

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

Inflation Report
for the First 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) to the net volume of trading at the KASE.

The balance of the National Bank's operations in the money market is calculated as a sum of the change in the volume of short-term notes in circulation, deposit and correspondent account balances with the National Bank, and net operations on purchase and sale of government securities.

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Summary

As of end-March 2015, the annual inflation accounted for 5.2%. Declining prices for non-food products and decreasing rates of growth in prices for foodstuffs against declining world oil prices and money supply in the Kazakh economy were conducive to deceleration of inflation rates in the first quarter of 2015. The rates of growth in tariffs for paid services increased.

During January-March 2015, the inflation accounted for 1.1% (in the first quarter of 2014 – 3.3%), which is below its rate in the fourth quarter of 2014 (1.5%). In the structure of the consumer price index, tariffs for paid services were growing at the highest rates. The main reasons for the increase in prices for services to the population were the increase in prices for electricity, cold water, out-patient services, and transport and communication services.

The growth in foodstuff prices in the domestic market was primarily caused by seasonality factors. The increase in prices for fruit and vegetable production, bread and bakery products and cereals was conducive to the fact.

The decline in prices for non-food products was mostly caused by the decline in retail prices for gasoline and diesel fuel in the environment of falling world oil prices. In addition, the decline in prices for imported goods was also influencing the pricing of non-food products.

In the first 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 January-March 2015 decreased by 3.9% and amounted to KZT 12 322.1 bln. (on a year-to-year basis – the decline of 3.7%). On the whole, in annual terms the money supply corresponds to the needs of the economy and to current macroeconomic conditions.

Real GDP growth in the first quarter of 2015, according to the data reported by the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan accounted for 2.3%.

The real sector of the economy demonstrated positive development trends. During January-March 2015 as compared to the corresponding period of 2014, the industrial production increased by 0.6%, including due to the production growth in the mining industry and quarry operations – by 1.1%, and in the manufacturing industry – by 0.5%; whereas the volume of output in electricity supply, gas and vapor supply and air conditioning decreased by 2.0%. The retail trade increased by 3.6% during the reviewed period, the gross agricultural output increased by 3.0% and the construction volume – by 1.9%. The volume of cargo turnover decreased by 2.3%.

As part of its monetary policy implementation, in the first quarter of 2015 the National Bank continued to conduct operations aimed to regulate the short-term Tenge liquidity in the money market. During January-March 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 first quarter of 2015. The volume of deposits attracted by the National Bank decreased by 60.7% as compared to the corresponding period of 2014 and amounted to KZT 105.0 bln. in the first quarter of 2015. As part of the liquidity provision to banks, the volume of provided refinancing loans increased by 36.1% during January-March 2015 versus the first quarter of 2014.

As of end-March 2015, total deposits with banks amounted to KZT 11285.0 bln., having decreased by 3.5% versus December 2014. Along with that, during the same period, the volume of foreign currency deposits decreased by 7.4% (the share of foreign currency deposits accounted for 53.3%).

In March 2015 as compared to December 2014, credits to the economy decreased by 0.5% to KZT 12045.4 bln. The decrease in the volume of credits to the population accounted for 1.8% (the relative share – 32.7%).

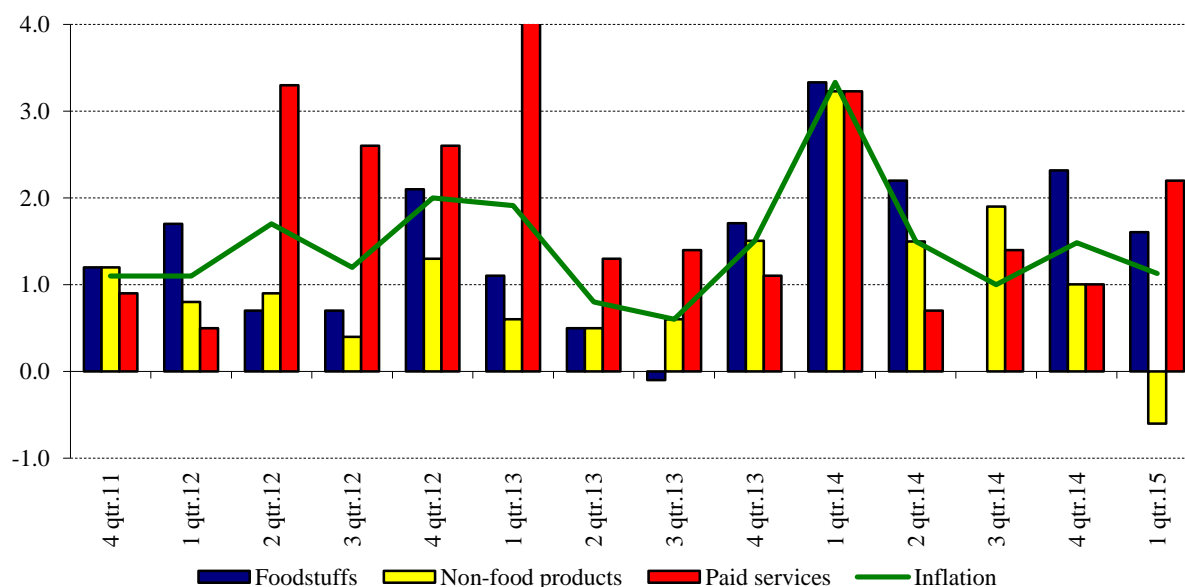
1. Inflationary Processes

1.1. Consumer Prices

In the first quarter of 2015 as compared to the fourth quarter of 2014, the inflation slowed down, despite the impact of seasonality factors. The declining rates of growth in cash income of the population and the money supply were conducive to the decrease in the inflation rate. During January-March 2015, the inflation rate accounted for 1.1% (in the first quarter of 2014 – 3.3%), whereas during October-December 2014 it was 1.5%. The growth in prices during the reviewed period was to a larger extent caused by the 2.2% increase in tariffs for paid services (during the first quarter of 2014 – 3.2%). The foodstuffs increased by 1.6% in terms of price (by 3.3%), and non-food products cheapened by 0.6% (the growth of 3.2%) (Figure 1).

Figure 1

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



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

In January-March 2015, the highest increase in prices among foodstuffs occurred in the prices for fruits and vegetables – by 7.4%, including cabbage – by 29.6%, non-alcoholic beverages – by 2.2%, macaroni products – 1.8%, cereals – by 0.9%, including buckwheat – by 1.9%, bread – by 1.0%, and fish and seafood – by 1.0%. Prices for sugar declined by 6.8%, for eggs – by 3.2%, rice – by 1.2%, meat and meat products – by 0.4% and for vegetable oil and butter – by 0.5%.

In the market of non-food products, prices for clothes and footwear increased by 1.4%, household utensils increased – by 1.3% in terms of price, and medications – by 4.2%. The price of gasoline declined by 14.0%, and the price of diesel fuel – by 10.0%.

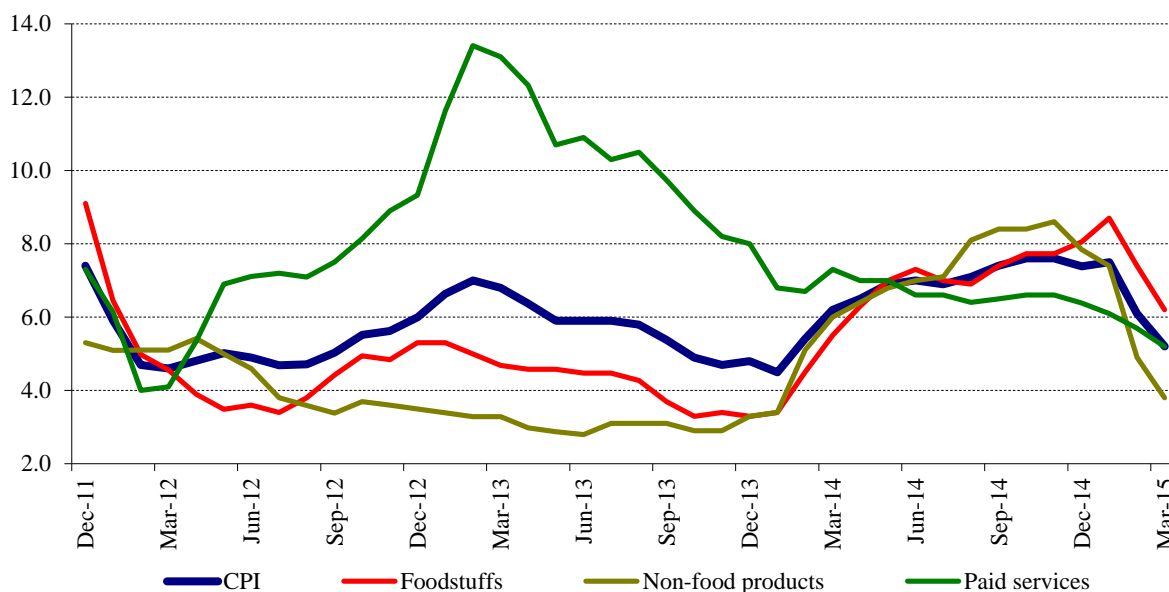
In the group of paid services, utility payments increased by 1.3%. Electricity fees increased by 7.9%, fees for sewage system – by 1.1%, cold water and waste collection fees increased by 1.0% each, and housing rental payments – by 0.9%. In addition, prices for outpatient services increased by 2.6%, transport services – by 2.9%, legal advisory services – by

7.6%, communication services – by 4.7%, services of restaurants and hotels – by 2.0%, and education services – 0.6%.

In March 2015, the annual inflation accounted for 5.2% (in December 2014 – 7.4%). In March 2015 as compared to March 2014, foodstuffs increased by 6.2% (by 8.0%) in terms of price, non-food products – by 3.8% (by 7.8%), and paid services – by 5.2% (by 6.4%) (Figure 2).

Figure 2

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



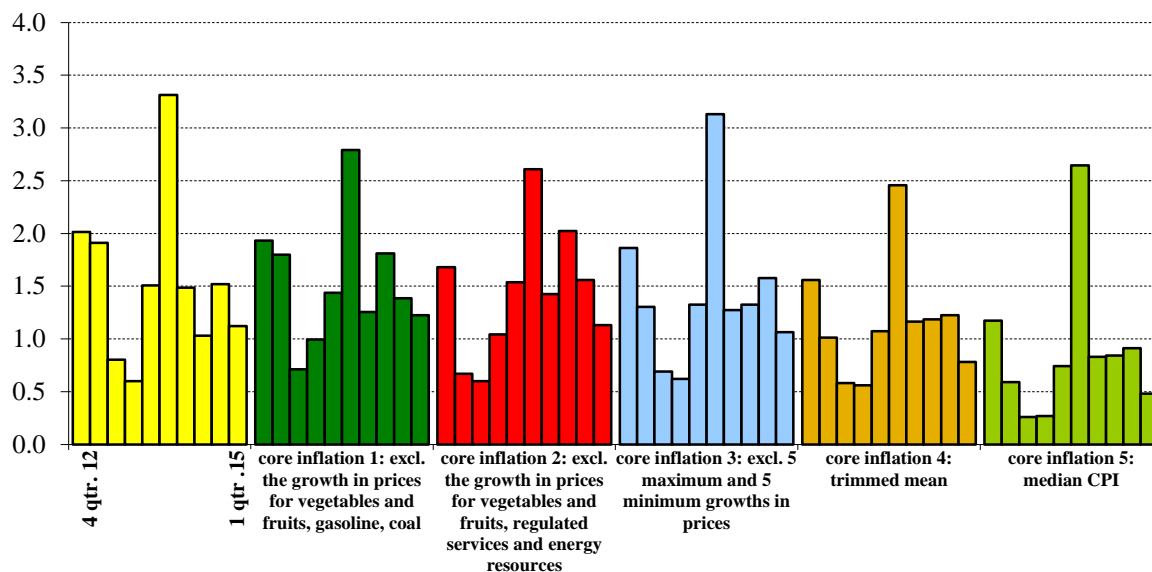
Source: Committee of Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.2. Core Inflation

In the first quarter of 2015, all core inflation indicators were slowing as compared to the fourth quarter of 2014 and the first quarter of 2014. In the first quarter of 2015, core inflation-1 slightly exceeded the level of the headline inflation (Figure 3). This was associated, among other things, with the increase in prices for regulated services (including utility services, railway transport, communication services), which were excluded when computing other indicators of the core inflation.

Figure 3

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



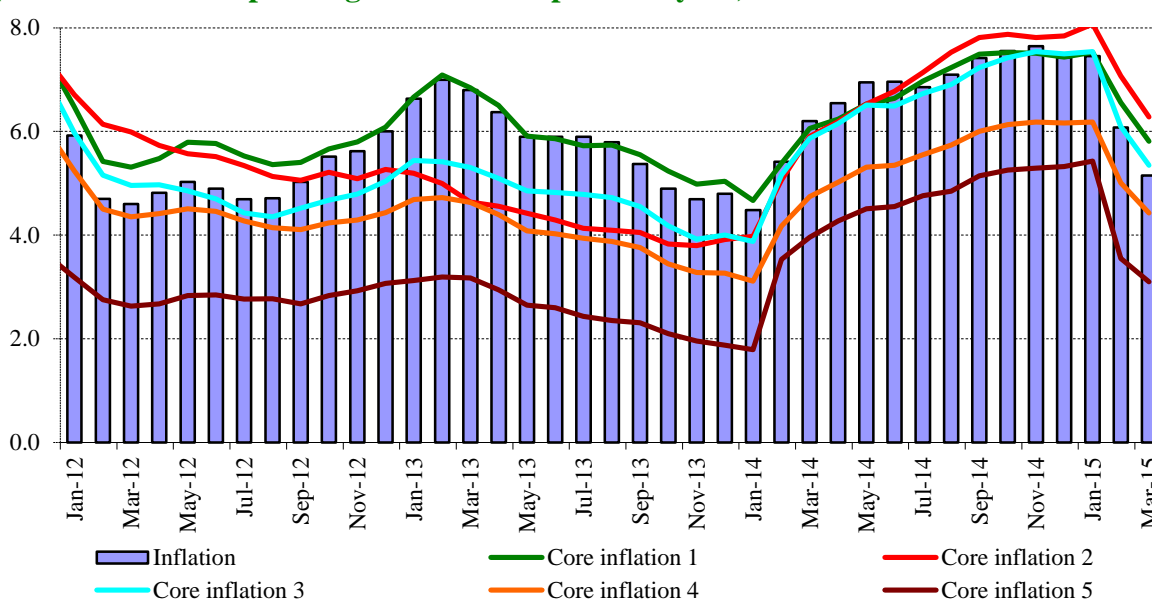
Source: Committee of Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In the first quarter of 2015, the annual core inflation level decreased (Figure 4). At end-March 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 gasoline, railway transport services, which are excluded when computing the core inflation.

At end-March 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 of 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 first quarter of 2015, the producer prices decreased by 14.8% (in the first quarter of 2014 – the growth of 11.3%). The cost of output decreased in terms of price by 16.4%; at the same time, in its composition the price of interim consumption products cheapened by 19.9%, the price of the means of production remained unchanged, and the price of consumer goods increased by 2.3%. The prices of production services increased by 2.6%.

In the first quarter of 2015, prices in the mining industry decreased by 23.6% (in the first quarter of 2014 – the growth of 14.0%); this was caused by lower oil prices than in the corresponding period of the previous year.

The price of energy resources, after its 16.3% decline in the fourth quarter of 2014, in the first quarter of 2015 decreased by 22.6% (in the first quarter of 2014 – the growth of 14.3%). Within raw energy resources, the price of oil extraction decreased by 27.3% (in the first quarter of 2014 – the growth of 15.1%), and the price of gas condensate decreased by 30.1% (in the first quarter of 2014 – the growth of 19.3%).

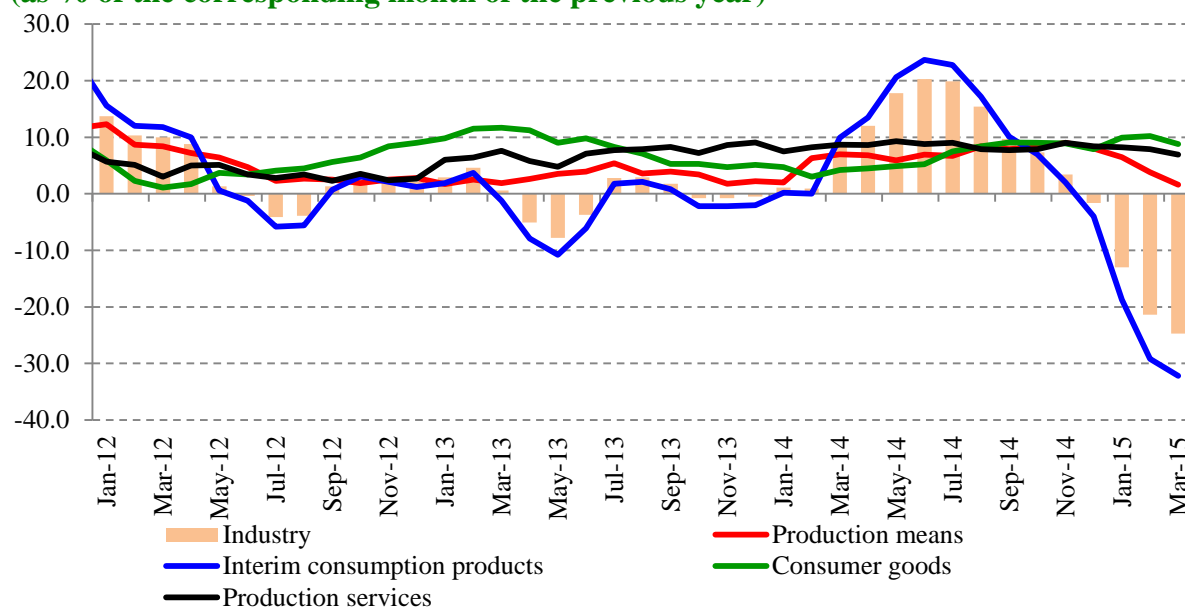
Prices in the manufacturing industry continued going down, having declined by 2.5% in the first quarter of 2015 (in the first quarter of 2014 – the growth of 6.2%). Along with that, in the first quarter of 2015, prices in the metallurgical industry declined by 2.3%, and oil refinery products cheapened by 10.2%.

In the first quarter of 2015, prices in the sector of electricity, gas and vapor supply and air conditioning increased by 6.5% (in the first quarter of 2014 – the growth of 5.7%).

In March 2015, the year-to-year decline in prices in industrial production (March 2015 to March 2014) accounted for 24.7% (Figure 5).

Figure 5

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



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

The cost of output decreased by 27.1% in annual terms, while interim consumption products decreased by 23.7% in terms of price, the price of consumer goods increased by

8.8% and production means increased in price by 1.6%. Production services increased by 6.9% in terms of price.

1.3.2. Prices in Agriculture

In the first quarter of 2015, prices for agricultural production realized across all channels increased by 0.2% (in the first quarter of 2014 – the growth of 1.1%). The dynamics of prices in agriculture was impacted by a higher growth in prices for plant production despite the decline in prices in the livestock sector.

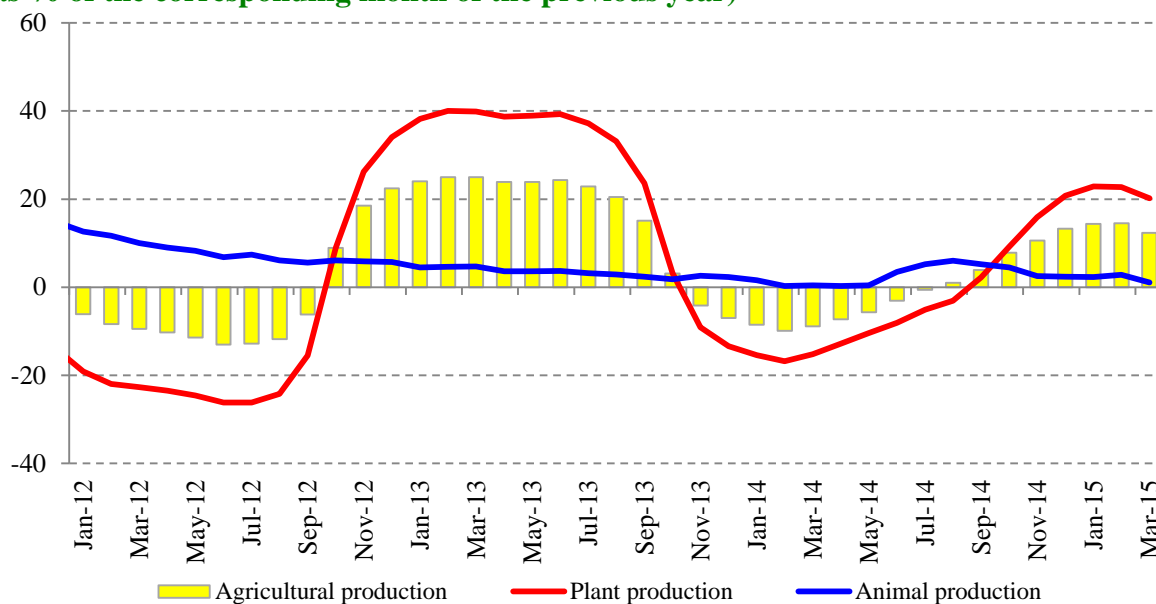
As compared to the 5.0% increase in prices in the fourth quarter of 2014, during January-March 2015, the plant production increased by 1.2% in terms of price (in the fourth quarter of 2014 – the growth of 6.7%). Within the plant production, prices for vegetables increased by 2.5%, for potatoes – by 0.9%, and for grain cultures – by 1.1%.

The price of animal production, after its 2.1% growth in the fourth quarter of 2014, in the first quarter of 2015 declined by 0.8% (in the first quarter of 2014 – the growth of 0.2%). During January-March 2015, prices for flesh meat and poultry declined by 0.5%, the price of unpasteurized milk declined by 0.8%, and eggs cheapened by 4.5%.

At end-March 2015, prices for agricultural products increased by 12.3% in annual terms. The price of plant production increased by 20.2%, and animal production increased by 1.1% 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 of Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.3.3. Monitoring of Enterprises

In the first quarter of 2015, the demand for final products of enterprises in the real sector of the economy as a whole significantly decreased; this is evidenced by the diffusion index of the change in the demand, which had fallen to 31.4 (from 45.7 in the fourth quarter of 2014). The indicator had fallen due to the fact that the share of enterprises with decreased demand for their products significantly increased (to 46.9% from 26.0% in the fourth quarter

of 2014), as well as due to the decreased share of enterprises with increased demand for their products (to 9.7 % from 17.4% in the fourth quarter of 2014).

The highest decrease in the demand for final products occurred in the following sectors: the “manufacturing industry”, “construction” and “accommodation and catering services”: diffusion indices in these sectors in the first quarter of 2015 were 27.9, 27.0 and 21.3, respectively. The decrease in the demand was also observed in such sectors as the “mining industry” (the diffusion index had fallen to 31.9 from 50.9 in the fourth quarter of 2014); “information and communications” (to 32.2 from 51.2 in the fourth quarter of 2014); “water supply; sewage system, control over waste collection and distribution” (to 43.8 from 59.7 in the fourth quarter of 2014) and agriculture (to 47.6 c 58.0 in the fourth quarter of 2014). At the same time, the continuing growth in the demand was noted only in the sector of “electricity supply, gas and vapor supply and air conditioning” (the diffusion index was 57.0).

According to expectations of enterprises, in the second quarter of 2015 versus the first quarter of 2015, the demand for final products will notably increase in the real sector as a whole: the diffusion index was 57.0.

In the second quarter of 2015, the increase in the demand is anticipated in all sectors, except the sector of “electricity supply, gas and vapor supply and air conditioning” where the diffusion index had fallen to 37.2 from 57.0 in the first quarter of 2015. A larger growth in the demand is anticipated in the following sectors: the “manufacturing industry” (the diffusion index – 62.5), “water supply; sewage system, control over waste collection and distribution” (60.9), “agriculture, forestry and fishery” (60.7) and “information and communication” (60.0).

In the first quarter of 2015, the growth in prices for final products of enterprises in the real sector as a whole decreased: the diffusion index of the change in prices for final products was 45.3 (in the fourth quarter of 2014 – 54.1). Prices for final products demonstrated a downward trend in the following sectors: “construction” (to 48.3 from 57.4 in the fourth quarter of 2014), “agriculture, forestry and fishery” (to 45.3 from 57.1 in the fourth quarter of 2014), the “manufacturing industry” (to 44.8 from 54.1 in the fourth quarter of 2014), “transport and warehousing” (to 44.6 from 50.0 in the fourth quarter of 2014), “wholesale and retail trade” (to 43.2 from 54.7 in the fourth quarter of 2014) and “accommodation and catering services” (to 39.0 from 60.3 in the fourth quarter of 2014). At the same time, increased growth rates were recorded in the following sectors: “electricity supply, gas and vapor supply and air conditioning”, “information and communications” and “water supply; sewage system, control over waste collection and distribution”, with diffusion indices accounting for 62.2, 55.6 and 54.7, respectively, in the reporting quarter.

In the first quarter of 2015, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) declined: the diffusion index was 46.3 (in the fourth quarter of 2015 – 54.6).

In the second quarter of 2015 versus the first quarter of 2015, a growth in prices for final products is anticipated in the real sector of the economy as a whole (the diffusion index made up 53.6). The increased rates of price growth are anticipated in such sectors as: “wholesale and retail trade” (the diffusion index was 57.3), “construction” (55.0), “electricity supply, gas and vapor supply and air conditioning” (the diffusion index was 66.9), “construction” (60.0), “agriculture, forestry and fishery” (53,3), “manufacturing industry” (52.3), the “mining industry” (50.6), and “transport and warehousing” (50.4). It should be noted, however, that prices in the sector of “electricity supply, gas and vapor supply and air conditioning” are expected to go down (the diffusion index had fallen to 49.4 from 62.2 in the first quarter of 2015).

In the second quarter of 2015, according to expectations of enterprises, prices for consumer products and services will increase: the diffusion index of the change in prices made up 52.6 (46.3 – in the first quarter of 2015).

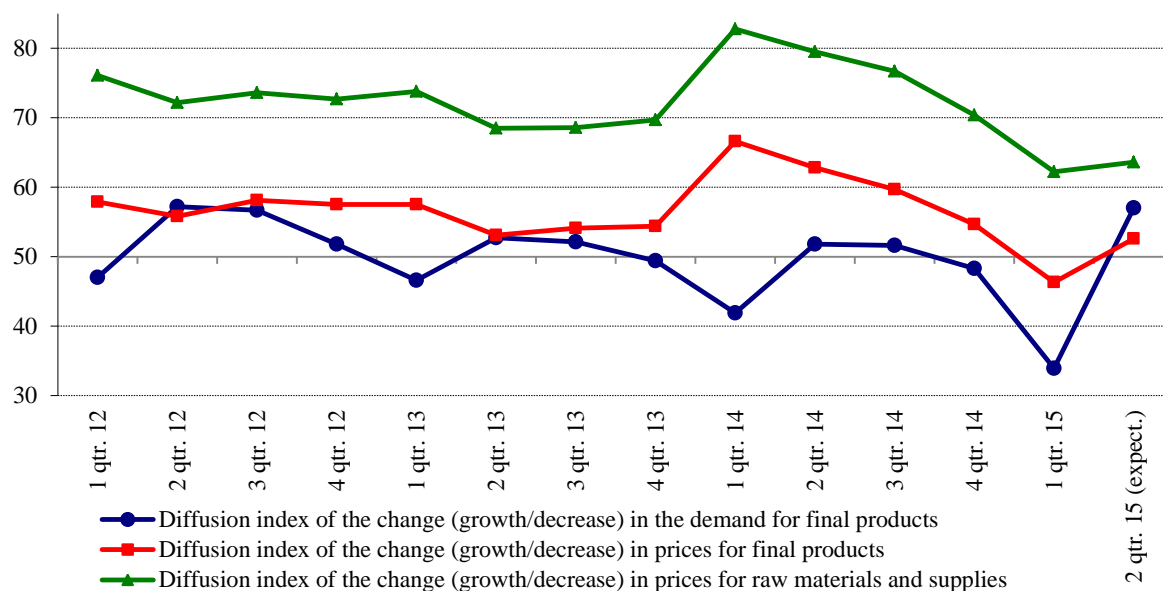
In the first quarter of 2015, prices for raw materials and supplies slowed their growth but remain high: the diffusion index of the change in prices made up 61.7 (in the fourth quarter of 2014 – 70.1). The price growth rates were slowing in the following sectors: “agriculture, forestry and fishery” (the diffusion index had fallen to 65.8 from 78.6 in the fourth quarter of 2014), “transport and warehousing” (to 62.9 from 72.7 in the fourth quarter of 2014), the “mining industry” (to 58.4 from 68.9 in the fourth quarter of 2014) and “wholesale and retail trade” (to 55.6 from 66.3 in the fourth quarter of 2014).

According to expectations of enterprises, in the second quarter of 2015 prices for raw materials and supplies will continue to grow (the diffusion index was 63.1).

Thus, judging from the dynamics of relevant diffusion indices, according to estimates of enterprises, the growth in the demand for final products and continuing growth in prices for final products and raw materials and supplies are expected in the second quarter of 2015 (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 fourth quarter of 2014, GDP based on the final consumption method as compared to the corresponding period of 2014, increased in real terms, according to estimate, by 5.7% (the growth in the third quarter of 2014, according to estimate, accounted for 3.9%).

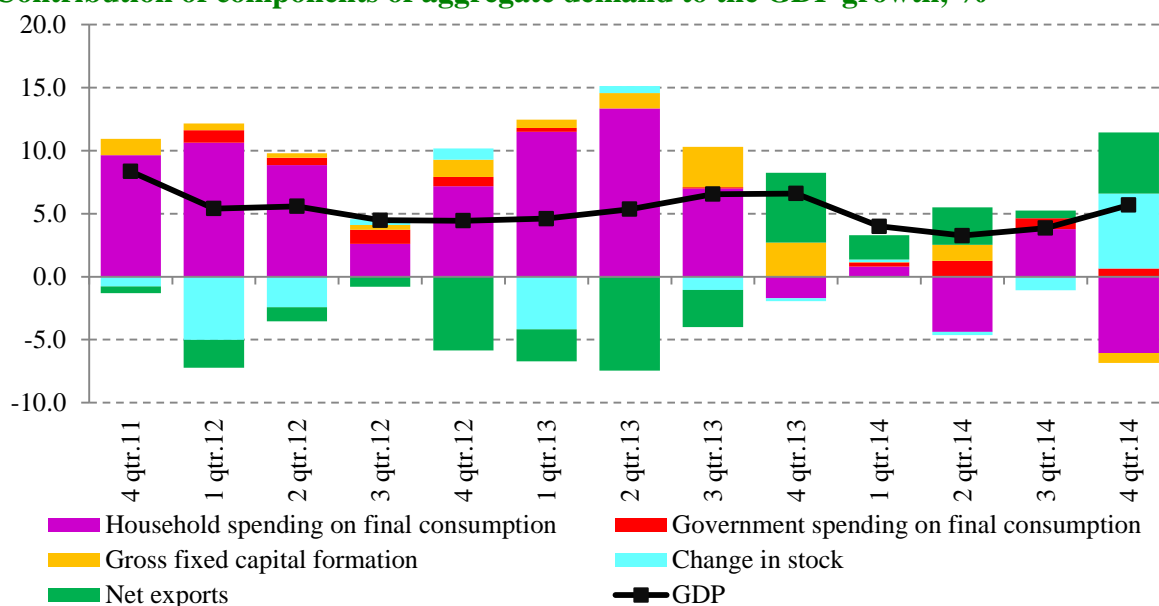
The GDP growth in the fourth quarter of 2014 was impacted by the growth in government spending on final consumption, growth in gross fixed capital formation and net exports and the decreased spending on household current consumption.

In the fourth quarter of 2014, according to estimate, spending on final consumption in general decreased versus the corresponding quarter of 2013 by 5.4% (the growth of 6.9% in the third quarter of 2014), gross formation increased by 22.6% (the decrease of 2.8%) and net exports grew by 37.7% (the decrease of 58.5%).

As a result, spending on final consumption made a negative contribution to the formation of the GDP growth of (-)4.3%, and gross formation increased GDP by (+)5.1 %; net exports had a positive impact on the GDP growth of (+)4.8% (Figure 8).

Figure 8

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



Source: Information of the Statistics Committee 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 fourth quarter of 2014, household spending on final consumption decreased versus the corresponding period of 2013 by 8.5% (the growth of 7.3% in the third quarter of 2013).

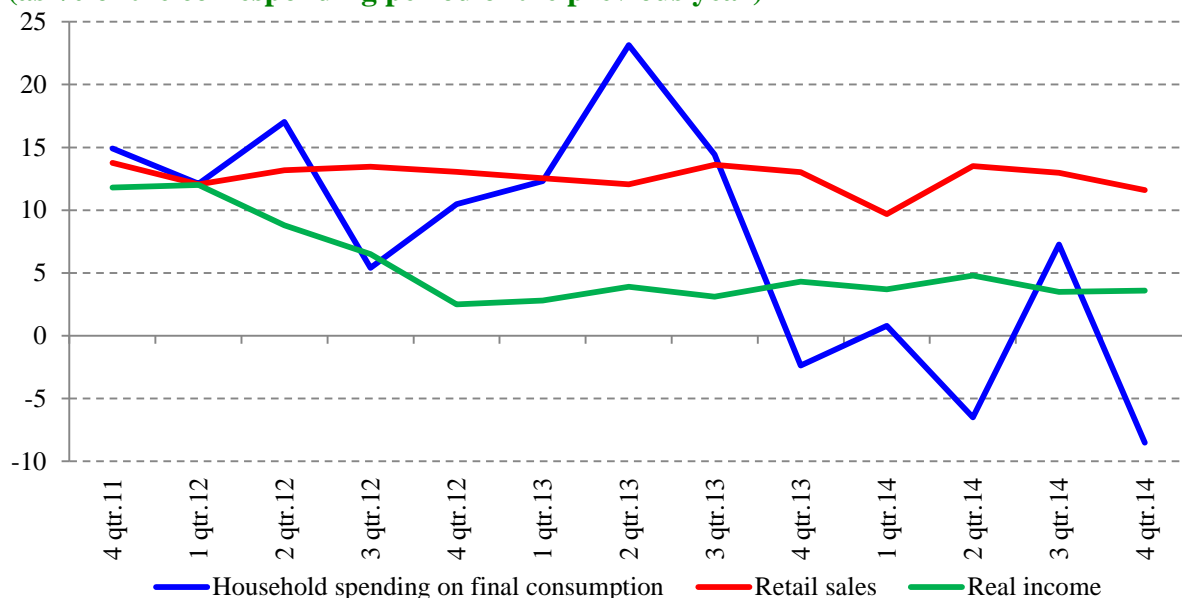
In the fourth quarter of 2014, the growth rate of per capita income in nominal terms accelerated to 11.4% (the growth of 10.9% in the third quarter of 2014), and in real terms it increased by 3.6% (the growth of 3.5%). The growth in household income, however, did not have a significant positive impact on retail trade, where the growth rate slowed down versus the third quarter of 2014, accounting for 11.6% (the growth of 13.0% in the third quarter of 2014).

The growth in household income against slowing rates of growth in retail trade as well as the 8.5% decrease in one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption, outlined a problem of the falling domestic demand in the fourth quarter of 2014 (Figure 9).

The decrease in household spending on final consumption was most likely caused by the growth in devaluation expectations by the end of the year and a drop in the exchange rate of the Russian ruble. The drop in the exchange rate of the Russian ruble increased the price attractiveness of Russian products and shifted a part of expenditures to the territory of the Russian Federation.

Figure 9

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

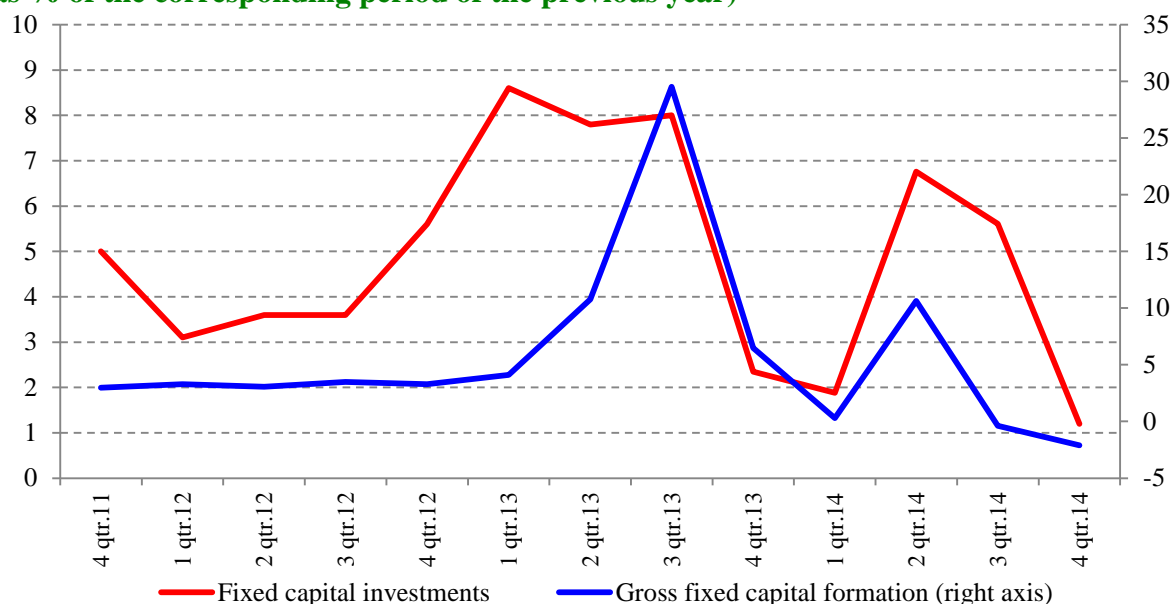


Source: Information of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The decreased investment activity of enterprises which has been observed two quarters in concession was conducive to the slowdown in the growth rates of volumes of fixed capital investments in the fourth quarter of 2014 to 1.2%, (in the third quarter of 2014 the growth accounted for 5.6%). Alongside with that, gross fixed capital formation also decreased, with the decrease accounting for 2.1% versus the previous quarter (the decrease of 0.4% in the third quarter of 2014) (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 Statistics Committee 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 fourth quarter of 2014, government spending on final consumption increased as compared to the corresponding period of 2013 by 8.3% (the growth of 10.8% in the third quarter of 2014).

During the fourth quarter of 2014 as a whole, the state budget spending was financed in the amount of KZT 2589.3 bln. or 21.2% of GDP (the increase of 22.7% as compared to the fourth quarter of 2013).

Current state budget expenditures totaled KZT 1652.9 bln., exceeding those of the fourth quarter of 2013 by 9.1%. Within the current expenditures, the following items demonstrated significant increase as compared to the corresponding quarter of 2013: expenditures related to interest payments on the domestic loans (by 76.1%), current transfers to legal entities (by 44.8%), purchases of services and works (by 23.9%), current transfers to individuals (by 15.8%), interest payments on foreign loans (by 11.3%), contributions by employers (by 9.7%) and salaries and wages (by 7.4%). At the same time, expenses related to other current expenditures decreased (by 55.4%).

In the fourth quarter of 2014, capital expenditures in the state budget increased by 13.5% as compared to the corresponding period of 2013, mainly because of increased capital expenditures for development, acquisition of property, plant and equipment, intangible and biological assets.

In the fourth quarter of 2014 as compared to the fourth quarter of 2013, budget credits decreased by 37.5%, and expenditures related to acquisition of financial assets increased by 4.0 times.

During the fourth quarter of 2014, state budget revenues amounted to KZT 1974.6 bln. or 16.2% of GDP, exceeding those in the fourth quarter of 2013 by 21.5%. In the structure of state budget revenues two items are still prevailing: tax revenues – 78.0% (in the fourth quarter of 2013 – 90.7%), and official transfers – 18.0% (5.2%). A large share of official

transfers was secured by the receipt of the guaranteed transfer from the National Fund of the Republic of Kazakhstan to the republican budget in the amount of KZT 48.3 bln.

In the fourth quarter of 2014 as a whole, tax revenues increased by 6.3% as compared to the fourth quarter of 2013. The growth was secured by increased receipts on excises, corporate income tax, personal income tax, and social tax. At the same time, revenues from the use of natural and other resources and from the value-added tax decreased.

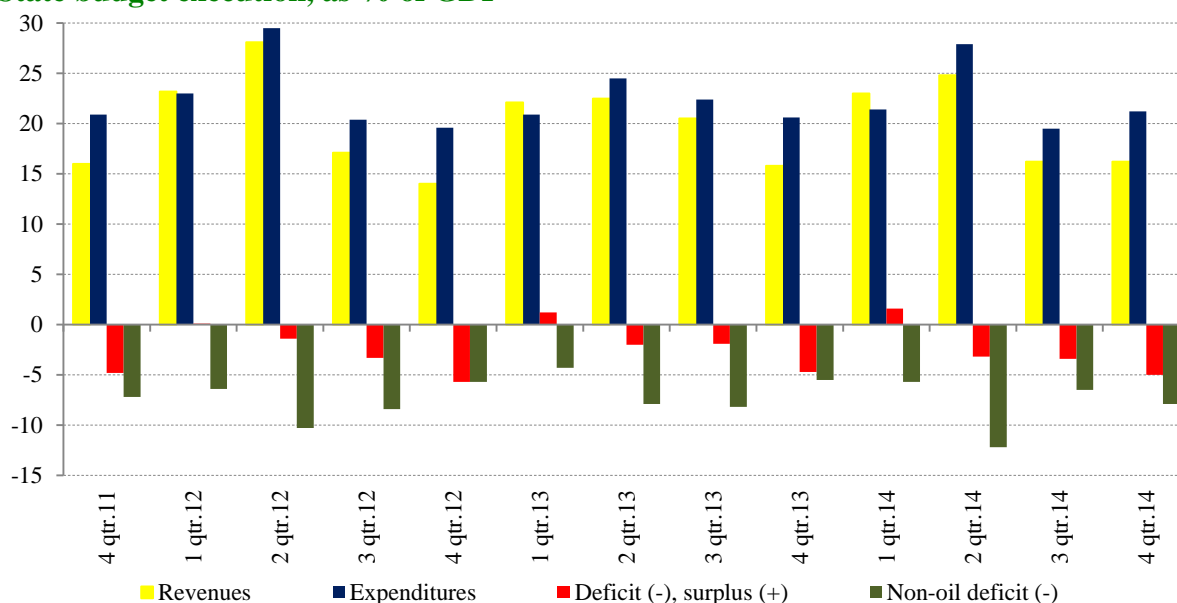
In the fourth quarter of 2014 as compared to the fourth quarter of 2013, non-tax revenues increased by 29.4%, mainly due to increased receipts from public procurements arranged by state-owned entities which are funded from the state budget, and the public property.

In the fourth quarter of 2014 as compared to the fourth quarter of 2013, revenues from transfers increased by 4.3 times, whereas revenues from the sale of fixed capital decreased by 9.3%.

Since expenditures were in excess of revenues in the fourth quarter of 2014, the state budget showed up a deficit of KZT 614.7 bln. (5.0% of GDP), and in the fourth quarter of 2013 the deficit amounted to KZT 484.7 bln. (4.0% of GDP) (Figure 11). It should be noted that without the guaranteed transfer of KZT 348.3 bln. to the republican budget from the National Fund, the fourth quarter of 2014 would have ended with the non-oil deficit of KZT 963.0 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 fourth quarter of 2014, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 485.9 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 71.9 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 200.7 bln.

As of January 1, 2015, the government domestic debt amounted to KZT 4178.0 bln. (11.0% of GDP), exceeding the same indicator as of October 1, 2014, by 15.6% (10.2% of GDP). The growth was secured by the issue of government long-term savings treasury obligations (MEUZHKAM), government short-term treasury obligations (MEKKAM),

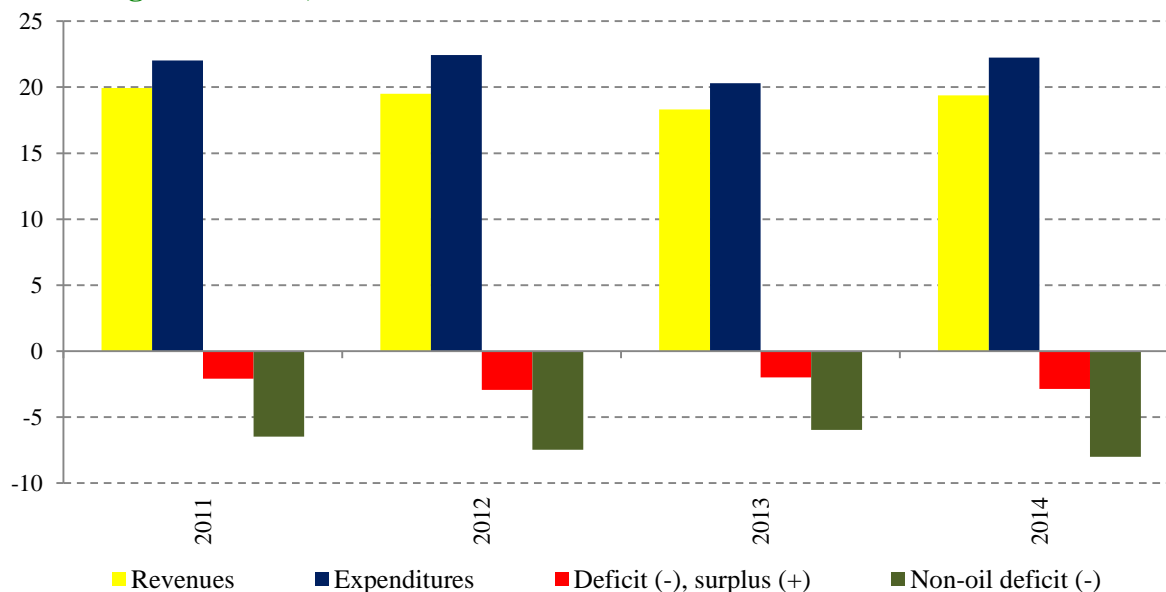
government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of January 1, 2015, the government external debt amounted to KZT 1435.0 bln. (3.8% of GDP), having increased by 1.8 times versus its volume as of January 1, 2014 (2.2% of GDP).

In the fourth quarter of 2014, the state budget deficit accounted for (-)2.9% of GDP (in 2013 – the deficit of (-)2.0% 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

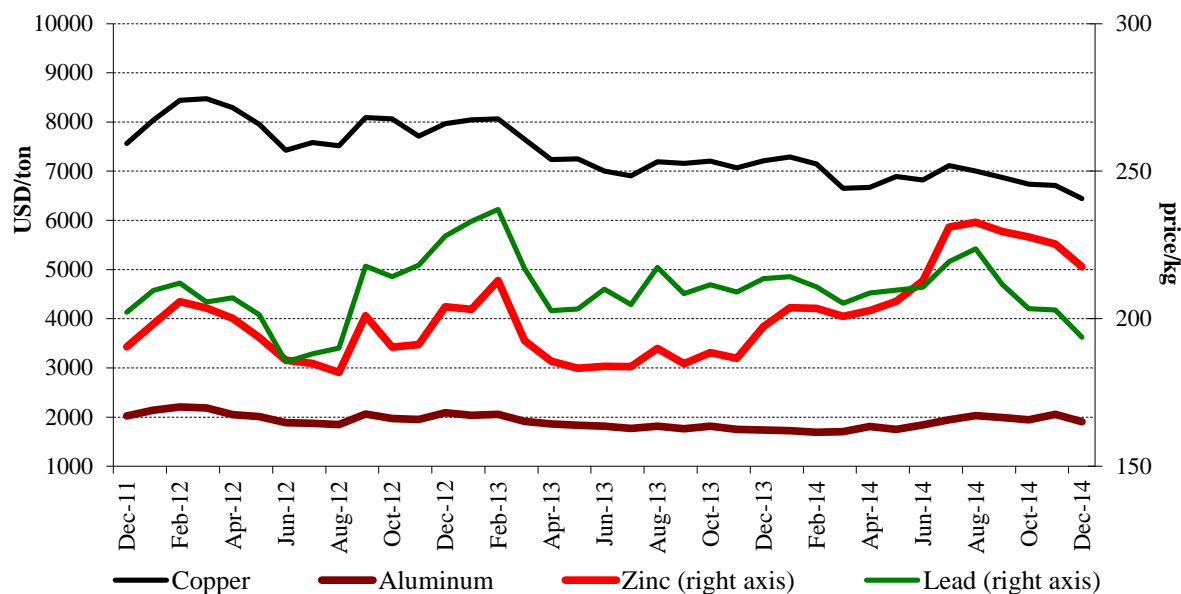
2.1.3. External Sector

– World Prices

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

During the fourth quarter of 2014, prices for copper, zinc and lead were decreasing. During the period, the price for copper declined by 5.2% on average versus the previous period, having reached USD 6632.0 per ton. In the fourth quarter of 2014, world prices for lead declined by 8.3%, amounting to 200.1 US cents per kilogram on average during the period. Prices for zinc declined by 3.3%, with the average price amounting to 223.5 US cents per kilogram during the period. Prices for aluminum were demonstrating multi-directional trends: the growth gave way to the drop in prices. During the fourth quarter of 2014 as a whole, aluminum cheapened by 1.0% and came up to USD 1970.3 per ton on average during the period (Figure 13).

Figure 13

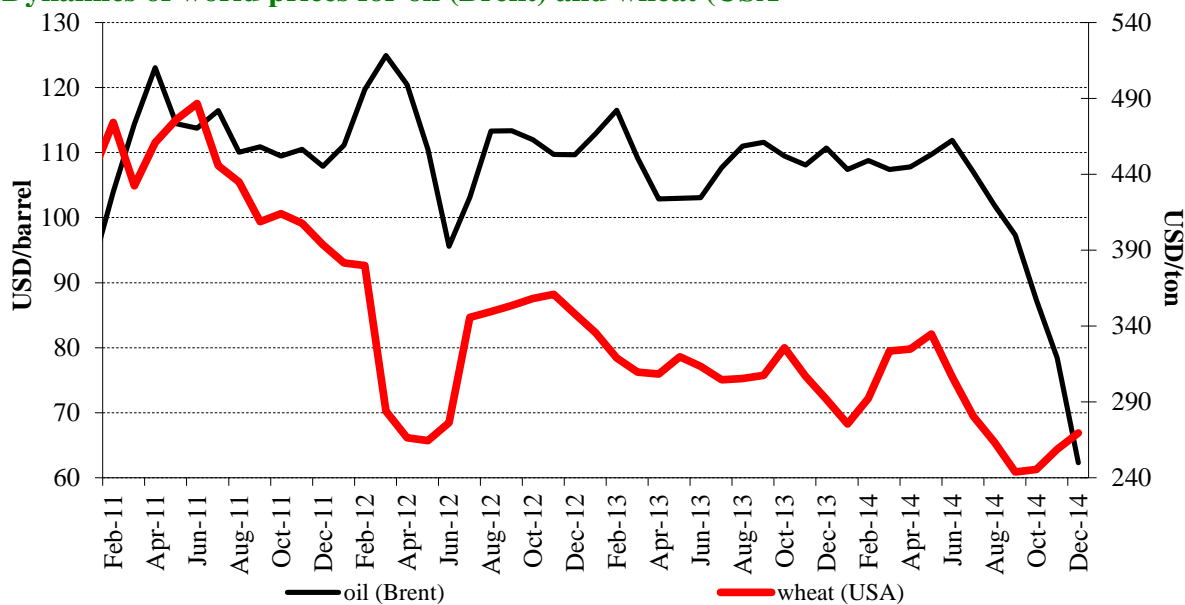
Dynamics of world prices for metals

Source: World Bank

In the fourth quarter of 2014, the world oil prices continued to fall. During the fourth quarter of 2014 as a whole, oil (Brent) cheapened by 25.5% and had been at USD 76.0 per barrel on average during the period (Figure 14).

In the fourth quarter of 2014, world prices for wheat demonstrated an upward trend again. During the fourth quarter of 2014 as a whole as compared to the previous period, the world price for wheat (USA) declined by 1.8%, coming up to USD 257.9 per ton on average (Figure 14).

Figure 14

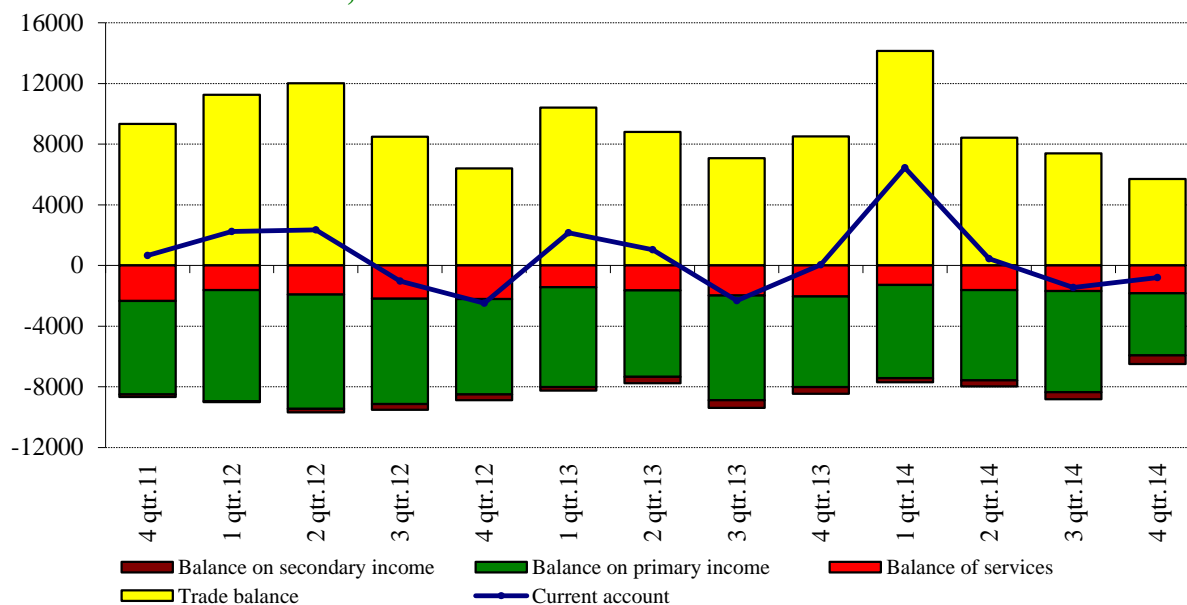
Dynamics of world prices for oil (Brent) and wheat (USA)

Source: World Bank

– Balance of Payments

At the end of the fourth quarter of 2014, the current account balance was in deficit of USD 801.1 mln. or (-)1.2% 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 fourth quarter of 2014, proceeds from the exports of goods decreased versus the respective indicator for the fourth quarter of 2013 by 21.9% to USD 17.3 bln., and expenditures on commodity imports decreased by 15.1% as compared to the fourth quarter of 2013, amounting to USD 11.6 bln. The trade surplus decreased by 33.0% and amounted to

USD 5.7 bln. In the fourth quarter of 2014, the deficit in the balance of services decreased as compared to the fourth quarter of 2013 by 9.9% to USD 1.8 bln., and the deficit in the balance on primary income (salaries and wages, investment return and other primary income) decreased by 31.5% and amounted to USD 4.1 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to USD 563.4 mln.

The balance of the financial account (excluding reserve assets) in the fourth quarter of 2014 had been negative and amounted to USD 3.3 bln. (a negative balance of USD 397.3 mln. in the fourth quarter of 2013). Net acquisition of foreign assets of residents (less reserve assets) amounted to USD 1.6 bln. (net acquisition of USD 3.2 bln. in the fourth quarter of 2013). Net incurred liabilities (growth) amounted to USD 4.9 bln. (USD 3.6 bln. in the fourth quarter of 2013).

As a result, at the end of the fourth quarter of 2014, the balance of payments was in deficit of USD 960.5 mln. (in the fourth quarter of 2013 – a negative balance of USD 685.3 mln.).

– Terms of Trade and the Real Effective Exchange Rate

In the fourth quarter of 2014, the aggregate terms of trade index was 4% lower than the corresponding indicator for the fourth quarter of 2013. Alongside with that, the terms of trade with the Euro zone countries decreased by 1%, and with Russia – increased by 5% (Table 1).

Table 1

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

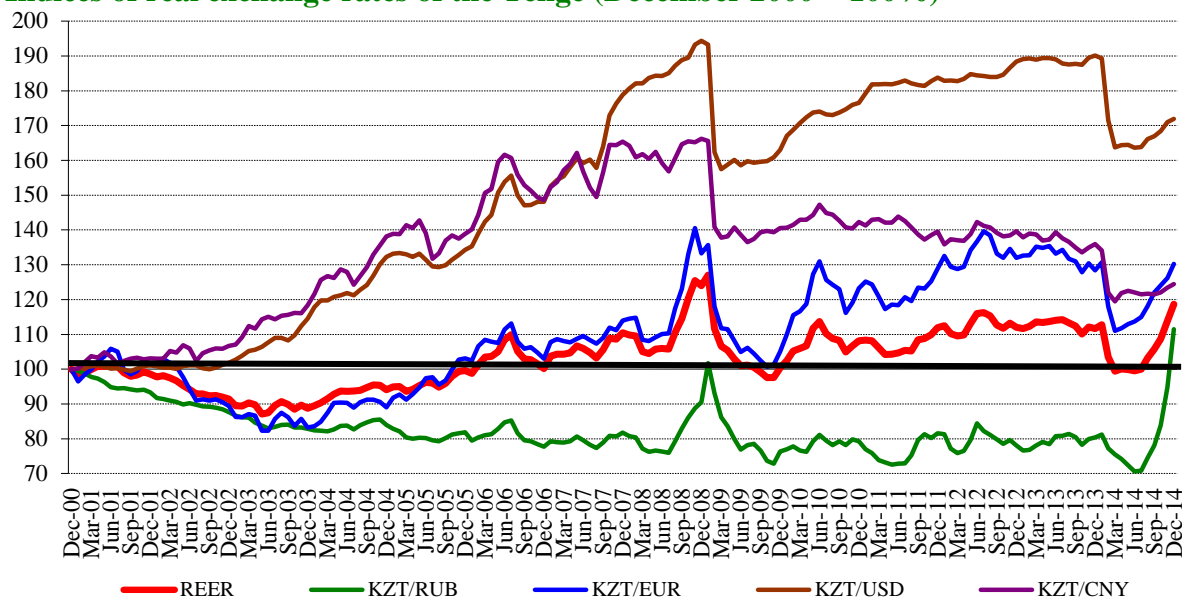
	3 qtr.13	4 qtr.13	1 qtr.14	2 qtr.14	3 qtr.14	4 qtr.14
Export prices	-6	-3	-5	-5	4	-13
Import prices	-4	-10	6	3	-9	-9
Terms of trade	-2	8	-10	-8	14	-4
including:						
Euro zone countries						
Export prices	-2	1	-1	-6	7	-15
Import prices	-12	-17	70	-36	-33	-14
Terms of trade	11	22	-42	47	59	-1
Russia						
Export prices	-11	-10	-13	-6	-3	-10
Import prices	-3	-6	-6	-7	-2	-14
Terms of trade	-8	-4	-7	0	-1	5

Source: National Bank of the Republic of Kazakhstan

At the end of the fourth quarter of 2014 versus the previous period, the index of the real effective exchange rate of the Tenge appreciated by 10.4%. The Tenge has appreciated versus the CIS currencies basket by 24.8% and versus the basket of other currencies – by 6.2%.

In the fourth quarter of 2014 versus the previous quarter, the Tenge appreciated in real terms versus the US Dollar by 2.9%, versus the Euro – by 7.1%, and versus the Russian ruble – by 29.9% (Figure 16).

Figure 16

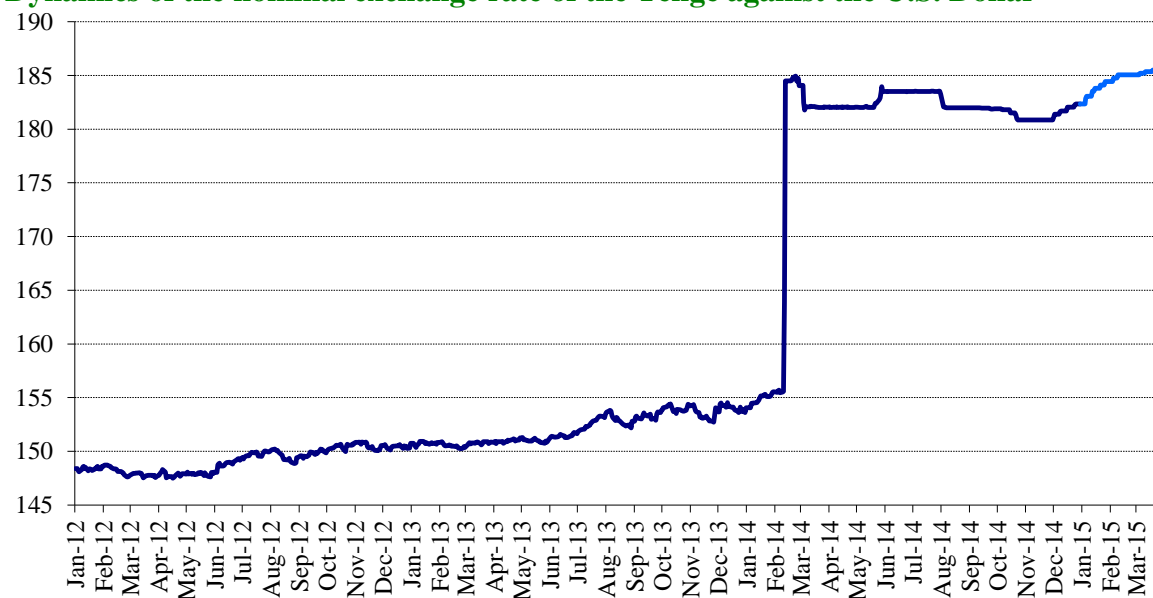
Indices of real exchange rates of the Tenge (December 2000 = 100%)

Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the first quarter of 2015 was KZT 184.67 per 1 US Dollar. The stock exchange rate at end-period was KZT 185.65 per 1 US Dollar. Since the beginning of the year, the Tenge had depreciated versus the US Dollar by 18.4% (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

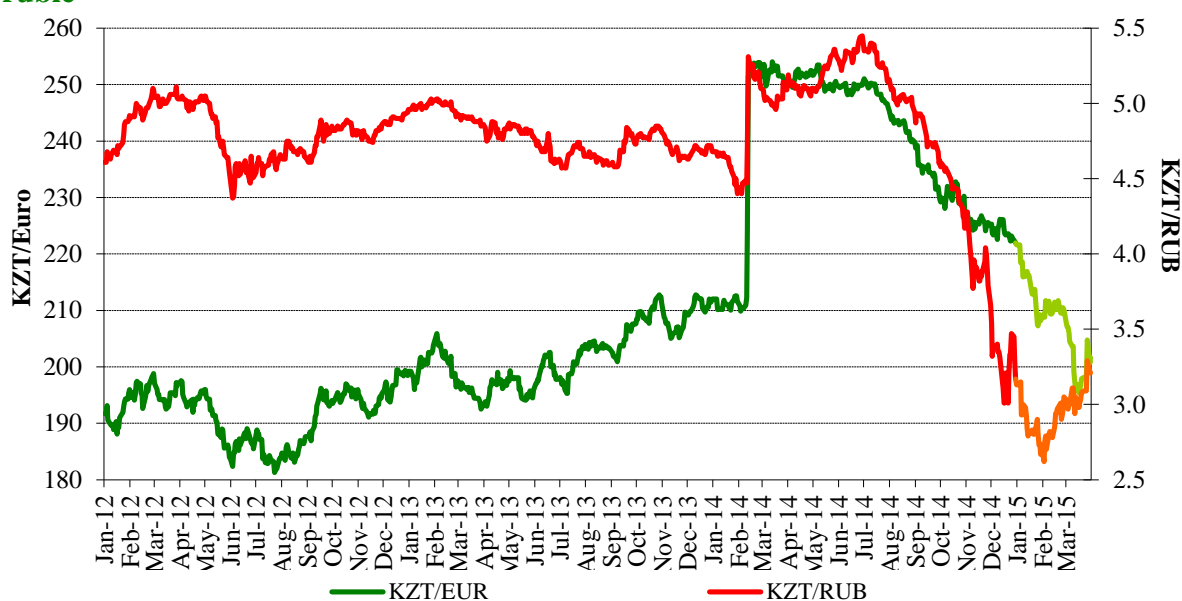
In January, February and March 2015, the exchange rate of the Tenge depreciated versus the US Dollar by 1.2%, 0.3%, 0.3%, respectively.

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 first quarter of 2015, the official exchange rate of the Tenge versus the US Dollar depreciated by 1.8%, and versus the Russian ruble – by 1.2% (Figure 18). The official exchange rate of the Tenge versus the Euro appreciated by 10.1%.

Figure 18

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



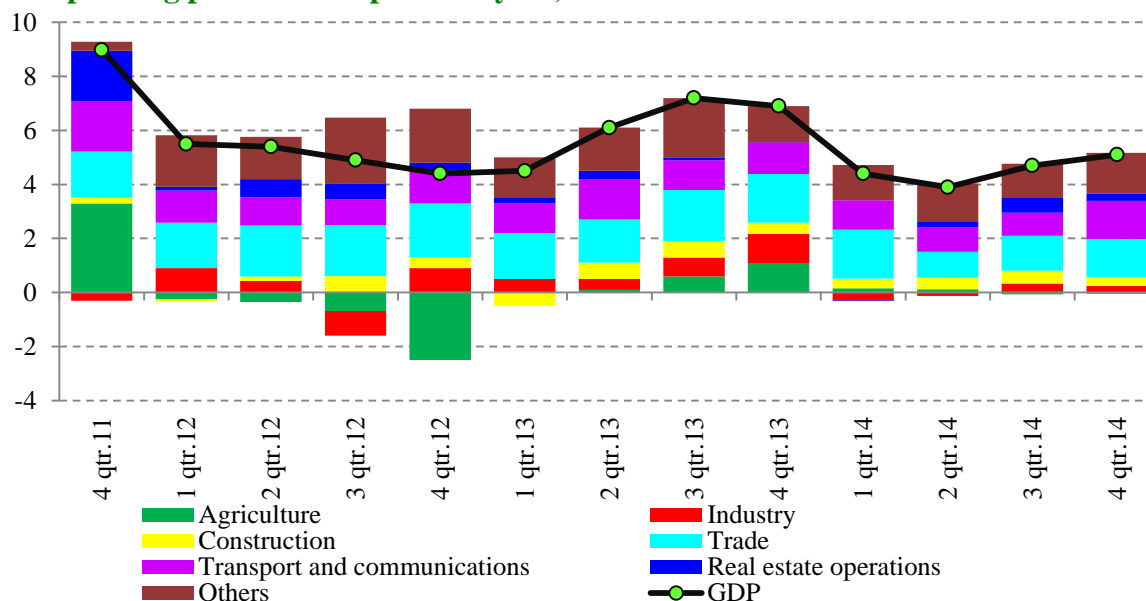
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the fourth quarter of 2014, the volume of GDP output amounted to KZT 12895.9 bln. in current prices. Being positively influenced by the growth of production in all key sectors of the economy, the GDP in real terms (in prices of the year 2005) increased versus the fourth quarter of 2013, according to estimate, by 5.1% (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 Statistics Committee 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 agriculture. According to estimate, in the fourth quarter of 2014 the construction volume increased by 3.6% (in the third quarter of 2014 – the growth of 4.5%), the volume of industrial output increased by 1.0% (the growth of 1.6%), and agriculture showed the decrease of 0.8% (the decrease of 1.4%). As a result, the segment of goods production made positive contribution to the GDP formation of (+)0.5%.

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 (+)4.1%.

Net taxes on foodstuffs and imports. The 10.6% increase in the volume of net taxes on foodstuffs and imports has positively influenced the formation of GDP growth of (+)0.5% (in the third quarter of 2014 the contribution accounted for (+)0.8%).

Therefore, the main driver for the GDP growth in the fourth quarter of 2014 (just like in the third quarter of 2014) was the production of services sector.

2.3. Labor Market

2.3.1. Employment and Unemployment

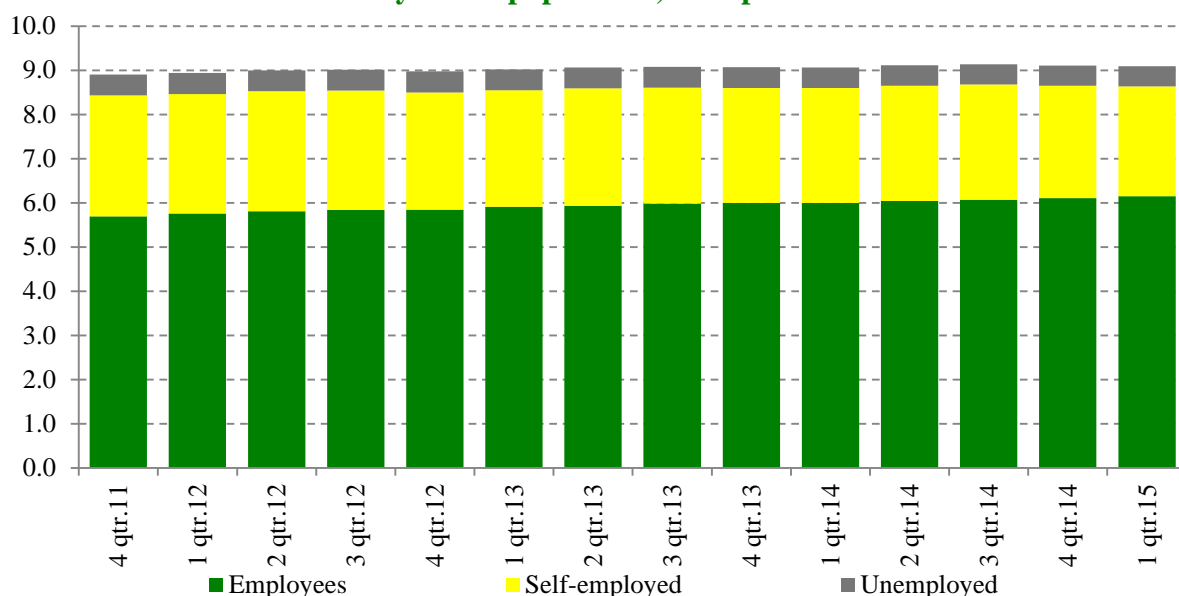
According to preliminary estimates, in the first quarter of 2015, the number of people employed in the economy amounted to 8.6 million, having decreased by 0.2% versus the previous period (the growth versus the first quarter of 2014 accounted for 0.6%). At the same time, the number of employees reached 6.1 million, having increased by 0.7% versus the fourth quarter of 2014, and the number of self-employed – 2.5 million (the decrease of 2.3%).

Within the employee structure, public and non-public institutions employee number accounted for 5.3 million persons (85.9% of all employees), the number of people working for individuals – 0.6 million persons (10.4%), and at farms – 0.2 million persons (3.8%).

In the first quarter of 2015, the number of the unemployed stood at 455 600 persons, which is by 0.5% less than in the previous quarter and by 1.8% less than in the first quarter of 2014 (Figure 20).

Figure 20

The structure of economically active population, mln. persons



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

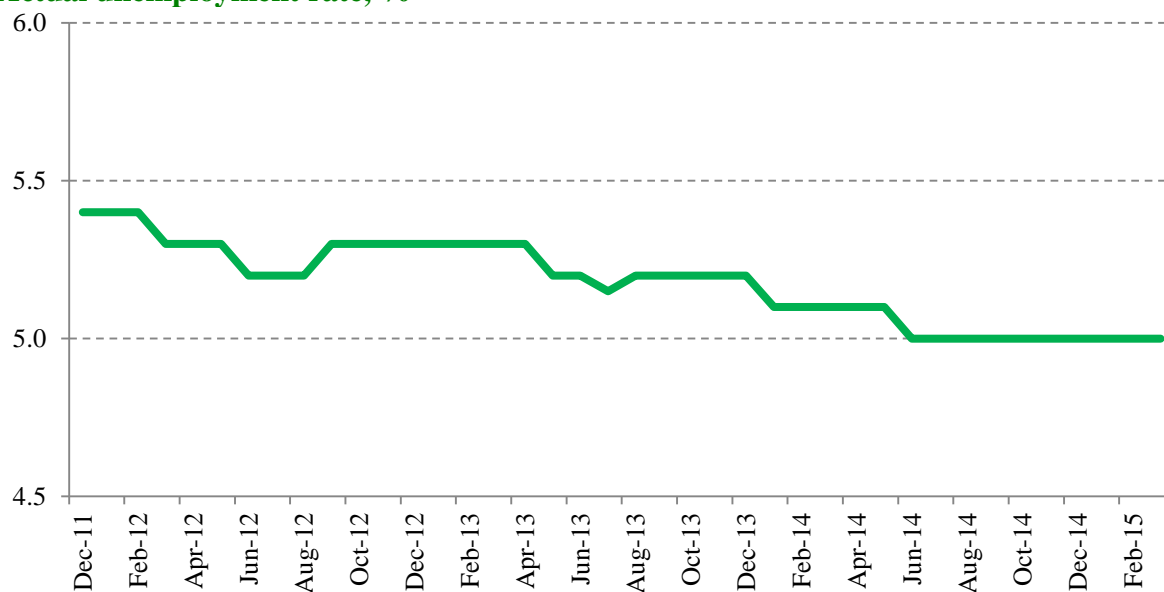
In the first quarter of 2015, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

The key sectors that promoted the growth in employment versus the first quarter of 2014 were as follows: provision of other types of services; financial and insurance activity; activity in the sphere of administrative and ancillary services; arts, entertainment and leisure; healthcare and social services; real estate operations; trade.

The decreased number of the employed was noted in the following sectors: agriculture, forestry and fishery; transport and warehousing.

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 first quarter of 2015 accounted for 5.0%, and it decreased by 0.1 percentage points versus the first quarter of 2014 (Figure 21).

Figure 21

Actual unemployment rate, %

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

2.3.2. Wages and Productivity

In the fourth quarter of 2014 as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 12.1% (in the third quarter of 2014 – the growth of 11.5%), and real wages increased by 4.6% (the growth of 4.3%).

Compared to the previous quarter, nominal wages increased by 7.1%, and real wages increased by 0.2%.

In December 2014 as compared to December 2013, the highest increase in nominal wages was observed in the following sectors: arts, entertainment and leisure – by 22.2%; industry – by 20.4%; financial and insurance activity – 19.7%; agriculture, forestry and fishery – by 19.4%; and construction – by 17.7%.

In December 2014, the highest wages in money terms were observed in the mining industry and quarry operations (KZT 341 500), and the lowest – in agriculture, forestry and fishery (KZT 75 800).

In the fourth quarter of 2014, wages of employees in real terms accounted for 4.6%, exceeding the growth rates in the third quarter of 2014 (4.3%) and exceeding the indicators in the first quarter of 2014 (1.9%) and in the fourth quarter of 2013 (2.3%).

Acceleration in the rates of wage growth in the fourth quarter of 2014 along with the decreased number of people employed in the economy influenced the rate of growth in the labor productivity index which accelerated to 3.9% (according to the National Bank's estimate), whereas a quarter before the index accounted for 3.6% (Figure 22).

Figure 22

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



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

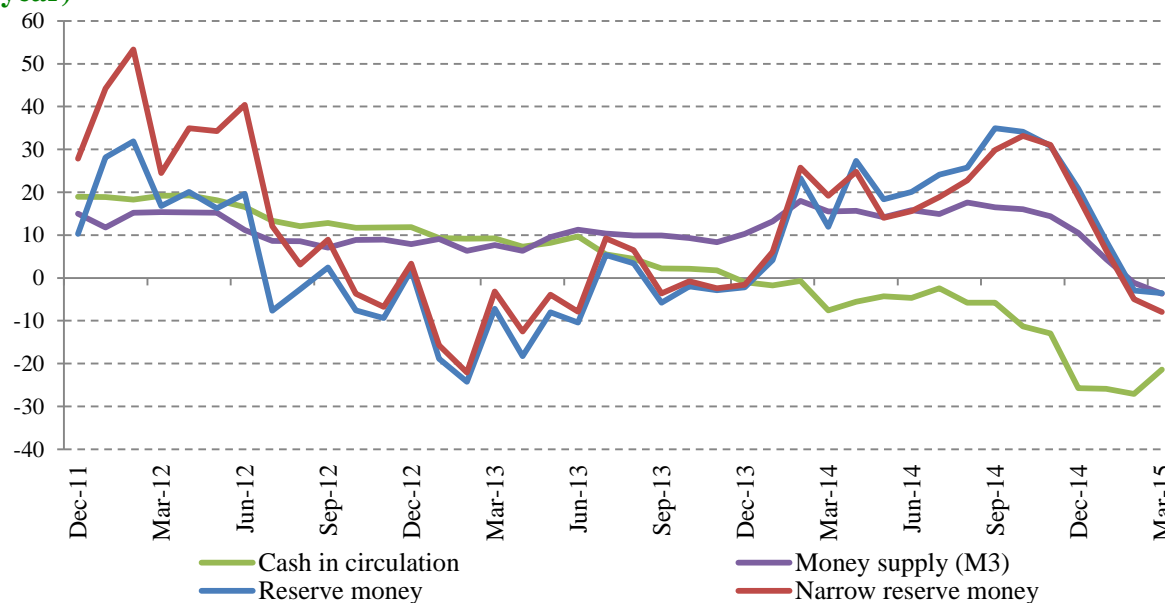
3. Money Supply

3.1. Monetary Aggregates

In the first quarter of 2015, monetary aggregates were decreasing in annual terms: the reserve money contracted by 3.6%, and narrow reserve money contracted by 7.9%; the money supply (M3) decreased by 3.7%, and cash in circulation decreased by 21.4% (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 first quarter of 2015, the reserve money contracted by 3.7% and amounted to KZT 3287.0 bln. Narrow reserve money contracted by 6.1% to KZT 3111.3 bln.

In March 2015 as compared to March 2014, the reserve money contracted by 3.6%.

In March 2015 against the corresponding month of 2014, net international reserves of the National Bank increased by 10.6% to USD 28.4 bln., of which net currency reserves (CQTR) grew by 7.1% during the reviewed period, and assets denominated in gold – by 21.6%.

In March 2015 as compared to March 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)

	2 qtr.14	3 qtr.14	4qtr.14	1 qtr.15
Net international reserves	0.3	14.8	15.7	10.6
Net domestic assets, excl. NF	-229.2	-78.5	-167.1	84.2
Net claims on the Government	-3.8	60.2	-3.5	-14.8
Claims on sectors of the economy other than the Government	30.6	8.6	25.9	-3.1
Other net domestic assets	-115.5	-61.6	-72.3	3.8
Reserve money	20.1	34.9	20.8	-3.6
Narrow reserve money	15.6	29.9	18.9	-7.9

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the first quarter of 2015, the money supply decreased by 3.9% to KZT 12322.1 bln.

In March 2015 as compared to March 2014, its decrease accounted for 3.7% as a result of the decrease in 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)

	2 qtr.14	3 qtr.14	4 qtr.14	1 qtr.15
Net foreign assets, excl. NF	30.8	29.8	15.3	-5.6
Domestic assets, excl. NF	-9.1	6.0	16.0	17.5
Claims on the Government	-19.9	78.8	6.8	-12.0
Claims on sectors of the economy other than the Government	15.5	11.7	5.7	-0.5
Other net domestic assets	-30.6	-19.2	-1.5	8.2
Money supply (M3)	15.8	16.5	10.5	-3.7
Cash in circulation	-4.7	-5.8	-25.8	-21.4
Deposits of residents	18.9	19.7	15.9	-1.7

Source: National Bank of the Republic of Kazakhstan

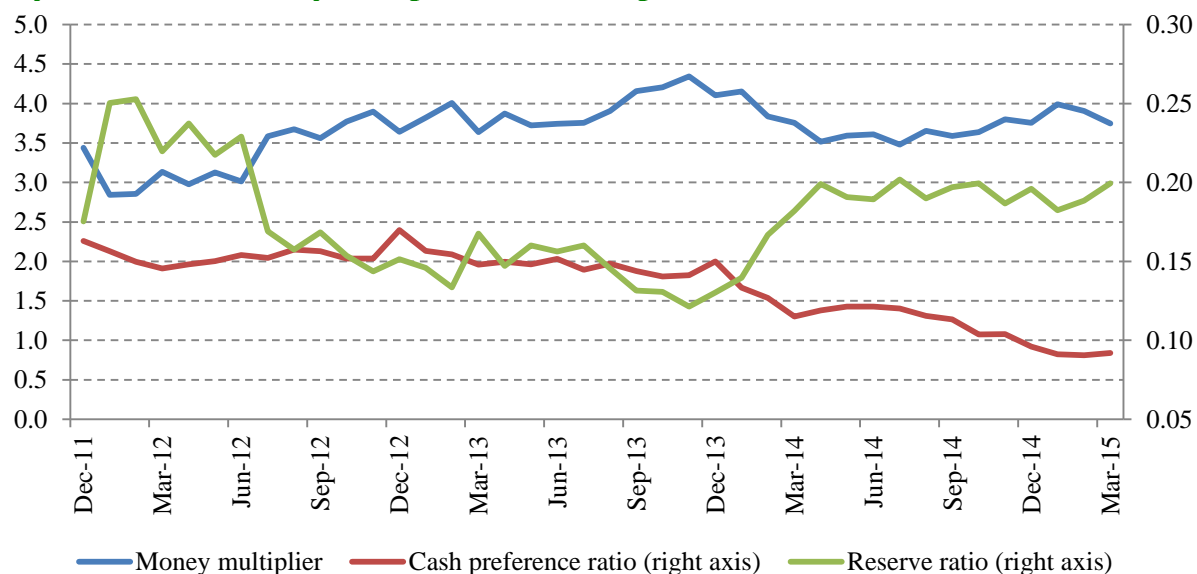
In the structure of net foreign assets of the banking system in March 2015 against the corresponding month of 2014, net foreign assets of banks decreased. The decrease in net foreign assets of banks occurred mainly due to the increase in liabilities from non-residents.

During the reviewed period, the outstripping decrease in cash in circulation against the decrease in deposits was noted in the structure of main components of the money supply. As a result, the share of deposits of residents in the structure of the money supply increased from 89.7% in March 2014 to 91.6% at end-March 2015.

The money multiplier decreased from 3.755 in March 2014 to 3.749 in March 2015 as a result of outstripping rates of reduction in the money supply against the rates of contraction in the reserve money. 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 first quarter of 2015, the volume of cash in circulation decreased by 7.6% to KZT 1037.1 bln.

In March 2015 as compared to March 2014, cash in circulation decreased by 21.4%. Alongside with that, receipts to the cash departments of banks decreased by 18.9% to KZT 1483.4 bln., and payouts of cash from the cash departments of banks decreased by 16.5% to KZT 1491.2 bln.

The decrease in cash in circulation in March 2015 against the corresponding month of 2014 was associated with 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 end-March 2015, deposits of residents amounted to KZT 11285.0 bln., having decreased by 3.5% during the first quarter of 2015. Deposits of legal entities decreased by 3.7%, and deposits of individuals decreased by 3.1%.

Within the structure of deposits, the volume of term deposits (under the IMF classification – “other deposits”¹) decreased by 5.0% during the first quarter of 2015, amounting to KZT 7776.0 bln. Term deposits in the domestic currency decreased by 2.8% to

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.

KZT 3246.6 bln., and term foreign currency deposits – by 6.6% to KZT 4529.4 bln. During the quarter, the relative share of term deposits in the total deposit base decreased from 70.0% to 68.9%.

In the first 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 decreased foreign currency deposits, both of legal entities and individuals.

As a result, the volume of deposits in the domestic currency increased by 1.4%, amounting to KZT 5269.8 bln. Deposits of legal entities in the Tenge increased by 3.1%, whereas savings of individuals decreased by 3.0%.

During the quarter, foreign currency deposits decreased by 7.4%, amounting to KZT 6015.2 bln. The volume of foreign currency deposits of legal entities decreased by 11.0%, and that of individuals – by 3.1%.

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 44.4% to 46.7%.

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 first quarter of 2015 (Table 4).

Table 4

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

	March 2012	March 2013	March 2014	March 2015
Deposits of residents	7.1	7.3	13.8	-3.5
<i>individuals</i>	<i>4.3</i>	<i>3.7</i>	<i>4.9</i>	<i>-3.1</i>
<i>Non-bank legal entities</i>	<i>8.5</i>	<i>9.4</i>	<i>19.4</i>	<i>-3.7</i>
Deposits in the Tenge	3.5	3.9	-4.9	1.4
Deposits in foreign currency	15.0	15.1	45.0	-7.4

Source: National Bank of the Republic of Kazakhstan

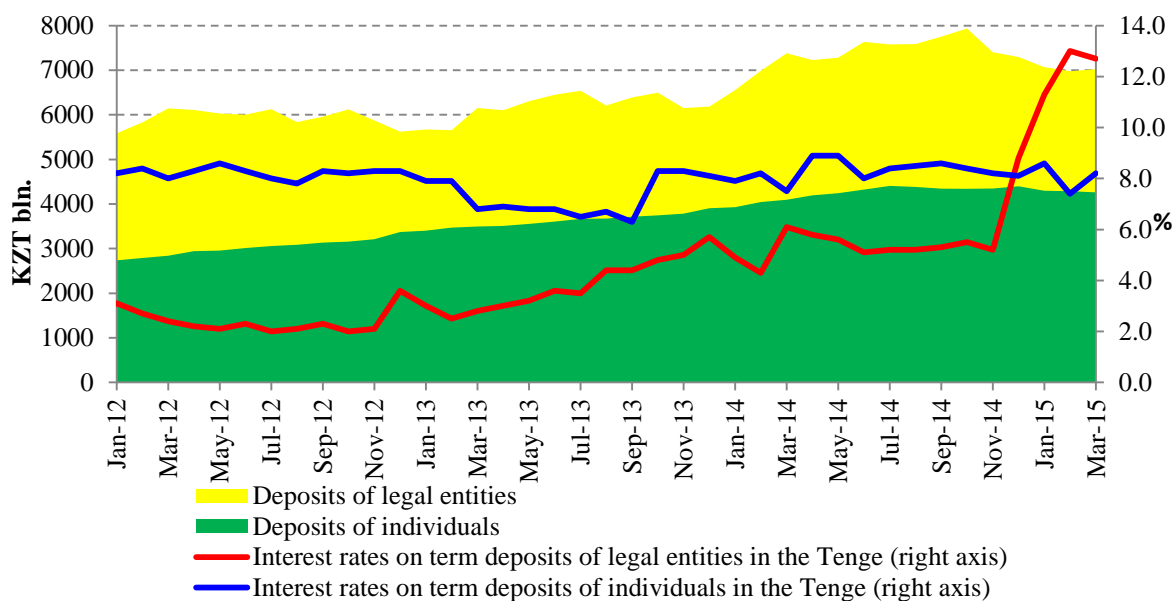
In the first quarter of 2015, interest rates on deposits increased; such increase was mainly caused by the growth in the domestic currency's interest rates to a larger extent and the growth in the foreign currency's interest rate to a smaller extent. The largest impact on the growth in the domestic currency's interest rates was made by nearly a double increase in interest rates on term deposits of legal entities; most likely, such increase resulted from the shortage of the Tenge liquidity.

As a result, the average rate on the Tenge deposits in the first quarter of 2015 increased to 11.5% (the fourth quarter of 2014 – 6.5%), and on deposits in freely convertible currencies – to 2.9% (2.7%).

The weighted average interest rate on Tenge term deposits of non-bank legal entities in March 2015 accounted for 12.7% (in December 2014 – 8.8%), and on deposits of individuals – 8.2% (8.1%) (Figure 25).

Figure 25

Dynamics of deposit volumes and interest rates on time deposits

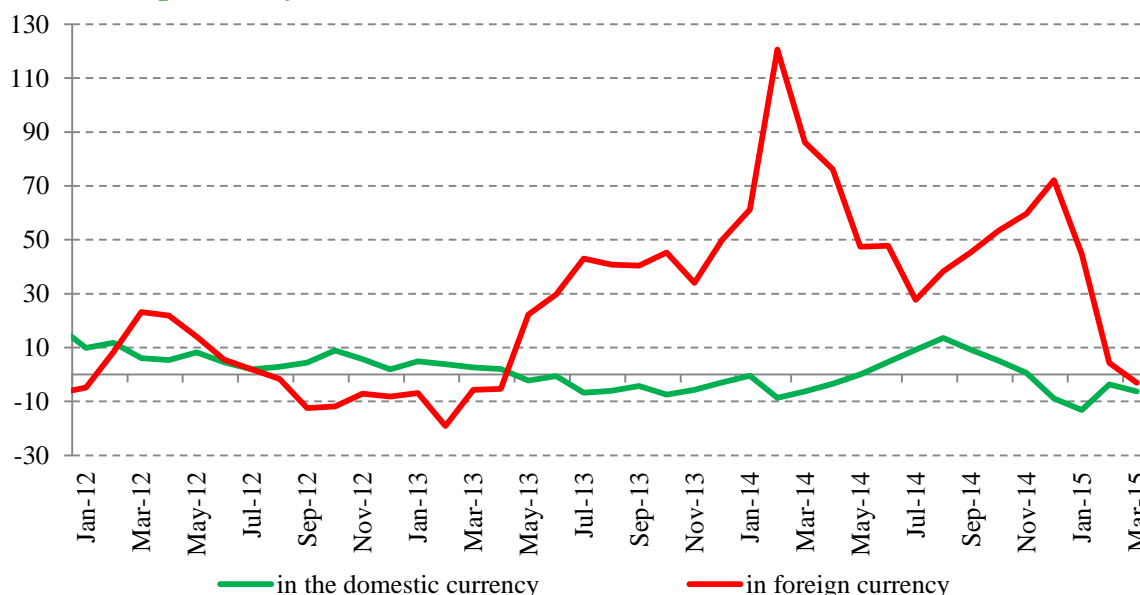


Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2015, the volume of deposits of legal entities decreased by 3.7% to KZT 7023.6 bln., with their annual decrease (March 2015 to March 2014) accounting for 4.8%. In annual terms, deposits of legal entities in the domestic currency decreased by 6.2% and foreign currency deposits – by 3.1% (Figure 26).

Figure 26

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



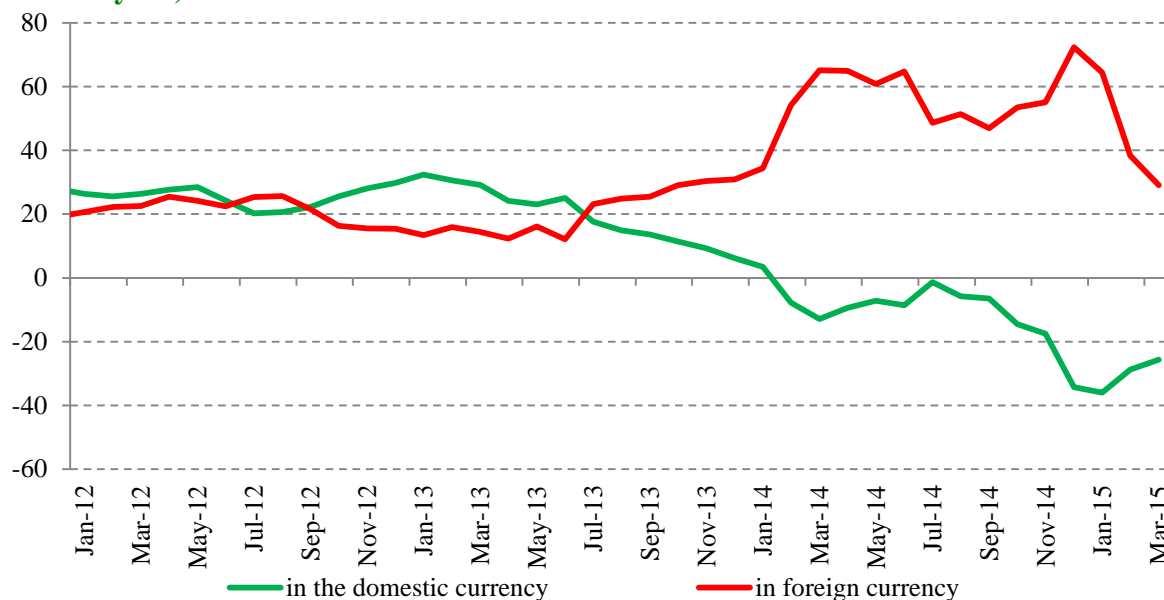
Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2015, the volume of deposits of individuals decreased by 3.1% to KZT 4261.4 bln., with its annual growth accounting for 4.0%. In annual terms,

deposits of individuals in the domestic currency decreased by 25.6%, and foreign currency deposits increased by 29.0% (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 first quarter of 2015, bank credits to the economy decreased by 0.5% to KZT 12045.4 bln. Credits to legal entities increased by 0.2%, amounting to KZT 8103.5 bln., and credits to individuals decreased by 1.8% to KZT 3942.0 bln.

The volume of credits in the domestic currency decreased by 1.7% to KZT 8420.7 bln., and the volume of foreign currency credits increased by 2.4% to KZT 3624.7 bln.

Long-term lending increased by 1.0% to KZT 9705.9 bln., and short-term lending decreased by 6.3%, amounting to KZT 2339.6 bln. As a result, the relative share of long-term credits in March 2015 as compared to December 2014 increased from 79.4% to 80.6%.

In the first quarter of 2015, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities decreased to 18.2% (in the fourth quarter of 2014 – 12.0%), and the interest rate on credits in the Tenge provided to individuals increased to 20.1% (in the fourth quarter of 2014 – 18.9%).

In general, in the first quarter of 2015, the upward trend in the interest rate behavior was noted which was caused by the growth in the cost of borrowing both for legal entities (the average value increased from 10.4% to 14.9%) and for individuals (the growth from 18.2% to 19.6%) (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 (26.6%), other purposes (26.6%), consumer needs of individuals (20.9%) as well as for acquisition of fixed assets (9.0%).

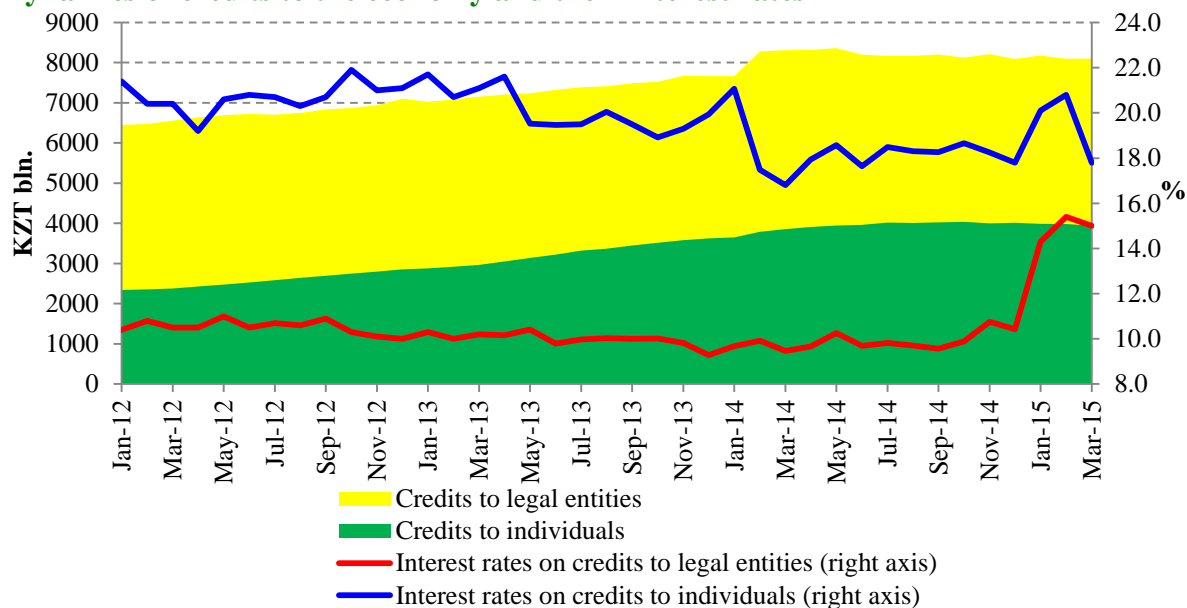
As per the breakdown by sector, the largest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 51.2%, trade – 19.6%, industry – 11.4%, and construction – 9.6%.

During the first quarter of 2015, credits delivered to the transport sector increased by 4.0%, to the construction sector – by 1.1%, and the non-production sphere – by 0.1%. Credits

to the communications sector decreased by 25.0%, trade – by 2.5%, and agriculture – by 1.9%. Credits delivered to the industry remained unchanged.

Figure 28

Dynamics of credits to the economy and their interest rates

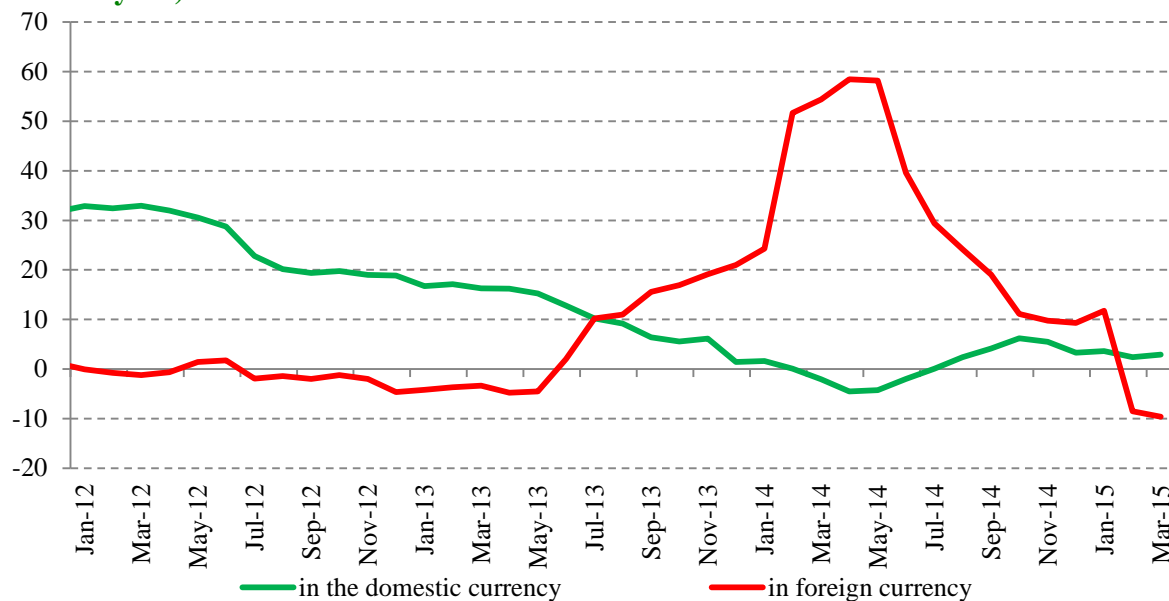


Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities on a year-to-year basis (March 2015 to March 2014) decreased by 2.5%. There were changes in the structure of credits by their tenors. At end-March 2015, the share of medium- and long-term credits in total credits to legal entities reached 73.3%, whereas in December 2014 it accounted for 71.6%.

On a year-to-year basis (March 2015 to March 2014), credits to legal entities in the domestic currency increased by 2.9%, and foreign currency credits decreased by 9.6% (Figure 29).

Figure 29

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

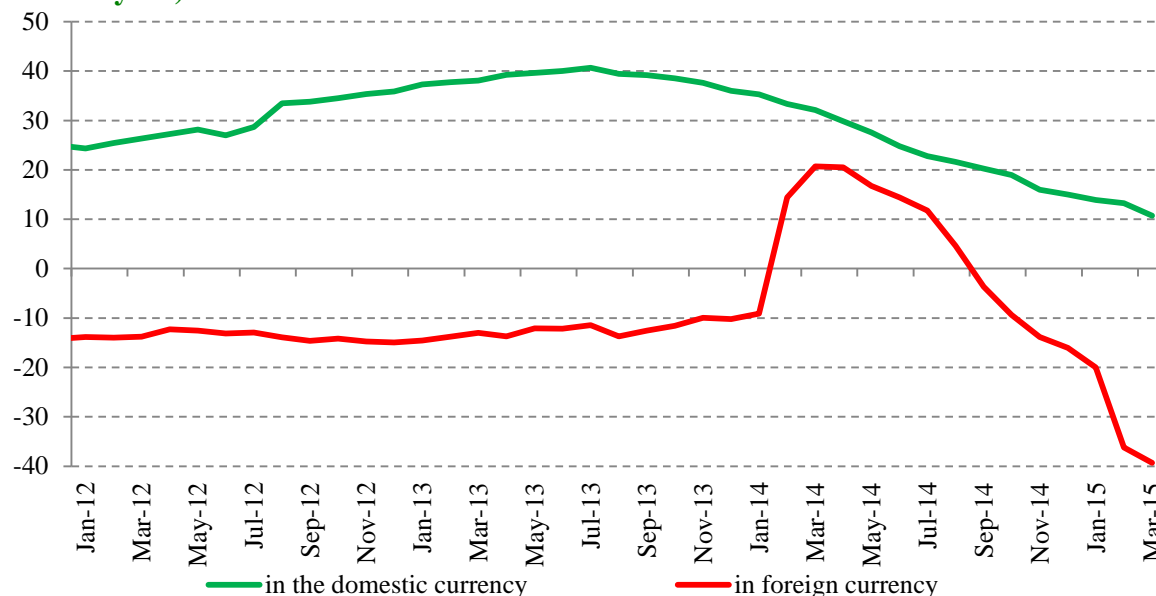
Source: National Bank of the Republic of Kazakhstan

In March 2015 versus the corresponding period of 2014, the volume of credits to individuals increased by 10.7%. At end-March 2015, the share of medium- and long-term credits in total credits to individuals slightly increased and accounted for 95.6% versus 95.0% in December 2014.

In annual terms, credits disbursed to the population in the domestic currency demonstrated the increase of 10.7%, and foreign currency credits – the decrease of 39.3% (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

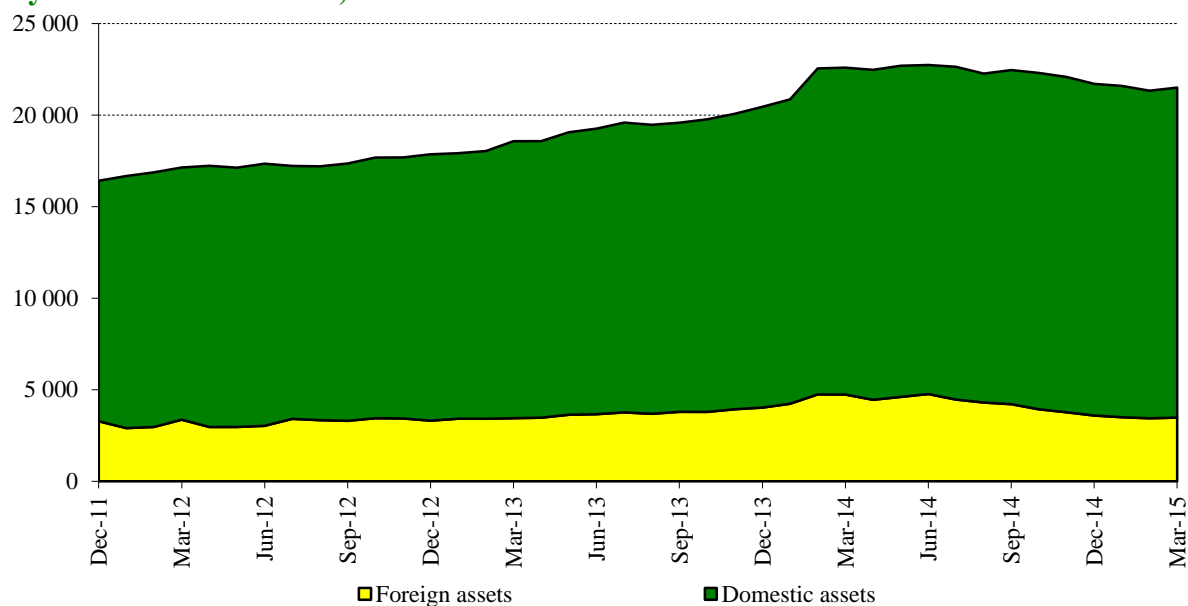
3.2.3. Bank Assets and Liabilities

– Assets

In the first quarter of 2015, the amount of bank assets calculated on the basis of the Monetary Survey decreased by 0.9% to KZT 21.5 trln. On a year-to-year basis (March 2015 to March 2014) bank assets decreased by 4.8% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

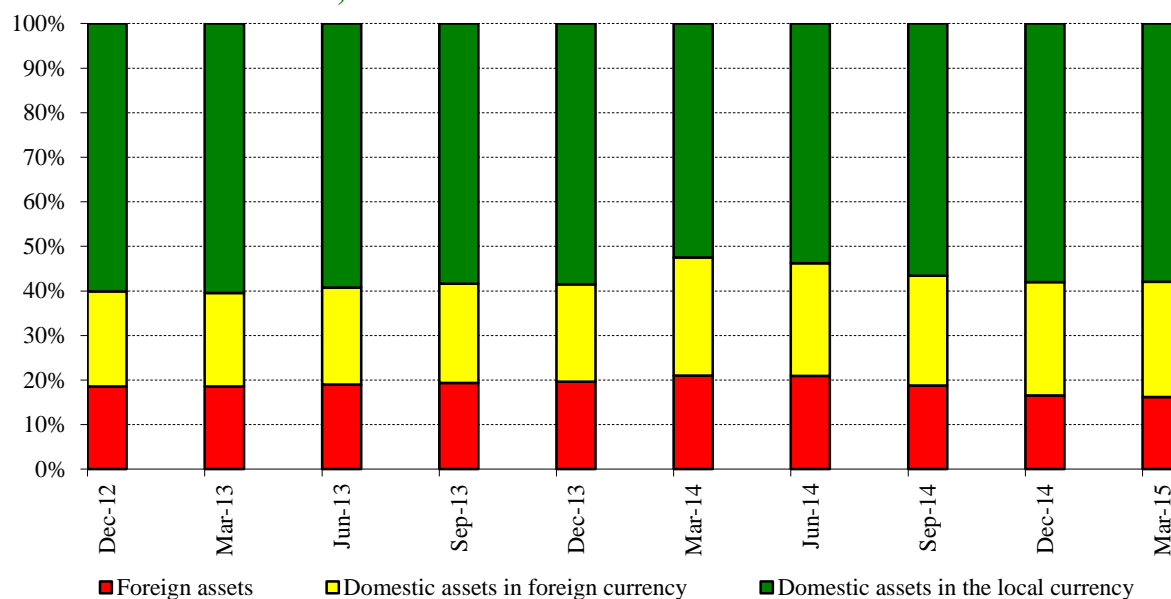
In March 2015, foreign assets of banks accounted for 16.2% of the total volume of assets or KZT 3.5 trln. As compared to March 2014, they decreased by 26.6%.

Within the structure of foreign assets in March 2015, credits to non-residents accounted for 57.0% (in December 2014 – 54.8%), deposits placed with non-residents – 15.7% (in December 2014 – 15.3%), securities issued by non-residents – 3.5% (in December 2014 – 6.0%), and other accounts receivable – for 23.9% (in December 2014 – 23.9%).

In March 2015, domestic assets accounted for 83.8% or KZT 18.0 trln., with domestic assets in the local currency accounting for 69.1% or KZT 12.5 trln., and foreign currency assets – 30.9% or KZT 5.6 trln. During the first quarter of 2015, domestic assets decreased by 0.5%, where assets in the local currency decreased by 1.1%, and assets in foreign currency – by 0.8% (Figure 32).

Figure 32

Structure of bank assets, %

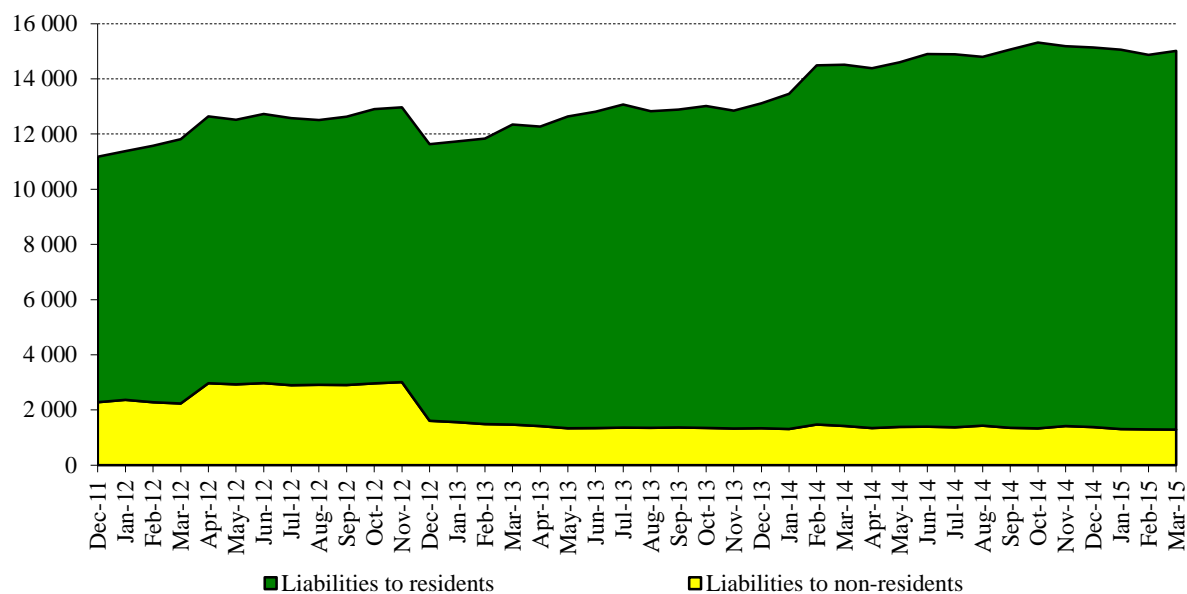


Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the first quarter of 2015, total bank liabilities calculated on the basis of the Monetary Survey decreased by 0.8% and amounted to KZT 15.0 trln. at end-March 2015 (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

In March 2015 as compared to December 2014, bank liabilities to non-residents decreased by 6.6% to KZT 1.3 trln. (USD 6.9 bln.), and they decreased by 9.3% versus the corresponding month of 2014. At end-March 2015, bank liabilities to non-residents accounted for 8.6% of the total volume of bank liabilities.

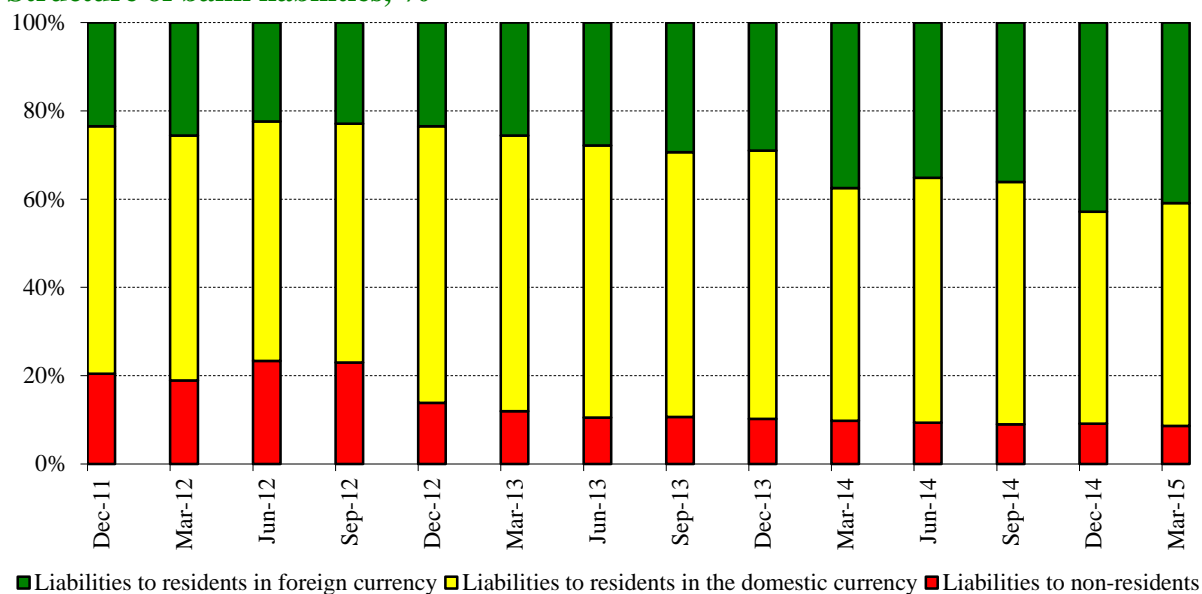
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in March 2014 decreased from 24.1% to 21.6% as compared to December 2014; the share of liabilities on securities increased from 59.2% to 63.5%; and credits received from non-residents decreased from 13.7% to 10.8%, respectively.

During the first quarter of 2015, liabilities to non-residents decreased by 0.2% to KZT 13.7 trln., with the 4.3% increase in liabilities in the domestic currency to KZT 7.6 trln., the 5.3% decrease in foreign currency liabilities to KZT 6.1 trln. (Figure 34).

Thus, in the first 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

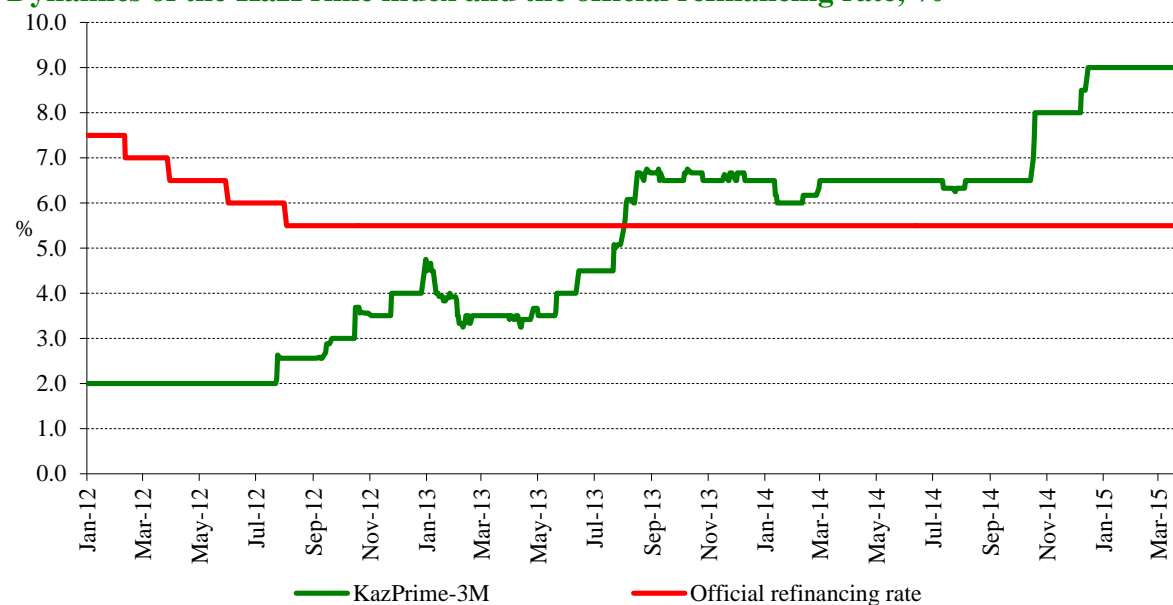
3.2.4. Financial Market Rates

In the first quarter of 2015, the dynamics of interest rates in the interbank market was multi-directional.

The KazPrime index increased from 7.85% on average during the fourth quarter of 2014 to 9.0% on average during the first quarter of 2015. At end-March 2015 as compared to December 2014, the index remained unchanged – 9.0% (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.

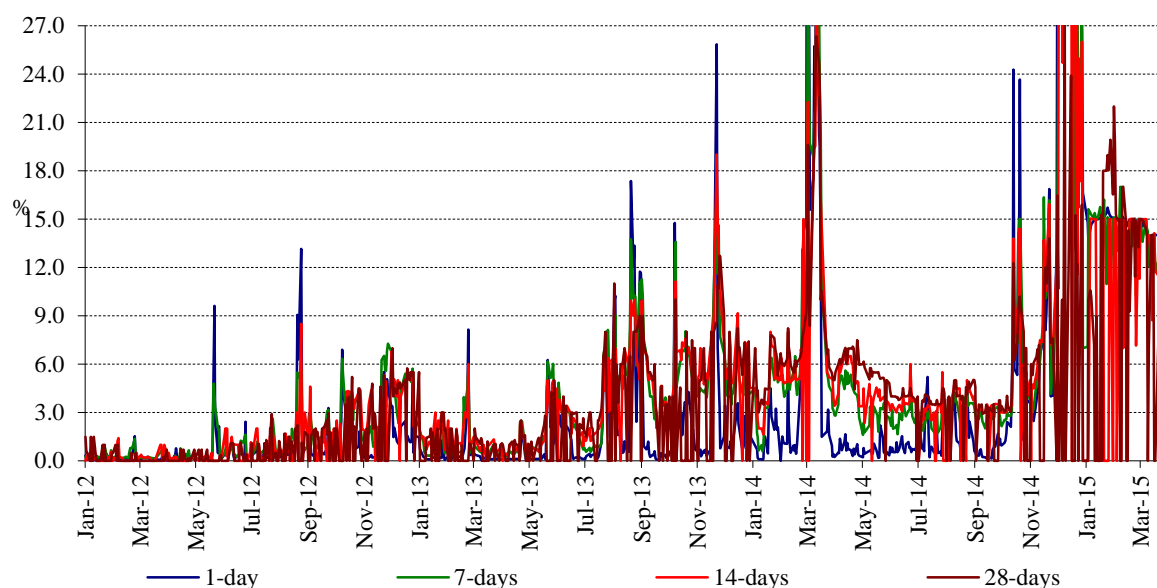
In the first quarter of 2015, the weighted average rate on 1-day operations in the sector of automatic REPO decreased and accounted for 14.87% (in the fourth quarter of 2014 – 29.50%). Its maximum level was 15.72%, and its minimum level – 13.29%.

The weighted average rate on 7-day REPO operations in the first quarter of 2015 was fluctuating within the range from 7.07% to 17.0% (during the period as a whole, the weighted average rate accounted for 13.96%), on 14-day REPO operations – from 7.0% to 15.10% (during the period as a whole, the weighted average rate accounted for 12.53%), and on 28-day REPO operations – from 7.0% to 22.0% (during the period as a whole, the weighted average rate accounted for 12.63%) (Figure 36).

In the first quarter of 2015, the transaction volumes in the sector of automatic REPO increased by 58.4% versus the fourth quarter of 2014.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

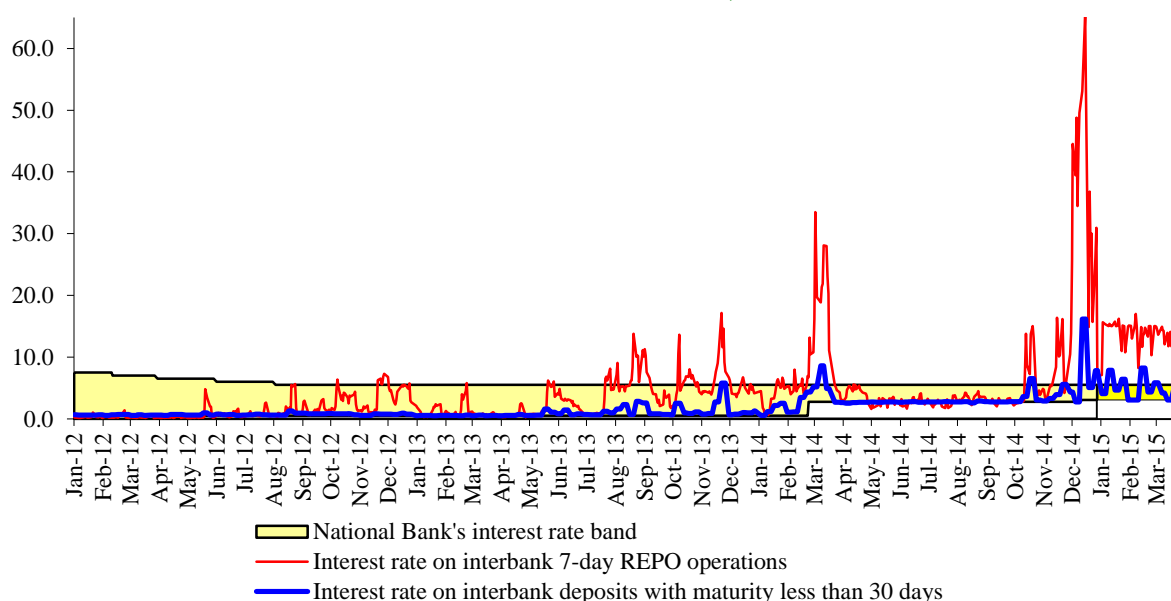
In the first quarter of 2015, the situation in the money market was relatively stable. There were no significant and dramatic upsurges in the interest rate behavior.

In the first 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 increased from 4.80% in the fourth quarter of 2014 to 5.38% in the first quarter of 2015. The weighted average rate on 7-day interbank REPO operations increased from 13.11% in the fourth quarter of 2014 to 13.96% in the first quarter of 2015 (Figure 37).

Figure 37

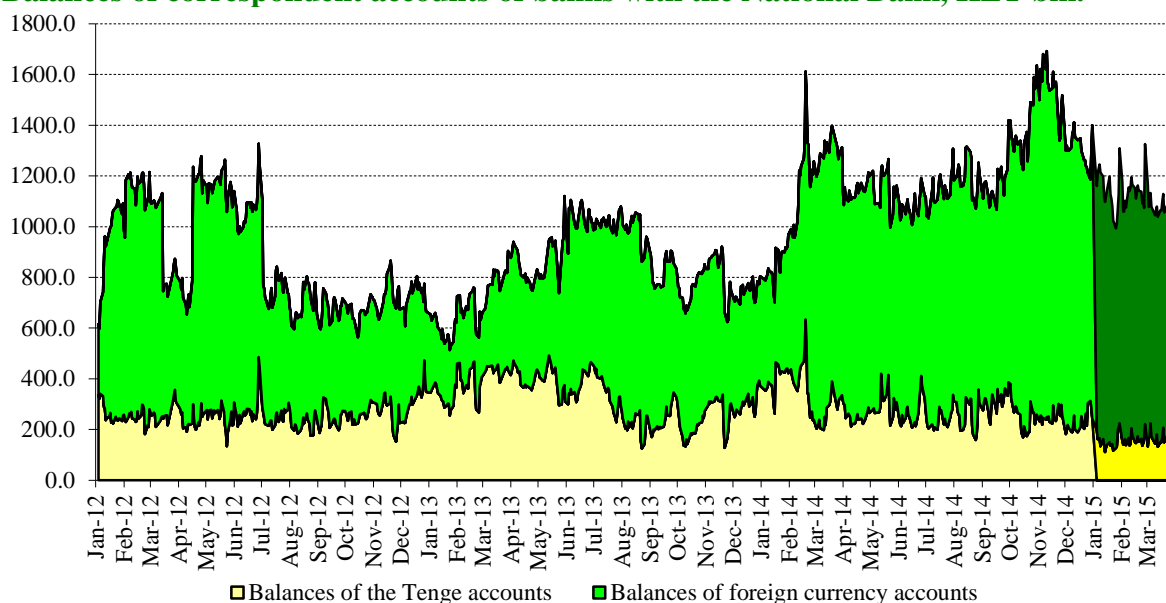
Boundaries of the National Bank's interest rate band, %



Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2015, the dynamics in correspondent account balances of banks with the National Bank was multi-directional. Correspondent account balances of banks in the domestic currency were gradually increasing throughout the period, whereas correspondent account balances of banks in foreign currency were decreasing. As a whole, the volume of correspondent account balances in the domestic currency at end-March 2015 as compared to December 2014 decreased by 35.9%, and correspondent account balances in foreign currency increased by 4.1% (Figure 38).

Figure 38

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

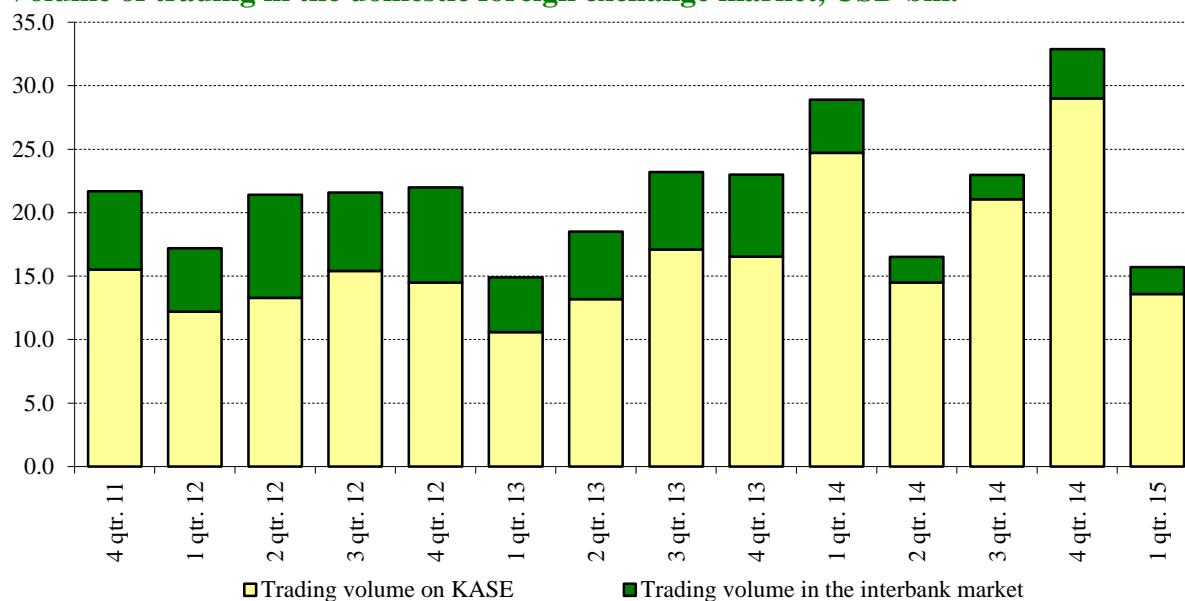
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the first 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 15.7 bln., having decreased by 52.4% as compared to the fourth quarter of 2014.

The volume of trades in the Dollar position on the Kazakhstan Stock Exchange decreased by 53.2% versus the fourth quarter of 2014 and amounted to USD 13.6 bln. (net trades on the Kazakhstan Stock Exchange made up 89% of gross trades). During the first quarter of 2015, the volume of transactions in the off-exchange foreign currency market decreased by 46.6% as compared to the fourth quarter of 2014 and amounted to USD 2.1 bln. (Figure 39).

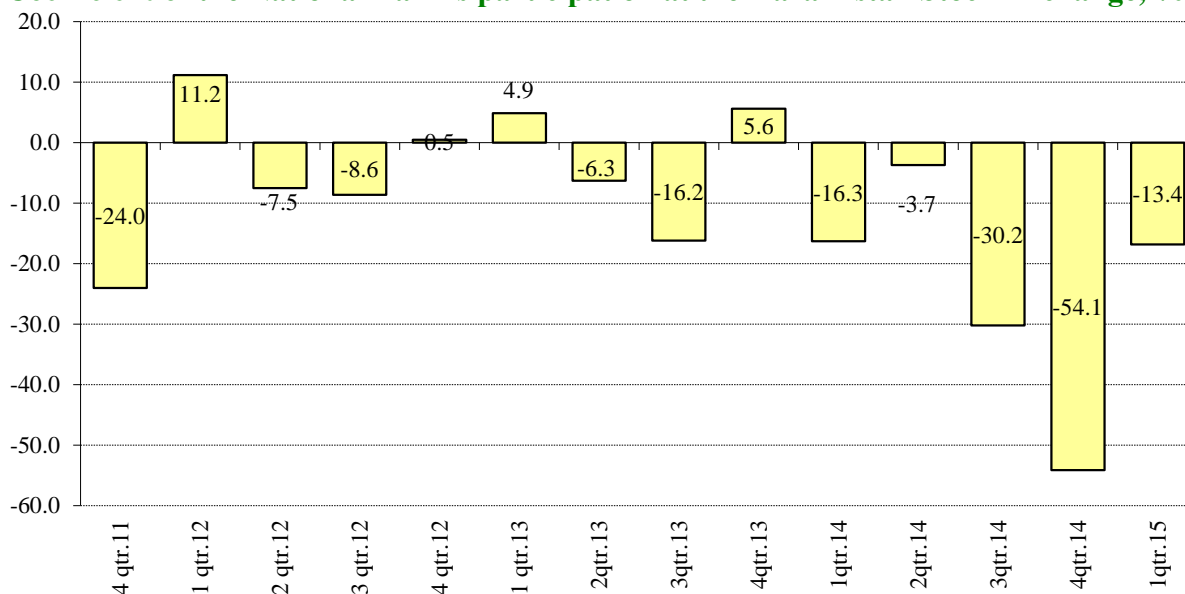
Figure 39

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

Source: National Bank of the Republic of Kazakhstan

At the end of the first quarter of 2015, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -16.8% (in the fourth quarter of 2014 it was -54.1%) (Figure 40). Thus, in the first quarter of 2015 the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 40

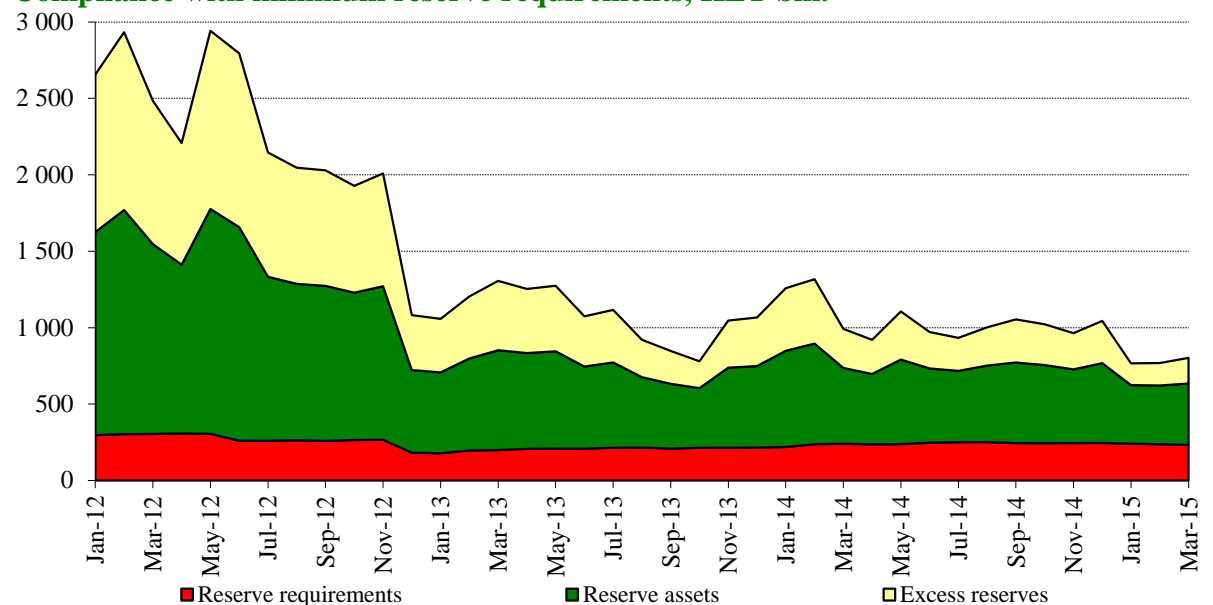
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %

Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During January-March 2015, reserve assets exceeded the required reserving volume by 1.7 times on average (in the fourth quarter of 2014 – by 2.1 times, and in the first quarter of 2014 – by 2.6 times) (Figure 41).

Figure 41

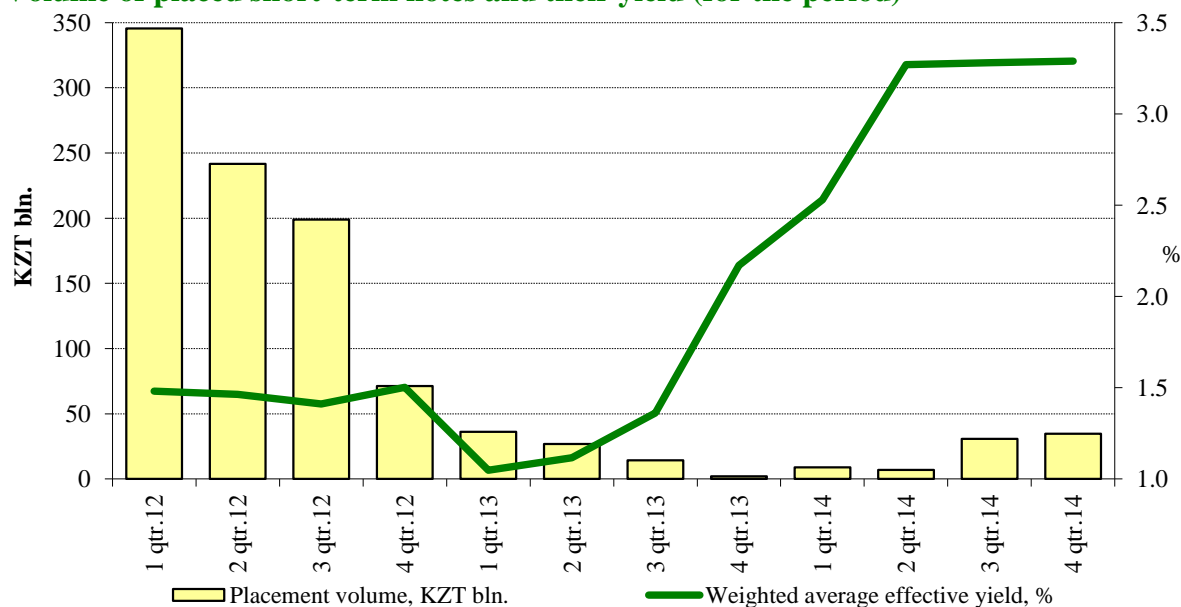
Compliance with minimum reserve requirements, KZT bln.

Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the first 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 (Figure 42).

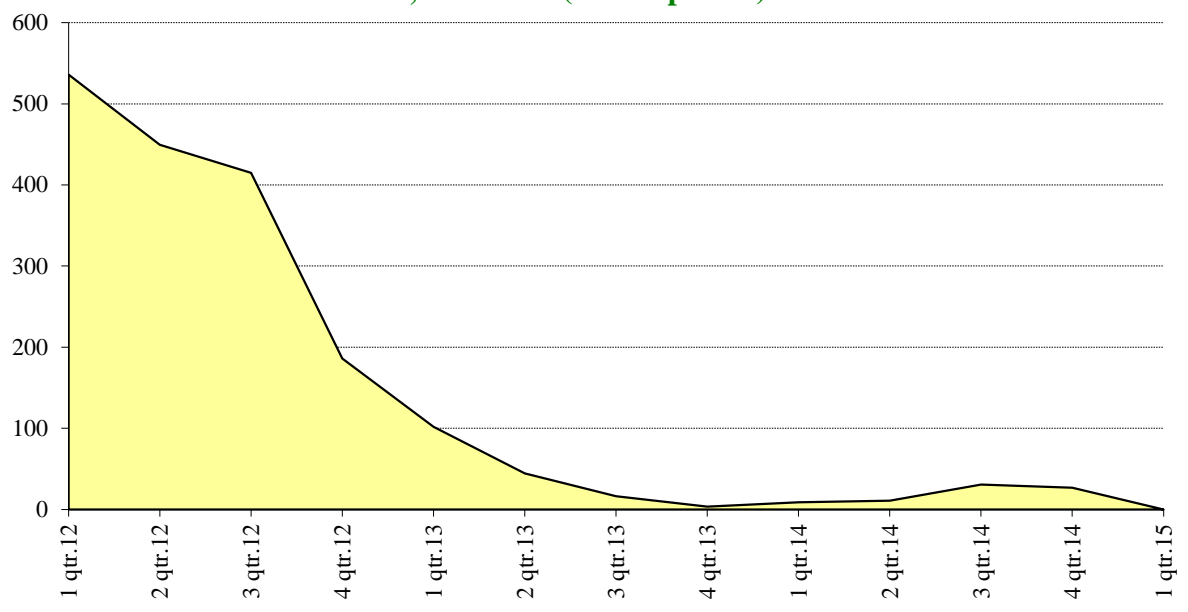
Figure 42

Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

As of the end of March 2015, all short-term notes issued into circulation were redeemed in full (Figure 43).

Figure 43

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

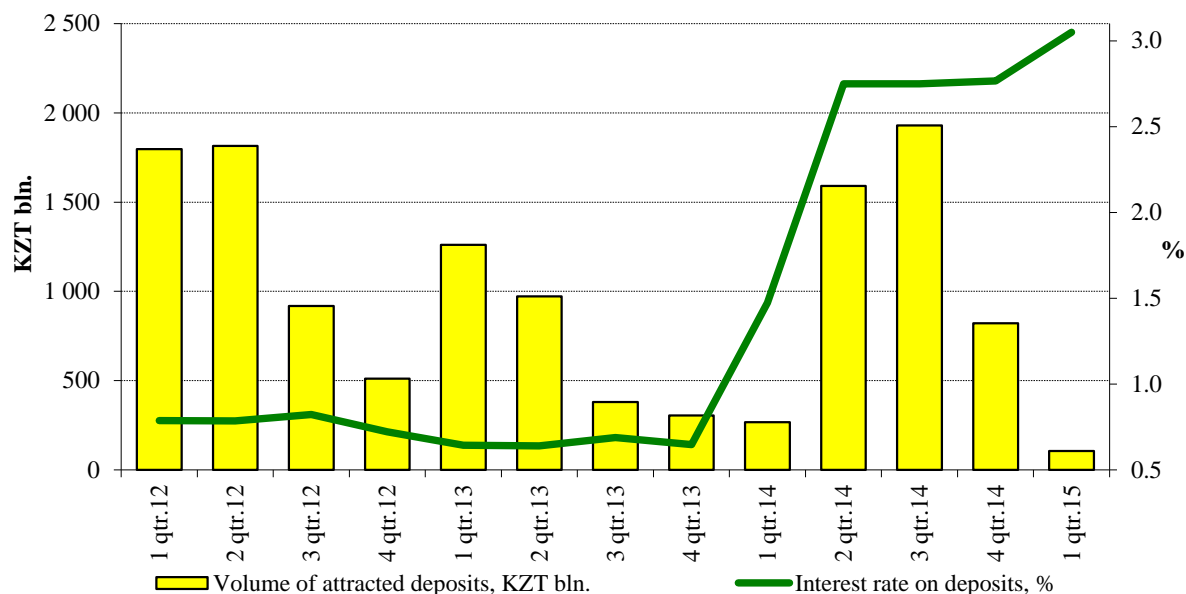
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the first quarter of 2015, the volume of deposits attracted from banks decreased. Throughout the period, volumes of deposits attracted from banks were low. During the first quarter of 2015 as a whole, deposits worth KZT 105.0 bln. were attracted, which is by 7.8 times less than the volume in the fourth quarter of 2014 and by 2.5 times less as compared to the first quarter of 2014.

The average interest rate on deposits in the first quarter of 2015 was 3.05% (Figure 44).

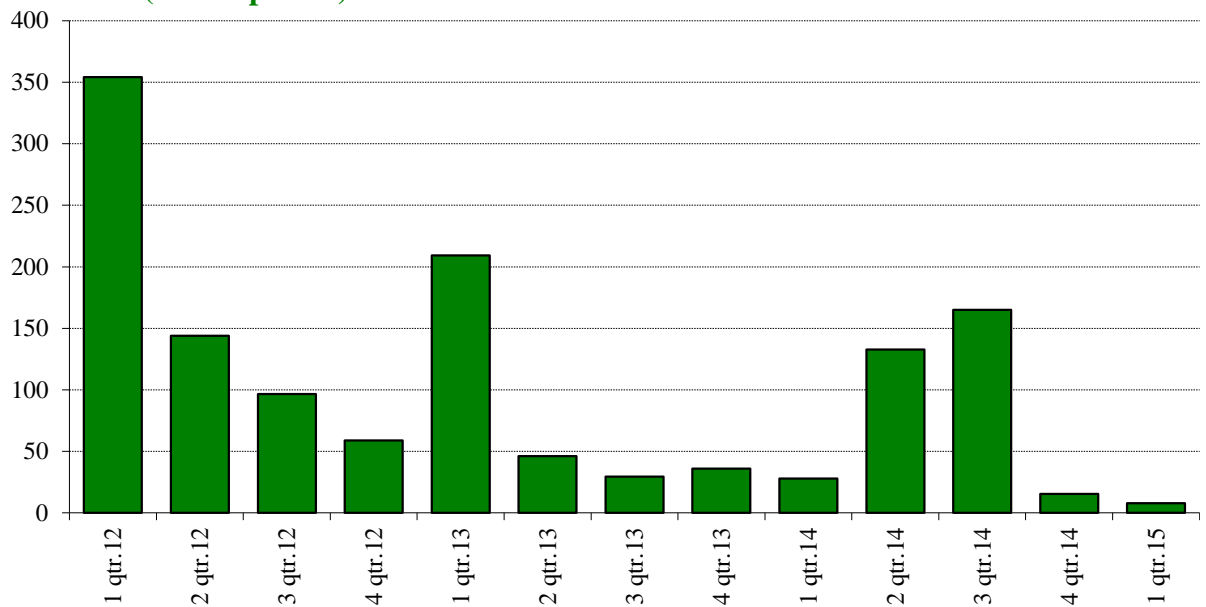
Figure 44

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

Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2015, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-March 2015, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 7.95 bln., which is by 1.9 times less than their volume at end-December 2014 (Figure 45).

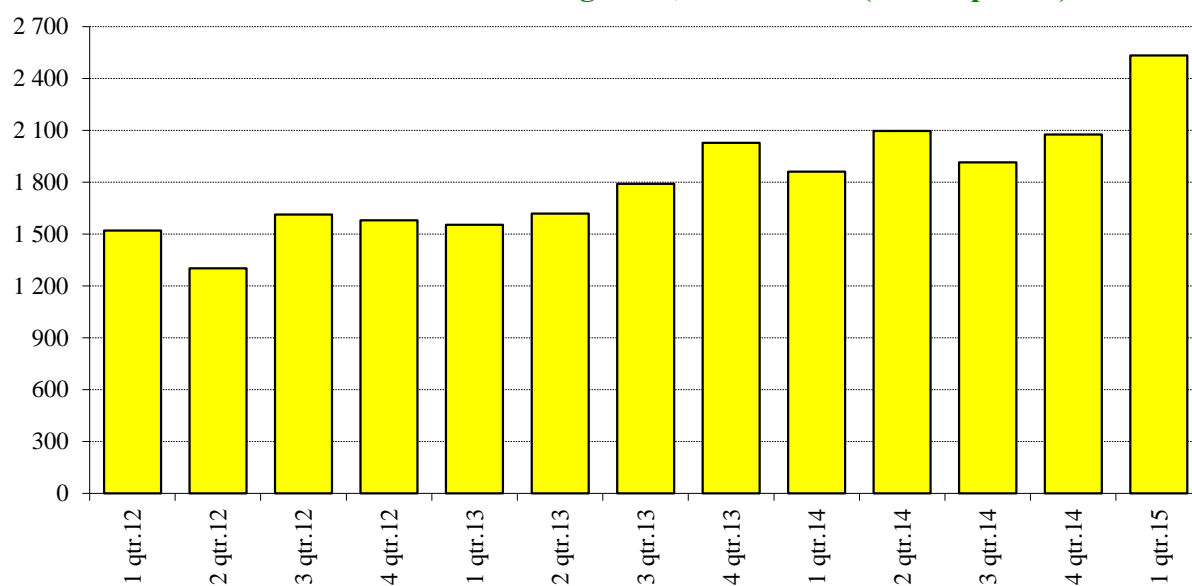
Figure 45

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

The total volume of refinancing loans in the first quarter of 2015 amounted to KZT 2.5 trln. The volume of such operations increased by 22.0% as compared to the previous quarter (Figure 46).

Figure 46

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

Source: National Bank of the Republic of Kazakhstan