

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

Inflation Report
for the Fourth Quarter of 2014

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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-December 2014, the annual inflation accounted for 7.4%. Inflationary processes surged versus 2013 (4.8%) due to increased prices for non-food products and foodstuffs associated with the seasonality factors as well as due to increased prices for imported goods in the domestic market. The rates of growth in tariffs for paid services continued to slow down.

During October-December 2014, the inflation accounted for 1.5% (in the fourth quarter of 2013 – 1.5%), which is somewhat higher than in the third quarter of 2014 (1.0%). In the structure of the consumer price index, prices for foodstuffs were growing at the highest rates. The main reasons for the increase in prices for foodstuffs were mainly the seasonality factors and increased prices for fruits and vegetables as well as the growth in prices for cereals products.

The growth in prices for non-food products in the domestic market was not high. This was due to the decreased retail prices for fuel and lubricants in the domestic market against the falling world oil prices as well as due to decreasing rates of growth in prices for imported non-food products in the environment of depreciation of the Russian ruble exchange rate.

The growth in tariffs for paid services including services regulated by the government remained within the past years trends.

In the fourth quarter of 2014, the inflation was building up against minimal impact of monetary factors. The money supply (M3) as the main indicator of the supply of money in the economy, during October-December 2014 decreased by 4.8% and amounted to KZT 12 816.3 bln. (on a year-to-year basis – the growth of 10.5%). On the whole, in annual terms the money supply corresponds to the needs of the economy and to current macroeconomic conditions, and its volume is sufficient to maintain the business activity.

Real GDP growth in 2014, according to the data reported by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan accounted for 4.3%.

The real sector of the economy demonstrated multi-directional trends. During 2014 as compared to 2013, the industrial production increased by 0.2% in terms of volume, including due to the 1.0% production growth in the manufacturing industry and the 2.3% growth in electricity supply, gas and vapor supply and air conditioning. The mining industry and quarry operations decreased by 0.3% in terms of volume. During the same period, the growth in gross agricultural output accounted for 0.8%, and in the construction sector – for 4.1%. The volume of cargo turnover decreased by 1.2%.

As part of its monetary policy implementation, in the fourth quarter of 2014 the National Bank continued to conduct operations aimed to regulate the short-term Tenge liquidity in the money market. During October-December 2014, the official refinancing rate remained unchanged at 5.5% per annum, and interest rate on deposits attracted from banks was raised to 3.05% in December 2014.

The demand of banks for securities issued by the National Bank and deposits was quite high in the fourth quarter of 2014 versus prior quarters. So, the volume of short-term notes issued during October-December 2014 amounted to KZT 34.8 bln., which exceeds their volume in the same period of 2013 by 17.5 times. The volume of deposits attracted from banks during the same period increased by 2.7 times versus the fourth quarter of 2013 to KZT 820.7 bln.

At end-December 2014, total deposits with banks amounted to KZT 11 694.0 bln., having decreased by 3.3% versus September 2014. During the same period, the growth in the volume of foreign currency deposits accounted for 17.8% (the share of foreign currency deposits accounted for 55.6%).

In December 2014 as compared to September 2014, credits to the economy decreased by 1.0% to KZT 12 106.1 bln. During the period, the decrease in the volume of credits to the population accounted for 0.2%.

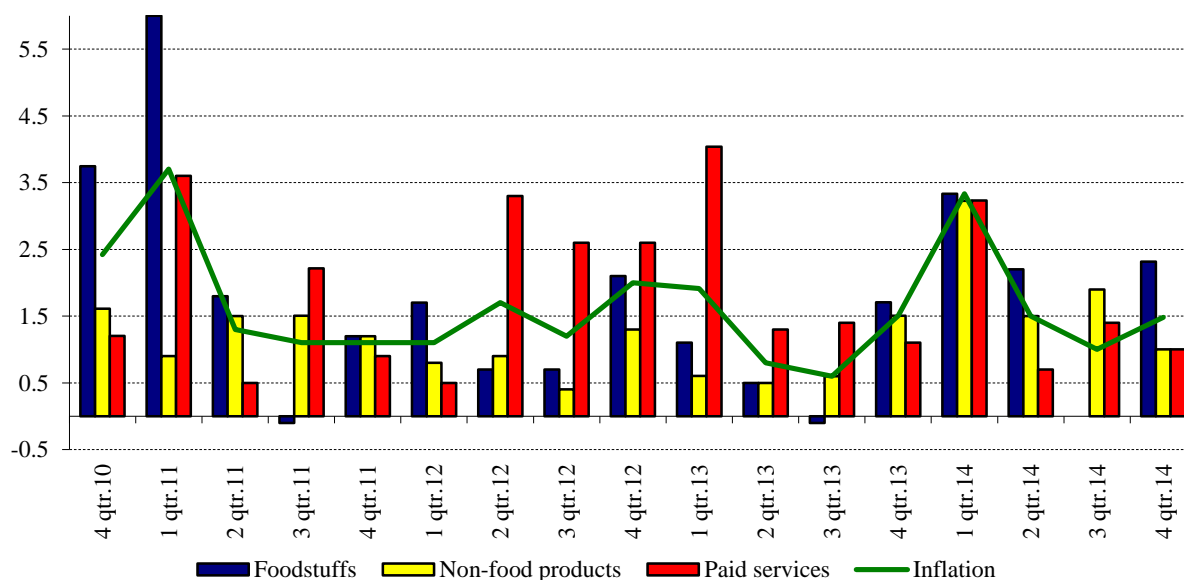
1. Inflationary Processes

1.1. Consumer Prices

In the fourth quarter of 2014 versus the previous period, the inflation increased as a result of the seasonality factors and the increased consumer demand. During October-December 2014, the inflation rate accounted for 1.5% (in the fourth quarter of 2013 – 1.5%), whereas during July-September 2014 it accounted for 1.0%. During the reviewed period, the growth in prices was caused by the 2.3% increase in the foodstuff prices (during the fourth quarter of 2013 – 1.7%). Non-food products and paid services increased by 1.0% (1.5% and 1.1%, respectively) in terms of price (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 December 2014 as compared to September 2014, the highest increase in prices among foodstuffs occurred in the prices for fruits and vegetables – by 7.9% including cabbage – by 30.4%, potatoes – by 17.3%, cereals – by 20.6% including buckwheat – 31.9%, eggs – by 3.2%, dairy products – by 2.4%, bread – by 2.0%, confectionery – by 1.8%, flour – by 1.8%, rice – by 1.1%, oils and fats – by 1.1%. During the period, the following products cheapened: sugar – by 4.1%, poultry – by 1.5% and lamb – 0.3%.

During October-December 2014, in the group of non-food products, prices for upper garments increased by 2.1%, for footwear – by 2.7%, fabrics – by 2.0%, medications – by 4.0%, household utensils – by 1.5% including home appliances – by 1.4%, detergents and cleaning products – by 2.0%. The price of gasoline declined by 6.8%, and diesel fuel decreased by 1.5% in terms of price.

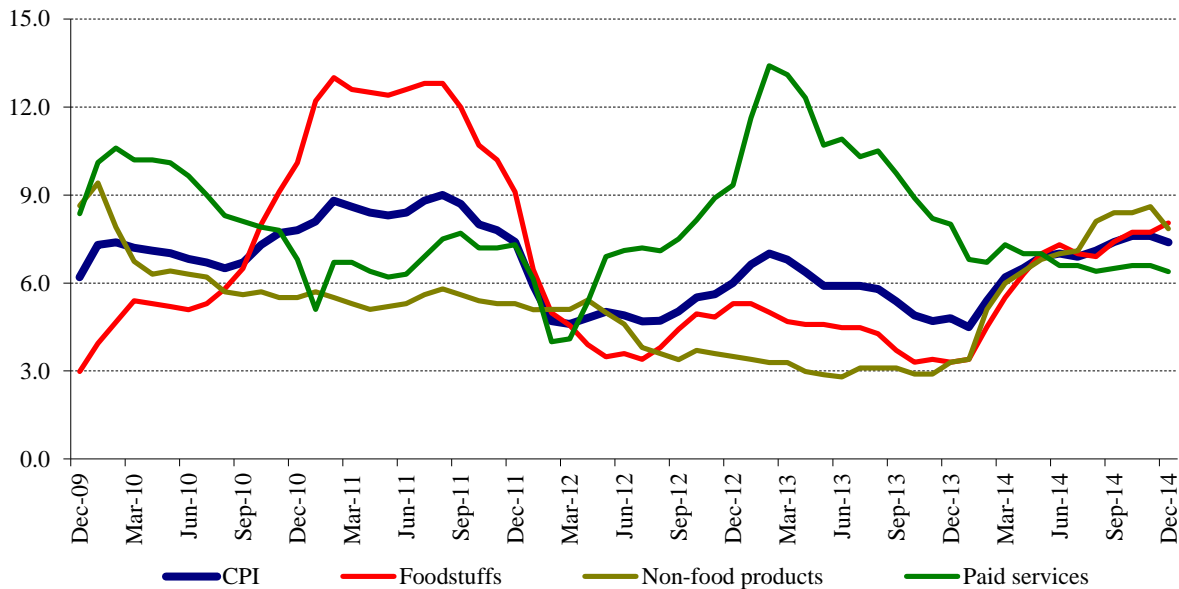
In the fourth quarter of 2014, in the structure of paid services utility payments increased by 1.2%. Housing rental payments increased by 2.5%, fees for district heating – by 1.9%, hot water fees – by 1.7%, the cost of upkeep – 1.5%, liquefied gas – by 0.7%, and fees for sewage system – by 0.1%. In addition, prices for out-patient services increased by 0.8%,

hospital services – by 0.3%, education services – by 1.0% and services of restaurants and hotels – by 2.4%.

In December 2014, the annual inflation accounted for 7.4% (in December 2013 – 4.8%). During 2014, foodstuffs increased by 8.0% (by 3.3%) in terms of price, non-food products – by 7.8% (by 3.3%), and paid services – by 6.4% (by 8.0%) (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

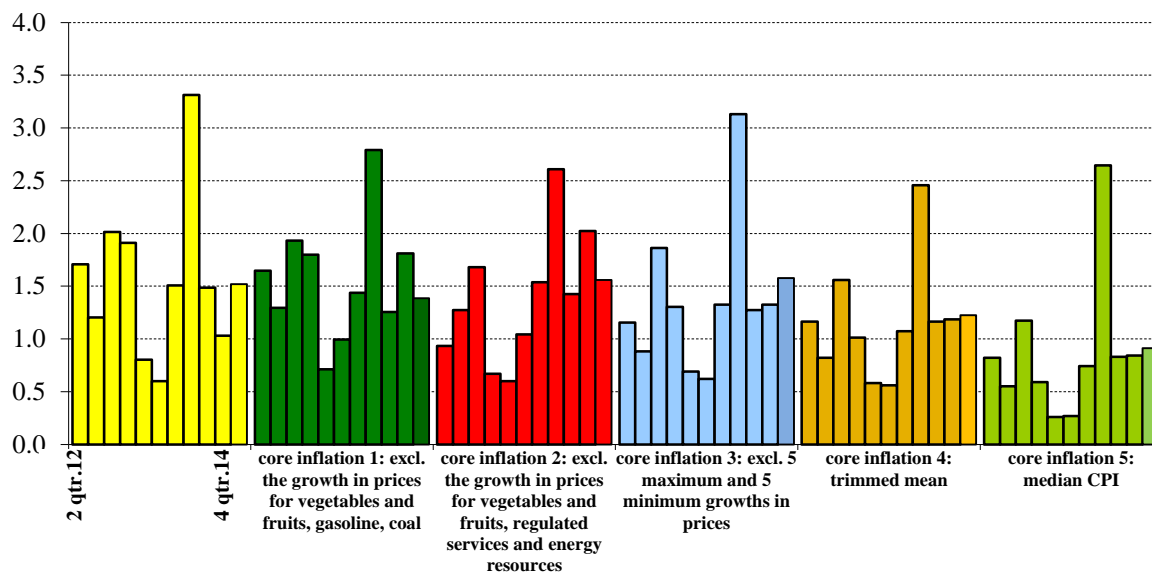
1.2. Core Inflation

In the fourth quarter of 2014, indicators of core inflation-3, core inflation-4 and core inflation-5 slightly exceeded corresponding indicators of the previous quarter. As compared to the corresponding period of 2013, higher growth rates on all core inflation indicators were noted.

In the fourth quarter of 2014, core inflation-2 and core inflation-3 slightly increased the level of the headline inflation (Figure 3). This was associated, among other factors, with the decrease in prices for gasoline and diesel fuel and services of railway transport that was partially offset by increased prices for fruit and vegetable production.

Figure 3

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



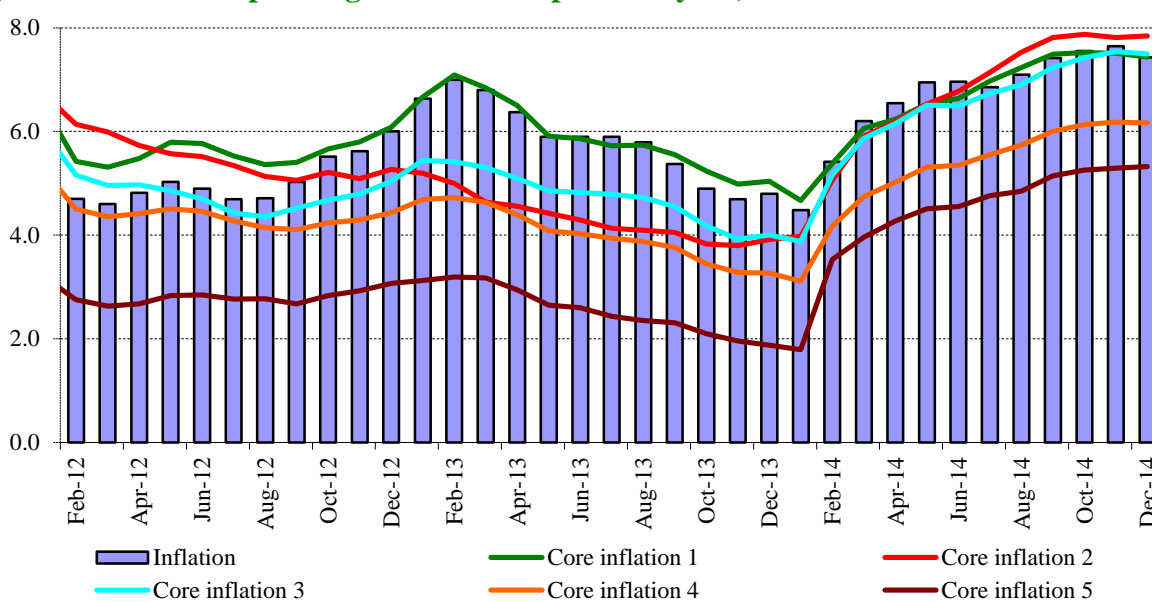
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In the fourth quarter of 2014, there were no considerable changes in the dynamics of core inflation indicators in annual terms (Figure 4). Annualized indicators of core inflation-2 and core inflation-3 at the end of December 2014 slightly increased the level of the headline inflation.

At the end of December 2014, all annual core inflation indicators had been at a higher level versus the indicators of December 2013 (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 fourth quarter of 2014, the producer prices decreased by 11.8% (in the fourth quarter of 2013 – the decrease of 1.7%). The cost of output decreased in terms of price by 12.8%; at the same time, in its composition the price of interim consumption products cheapened by 14.9%, the means of production decreased by 0.6% in terms of price, and the price of consumer goods increased by 0.7%. The prices of production services increased by 2.3%.

In the fourth quarter of 2014, prices in the mining industry declined by 16.9% (in the fourth quarter of 2013 – the decline of 2.5%), which was caused by lower oil prices versus the same period of the previous year.

The price of energy resources, after its 3.6% decline in the third quarter of 2014, in the fourth quarter of 2014 decreased by 16.3% (in the fourth quarter of 2013 – the decline of 2.6%). Within raw energy resources, the price of oil extraction, because of accelerated rates of its decline in November and December, decreased by 18.3% (in the fourth quarter of 2013 – the decline of 3.4%), and the price of gas condensate decreased by 21.3% (in the fourth quarter of 2013 – the decline of 2.2%).

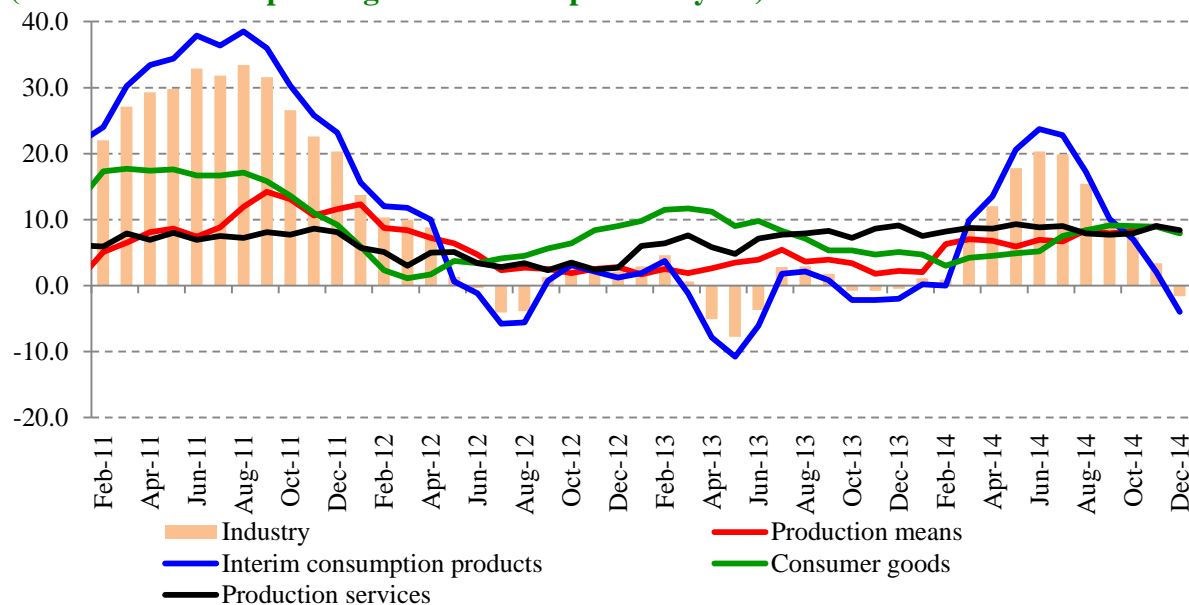
Prices in the manufacturing industry, after their 2.4% increase in the third quarter of 2014, in the fourth quarter of 2014 decreased by 3.3% (in the fourth quarter of 2013 – the decline of 0.4%). Alongside with that, in the fourth quarter of 2014, prices in the metallurgical industry decreased by 7.2%, the price of refinery products decreased by 5.8%, and the production of foodstuffs increased by 0.5% in terms of price.

In the fourth quarter of 2014, prices in the sector of electricity supply, gas and vapor supply and air conditioning increased by 2.4% (in the fourth quarter of 2013 – the growth of 1.3%).

In December 2014, the year-to-year decline in prices in the industrial production (December 2014 to December 2013) accounted for 1.6% (in December 2013, the year-to-year decline accounted for 0.5%) (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 2.4% in annual terms, while interim consumption products decreased by 4.0% in terms of price, the price of consumer goods increased by 7.9%, and production means increased in price by 8.0%. Production services increased by 8.4% in terms of price.

1.3.2. Prices in Agriculture

In the fourth quarter of 2014, prices for agricultural production realized across all channels increased by 5.0% (in the fourth quarter of 2013 – the decline of 3.7%). The dynamics of prices in agriculture was impacted by a higher growth in prices for plant production versus the livestock sector.

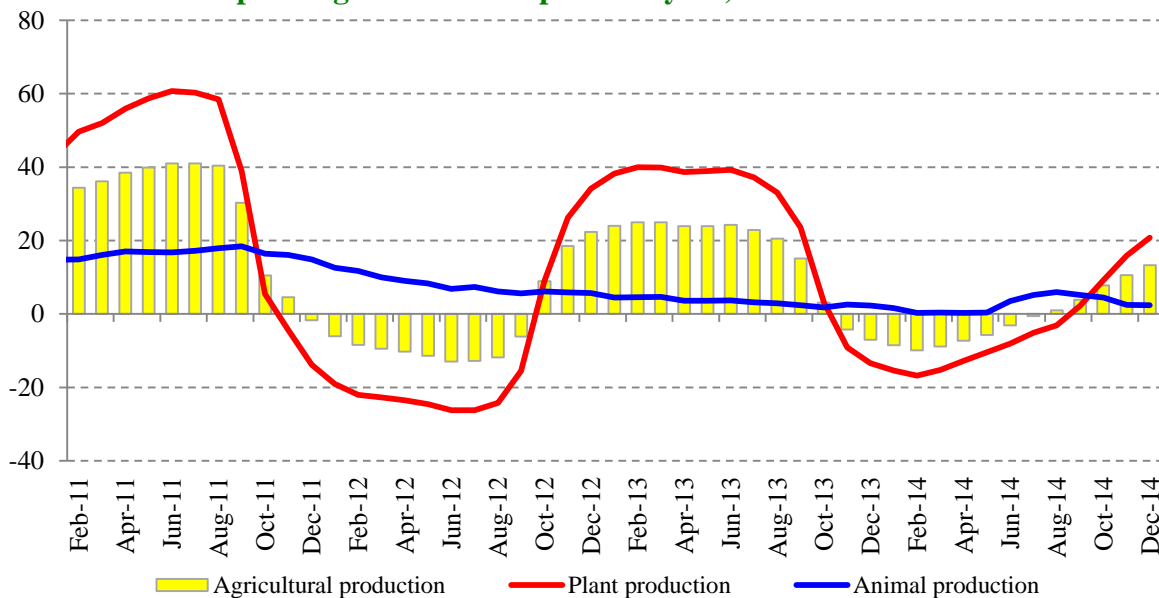
As compared to the 4.8% increase in prices in the third quarter of 2014, during October-December 2014 the plant production increased by 6.7% in terms of price (in the fourth quarter of 2013 – the decrease of 9.7%). Within the plant production, prices for vegetables increased by 14.5%, for potatoes – by 12.0%, and for grain cultures – by 6.5%.

The price of animal production, after its 1.8% growth in the third quarter of 2014, in the fourth quarter of 2014 increased by 2.1% (in the fourth quarter of 2013 – the growth of 5.0%). During October-December 2014, prices for flesh meat and poultry increased by 0.5%, the price of unpasteurized milk increased by 4.7%, and eggs increased by 6.7% in terms of price.

At the end of December 2014, prices for agricultural products increased by 13.3% in annual terms. The price of plant production increased by 20.8%, and animal production increased by 2.4% 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 fourth quarter of 2014, 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 46 (from 51.6 in the third quarter of 2014). The indicator had fallen due to the fact that the share of enterprises with increased demand for their products decreased (to 17.6 % from 21.5% in the third quarter of 2014) and due to the increased share of enterprises which noted the decrease in the demand for their products (to 25.9% from 18.5% in the third quarter of 2014).

The demand for final products decreased significantly in the following sectors: the “manufacturing industry”, “construction”, “transport and warehousing”, with their diffusion indices accounting for 41.5, 44.7 and 44.4, respectively, in the fourth quarter of 2014. The slowdown in the demand was observed in the following sectors: the “mining industry” (the diffusion index had fallen to 50.9 from 57.1 in the third quarter of 2014); “water supply; sewage system, control over waste collection and distribution” (to 58.3 from 63.3 in the third quarter of 2014); agriculture (to 58.6 from 61.9 in the third quarter of 2014) and “information and communications” (to 51.2 from 52.4 in the third quarter of 2014). The increased rates of growth in the demand occurred only in the sector of “electricity supply, gas and vapor supply and air conditioning”.

According to expectations of enterprises, in the first quarter of 2015 as compared to the fourth quarter of 2014, the demand for final products in the real sector as a whole will retain its downward trend but the rates of recession will slow down: the diffusion index was 47.6.

The largest decrease in the demand is anticipated in the sector of “accommodation and catering services” (the diffusion index had fallen to 42.1 from 47.6 in the fourth quarter of 2014). Alongside with that, it is expected that the decrease in the demand for final products will slowdown in the following sectors: the “manufacturing industry” (the diffusion index had risen to 43.7 from 41.5 in the fourth quarter of 2014); construction (to 47.9 from 44.7 in the fourth quarter of 2014); “transport and warehousing” (to 47.2 from 44.4 in the fourth quarter of 2014). Some decrease in the demand is anticipated in the following sectors: “the mining industry” (the diffusion index had fallen to 48.4 from 50.9 in the fourth quarter of 2014); “water supply; sewage system, control over waste collection and distribution” (to 53.3 from 58.3 in the fourth quarter of 2014), “information and communication” (to 50 from 51.2 in the fourth quarter of 2014). The increase in the growth rates of the demand is anticipated in such sectors as: “agriculture, forestry and fishery” (to 60 from 58.6 in the fourth quarter) and “electricity supply, gas and vapor supply...” (to 65.1 from 63.4 in the fourth quarter of 2014).

In the fourth quarter of 2014, the growth in prices for final products of enterprises notably decreased: the diffusion index of the change in prices for final products made up 54.4 (in the third quarter of 2014 – 59.7). Prices for final products continued to decline in the following sectors: the “mining industry” (the diffusion index was 45.7) and “wholesale and retail trade...” (45.1). The largest slowdown in the price growth occurred in the following sectors: “transport and warehousing” (to 50 from 57.2 in the third quarter); “information and communications” (to 51.2 from 56 in the third quarter); the “manufacturing industry” (to 54.1 from 58.9 in the third quarter) and “electricity supply, gas and vapor supply...” (to 56.4 from 60.8 in the third quarter); and construction (to 57.5 from 62.7 in the third quarter).

In the fourth quarter of 2014, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) also slowed their growth: the diffusion index made up 54.9 (in the third quarter of 2014 it was 60.4).

In the first quarter of 2015 versus the fourth quarter of 2014, the growth in prices for final products in the real sector of the economy as a whole is expected to continue (the diffusion index was 57.8). The increased rates of price growth are anticipated in the following sectors: “electricity supply, gas and vapor supply...” (the diffusion index was 66.9); “construction” (60.2); the “manufacturing industry” (57.5); “transport and warehousing”

(55.6); and “water supply; sewage system, control over waste collection and distribution” (56.7). Prices in the “mining industry” will shift to the growth zone: the diffusion index had risen to 53.7 from 46.7 in the fourth quarter of 2014).

In the fourth quarter of 2014, prices for consumer products and services, according to expectations of enterprises, will continue to grow with some increase in the growth rates: the diffusion index of the change in prices made up 58.2 (54.9 in the fourth quarter of 2014).

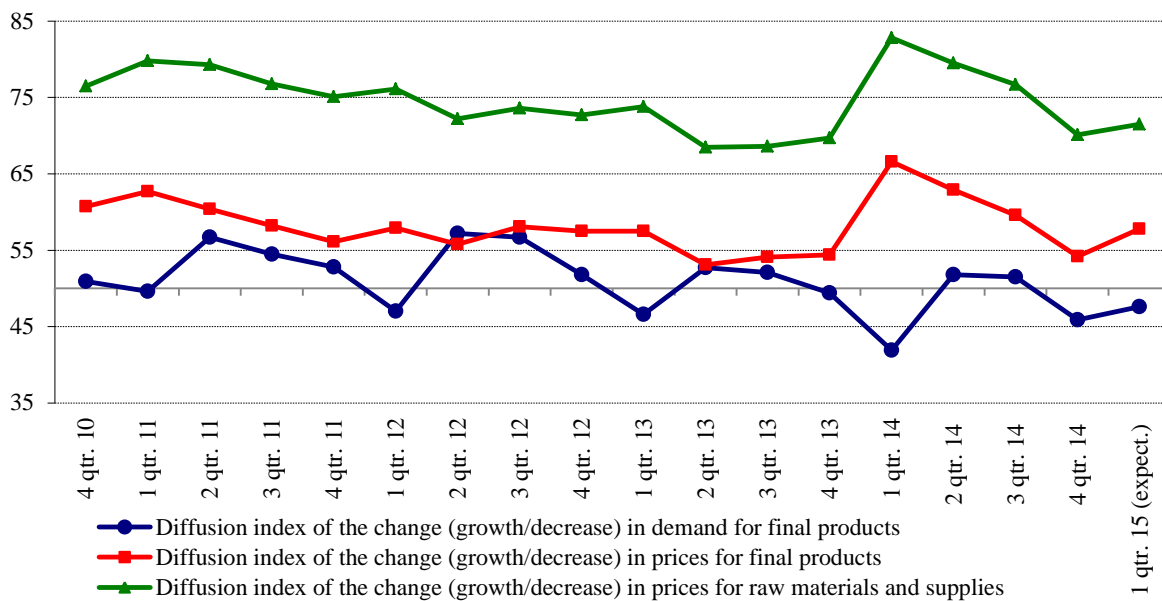
In the fourth quarter of 2014, prices for raw materials and supplies slowed their growth but remain high: the diffusion index of the change in prices made up 70.1 (in the third quarter of 2014 – 76.7). A significant slowdown in the rates of price growth was observed in the following sectors: “agriculture, forestry and fishery” (the diffusion index had fallen to 77.3 from 83.5 in the fourth quarter of 2014); “construction” (to 73.2 from 83.1 in the fourth quarter); “water supply; sewage system, control over waste collection and distribution” (to 70 from 80 in the third quarter) and the “manufacturing industry” (to 67.1 from 75.4 in the third quarter).

According to expectations of enterprises, in the first quarter of 2015, prices for raw materials and supplies will continue to grow at a relatively high pace (the diffusion index made up 71.5).

Thus, judging from the dynamics of relevant diffusion indices, according to estimates of enterprises, the slowdown in the demand for final products and continuing growth in prices for final products and raw materials and supplies are expected in the first 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 third quarter of 2014, GDP based on the final consumption method, as compared to the corresponding period of 2013, increased in real terms, according to estimate, by 3.7% (the growth in the third quarter of 2013, according to estimate, accounted for 5.6%, and the growth in the second quarter of 2013 – 3.6%).

The GDP growth in the third quarter of 2014 was impacted by the growth in spending on final consumption determined by the growth in household spending on current consumption and government spending on current consumption, gross formation and the decrease in net exports.

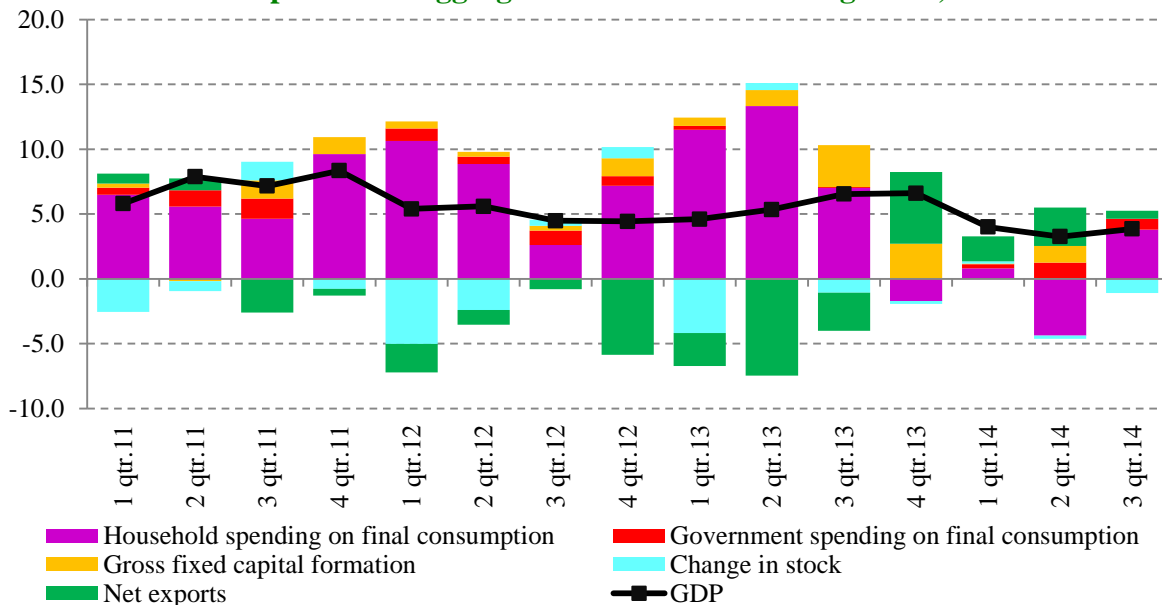
In general, according to estimate, as compared to the corresponding quarter of 2013, in the third quarter of 2014 spending on final consumption increased by 6.9% (the second quarter of 2014 – the decrease of 1.0%), gross formation decreased by 2.8% (the growth of 4.7%), and net exports decreased by 58.5 (the growth of 68.9%).

As a result, household spending on final consumption and government spending on final consumption made a positive contribution to the formation of the GDP growth of (+)3.8% and (+)0.9%, and gross formation decreased GDP by (-)1.1 %.

Along with that, within gross formation fixed capital formation accounted for (-)0.1%, and change in stock accounted for (-)1.0%. In its turn, net exports made a positive impact on the GDP growth of (+)0.6% (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 third quarter of 2014, household spending on final consumption increased versus the corresponding period of 2013 by 7.3% (in the second quarter of 2013 – the decrease of 6.5%).

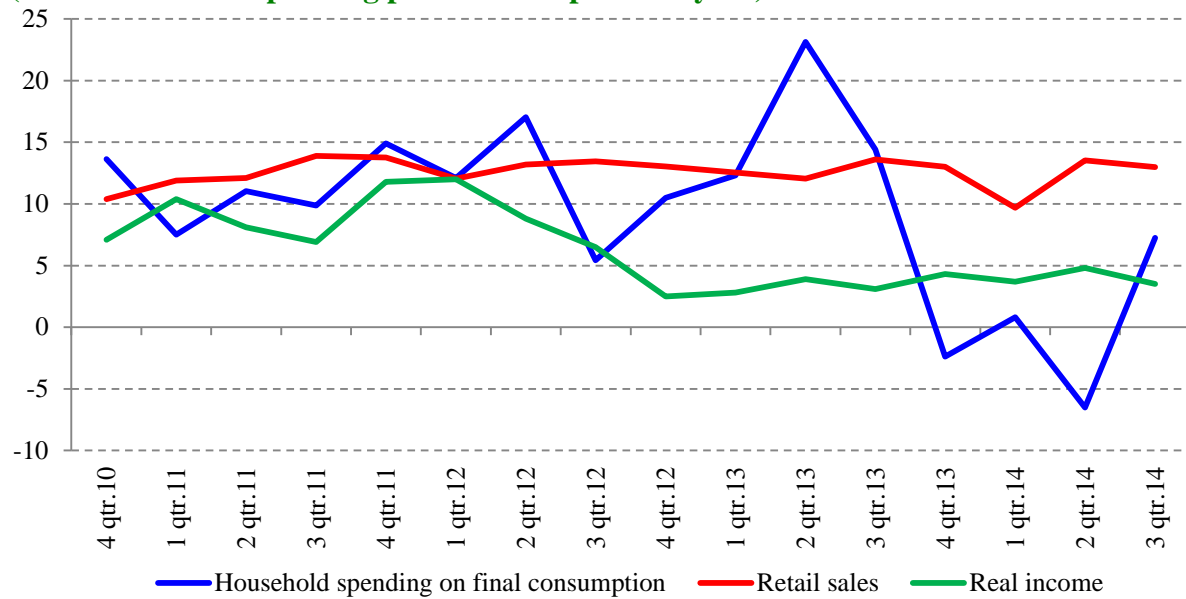
In the third quarter of 2014, the growth rate of per capita income in nominal terms slowed down to 10.9% (in the second quarter of 2013 – the growth of 11.9%), and in real

terms it slowed down to 3.5% (the growth of 4.8%). The slowing growth in the household income had a negative impact on retail sales, with their growth slowing down versus the second quarter of 2014 and accounting for 13.0% (in the second quarter of 2013 – the growth of 13.5%).

The slowdown in the growth rates of retail sales was insignificant and did not have a considerable impact on one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption which increased by 7.3%, whereas a quarter before this indicator decreased by 6.5% (Figure 9).

Figure 9

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



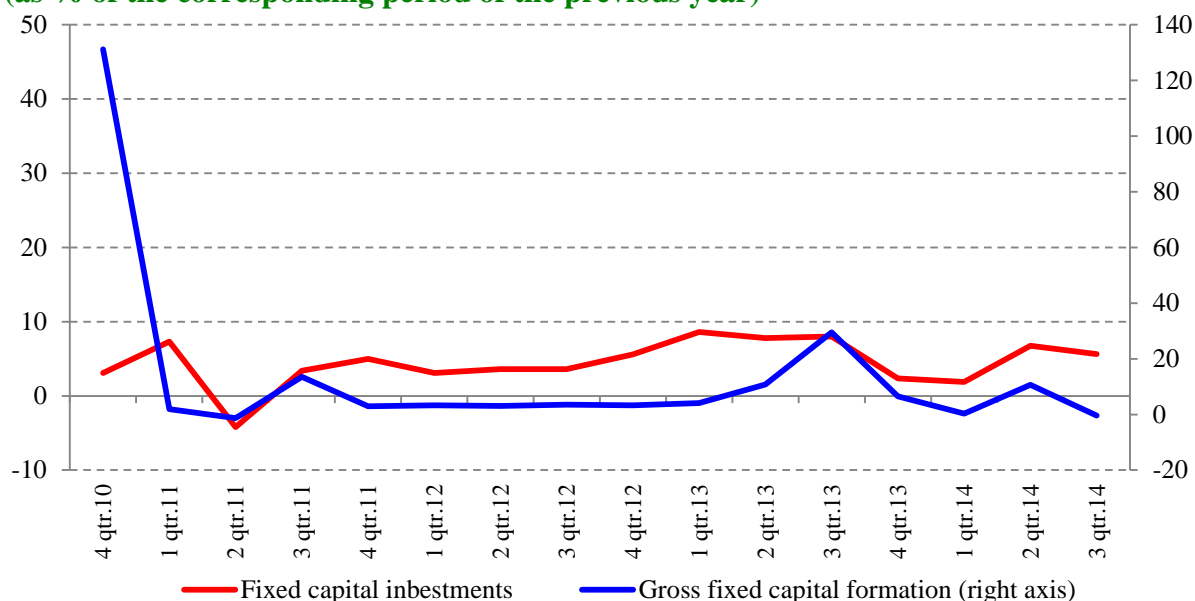
Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The rates of growth in household income and retail sales slowed; however, household spending on final consumption showed growth, which was partially determined by increased implementation of certain types of services.

The result of decreased investment activity of enterprises was that the growth in fixed capital investments slowed to 5.6% in the third quarter of 2014 (in the second quarter of 2013 the growth accounted for 6.8%). Alongside with that, gross fixed capital formation decreased, with such decrease accounting for 0.4% versus the previous quarter (the second quarter of 2014 – the growth of 10.6%) (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 third quarter of 2014 as compared to the corresponding period of 2013, government spending on final consumption increased by 10.8% (in the second quarter of 2013 – the growth of 17.4%).

During the third quarter of 2014 as a whole, the state budget spending was financed in the amount of KZT 1973.9 bln. or 19.5% of GDP (as compared to the third quarter of 2013 – the increase of 7.9%).

Current state budget expenditures totaled KZT 1446.1 bln., exceeding those of the third quarter of 2013 by 7.4%. Within the current expenditures, the following items demonstrated significant increase as compared to the corresponding quarter of 2013: expenditures related to current transfers to legal entities (by 30.8%); interest payments on the domestic loans (by 21.3%); current transfers to individuals (by 16.2%); purchases of services and works (by 16.0%); contributions by employers (by 9.2%) and salaries and wages (by 8.0%). At the same time, the following items decreased: expenses related to other current expenditures (by 44.4%); current transfers abroad (by 23.8%); and interest payments on foreign loans (by 10.7%).

In the third quarter of 2014, capital expenditures in the state budget increased by 23.4% as compared to the same period of 2013, mainly because of increased capital expenditures for development, acquisition of property, plant and equipment, intangible and biological assets.

In the third quarter of 2014 as compared to the third quarter of 2013, budget credits decreased by 2.4 times, and expenditures related to acquisition of financial assets also decreased – by 4.8 times.

During the third quarter of 2014, state budget revenues amounted to KZT 1634.6 bln. or 16.2% of GDP, which is by 2.3% less than in the third quarter of 2013. In the structure of state budget revenues, two items are still prevailing: tax revenues – 77.2% (in the third quarter of 2013 – 66.7%), and official transfers – 19.6% (30.5%). 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 320.1 bln.

In the third quarter of 2014 as a whole, tax revenues increased by 12.9% as compared to the third quarter of 2013. The growth was secured by increased receipts on excises, corporate income tax, personal income tax, social tax and the value-added tax.

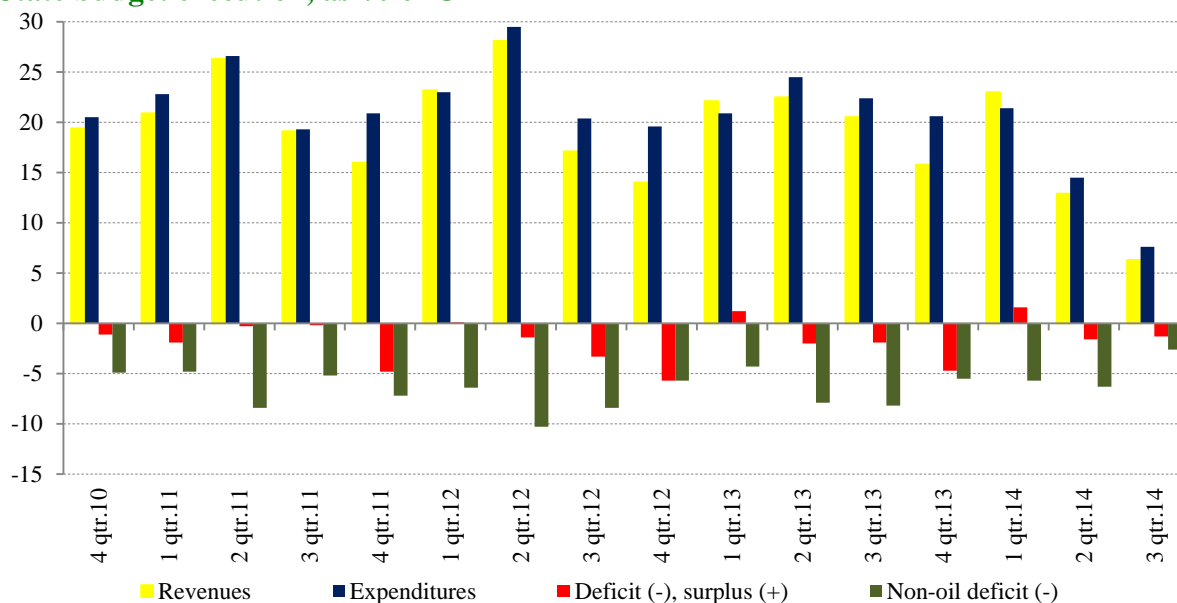
In the third quarter of 2014 as compared to the third quarter of 2013, non-tax revenues decreased by 5.5%, mainly because of decreased revenues from the public property.

In the third quarter of 2014 as compared to the third quarter of 2013, revenues from transfers decreased by 37.2%, whereas revenues from the sale of fixed capital increased by 66.3%.

Since expenditures were in excess of revenues in the third quarter of 2014, the state budget showed up a deficit of KZT 339.3 bln. (3.4% of GDP); in the third quarter of 2013 the deficit amounted to KZT 156.1 bln. (1.7% of GDP) (Figure 11). It should be noted that without the guaranteed transfer of KZT 320.1 bln. to the republican budget from the National Fund, the third quarter of 2014 would have ended with the non-oil deficit of KZT 659.4 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 third quarter of 2014, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 437.8 bln. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 71.7 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT by 26.8 bln.

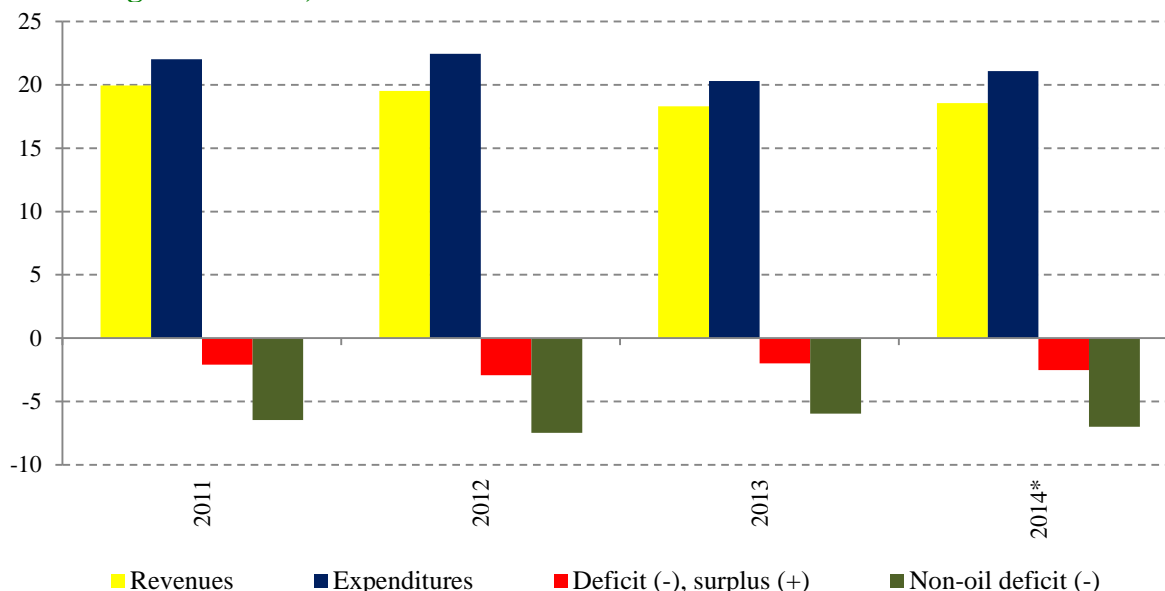
As of October 1, 2014, the government domestic debt amounted to KZT 4237.0 bln. (11.2% of GDP), exceeding the same indicator as of October 1, 2013 by 28.6% (9.9% of GDP). The growth was secured by the issue of government long-term savings treasury obligations (MEUZHKAM), government short-term treasury obligations (MEKKAM), government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of October 1, 2014, the government external debt amounted to KZT 916.7 bln. (2.4% of GDP), having increased by 22.7% versus its volume at October 1, 2013 (2.2% of GDP).

In the third quarter of 2014, the state budget deficit accounted for (-)2.5% of GDP (in 2013 the deficit accounted for (-)2.3% 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 4th quarter of 2013 through the 3rd quarter of 2014

2.1.3. External Sector

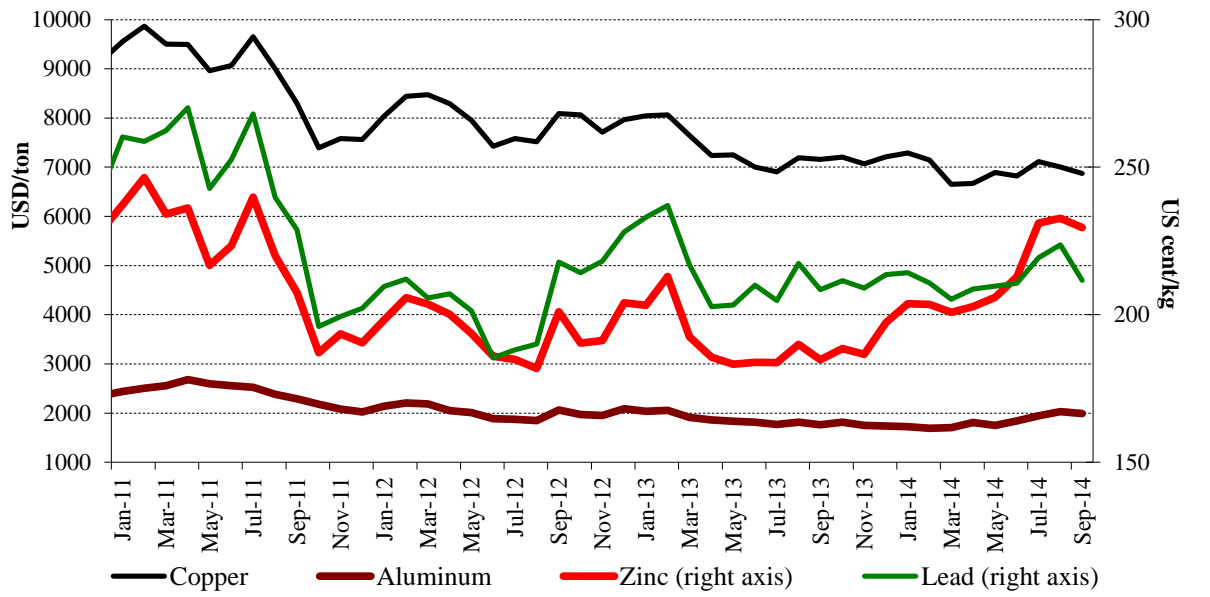
– **World Prices**

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

Prices for copper showed growth in July 2014, in August-September 2014 they declined while showing the 2.9% growth during the third quarter of 2014 on average versus the previous period, amounting to USD 6995.7 per ton. Prices for aluminum, zinc and lead were growing in July-August 2014, and in September 2014 their decline was recorded. During the third quarter of 2014, aluminum increased by 10.5% in terms of price and reached USD 1989.3 per ton on average during the period. World prices for lead in the third quarter of 2014 increased by 4.1%, amounting to 218.2 US cents per kilogram on average during the period. Prices for zinc increased by 11.6%, with the average price during the period being 231.1 US cents per kilogram (Figure 13).

Figure 13

Dynamics of world prices for metals



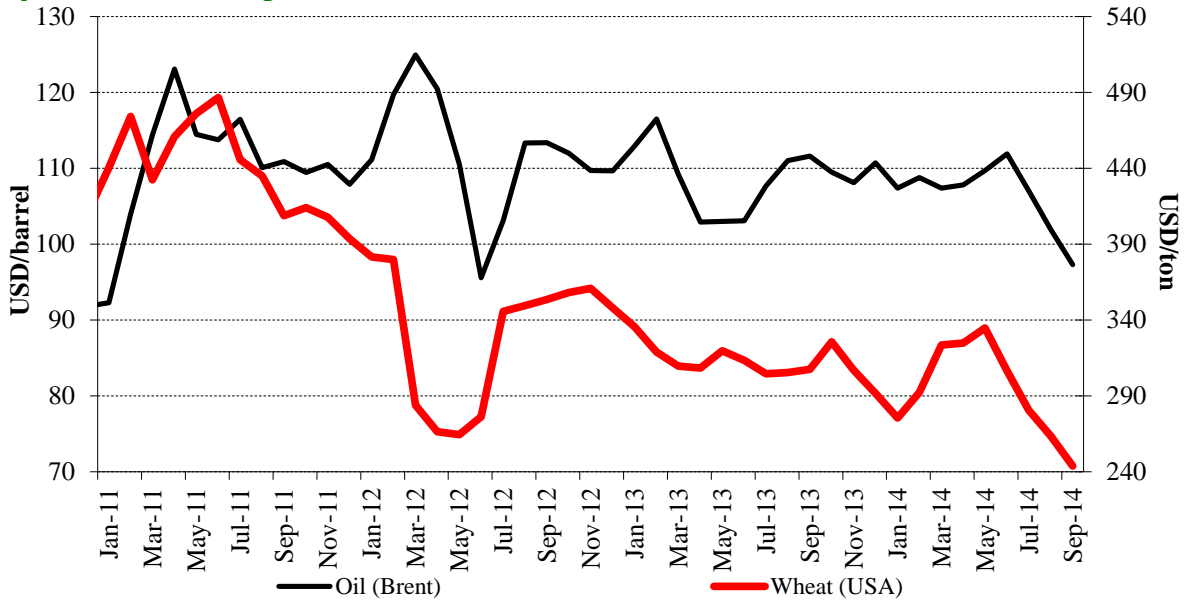
Source: World Bank

In the third quarter of 2014, world oil price (Brent) decreased by 7.0% and had been at USD 102.1 per barrel on average during the period (Figure 14).

World prices for wheat, after their growth at the beginning of 2014, have been demonstrating a decline since June 2014. In general, during the third quarter of 2014 the wheat price (USA) declined by 18.5% versus the previous period, being at USD 262.5 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 third quarter of 2014, the current account balance was in deficit of USD 1.4 bln. or (-)2.6% of GDP for the corresponding period (Figure 15).

Figure 15

Current account balance, USD mln.



Source: National Bank of the Republic of Kazakhstan

In the third quarter of 2014, proceeds from the exports of goods decreased versus the same indicator for the third quarter of 2013 by 4.5% to USD 19.4 bln., and expenditures on commodity imports decreased by 9.4% as compared to the third quarter of 2013, amounting to USD 12.0 bln. The trade surplus increased by 4.6% and amounted to USD 7.4 bln. In the third

quarter of 2014, the deficit in the balance of services decreased as compared to the third quarter of 2013 by 13.8% to USD 1.7 bln. and the deficit in the balance on primary income (salaries and wages, investment return and other primary income) decreased by 2.5% and amounted to USD 6.7 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to USD 435.7 mln.

The balance of the financial account (excluding reserve assets) in the third quarter of 2014 was negative and amounted to USD 5.2 bln. (a negative balance of USD 981.9 mln. in the third quarter of 2013). A net decrease in foreign assets of residents (less reserve assets) amounted to USD 1.2 bln. (net acquisition of USD 2.7 bln. in the third quarter of 2013). Net incurred liabilities (growth) amounted to USD 4.1 bln. (USD 3.7 bln. in the third quarter of 2013).

As a result, at the end of the third quarter of 2014, the balance of payments was in deficit of USD 2.2 bln. (in the third quarter of 2013 – a surplus of USD 2.8 bln.).

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

In the third quarter of 2014, the aggregate terms of trade index was by 13% higher than the corresponding indicator for the third quarter of 2013. Alongside with that, the terms of trade with the Euro zone countries increased by 4%, and with Russia – decreased by 1% (Table 1).

Table 1

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

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

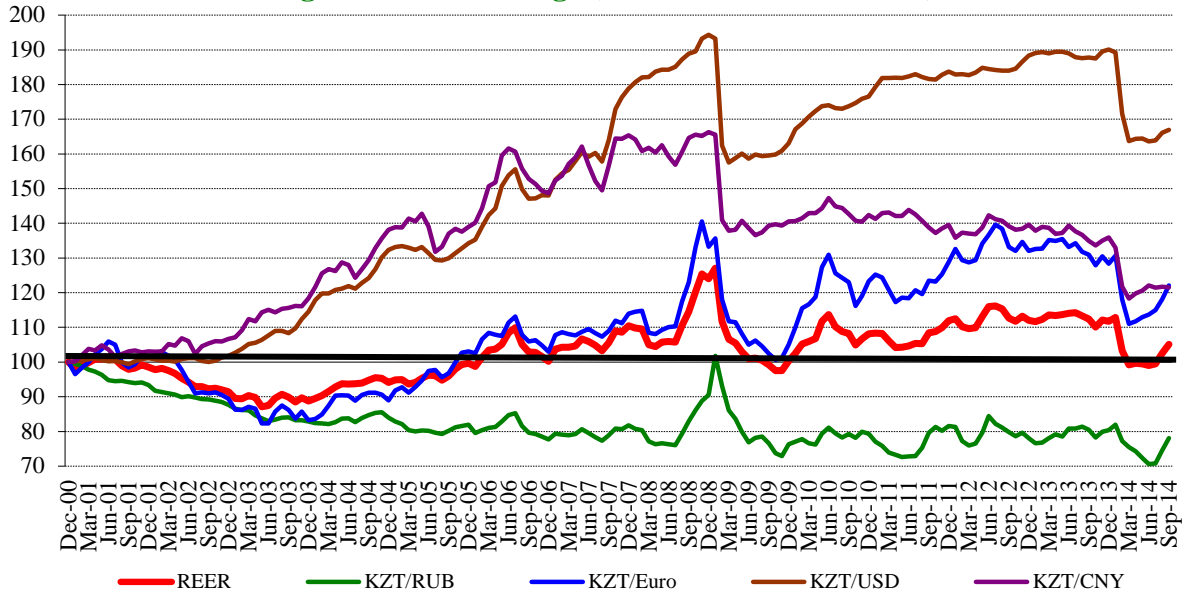
Source: National Bank of the Republic of Kazakhstan

At the end of the third quarter of 2014 versus the previous period, the index of the real effective exchange rate of the Tenge appreciated by 2.8%. The Tenge has appreciated versus the CIS currencies basket by 3.0% and versus the basket of other currencies – by 3.3%.

During the third quarter of 2014 against the previous period, the Tenge appreciated in real terms versus the US Dollar by 0.9%, versus the Euro – by 5.0% and versus the Russian ruble – by 2.9% (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 fourth quarter of 2014 was KZT 181.39 per 1 US Dollar. The stock exchange rate at end-period was KZT 182.35 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

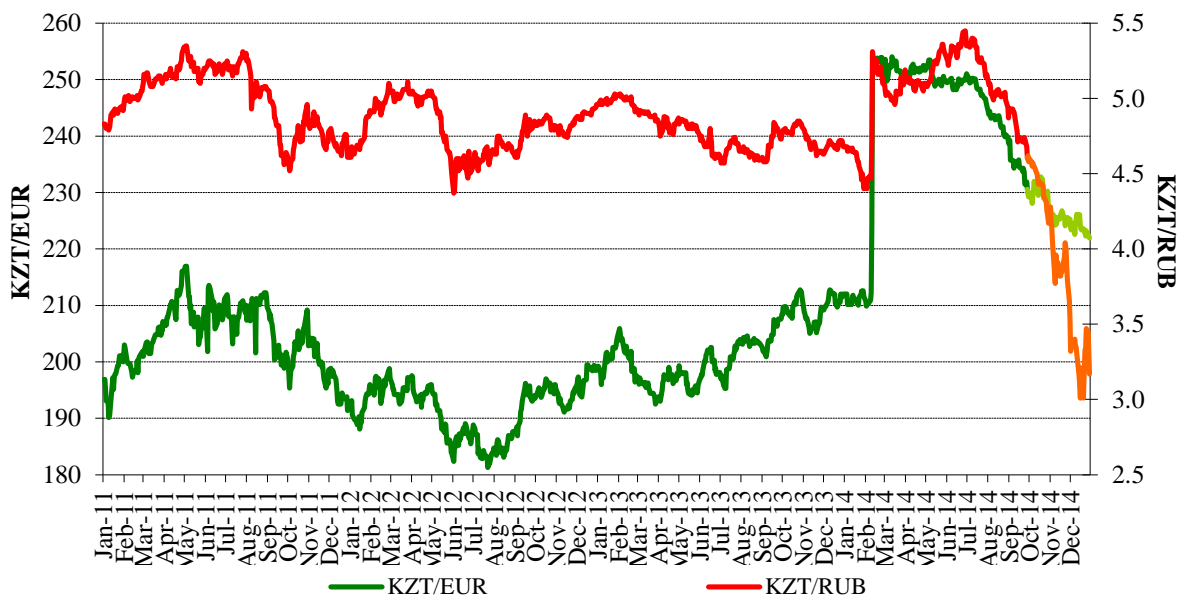
In October 2014, the exchange rate of the Tenge appreciated versus the US Dollar by 0.6%, in November – remained unchanged, and in December it depreciated by 0.8%.

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 fourth quarter of 2014, the official exchange rate of the Tenge versus the US Dollar appreciated by 0.2%, versus the Euro – by 3.7%, and versus the Russian ruble – by 31.1% (Figure 18).

Figure 18

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



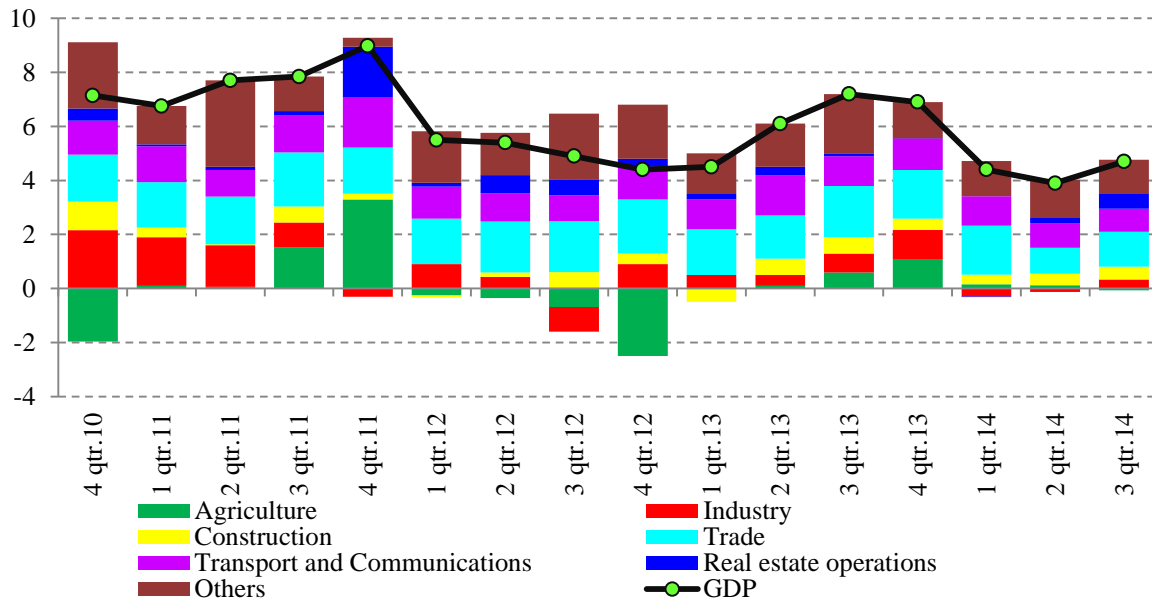
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the third quarter of 2014, the volume of GDP output amounted to KZT 10099.1 bln. in current prices. Being positively influenced by the growth of production virtually in all key sectors of the economy, the GDP in real terms (in prices of the year 2005) increased versus the third quarter of 2013, according to estimate, by 4.7% (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 agriculture. According to estimate, in the third quarter of 2014 the construction volume increased by 4.5% (in the second quarter of 2013 – the growth of 4.5%), the volume of industrial output increased by 1.6% (the decrease of 0.5%), and agriculture showed the decrease of 1.4% (the growth of 2.9%). As a result, the segment of goods production made positive contribution to the GDP formation of (+)0.7%.

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 (+)3.2%.

Net taxes on foodstuffs and imports. The 7.4% increase in the volume of net taxes on foodstuffs and imports has positively influenced the formation of GDP growth of (+)0.8% (in the second quarter of 2013 the contribution accounted for (+)0.5%).

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

2.3. Labor Market

2.3.1. Employment and Unemployment

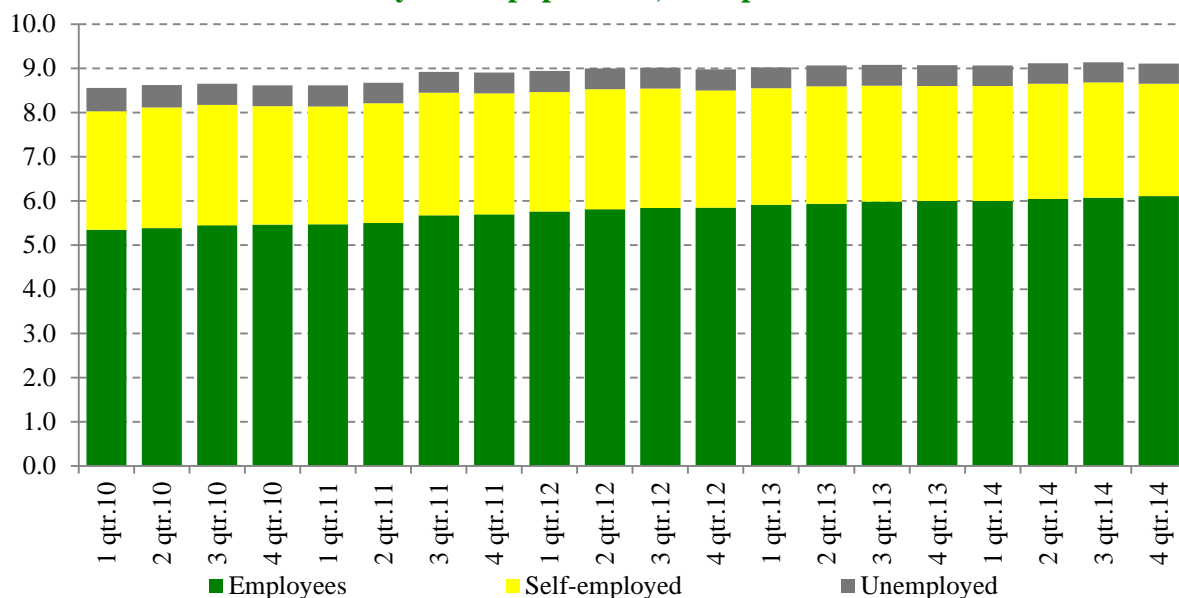
According to preliminary estimates, in the fourth quarter of 2014, the number of people employed in the economy amounted to 8.7 million, having decreased by 0.3% versus the previous period (the growth versus the fourth quarter of 2013 accounted for 0.9%). At the same time, the number of employees reached 6.1 million, having increased by 0.5% versus the third quarter of 2014, and the number of self-employed amounted to 2.5 million (the decrease of 2.2%).

Within the employee structure, public and non-public institutions employee number accounted for 5.1 million persons (83.6% of all employees), the number of people working for individuals – 0.7 million persons (11.6%), and at farms – 0.3 million persons (4.8%).

In the fourth quarter of 2014, the number of the unemployed stood at 457 900 persons, which is by 0.04% less than in the previous quarter and by 2.0% less than in the fourth quarter of 2013 (Figure 20).

Figure 20

The structure of economically active population, mln. persons



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

In October, November and December 2014, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

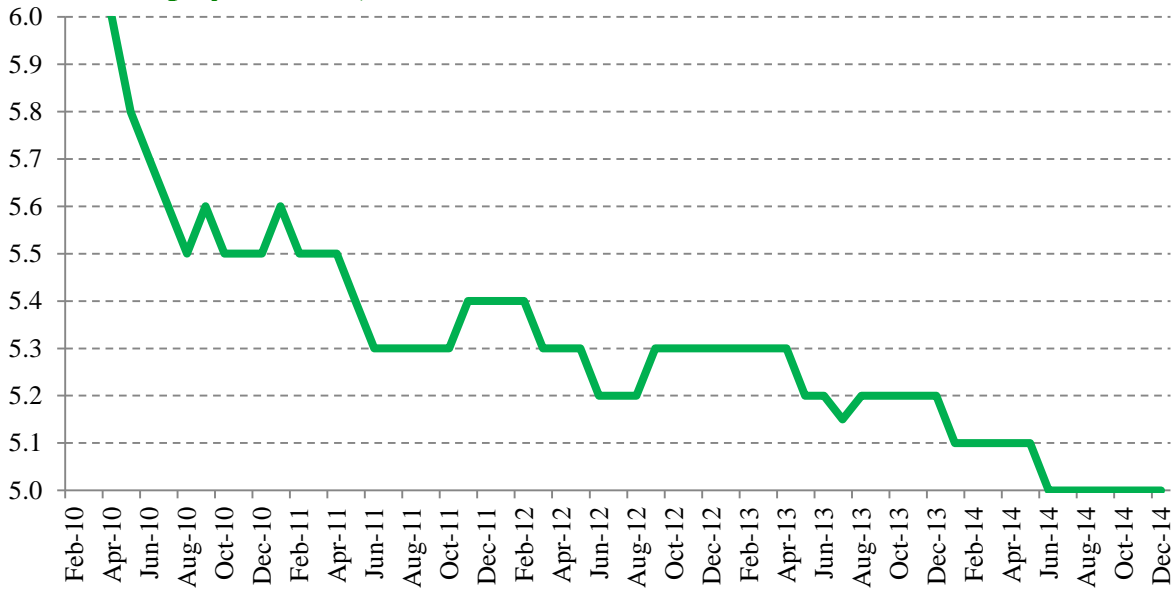
The key sectors that promoted the growth in employment versus the corresponding months of 2013 were as follows: trade; education; public administration and defense; construction; healthcare and social services; financial and insurance activity; transport and warehousing; accommodation and catering services; arts, entertainment and leisure.

The decreased number of the employed was noted in the following sectors: the industry; information and communications; agriculture, forestry and fishery.

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 fourth quarter of 2014 accounted for 5.0%, and it decreased by 0.2 percentage points versus the fourth quarter of 2013 (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 third quarter of 2014 as compared to the corresponding period of the previous year, average nominal monthly wages increased by 11.5% (in the second quarter of 2013 – the growth of 12.6%) in nominal terms, and in real terms – by 4.3% (the growth of 5.8%).

Compared to the previous quarter, nominal wages increased by 1.2%, and real wages increased by 0.2%.

In September 2014 as compared to September 2013, the highest increase in nominal wages was observed in the following sectors: construction – by 21.4%; arts, entertainment and leisure – by 20.7%; trade, repair of cars and motorcycles – by 17.6%; the industry – by 17.5%; agriculture, forestry and fishery – by 16.8%; transport and warehousing – by 15.9%; water supply; sewage system, control over waste collection and distribution – by 15.7%; real estate operations – by 15.3%; accommodation and catering services – by 14.9%; provision of other types of services – by 14.5%; activity in the area of administrative and ancillary service – by 13.9%; electricity supply, gas and vapor supply and air conditioning – by 12.9%; and information and communications – by 10.4%.

In September 2014, the highest wages in money terms were observed in the professional, scientific and technical activity (KZT 230 100), and the lowest – in the sector of water supply (KZT 79 600).

In the third quarter of 2014, the growth in wages of employees in real terms accounted for 4.3%, which is below the growth rates of the second quarter of 2013 (5.8%) and exceeds the indicators of the first quarter of 2014 (1.9%) and of the fourth quarter of 2013 (2.3%).

The slowdown in the rates of wage growth in the third quarter of 2014 and the decreased number of people employed in the economy influenced the rate of growth in the labor productivity index which accelerated to 3.6% (according to the National Bank’s estimate), whereas a quarter before the index growth accounted for 2.9% (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

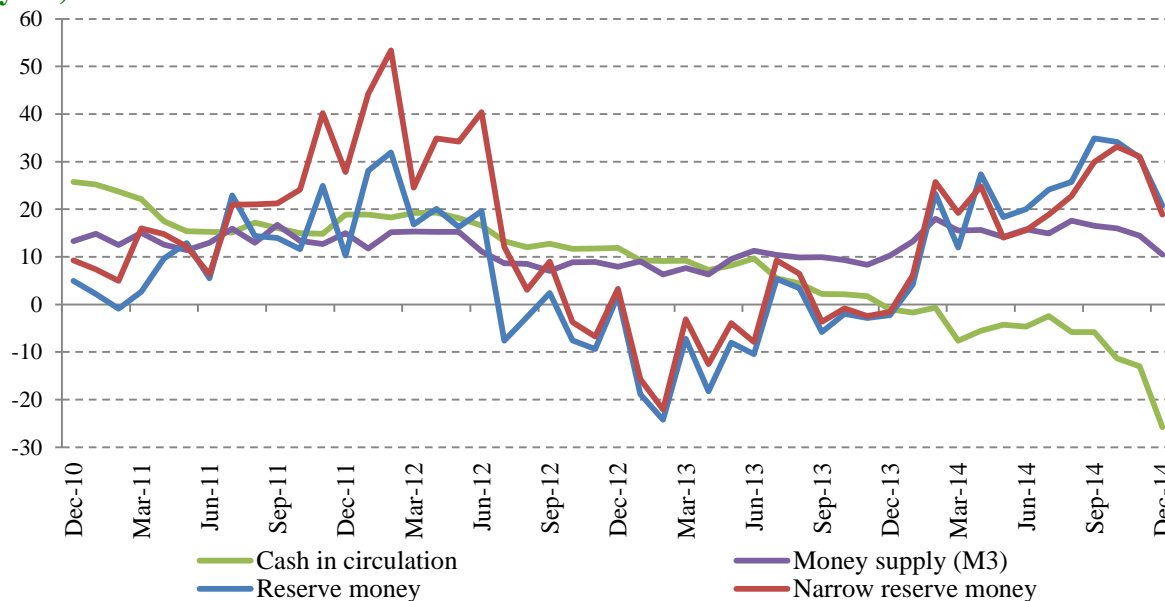
3. Money Supply

3.1. Monetary Aggregates

In the fourth quarter of 2014, annual rates of expansion in the reserve money and narrow reserve money as well as annual rates of growth in the money supply (M3) were moderately high, whereas cash in circulation decreased in annual terms (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 fourth quarter of 2014, the reserve money contracted by 9.0% and amounted to KZT 3413.6 bln. at the end of 2014. The narrow reserve money contracted by 7.3% to KZT 3313.0 bln.

In December 2014 versus December 2013, the reserve money expanded by 20.8%.

In December 2014 against the corresponding month of 2013, net international reserves of the National Bank increased by 15.7% to USD 28.0 bln., where net foreign currency holdings (FCC) in the reviewed period increased by 10.5%, and assets denominated in gold increased by 33.2%.

In December 2014 versus December 2013, net domestic assets of the National Bank less the National Fund's assets decreased (Table 2).

Table 2

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

	1 qtr.14	2 qtr.14	3 qtr.14	4 qtr.14
Net international reserves	-7.0	0.3	14.8	15.7
Net domestic assets	-977.1	-229.2	-78.5	-167.1
Net claims on the Government	8.5	-3.8	60.2	-3.5
Claims on the economy	54.2	30.6	8.6	25.9
Other net domestic assets	-52.4	-115.5	-61.6	-72.3
Reserve money	11.9	20.1	34.9	20.8
Narrow reserve money	19.2	15.6	29.9	18.9

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the fourth quarter of 2014, the money supply decreased by 4.8% to KZT 12816.3 bln.

In December 2014 versus December 2013, its growth accounted for 10.5% (Table).

Table 3

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

	1 qtr.14	2 qtr.14	3 qtr.14	4 qtr.14
Net foreign assets	30.7	30.8	29.8	15.3
Domestic assets	-4.0	-9.1	6.0	16.0
Claims on the Government	-10.7	-19.9	78.8	6.8
Claims on the economy	19.4	15.5	11.7	5.7
Other net domestic assets	-32.2	-30.6	-19.2	-1.5
Money supply (M3)	15.5	15.8	16.5	10.5
Cash in circulation	-7.6	-4.7	-5.8	-25.8
Deposits of residents	18.9	18.9	19.7	15.9

Source: National Bank of the Republic of Kazakhstan

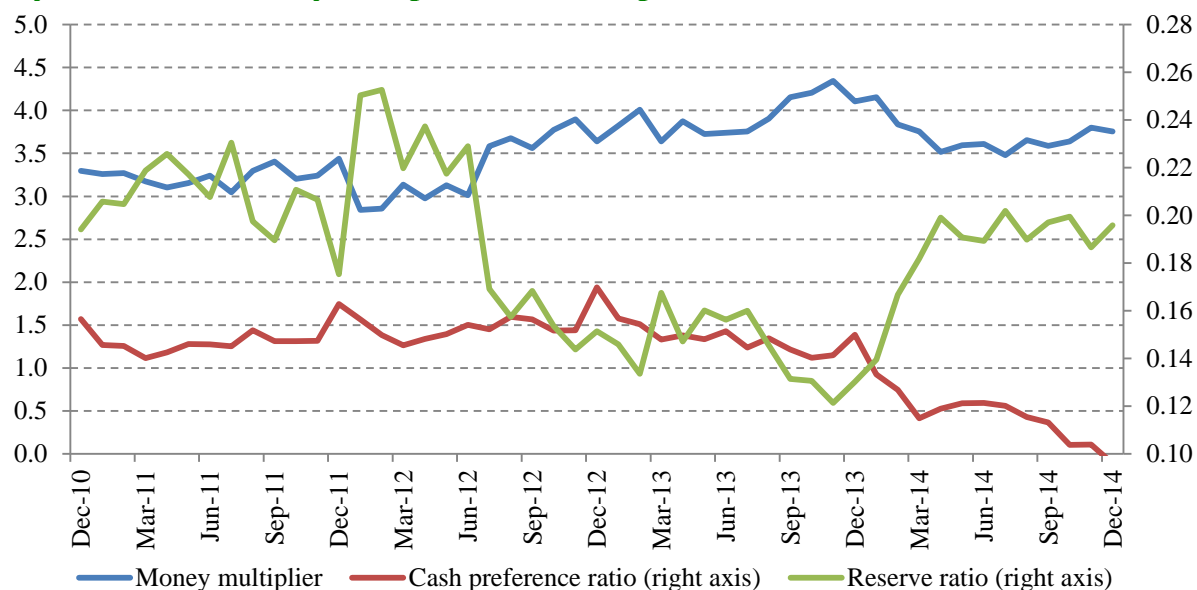
In the structure of net foreign assets of the banking system in December 2014 against the corresponding month of 2014, net foreign assets of banks decreased. The decrease in net foreign assets of banks occurred mainly due to the increase in liabilities from non-residents.

During the reviewed period, the growth in deposits against the decreased cash in circulation 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 87.0% in December 2013 to 91.2% at end-December 2014.

The money multiplier decreased from 4.10 in December 2013 to 3.75 in December 2014 as a result of outstripping rates of contraction in the reserve money against the rates of 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 fourth quarter of 2014, the volume of cash in circulation decreased by 18.0% to KZT 1122.3 bln.

In December 2014 versus December 2013, cash in circulation decreased by 25.8%. Alongside with that, receipts to the cash departments of banks increased by 11.3% to KZT 2.4 trln., and payouts of cash from the cash departments of banks remained unchanged and amounted to KZT 2.3 trln.

The decrease in cash in circulation in December 2014 against the corresponding month of 2013 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-December 2014, deposits of residents amounted to KZT 11694.0 bln., having decreased by 3.3% during the fourth quarter of 2014. Deposits of legal entities decreased by 5.9%, and deposits of individuals increased by 1.2%.

Within the structure of deposits, the volume of term deposits (under the IMF classification – “other deposits”¹) decreased during the fourth quarter of 2014 by 0.5% and amounted to KZT 8189.5 bln. at end-December 2014. Term deposits in the domestic currency

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.

decreased by 22.6% to KZT 3339.3 bln., and foreign currency term deposits increased by 23.8% to KZT 4850.2 bln. During the quarter, the relative share of term deposits in the total deposit base decreased from 68.0% to 70.0%.

In the fourth quarter 2014, the status of the deposit base was characterized by the growth in foreign currency deposits caused by the increase in foreign currency holdings of legal entities and individuals by 13.1% and 23.9%, respectively. As a result, in the fourth quarter the volume of foreign currency deposits increased by 17.8%, amounting to KZT 6496.3 bln. Due to the fact that holdings of individuals and legal entities in the Tenge decreased by 18.7% and 26.5%, respectively, deposits in the domestic currency decreased by 21.0% to KZT 5197.7 bln.

The increased volume of foreign currency holdings of legal entities (during October and December 2014, respectively, by 12.4% and by 7.6%), despite its 6.5% decrease in November 2014, resulted in the increased degree of the deposit market dollarization and the decrease in the relative share of deposits in the domestic currency from 54.4% in September 2014 to 44.4% in December 2014.

Thus, the inflow of the foreign currency to the accounts of individuals served as a main source for the bank deposit base growth in the third quarter of 2014. At the same time, the growth in deposits of legal entities in the Tenge showed negative dynamics, having decreased in October, November and December 2014 by 4.4%, 6.9% and 8.7%, respectively.

During 2014 as a whole, the growth in the deposit base was mainly backed by the inflow of foreign currency holdings (Table 3).

Table 3

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

	December 2011	December 2012	December 2013	December 2014
Deposits of residents	14.3	7.3	12.1	15.9
<i>individuals</i>	<i>24.1</i>	<i>23.8</i>	<i>15.8</i>	<i>12.6</i>
<i>Non-bank legal entities</i>	<i>10.2</i>	<i>-0.7</i>	<i>9.9</i>	<i>18.1</i>
Deposits in the Tenge	20.5	9.6	0.04	-17.7
Deposits in foreign currency	2.8	2.0	40.6	72.2

Source: National Bank of the Republic of Kazakhstan

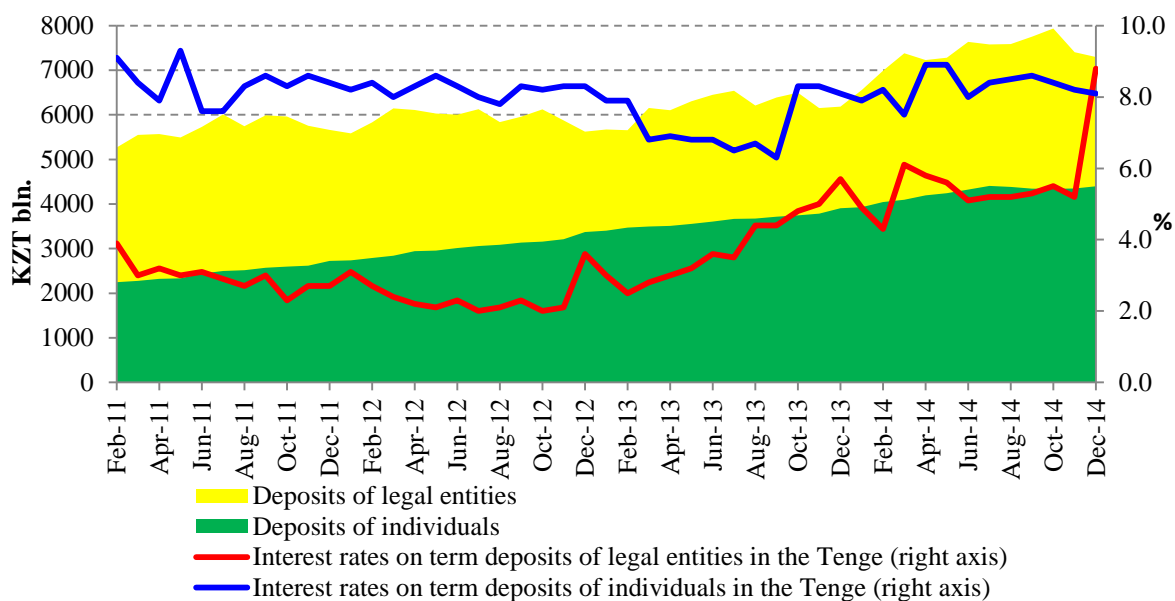
In the fourth quarter of 2014 as compared to the previous quarter, interest rates on deposits slightly increased; such increase was mainly caused by the growth in the domestic currency's interest rates in October and December 2014 and the growth in the foreign currency's interest rates in October, November and December.

As a result, the average rate on the Tenge deposits increased to 6.5% in the fourth quarter of 2014 (the third quarter of 2014 – 5.6%), and on deposits in freely convertible currencies – to 2.7% (2.6%).

The weighted average interest rate on Tenge term deposits of non-bank legal entities in December 2014 was 8.8% (in December 2013 – 5.7%), and on deposits of individuals – 8.1% (8.1%) (Figure 25).

Figure 25

Dynamics of deposit volumes and interest rates on term deposits

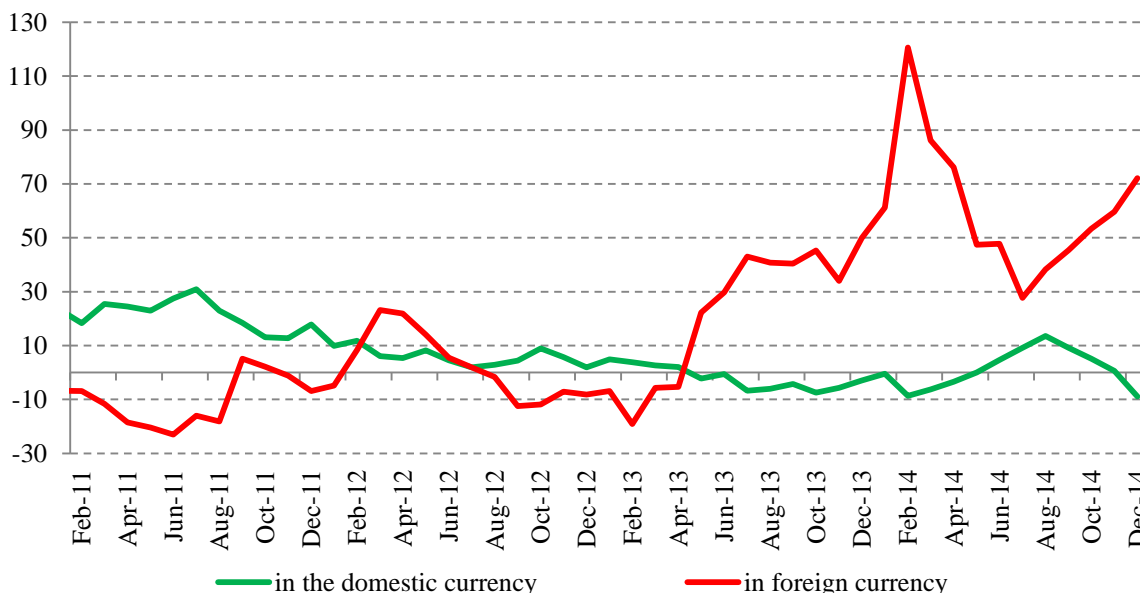


Source: National Bank of the Republic of Kazakhstan

During the fourth quarter of 2014, the volume of deposits of legal entities decreased by 5.9% to KZT 7296.5 bln., with their annual growth (December 2014 to December 2013) accounting for 18.1%. In annual terms, deposits of legal entities in the domestic currency decreased by 8.9%, and foreign currency deposits increased by 72.1% (Figure 26).

Figure 26

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



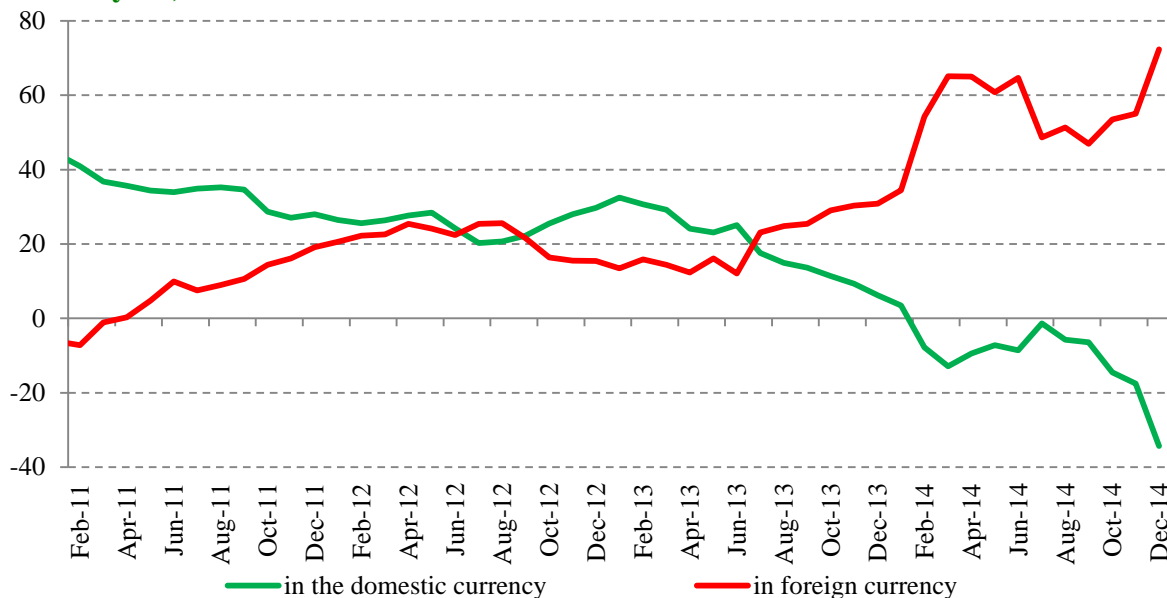
Source: National Bank of the Republic of Kazakhstan

During the fourth quarter of 2014, the volume of deposits of individuals increased by 1.2% to KZT 4397.5 bln., with its annual growth accounting for 12.6%. In annual terms,

deposits of individuals in the domestic currency decreased by 34.3%, and foreign currency deposits increased by 72.4% (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 fourth quarter of 2014, bank credits to the economy decreased by 1.0% to KZT 12106.1 bln. During October-December 2014, credits to legal entities decreased by 1.4%, amounting to KZT 8091.3 bln., and credits to individuals decreased by 0.2% to KZT 4014.8 bln.

The volume of credits in the domestic currency increased by 0.9%, to KZT 8565.5 bln., and the volume of credits in foreign currency decreased by 5.4%, to KZT 3540.6 bln.

Long-term lending during October-December 2014 decreased by 3.3% to 9608.6 bln., and short-term lending increased by 9.0%, amounting to KZT 2497.5 bln. As a result, the relative share of long-term credits in December 2014 as compared to September 2014 decreased from 81.3% to 79.4%.

In December 2014, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities increased to 14.4% (in September 2014 – 10.1%), and the weighted average interest rate on credits in the Tenge provided to individuals increased to 18.7% (in September 2014 – 18.5%). In general, in the fourth quarter of 2014, the downward trend in the interest rate behavior was noted, which was caused by the decrease in the cost of borrowing for legal entities whereas interest rates on credits to individuals were growing (Figure 28).

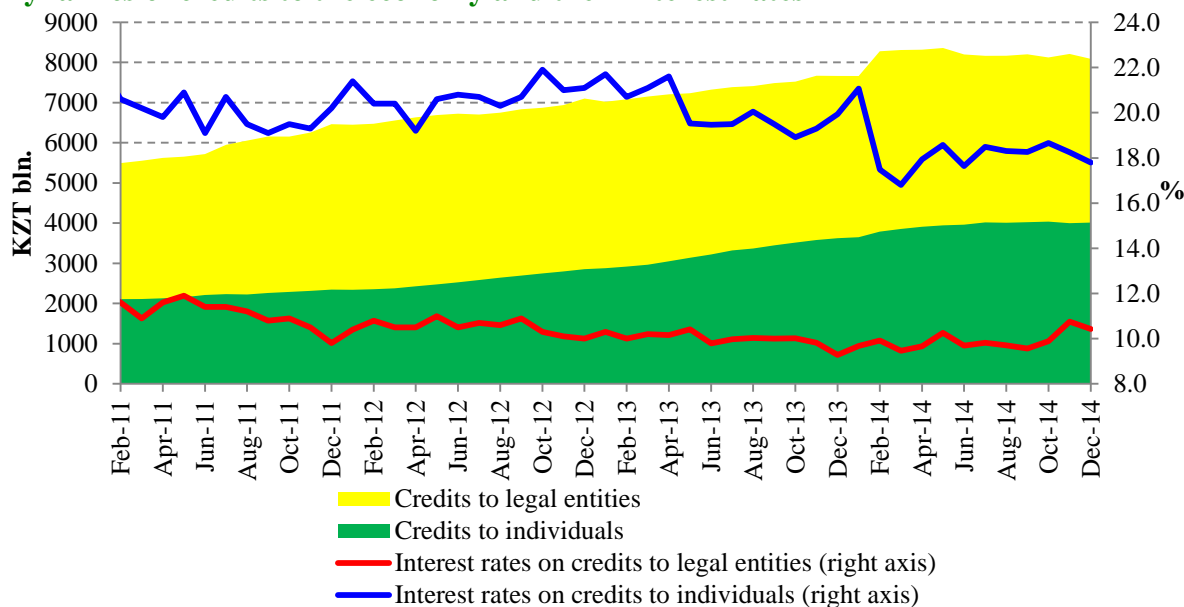
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (26.7%), other purposes (25.3%), consumer needs of individuals (21.3%), as well as for acquisition of fixed assets (9.2%).

As per the breakdown by sector, the largest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 50.9%, trade – 20.0%, the industry – 11.3%, and construction – 9.4%.

During the fourth quarter of 2014, credits delivered to the agricultural sector increased by 8.9%, transport – by 5.2%, communications sector – by 2.7%, the industry – by 2.5%, and trade – by 1.2%. Credits delivered to the construction sector decreased by 14.2%.

Figure 28

Dynamics of credits to the economy and their interest rates



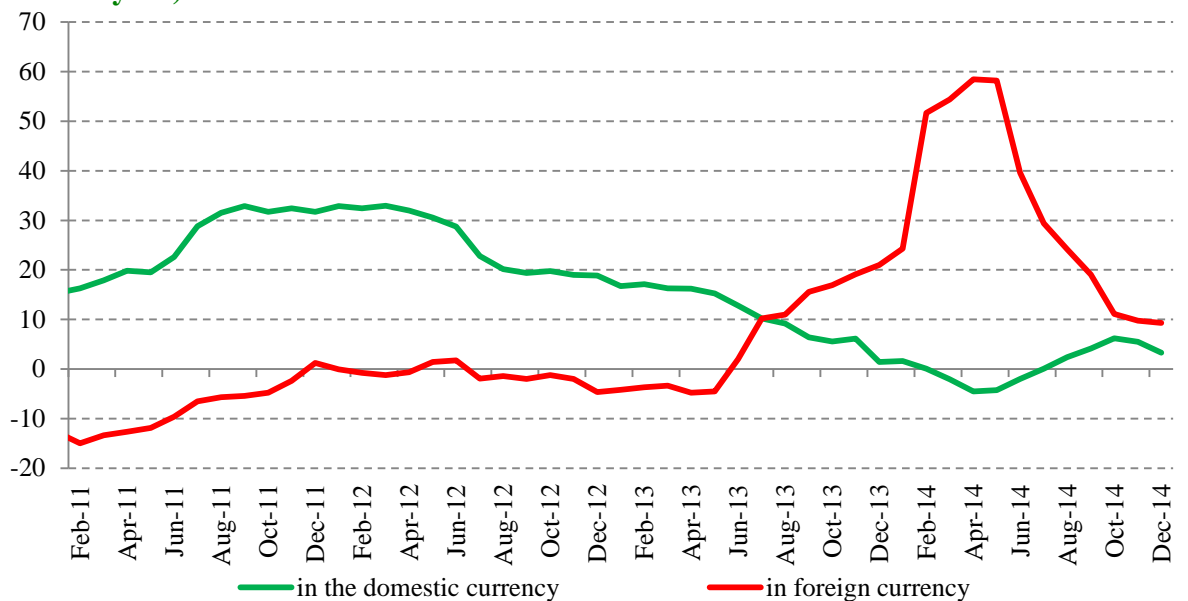
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities on a year-to-year basis (December 2014 to December 2013) increased by 5.6%. There were changes in the structure of credits by their tenors. At end-December 2014, the share of medium- and long-term credits in total credits to legal entities accounted for 71.6%, whereas in September 2014 it reached 74.7%.

During 2014, credits to legal entities in the domestic currency increased by 3.3% and foreign currency credits – by 9.3% (Figure 29).

Figure 29

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



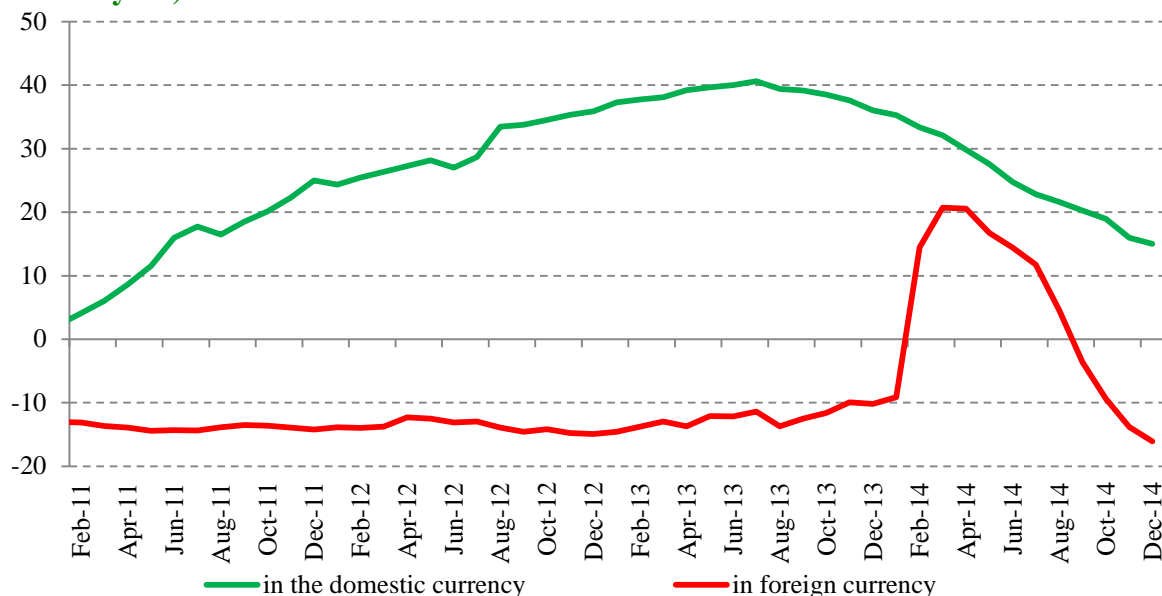
Source: National Bank of the Republic of Kazakhstan

In December 2014 as compared to the corresponding period of 2013, the volume of credits to individuals increased by 10.7%. At end-December 2014, the share of medium- and long-term credits in total credits to individuals increased and accounted for 95.0%, versus 94.6% in September 2014.

In the structure of credits to the population, credits in the domestic currency demonstrated the 15.0% increase, and foreign currency credits – the decrease of 16.1% (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

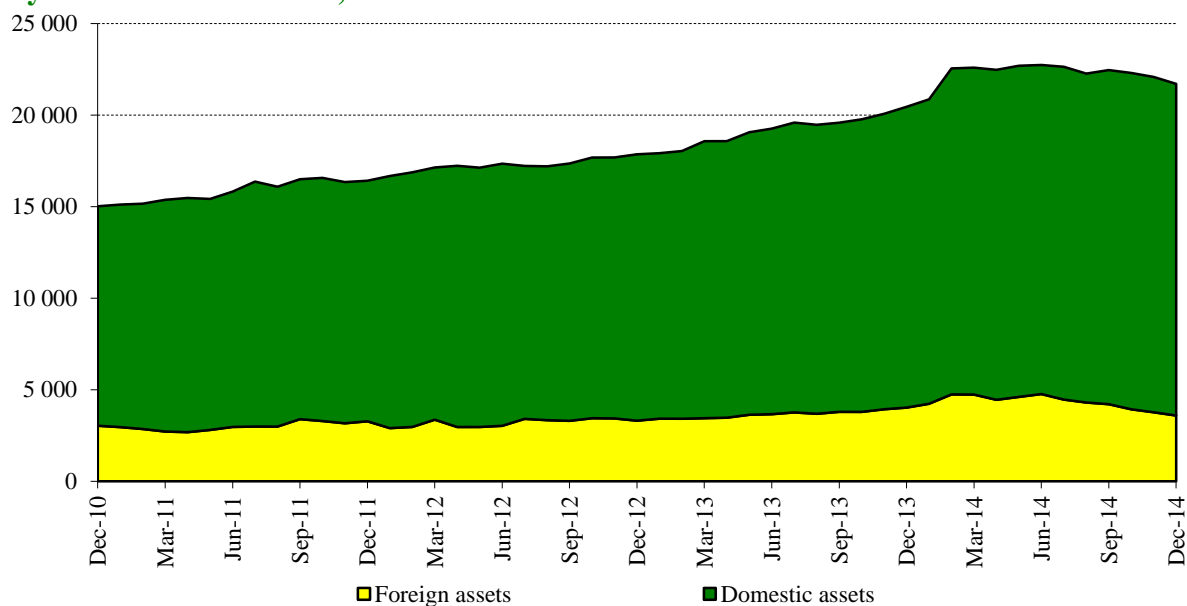
3.2.3. Bank Assets and Liabilities

– **Assets**

In the fourth quarter of 2014, the amount of bank assets calculated on the basis of the Monetary Survey decreased by 3.4% to KZT 21.7 trln. On a year-to-year basis (December 2014 to December 2013), bank assets increased by 6.1% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

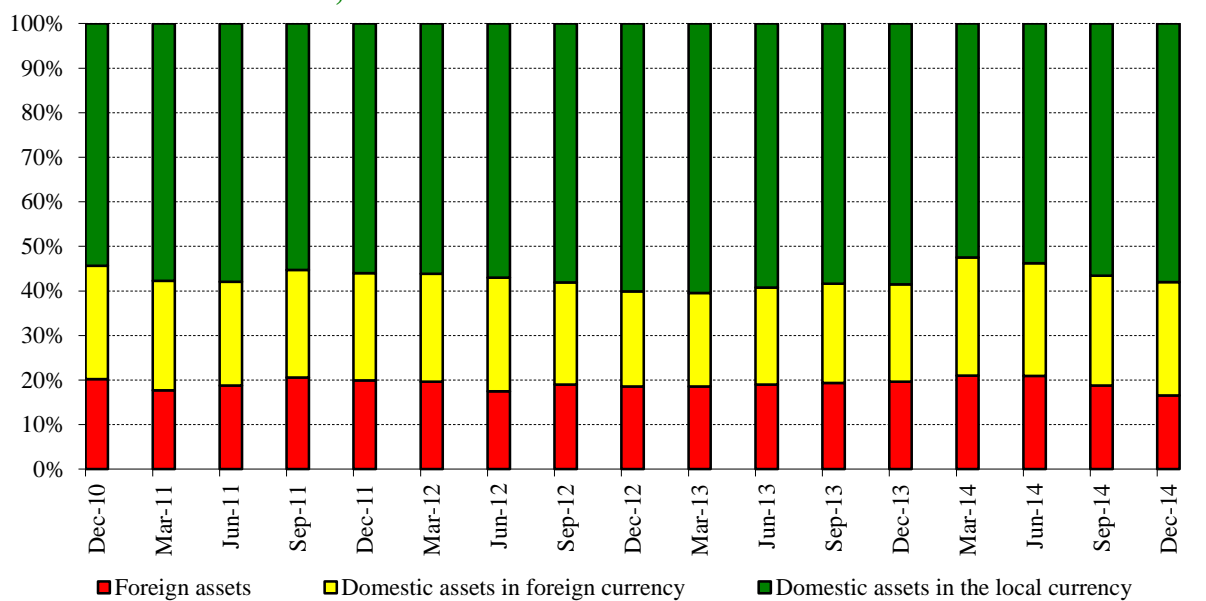
In December 2014, foreign assets of banks accounted for 16.5% of the total volume of assets or KZT 3.6 trln. As compared to December 2013, they decreased by 10.8%.

Within the structure of foreign assets in December 2014, credits to non-residents accounted for 54.8% (in September 2014 – 51.8%), deposits placed with non-residents – 15.3% (in September 2014 – 22.5%), securities issued by non-residents – 6.0% (in September 2014 – 5.2%), and other accounts receivable – for 23.9% (in September 2014 – 20.5%).

In December 2014, domestic assets accounted for 83.5% or KZT 18.1 trln., with domestic assets in the local currency accounting for 69.5% or KZT 12.6 trln., and foreign currency assets – for 30.5% or KZT 5.5 trln. During the fourth quarter of 2014, domestic assets decreased by 0.7%, where assets in the local currency decreased by 0.9%, and assets in foreign currency – by 0.2% (Figure 32).

Figure 32

Structure of bank assets, %



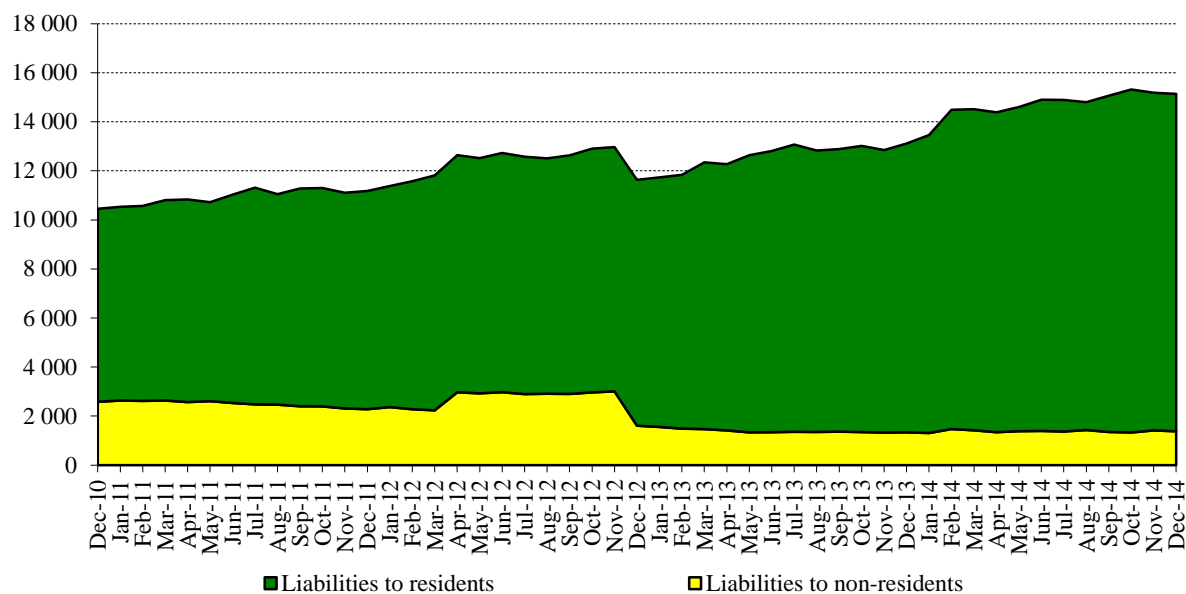
Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the fourth quarter of 2014, total bank liabilities calculated on the basis of the Monetary Survey increased by 0.5% and amounted to KZT 15.1 trln. at end-December 2014 (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

In December 2014 as compared to September 2014, bank liabilities to non-residents increased by 2.0% to KZT 1.4 trln. (USD 7.6 bln.), and they increased by 3.0% versus the corresponding month of 2013. At end-December 2014, bank liabilities to non-residents accounted for 9.1% of the total volume of bank liabilities.

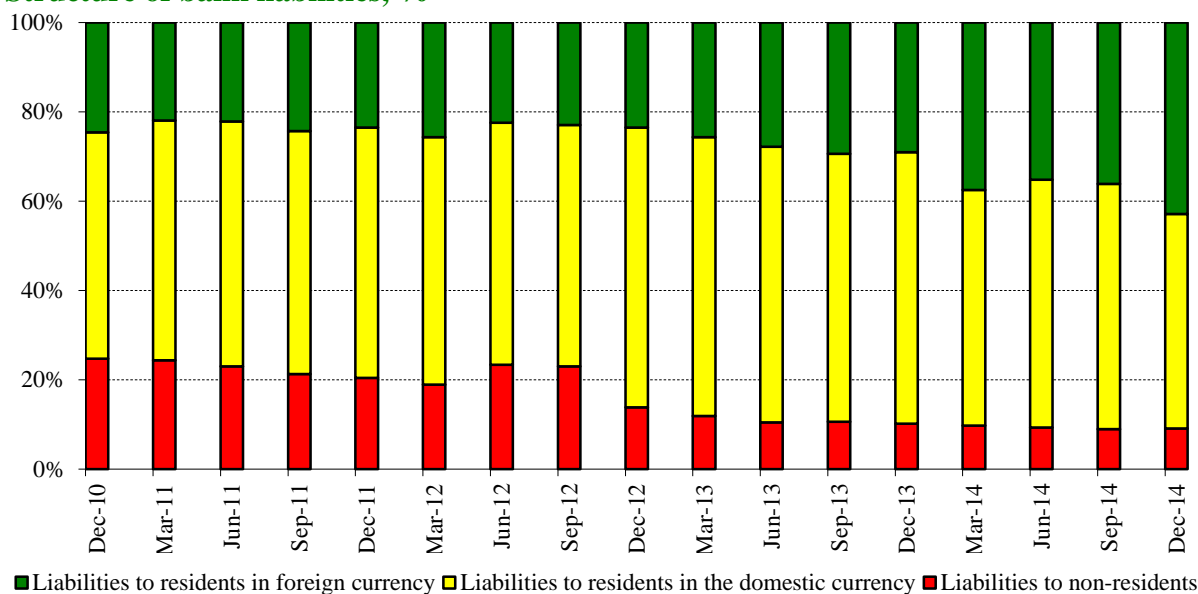
Within the structure of bank liabilities to non-residents, in December 2014 the share of liabilities on deposits of non-residents increased from 22.6% to 24.1% as compared to September 2014; the share of liabilities on securities decreased from 62.2% to 59.2%; and credits received from non-residents decreased from 12.6% to 13.7%, respectively.

During the fourth quarter of 2014, liabilities to non-residents increased by 0.3% to KZT 13.8 trln., with the 12.1% decrease in liabilities in the domestic currency to KZT 7.3 trln.; foreign currency liabilities increased by 19.3% to KZT6.5 trln. (Figure 34).

Thus, in the fourth quarter of 2014, bank liabilities to residents decreased and liabilities to non-residents increased.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

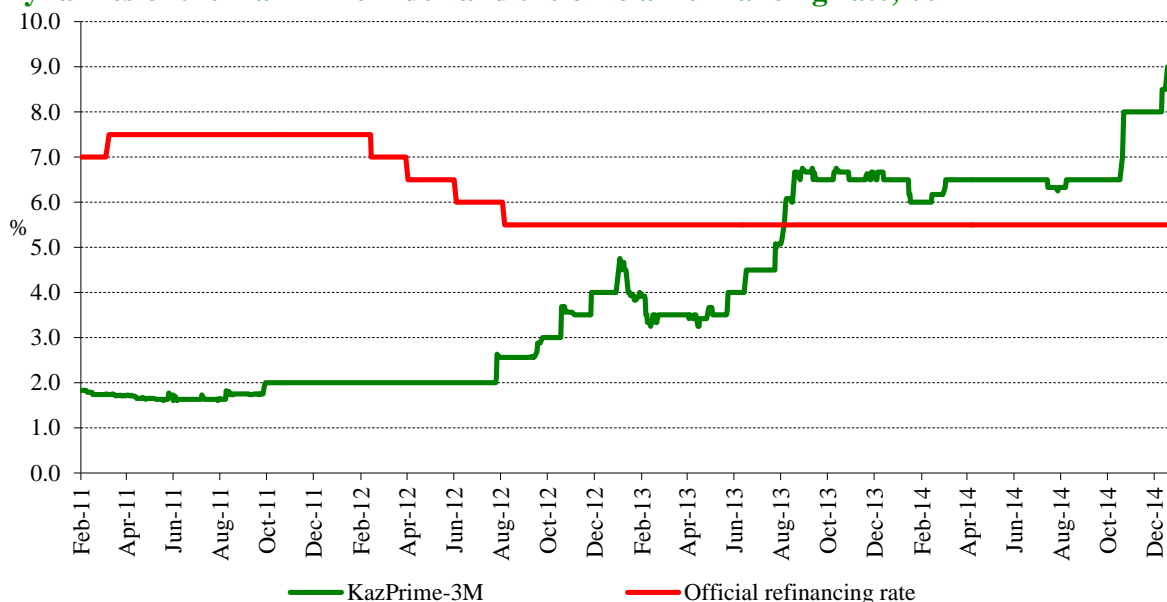
3.2.4. Financial Market Rates

In the fourth quarter of 2014, interest rates in the interbank market were growing.

The KazPrime index increased from 6.45% on average during the third quarter of 2014 to 7.85% on average during the fourth quarter of 2014. At end-December 2014 versus December 2013, the index increased from 6.50% to 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, a significant growth of rates was observed.

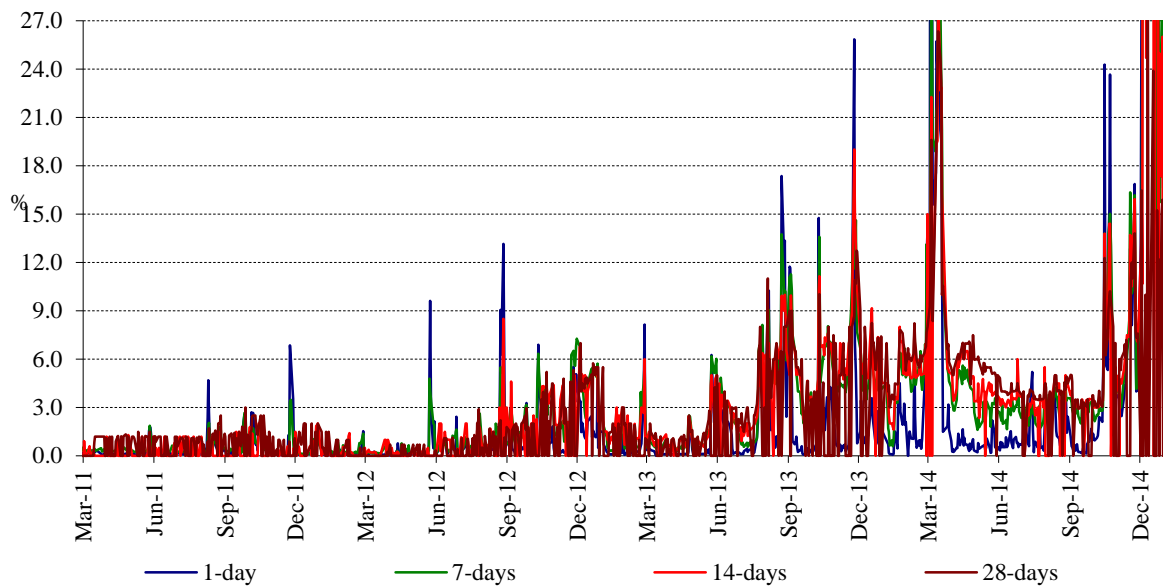
In the fourth quarter of 2014, the weighted average rate on 1-day operations in the sector of automatic REPO increased and accounted for 29.50% (in the third quarter of 2014 – 1.66%). Its maximum level was 97.21%, and its minimum level was 0.96%.

The weighted average rate on 7-day REPO operations in the fourth quarter of 2014 was fluctuating within the range from 2.01% to 65.47% (during the period as a whole, the weighted average rate accounted for 13.11%), on 14-day REPO operations – from 2.9% to 163.1% (during the period as a whole, the weighted average rate accounted for 16.27%), and on 28-day REPO operations – from 2.9% to 30.0% (during the period as a whole, the weighted average rate accounted for 12.74%) (Figure 36).

In the third quarter of 2014, the transaction volumes in the sector of automatic REPO increased by 10.8% versus the previous quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

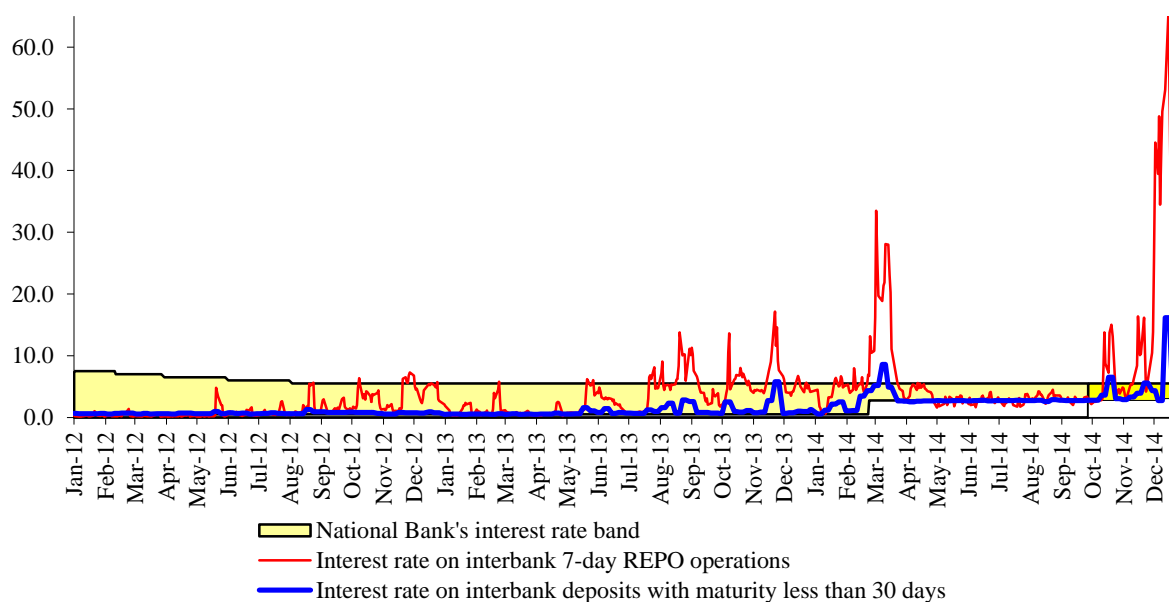
In the fourth quarter of 2014, volatility of interest rates in the money market somewhat increased. At the same time, throughout the quarter the increase in interest rates gave way to their sagging. The maximum interest rate surge occurred in December 2014.

In the fourth quarter of 2014, the National Bank's interest rate band changed, and the change affected its lower boundary. The official refinancing rate remained at 5.5% per annum and interest rate on 7-day deposits attracted from banks was raised from 2.75% to 3.05% in December 2014.

The weighted average rate on interbank deposits with maturity less than 30 days increased from 2.75% in the third quarter of 2014 to 4.80% in the fourth quarter of 2014. The weighted average rate on 7-day interbank REPO operations increased from 2.92% in the third quarter of 2014 to 13.11% in the fourth quarter of 2014 (Figure 37).

Figure 37

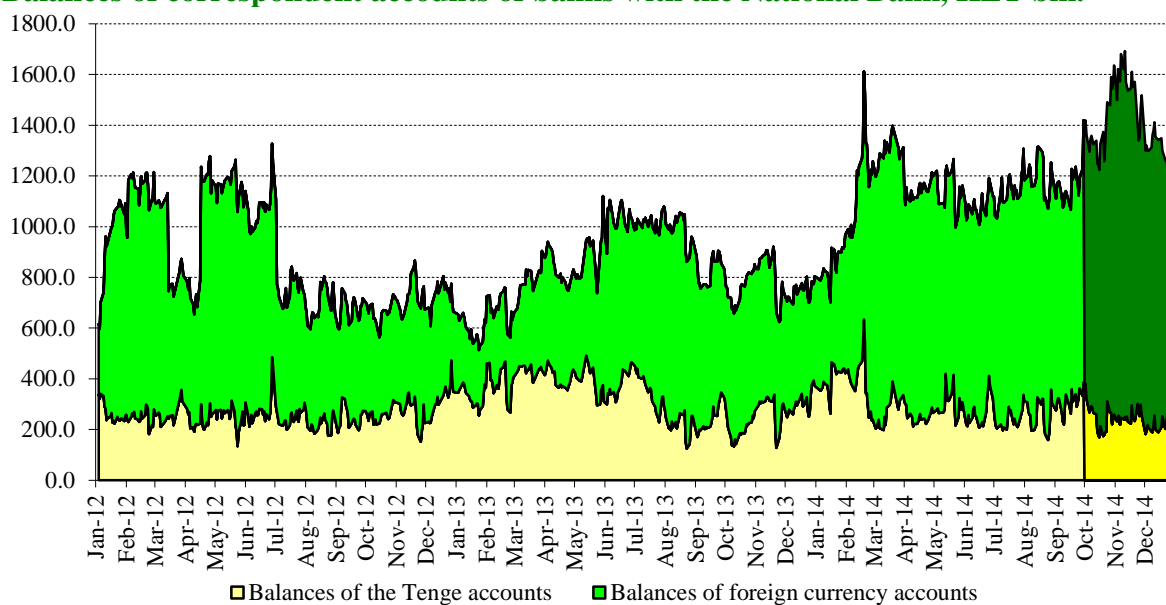
Boundaries of the National Bank's interest rate band, %



Source: National Bank of the Republic of Kazakhstan

In the fourth quarter of 2014, the dynamics in correspondent account balances of banks with the National Bank were multi-directional. Correspondent account balances of banks in the domestic currency somewhat decreased in October and remained relatively stable in the following months. Correspondent account balances of banks in foreign currency had an upward trend in the first half of the fourth quarter, which later turned to a downward trend. As a whole, the volume of correspondent account balances in the domestic currency at end-December 2014 as compared to September 2014 decreased by 37.2%, and correspondent account balances in foreign currency decreased by 12.0% (Figure 38).

Figure 38

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


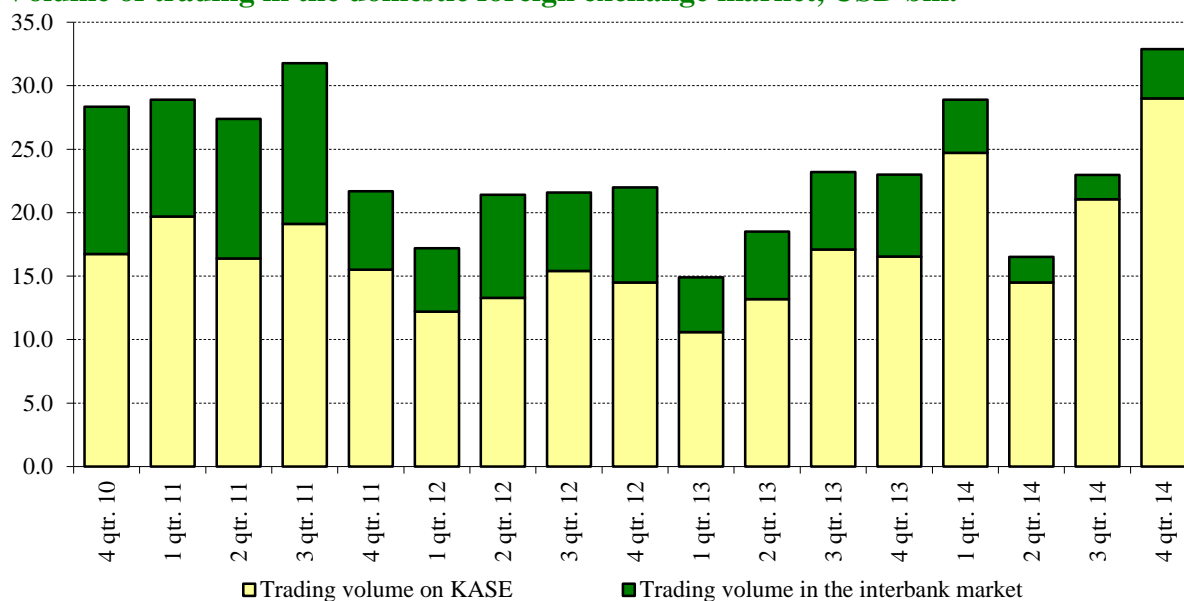
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the fourth quarter of 2014, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to USD 32.9 bln., having increased by 43.4% as compared to the third quarter of 2014.

The volume of trades in the Dollar position on the Kazakhstan Stock Exchange increased by 37.9% as compared to the third quarter of 2014 and amounted to USD 29.0 bln. (net trades on the Kazakhstan Stock Exchange made up 87% of gross trades). During the fourth quarter of 2014, the volume of transactions in the off-exchange foreign currency market decreased by 43.4% versus the previous quarter and amounted to USD 3.3 bln. (Figure 39).

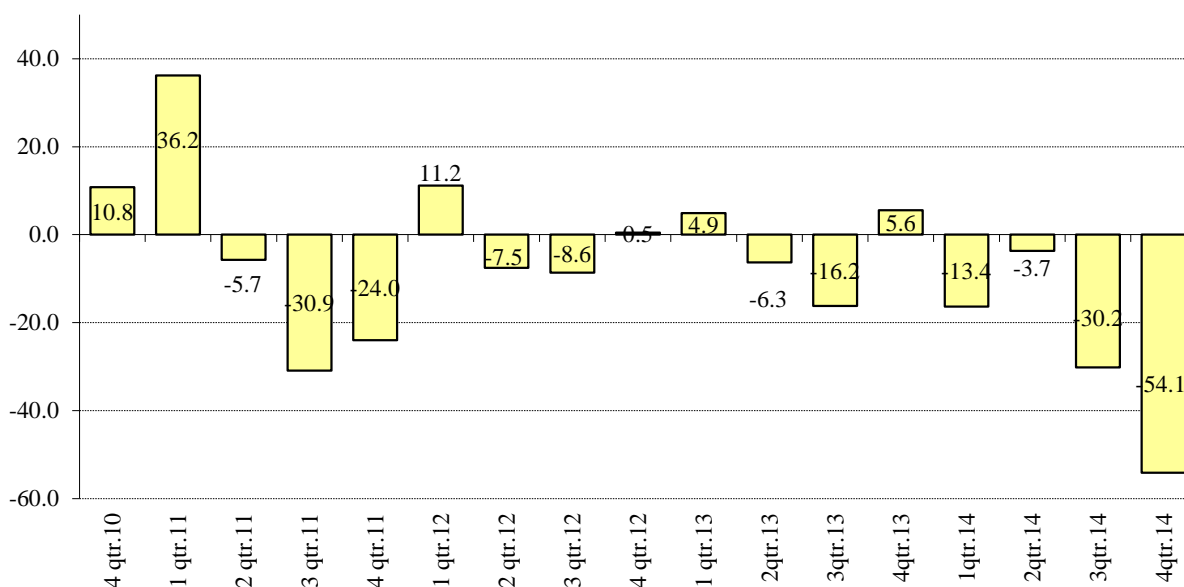
Figure 39

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


Source: National Bank of the Republic of Kazakhstan

At the end of the fourth quarter of 2014, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -54.1% (in the third quarter of 2014 it was -30.2%) (Figure 40). Thus, in the fourth quarter of 2014, 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, %


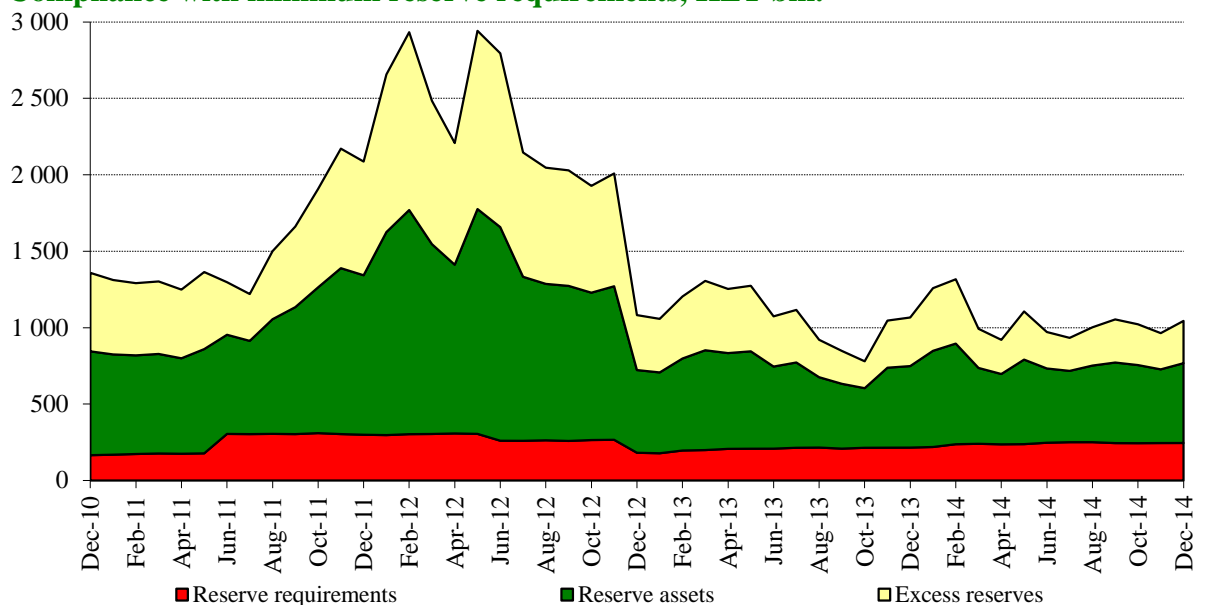
Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During October-December 2014, reserve assets exceeded the required reserving volume by 2.1 times on average (in the third quarter of 2014 – by 2.0 times, and in the fourth quarter of 2013 – by 2.3 times) (Figure 41).

Figure 41

Compliance with minimum reserve requirements, KZT bln.



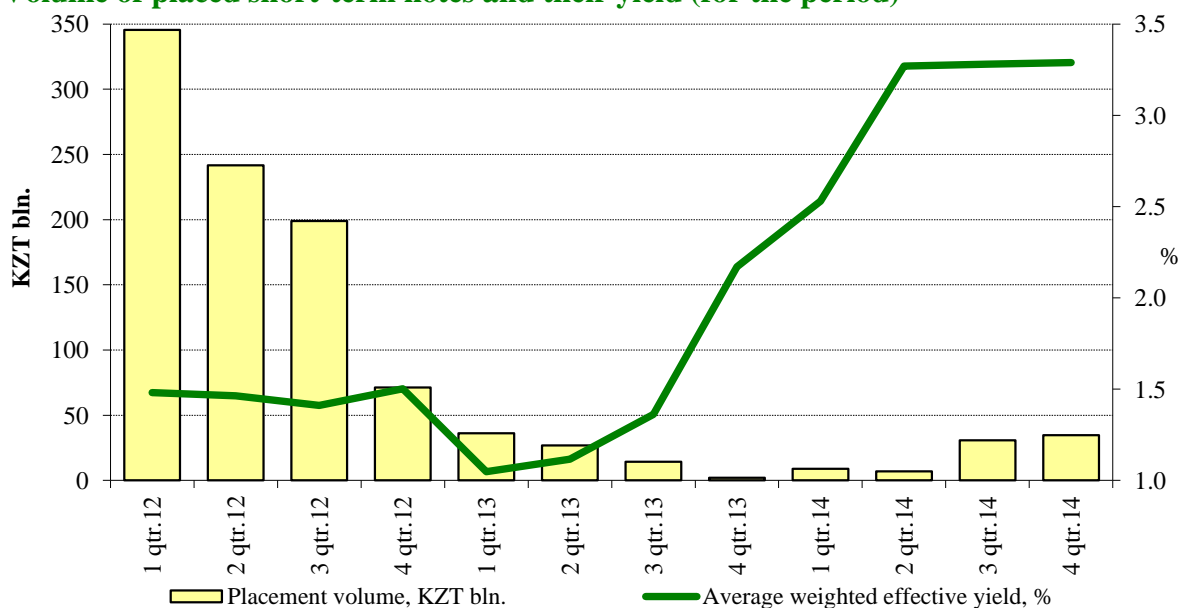
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the fourth quarter of 2014, the demand for short-term notes of the National Bank on the part of banks remained insignificant. During the period, 3-month short-term notes totaling KZT 34.8 bln. were placed. The volume of short-term notes issued in the fourth quarter of 2014 increased by 13.2% as compared to the third quarter of 2014. In December 2014, the National Bank held no auctions to place its short-term notes. The average weighted yield on notes placed in October 2014 was 3.30%, and in November 2014 – 3.27% (Figure 42).

Figure 42

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

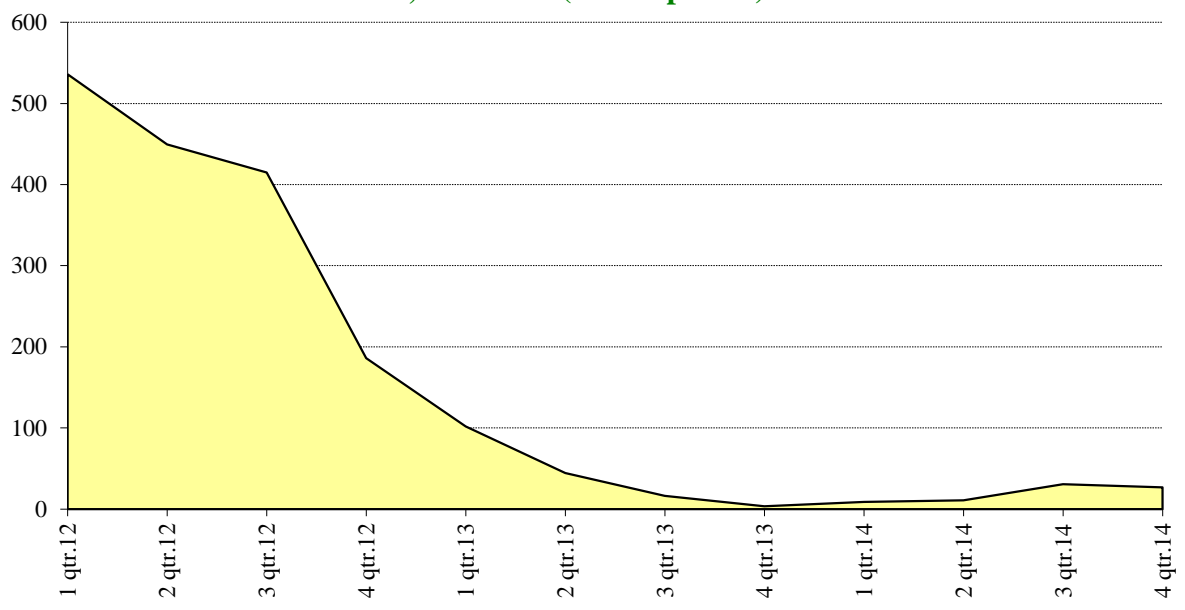


Source: National Bank of the Republic of Kazakhstan

At end-December 2014, the volume of short-term notes in circulation amounted to KZT 26.9 bln., which is by 12.6% less than the volume at end-September 2014 (Figure 43).

Figure 43

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



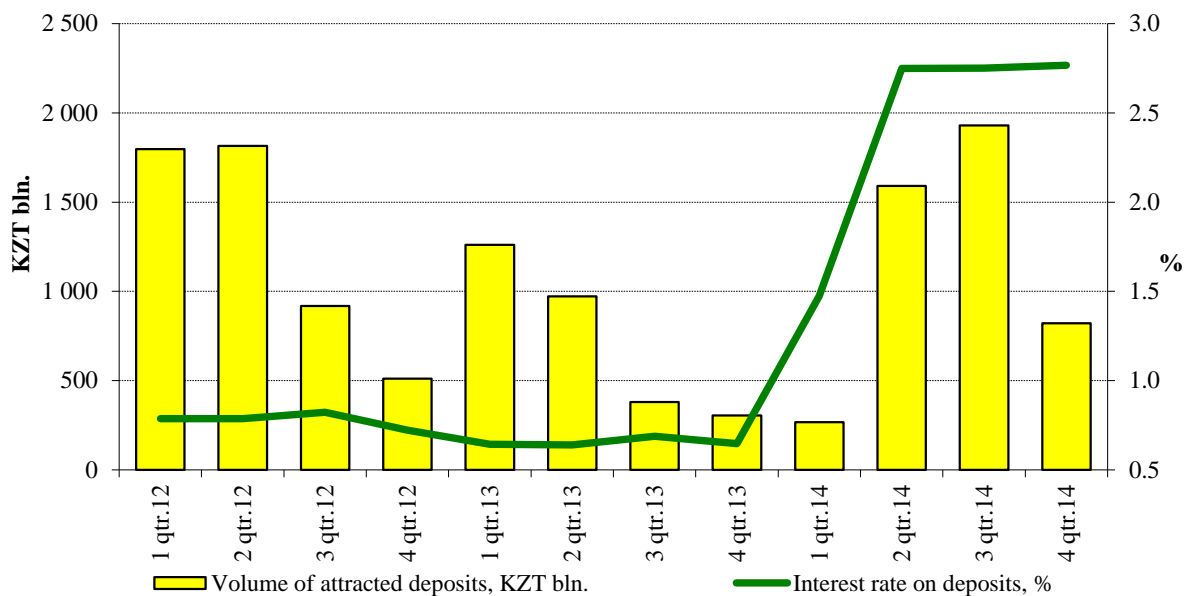
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the fourth quarter of 2014, the volume of deposits attracted from banks increased versus the previous quarter. The highest volume of deposits attracted from banks was recorded in October. During the fourth quarter of 2014 as a whole, deposits worth KZT 820.7 bln. were attracted, which is by 57.5% less than the volume of the third quarter of 2014 and by 2.7 times more than in the fourth quarter of 2013.

The average interest rate on deposits in the fourth quarter of 2014 was 2.77% (Figure 44).

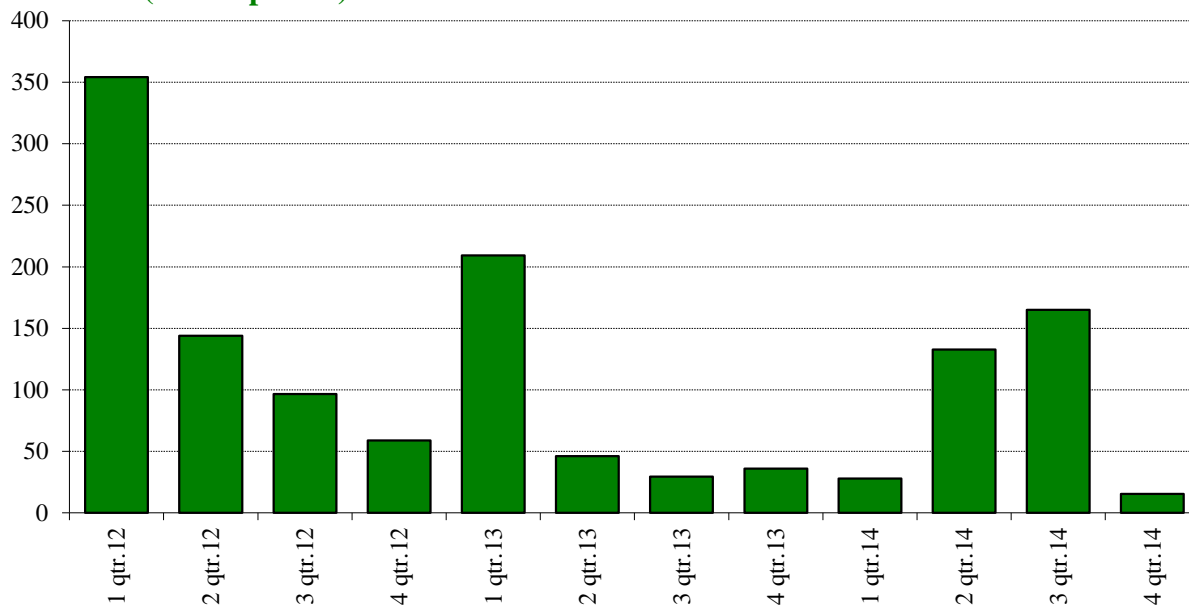
Figure 44

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


Source: National Bank of the Republic of Kazakhstan

In the fourth quarter of 2014, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At the end of December 2014, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 15.5 bln., which is by 10.6 less than the volume at end-September 2014 (Figure 45).

Figure 45

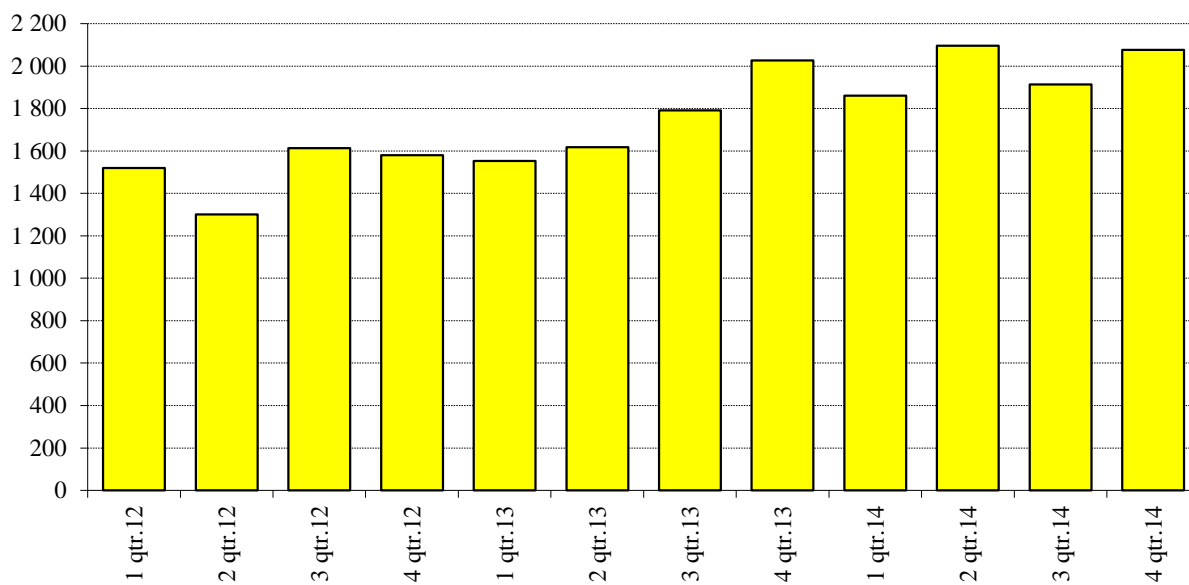
Volume of outstanding liabilities of the National Bank on deposits attracted from banks, KZT bln. (at end-period)


Source: National Bank of the Republic of Kazakhstan

The total volume of refinancing loans in the fourth quarter of 2014 amounted to KZT 2.1 trln. The volume of such operations increased by 8.5% 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