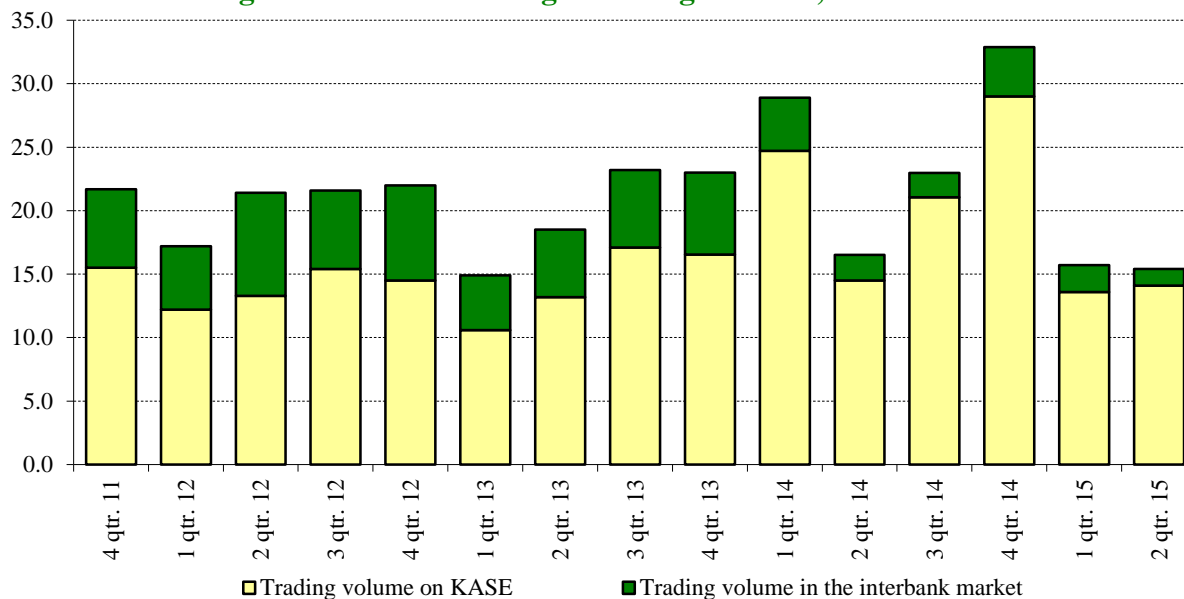
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the second quarter of 2015, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to USD 15.4 bln., having decreased by 1.9% as compared to the first quarter of 2015.

The volume of trades in the Dollar position on the Kazakhstan Stock Exchange increased by 3.4% as compared to the first quarter of 2015 and amounted to USD 14.1 bln. (net trades on the Kazakhstan Stock Exchange made up 85% of gross trades). During the second quarter of 2015, the volume of transactions in the off-exchange foreign currency market decreased as compared to the first quarter of 2015 by 36.7% and amounted to USD 1.3 bln. (Figure 39).

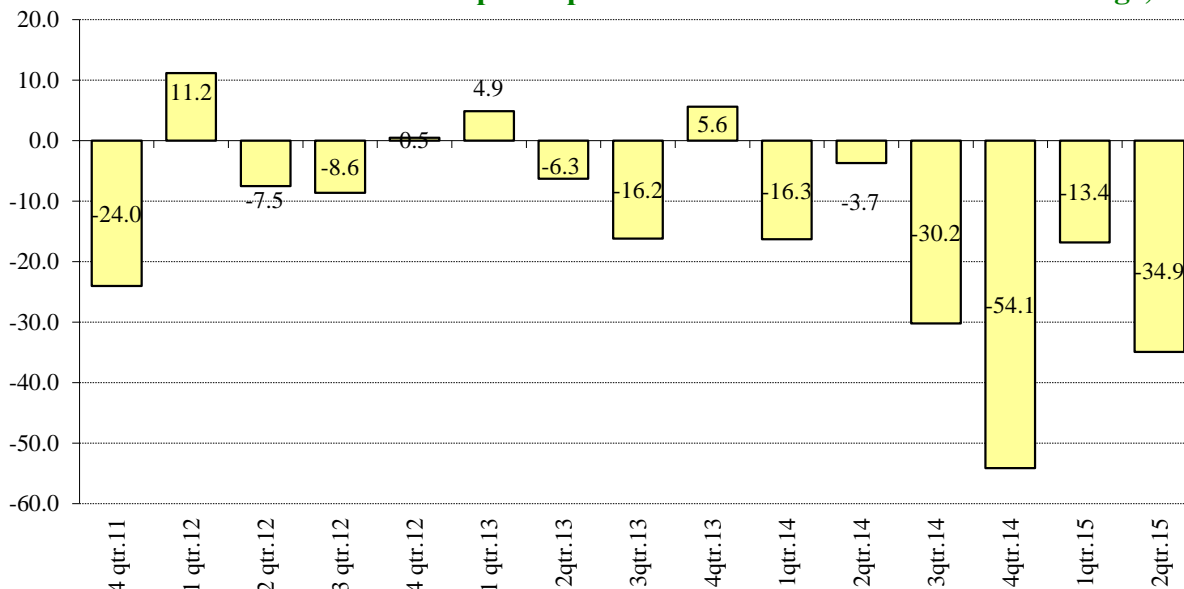
Figure 39

Volume of trading in the domestic foreign exchange market, USD bln.


Source: National Bank of the Republic of Kazakhstan

As of the end of the second quarter of 2015, the coefficient of the National Bank's participation on the Kazakhstan Stock Exchange made up -34.9% (in the first quarter of 2015 it was -16.8%) (Figure 40). Thus, in the second quarter of 2015, the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 40

Coefficient of the National Bank's participation on the Kazakhstan Stock Exchange, %


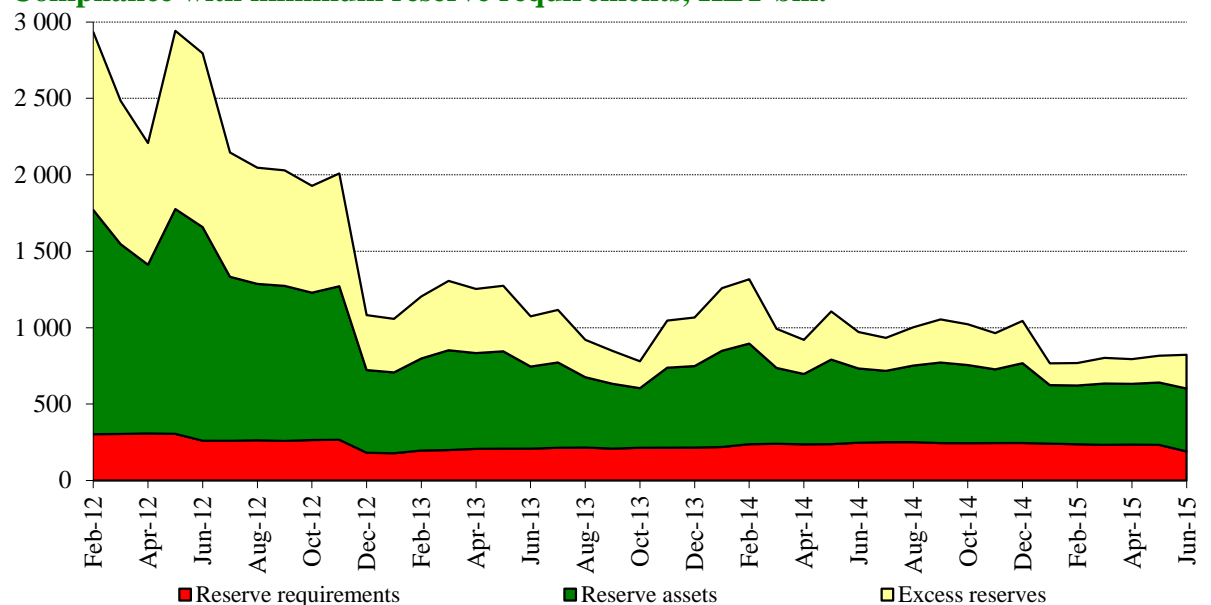
Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During April-June 2015, reserve assets exceeded the required reserving volume by 1.8 times on average (in the second quarter of 2014 – by 2.2 times, and in the first quarter of 2015 – by 1.7 times) (Figure 41).

Figure 41

Compliance with minimum reserve requirements, KZT bln.



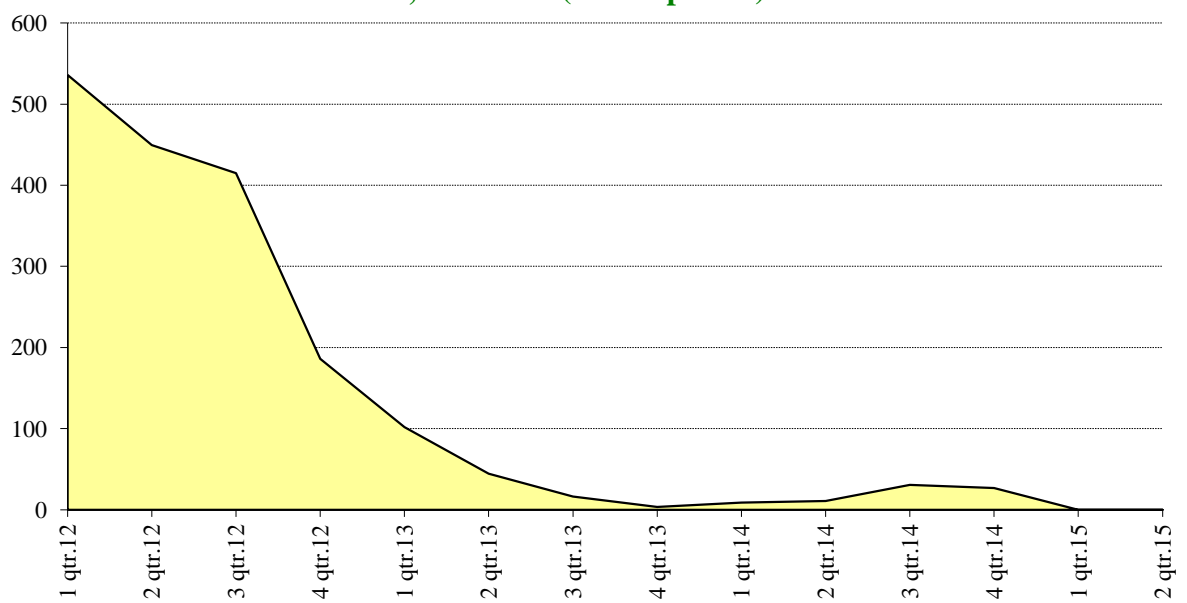
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the second quarter of 2015, due to the lack of demand for short-term notes of the National Bank on the part of banks, no auctions to place short-term notes were held. As of the end of June 2015, there were no short-term notes in circulation (Figure 42).

Figure 42

Short-term notes in circulation, KZT bln. (at end-period)



Source: National Bank of the Republic of Kazakhstan

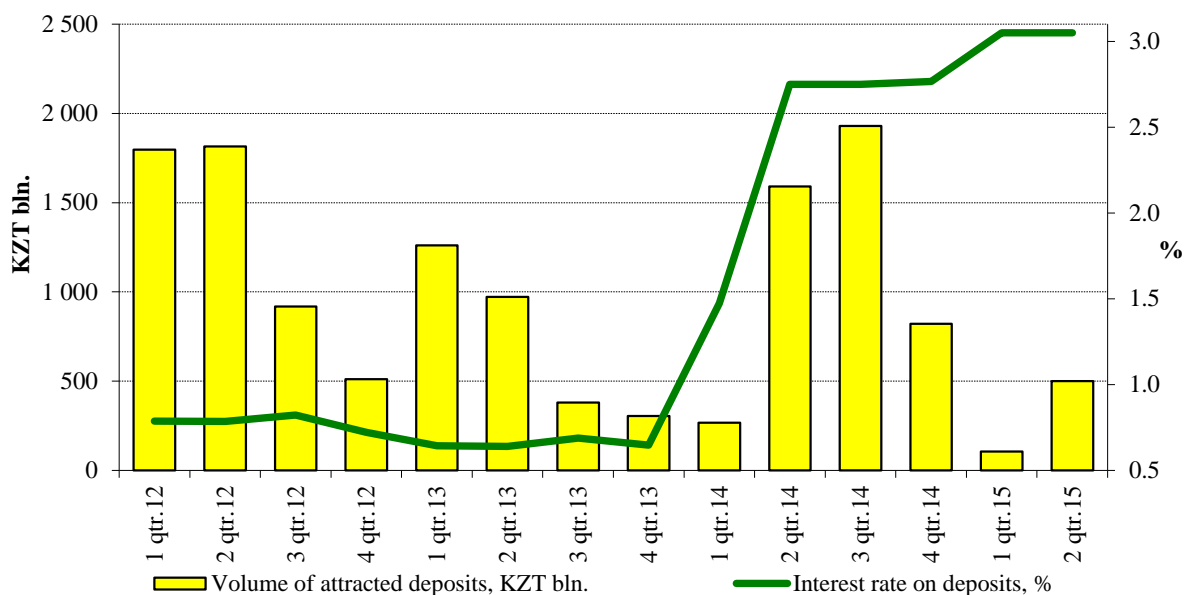
4.4. Standing Facilities

In the second quarter of 2015, the volume of deposits attracted from banks increased. The maximum volume of deposits was attracted in June 2015. During the second quarter of 2015 as a whole, deposits worth KZT 500.9 bln. were attracted; this exceeds the volume of the first quarter of 2015 by 4.8 times and is by 4.2 times less than in the second quarter of 2014.

The average interest rate on deposits in the second quarter of 2015 was 3.05% (Figure 43).

Figure 43

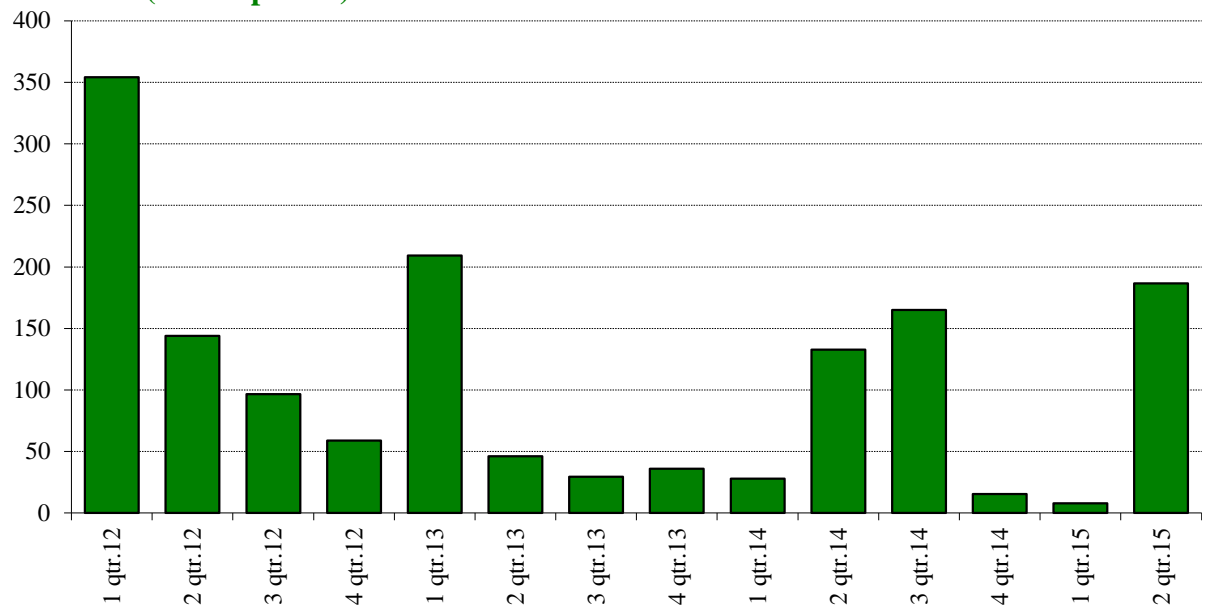
Volume and interest rates on deposits attracted by the National Bank (for the period)



Source: National Bank of the Republic of Kazakhstan

In the second quarter of 2015, the volume of outstanding liabilities of the National Bank on bank deposits increased. As of the end of June 2015, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 186.7 bln., which exceeds the volume at end-December 2014 by 12.0 times (Figure 44).

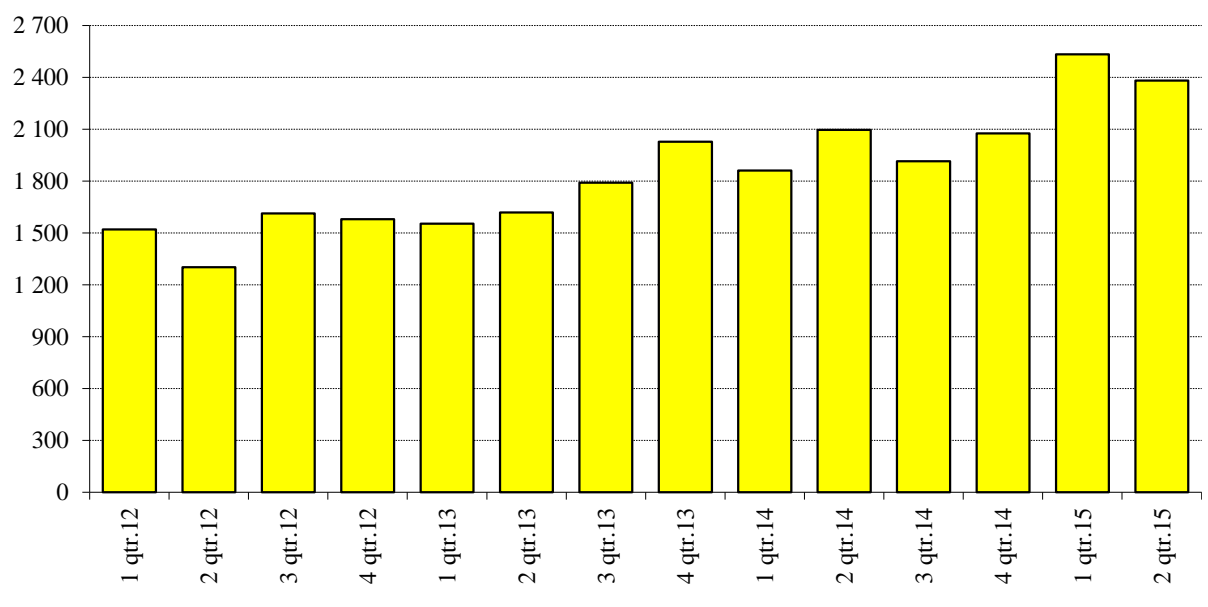
Figure 44

Volume of outstanding liabilities of the National Bank on deposits attracted from banks, KZT bln. (at end-period)


Source: National Bank of the Republic of Kazakhstan

In the second quarter of 2015, the total volume of refinancing loans amounted to KZT 2.4 trln. The volume of such operations decreased by 6.0% as compared to the previous quarter (Figure 45).

Figure 45

Volume of the National Bank's refinancing loans, KZT billion (for the period)


Source: National Bank of the Republic of Kazakhstan