

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the Second 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 proceeds, non-tax proceeds, 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

At end-June 2014, the annual inflation accounted for 7.0%. The increase in prices for foodstuffs and non-food products associated with the adjustment of foreign exchange rate in February 2014 as well as seasonality factors were conducive to escalation of inflationary processes. Rates of growth in tariffs for paid services continued to slow down being influenced by the moratorium for increasing tariffs by natural monopolies that was in effect until May 1, 2014.

During April-June of 2014, the inflation accounted for 1.5% (in the second quarter of 2013 – 0.8%), being considerably lower than in the first quarter of 2014 – 3.3%. In the structure of the consumer price index, the highest increase in prices was demonstrated by prices for foodstuffs. The increase in prices for foodstuffs was primarily caused by seasonality factors which were conducive to the growth in prices for fruit and vegetable production, bread and bakery products. Moreover, the present political and economic situation in Ukraine, depreciation of the Russian ruble may represent key risks for decreasing the volumes of grain harvest in Ukraine in the 2014 agricultural year and the possibility of introduction of duties for Ukrainian products by the Russian Federation. In their turn, these factors may have negative impact on the pricing in Kazakhstan.

In the second quarter of 2014, the inflation was building up against minimal impact of monetary factors. During April-June of 2014, the money supply (M3) as the main indicator of the supply of money increased by 4.8% and amounted to KZT 13 407.4 bln. On the whole, on an annual basis the money supply corresponds to the needs of the economy and its volume is sufficient to ensure further economic growth.

Real GDP growth in the first half of 2014, according to preliminary data prepared by the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan accounted for 3.9%.

The real sector of the economy demonstrates multi-directional trends. During January-June 2014, the industrial output decreased by 0.4% versus the same period of 2013, among other things because of decline in production in the mining industry and quarry operations – by 0.6% and in the manufacturing industry – by 0.3%. The volume of electricity, gas and vapor supply and air conditioning increased by 1.6%. During the same period, the growth in agriculture accounted for 3.3%, and in the construction sector – for 4.2%.

As part of its monetary policy implementation, in the second quarter of 2014 the National Bank continued to perform operations aimed to regulate the short-term Tenge liquidity in the money market. In the first quarter of 2014, during April-June of 2014, the official refinancing rate remained unchanged at 5.5% per annum.

The demand for securities issued by the National Bank on the part of banks remained limited. So, the volume of short-term notes issued during April-June of 2014 amounted to KZT 6.9 bln., which is by 3.9 less than in the same period of 2013. No short-term notes were issued in June 2014. During the same period, the volume of deposits attracted from banks increased as compared to the second quarter of 2013 by 63.7% to KZT 1 591.3 bln.

Total deposits with banks at end-June 2014 amounted to KZT 11 955.2 bln., having increased by 4.2% versus March 2014. Alongside with that, the growth in the volume of deposits in the domestic currency accounted for 10.1%.

In June 2014 as compared to March 2014, credits to the economy decreased by 0.03% to KZT 12 163.3 bln. During this period, the growth in the volume of credits to the population accounted for 2.8%.

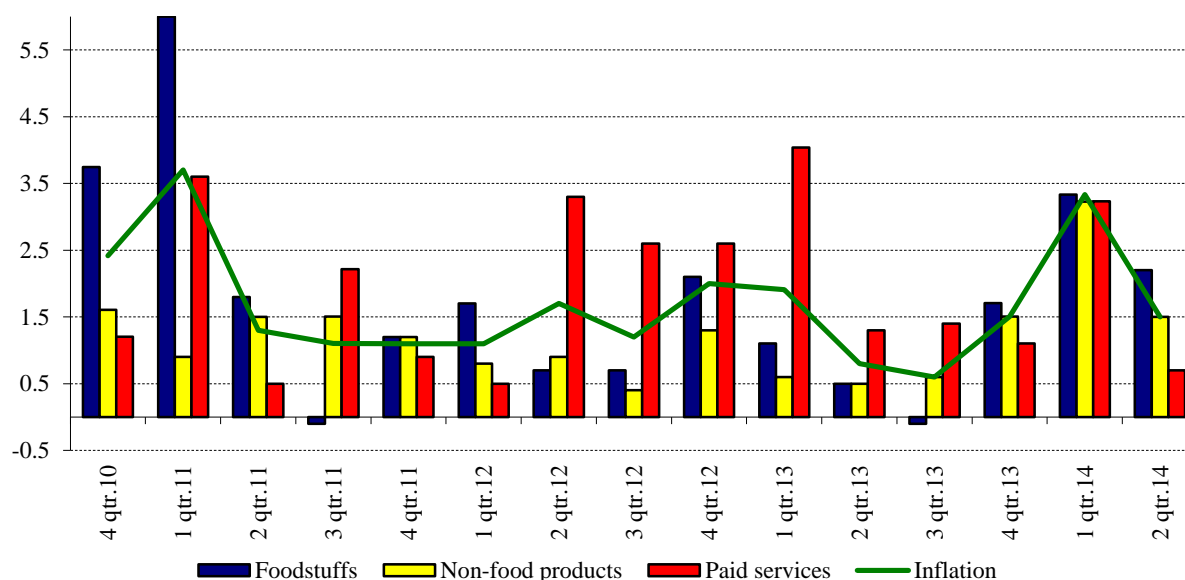
1. Inflationary Processes

1.1. Consumer Prices

In the second quarter of 2014, a slowdown in the quarterly inflation was observed as compared to the previous period. During April-June of 2014, the inflation accounted for 1.5% (in the second quarter of 2013 – 0.8%), whereas in the first quarter of 2014 данный the indicator had been at 3.3%. In the second quarter of 2014, the inflation was building up under impact of the growth in prices for foodstuffs and non-food products, to a larger extent. Foodstuff prices increased by 2.2% (in the second quarter of 2013 – by 0.5%), prices of non-food products increased by 1.5% (by 0.5%). Paid services increased by 0.7% (by 1.3%) in terms of price (Figure 1).

Figure 1

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



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

In June 2014 as compared to March 2014, the highest increase in prices among foodstuffs occurred in the prices for fruits and vegetables – by 7.0%, including potatoes – by 43.9%, carrots – by 31.7%, onions – by 18.7%, sugar – by 8.3%, rice – by 5.6%, flour – by 5.3%, macaroni products – by 2.6%, dairy products – by 2.4%, confectionery products – by 2.6%, bread – by 2.3%, fish and sea food – by 2.1%. In addition, prices for tea increased by 3.7%, for non-alcoholic beverages – by 3.4%, meat and meat products – by 0.3%. During this period, eggs cheapened by 13.2%, sunflower oil – by 1.2%, and buckwheat – by 0.1%.

During April-June of 2014, in the group of non-food products the prices for upper garments increased by 1.5%, for footwear – by 1.9%, fabrics – by 2.2%, medications – by 2.8%, household utensils – by 1.8%, including tableware and cutlery – by 2.3%, detergents and cleansing products – by 2.2%. The price of gasoline remained unchanged and the price of diesel fuel increased by 12.4%.

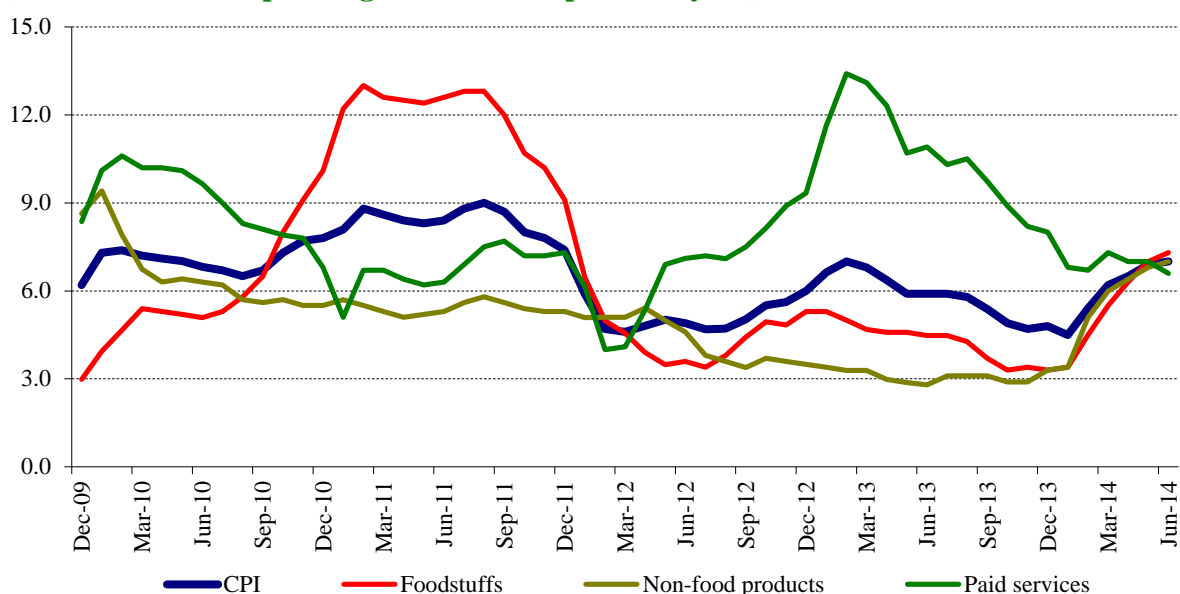
In the second quarter of 2014, in the structure of paid services, utility payments increased by 0.4%. A relatively small growth in prices occurred owing to the moratorium for increasing tariffs for services of enterprises – natural monopolies that was in effect until May

1, 2014. As a result, the increase in tariffs mainly occurred among unregulated paid services such as housing rent – by 2.0%, the cost of upkeep – by 1.4%, and solid waste collection – by 1.4%. Among regulated services, there was an increase in fees for sewage system – by 0.7%, cold water – by 0.6%, and liquefied gas – by 0.2%. Also, there was an increase in prices and tariffs for transport services – by 1.4% (mainly due to increased prices for railway services – by 3.3%), for out-patient services – by 2.5%, as well as for services of restaurants and hotels – by 1.4%.

In June 2014, the annual inflation accounted for 7.0% (in December 2013 – 4.8%). In June 2014 versus June 2013, foodstuffs increased by 7.3% (by 3.3%) in terms of price, the prices for non-food products increased by 7.0% (by 3.3%) and for paid services – by 6.6% (by 8.0%) (Figure 2).

Figure 2

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



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

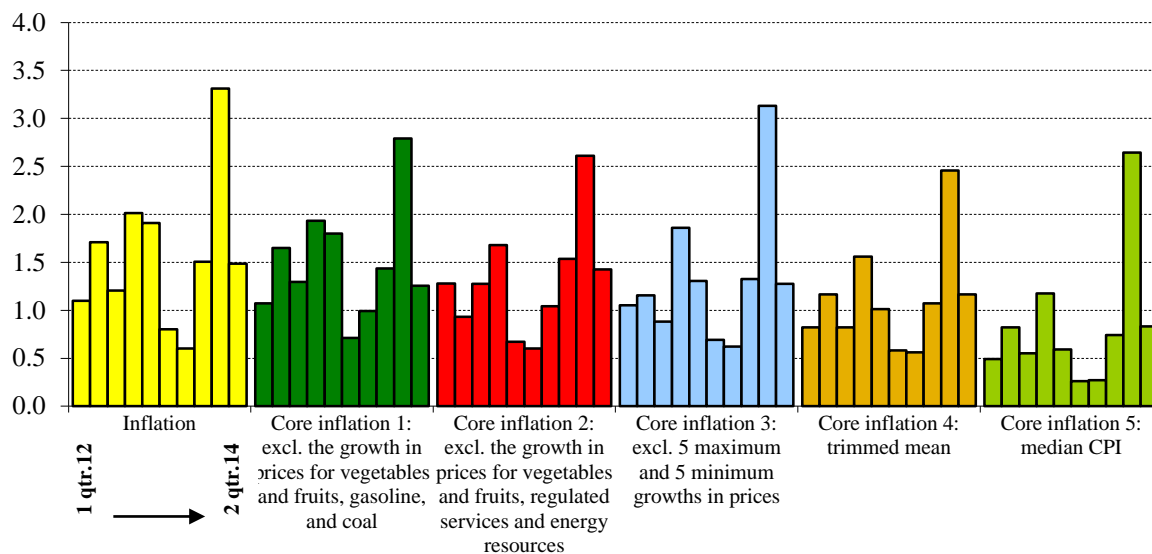
1.2. Core Inflation

In the second quarter of 2014, core inflation indicators had been at a lower level versus the previous quarter. As compared to the corresponding quarter of 2013, higher rates on all core inflation indicators were noted (Figure 3).

In the second quarter of 2014, all core inflation indicators did not exceed the level of the headline inflation (Figure 3). This was caused by high rates of growth in prices for certain goods and services, which are excluded when computing the core inflation. Among others, these may include fruit and vegetable production, utility services, and transport services.

Figure 3

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



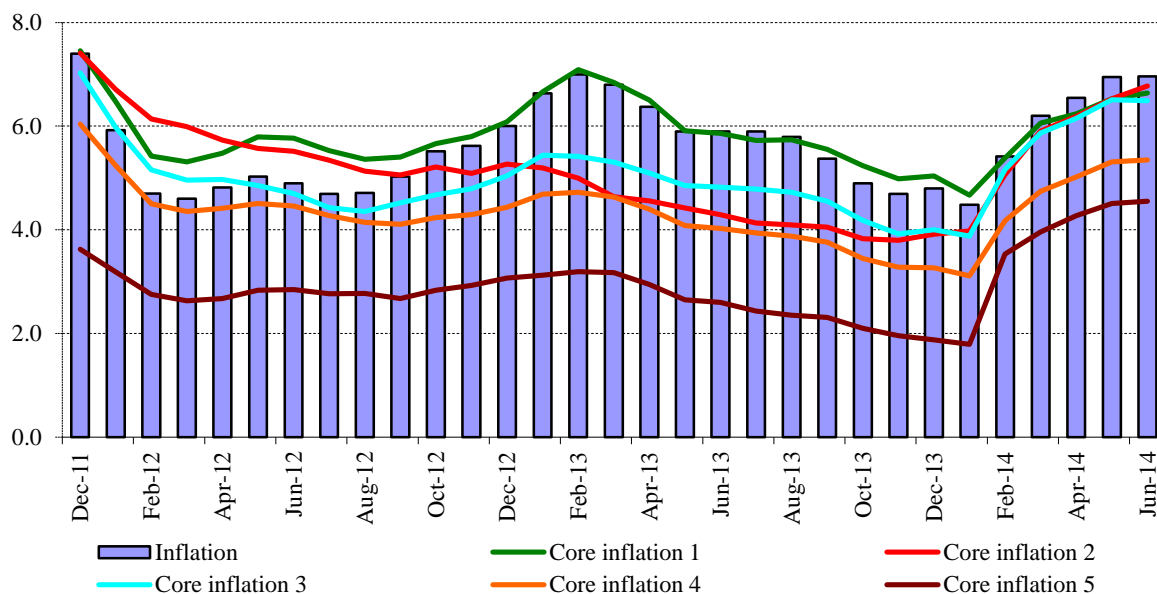
Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan

In April-June 2014, annual core inflation indicators had accelerated (Figure 4). At end-June 2014, all core inflation indicators did not exceed the headline inflation.

At end-June 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: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan

1.3. Prices in the Real Sector of the Economy

1.3.1. Prices in the Industry

In the second quarter of 2014, the producer prices increased by 2.4% (in the second quarter of 2013 – the decline of 7.1%). The cost of output increased in terms of price by 2.4%; at the same time, in its composition the price of interim consumption products increased by 2.4%, the means of production increased by 1.5% in terms of price, and the price of consumer goods increased by 2.8%. The prices of production services increased by 0.9%.

In the second quarter of 2014, prices in the mining industry increased by 2.6% (in the second quarter of 2013 – 10.0% decline); this was caused by higher oil prices versus the same period of 2013.

The price of energy resources, after its 14.3% increase in the previous quarter, in the second quarter of 2014 increased by 2.2% (in the second quarter of 2013 – the decline of 10.0%). Within raw energy resources, the price of oil extraction, because of its growth in June, increased by 3.0% (in the second quarter of 2013 – the decline of 9.3%), the price of gas condensate increased by 0.4% (in the second quarter of 2013 – the decline of 22.1%).

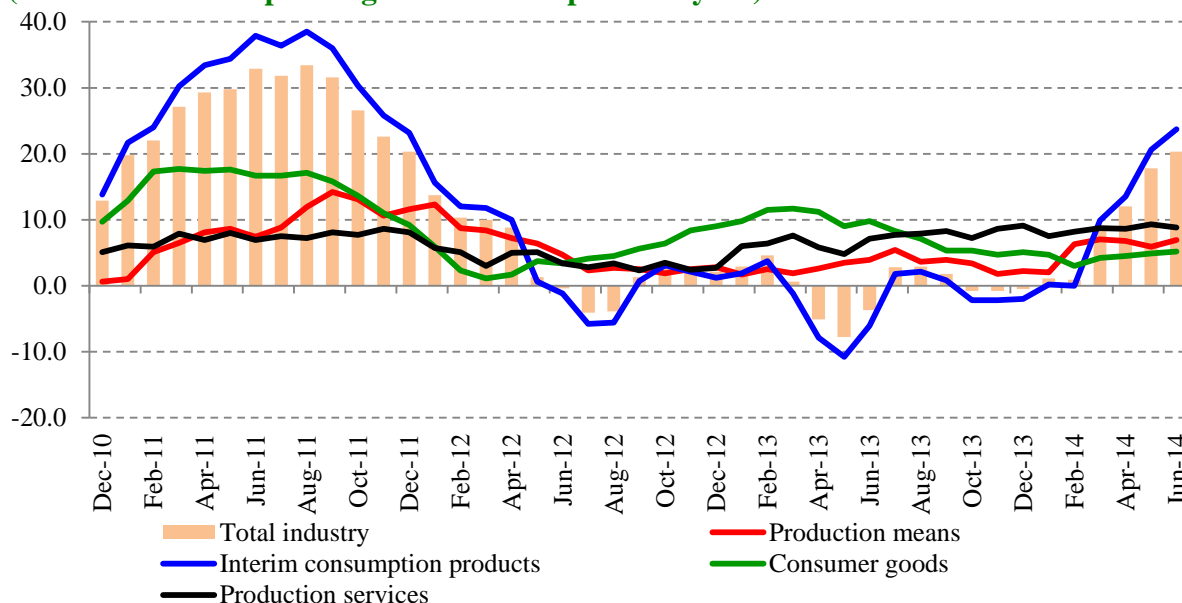
Prices in the manufacturing industry, after their 6.2% growth in the previous quarter, increased by 2.2% in the reporting quarter (in the second quarter of 2013 –1.6% decline). Alongside with that, in the second quarter of 2014 prices in the metallurgical industry increased by 3.0%, the cost of foodstuff production increased by 4.0%, and refinery products declined by 1.8% in terms of price.

In the second quarter of 2014, prices in the sector of electricity, gas and vapor supply and air conditioning increased by 0.3% (in the second quarter of 2013 – the growth of 1.0%).

In June 2014, the year-to-year growth in prices in industrial production (June 2014 to June 2013) accounted for 20.3% (in March 2014 the annual growth in prices accounted for 9.1%) (Figure 5).

Figure 5

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



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

The cost of output increased by 21.2% in annual terms, while the price of interim consumption products increased by 23.7%, the price of consumer goods increased by 5.2% and production means increased in price by 6.9%. The price of production services increased by 8.8%.

1.3.2. Prices in Agriculture

In the second quarter of 2014, prices for agricultural production realized across all channels increased by 3.1% (in the second quarter of 2013 – the decline of 3.1%). The dynamics of prices in agriculture was impacted by a high growth in prices for plant production despite the decline in prices in the livestock sector.

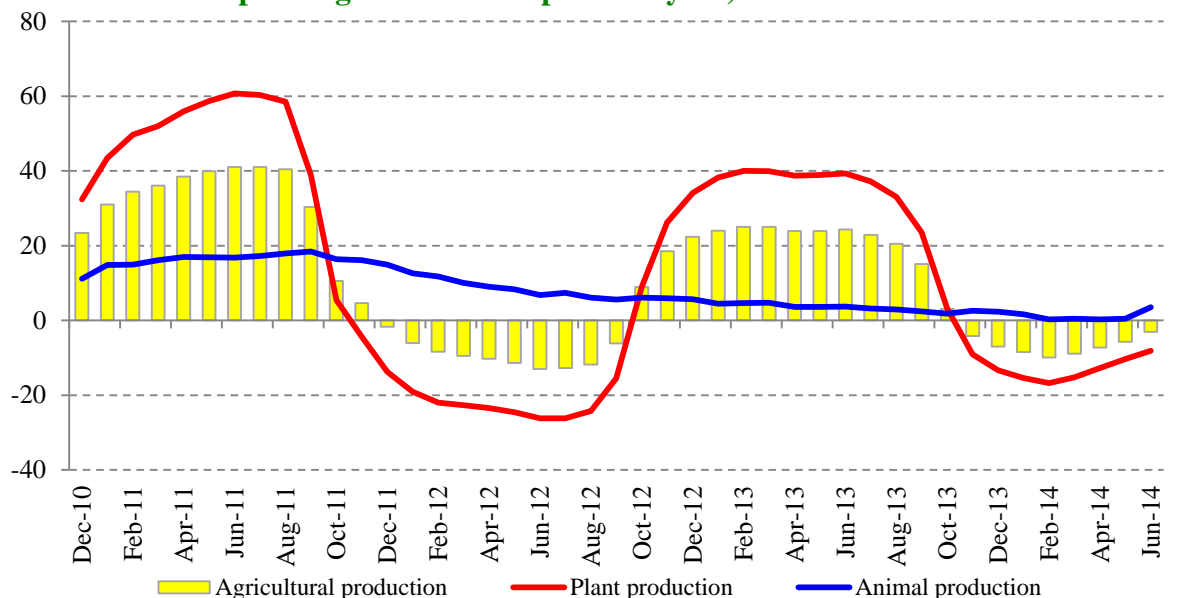
As compared to 1.6% increase in prices in the previous quarter, during April-June of 2014 the plant production increased by 6.3% in terms of price (in the second quarter of 2013 – the decline of 1.9%). Within the plant production, potatoes increased by 9.5% in terms of price, prices for grain cultures increased by 7.1%, and the price of vegetables declined by 0.7%.

The price of animal production, after 0.2% growth in the first quarter of 2014, in the second quarter of 2014 declined by 1.7% (in the second quarter of 2013 – 4.7% decline). During April-June of 2014, prices for flesh meat and poultry declined by 0.1%, the price of unpasteurized milk declined by 1.1%, and the price of eggs – by 12.4%.

At end-June 2014, prices for agricultural products decreased by 3.1% in annual terms. The price of plant production decreased by 8.1%, and the price of animal production increased by 3.5% (Figure 6).

Figure 6

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



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

1.3.3. Monitoring of Enterprises

In the second quarter of 2014, the demand for final products of enterprises in the real sector of the economy as a whole shifted from the downward trend to the upward trend; this is evidenced by the diffusion index of the change in the demand, which had increased to 51.7 (from 41.9 in the first quarter of 2014). The indicator had risen due to increased share of enterprises with increased demand for their products (to 23 % from 13.1% in the first quarter of 2014) and decreased share of enterprises that noted the decrease in the demand for their products (to 19.7% from 29.2% in the first quarter of 2014).

The highest growth in the demand was observed in such sectors as “the manufacturing industry”, “accommodation and catering services”, “construction” and “information and communications”. The diffusion index in these sectors had risen, respectively, to 54.4, 52.5, 52.1 and 57.1 from 38.7, 39.7, 41.4 and 45.3 in the first quarter of 2014. At the same time, there was a notable decrease in the demand in the sector of “electricity supply, gas and vapor supply and air conditioning”: the diffusion index had fallen to 40.9 from 55.4 in the first quarter of 2014.

In such sectors as “water supply, sewage system, control over waste collection and distribution” and “agriculture, forestry and fishery” the growth in the demand accelerated: the diffusion index had risen, respectively, to 64.8 and 61.6 (from 57.7 and 55.1 in the first quarter of 2014). The decline in the demand, with some slowdown, occurred in such sectors as “wholesale and retail trade: repair of cars and motorcycles”, “transport and warehousing”: the diffusion index had risen, respectively, to 48.9 and 48.3 (from 37.6 and 40.4 in the first quarter of 2014).

According to expectations of enterprises, in the third quarter of 2014 versus the second quarter of 2014, in the real sector as a whole the demand for final products will notably increase: the diffusion index was 55.9. Alongside with that, the growth in the demand is anticipated virtually in all sectors: “the mining industry” (to 57 from 49.7 in the second quarter of 2014), “wholesale and retail trade...” (to 54.8 from 48.9 in the second quarter of

2014), “transport and warehousing” (to 54.5 from 48.3 in the second quarter of 2014), “agriculture, forestry and fishery” (to 62.8 from 61.6 in the second quarter of 2014). The decline in the demand is expected to slow down significantly (the diffusion index had risen to 48.8 from 40.9 in the second quarter of 2014) in the sector of “electricity supply, gas and vapor supply...” due to the seasonality factor. It’s only the sector of “information and communications” where the growth in the demand is expected to slowdown: the diffusion index had fallen to 54.8 from 57.1 in the second quarter of 2014).

In the second quarter of 2014, the growth in prices for final products of enterprises in the real sector of the economy as a whole notably decreased: the diffusion index of the change in prices for final products was 63 (in the first quarter of 2014 – 66.6). The decline in prices was observed in all sectors. The highest slowdown in the price growth occurred in the following sectors: “electricity supply, gas and vapor supply...” (the diffusion index had fallen to 57.3 from 65.9 in the first quarter of 2014), “manufacturing industry” (the diffusion index had fallen to 63.1 from 68.9 in the first quarter of 2014), “wholesale and retail trade...” (the diffusion index had fallen to 69 from 74.8 in the first quarter of 2014),

In the second 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 was 61.8 (in the first quarter of 2013 it was 65.3).

In the third quarter of 2014 versus the second quarter of 2014, a minor slowdown in the growth rates of prices for final products is anticipated in the real sector of the economy as a whole (the diffusion index made up 59.2). The greatest slowdown is anticipated in such sectors as: “wholesale and retail trade...” (the diffusion index made up 61.7), “construction” (61), “water supply, sewage system, control over waste collection and distribution” (53.7), “mining industry” (53.8), “manufacturing industry” (59.5).

In the third quarter of 2014, according to expectations of enterprises, prices for consumer products and services will continue to grow moderately with some slowdown in the growth rates: the diffusion index of the change in prices made up 59.4 (61.8 in the second quarter of 2014).

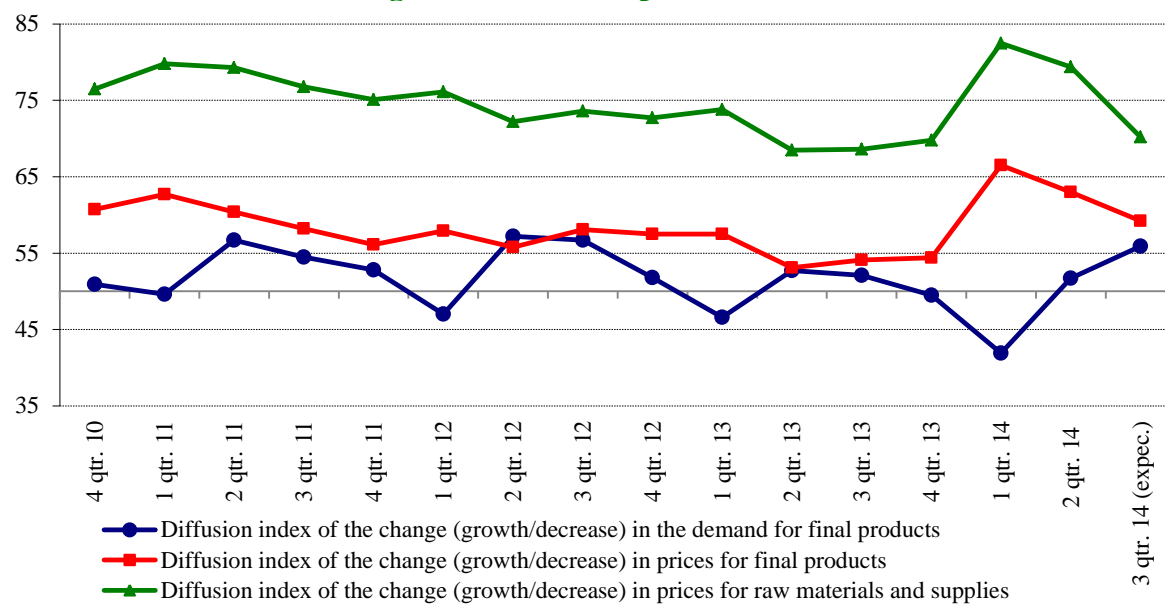
In the second quarter of 2014, prices for raw materials and supplies slowed their growth: the diffusion index of the change in prices made up 79.4 (in the first quarter of 2014 – 82.8). Significant slowdown in the price growth rates was observed in such sectors as: “electricity supply, gas and vapor supply...” (the diffusion index had fallen to 76.2 from 86 in the first quarter of 2014), “water supply, sewage system, control over waste collection and distribution” (to 77.8 from 84.6 in the first quarter of 2014), “accommodation and catering services” (to 81.7 from 88.8 in the first quarter of 2014) and “wholesale and retail trade...” (to 77.7 from 81.2 in the first quarter of 2014).

According to expectations of enterprises, in the third quarter of 2014 prices for raw materials and supplies will continue to grow while decreasing the growth rates significantly (the diffusion index made up 70.2).

Thus, judging from the dynamics of the relevant diffusion indices, according to estimates of enterprises, the growth in the demand for final products and the slowdown in growth rates of prices for final products and raw materials and supplies are expected in the third quarter of 2014 (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. Agregate Demand

In the first 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 4.0% (the growth in the first quarter of 2013, according to estimate, accounted for 4.6%, and the growth in the fourth quarter of 2013 accounted for 6.6%).

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

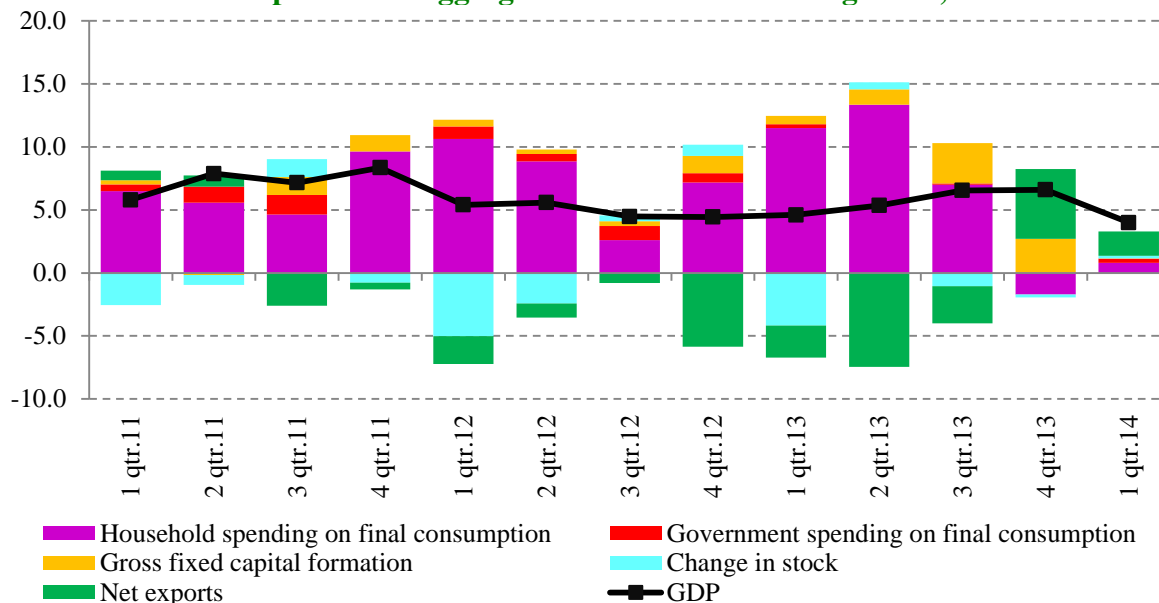
In the first quarter of 2014, according to estimate, spending on final consumption in general increased versus the corresponding quarter of 2013 by 1.7% (in the fourth quarter of 2013 – the decrease of 1.7%), gross formation decreased by 1.4% (the growth of 9.2%) and net exports increased by 23.6% (the decrease of 76.7%).

As a result, household spending on consumption and general government spending on consumption made, respectively, positive contribution to the formation of the GDP growth of (+)0.8% and (+)0.3%, and gross formation increased GDP by (+)0.2%.

Within the gross formation, fixed capital formation accounted for (+)0.05%, and the change in stock accounted for (+)0.2%, net exports made positive contribution to the GDP growth of (+)1.9% (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 first quarter of 2014, household spending on final consumption increased versus the corresponding period of 2013 by 0.8% (in the fourth quarter of 2013 – the decrease of 2.4%).

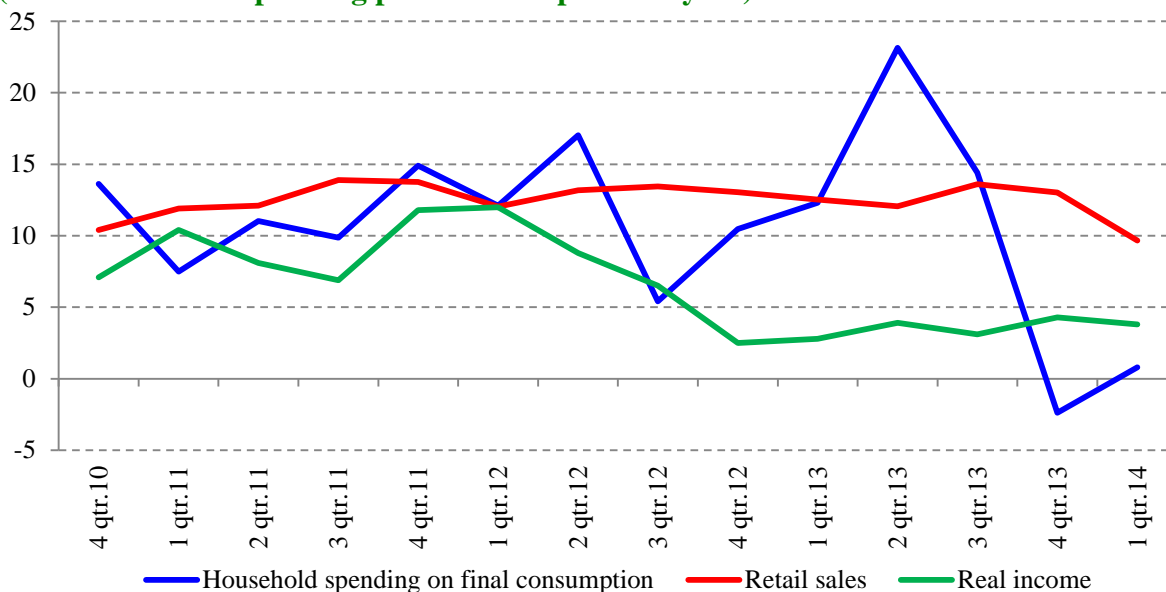
In the first quarter of 2014, the growth rate of per capita income in nominal terms accelerated to 9.4% (in the fourth quarter of 2013 – the growth of 9.3%), and in real terms it slowed down to 3.8% (4.3% growth). The slowdown in the growth of household income,

however, had negative impact on retail sales; their growth rates slowed to 9.7% as compared to the fourth quarter of 2013 (in the fourth quarter of 2013 – the growth of 13.0 %).

The slowdown in the growth rates of retail sales did not have significant impact on one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption which increased to 0.8%, whereas a quarter before this component decreased by 2.4% (Figure 9).

Figure 9

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



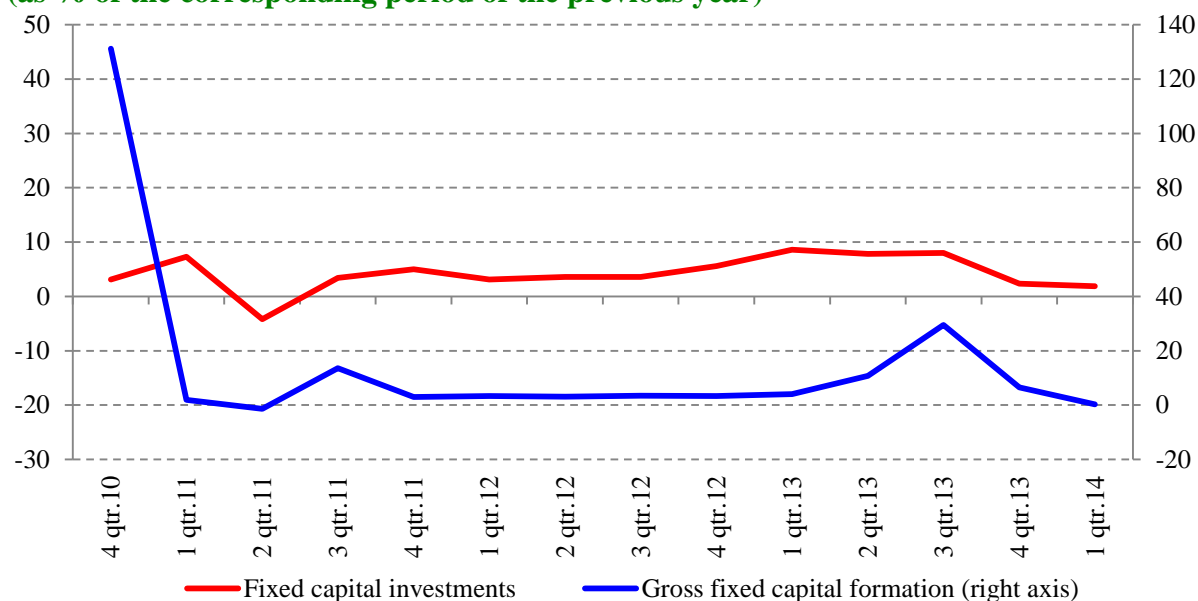
Source: Information of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The slowdown in the growth of household income was to a certain extent compensated by growing lending activity. In the first quarter of 2014, credits to the population as a whole increased by 6.3%, alongside with that consumer lending increased by 7.5%.

In the first quarter of 2014, decreased investment activity of enterprises was conducive to the slowdown in fixed capital investments to 1.9% (in the fourth quarter of 2013 the growth accounted for 2.3%). At the same time, the growth in gross fixed capital formation slowed down and its ratio versus the corresponding quarter of 2013 decreased to 0.3% (the growth of 6.5%) (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 first quarter of 2014, government spending on final consumption increased as compared to the corresponding period of 2013 by 4.5% (in the fourth quarter of 2013 – the growth of 0.3%).

During the first quarter of 2014 as a whole, the state budget spending was financed in the amount of KZT 1617.7 bln. or 21.4% of GDP (the growth of 13.8% versus the first quarter of 2013).

Current state budget expenditures totaled KZT 1.4 trln., exceeding those of the first quarter of 2013 by 18.8%. 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 2.1 times), other current expenditures (by 33.4%), purchases of services and works (by 29.8%), interest payments on the domestic loans (by 15.5%), current transfers to individuals (by 12.3%), salaries and wages (by 5.1%), and contributions by employers (by 5.0%). At the same time, there was a decrease in expenditures related to interest payments on foreign loans (by 18.1%) and purchases of stock (by 0.6%).

In the first quarter of 2014, capital expenditures in the state budget decreased by 13.7% as compared to the same period of 2013, mainly due to decreased expenses for acquisition of property, plant and equipment, intangible and biological assets, against reduced expenditures related to the major overhaul of property, plant and equipment.

In the first quarter of 2014 as compared to the first quarter of 2013, budget credits decreased by 85.4%, and expenditures related to acquisition of financial assets increased by 2.1 times.

During the first quarter of 2014, state budget revenues amounted to KZT 1742.0 bln. or 23.0% of GDP, exceeding those in the first quarter of 2013 by 15.6%. In the structure of the state budget revenues two items are still prevailing: tax revenues – 65.2% (in the first quarter of 2013 – 72.4%), and official transfers – 31.7% (25.3%). 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 552.1 bln.

In the first quarter of 2014 as a whole, tax revenues increased by 4.2% as compared to the first quarter of 2013. The growth was secured by increased receipts on excises, personal income tax and social tax whereas revenues from the use of natural and other resources decreased by 32.4%, from corporate income tax – by 6.9%, and from the value-added tax – by 4.7%.

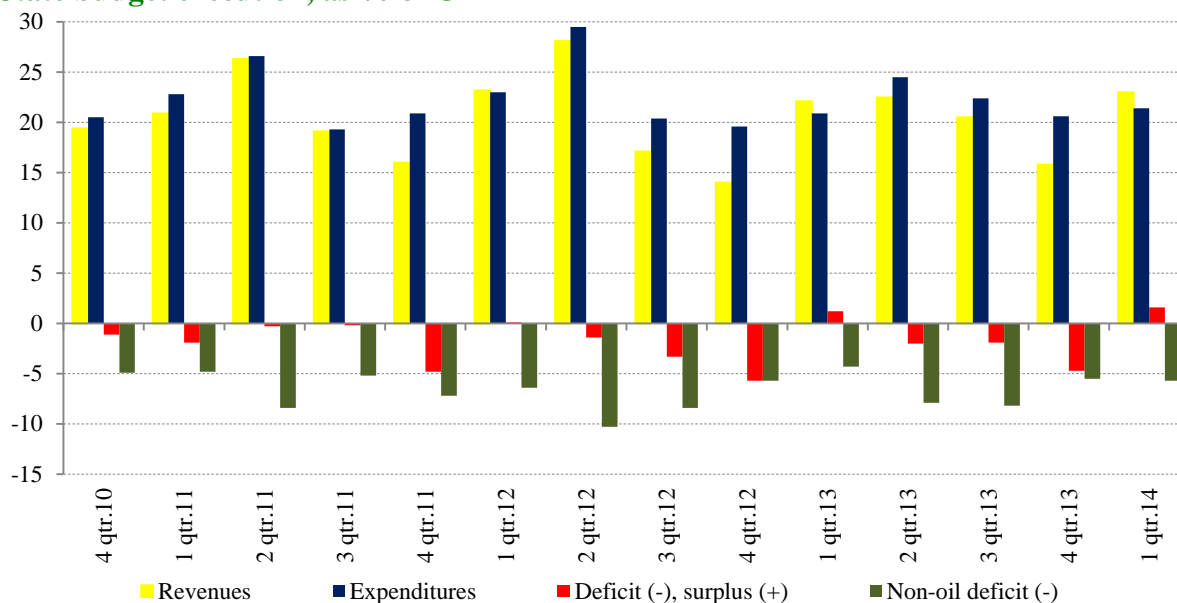
In the first quarter of 2014 as compared to the first quarter of 2013, non-tax revenues increased by 56.1%, mainly due to increased revenues from realization of goods (works, services) by state-owned entities funded from the state budget, revenues from public procurements arranged by state-owned entities funded from the state budget, and penalties, fines, sanctions, charges imposed by state-owned entities funded from the state budget.

In the first quarter of 2014 as compared to the first quarter of 2013, revenues from transfers increased by 45.3%, and revenues from the sale of fixed capital also increased – by 44.0%.

Since revenues were in excess of expenditures in the first quarter of 2014, the state budget showed up a surplus of KZT 124.4 bln. (1.6% of GDP), and in the first quarter of 2013 there was a surplus of KZT 85.1 bln. (1.2% of GDP) (Figure 11). It should be noted that without the guaranteed transfer of KZT 552.1 bln. to the republican budget from the National Fund, the first quarter of 2014 would have ended with the non-oil deficit of KZT 427.7 bln.

Figure 11

State budget execution, as % of GDP



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

During the first quarter of 2014, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 183.7 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 150.2 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 157.9 bln.

As of April 1, 2014, the government domestic debt amounted to KZT 3671.9 bln. (10.2% of GDP), exceeding the same indicator as of April 1, 2013 by 21.4% (9.7% of GDP). The growth was secured by the issue of government long-term savings treasury obligations

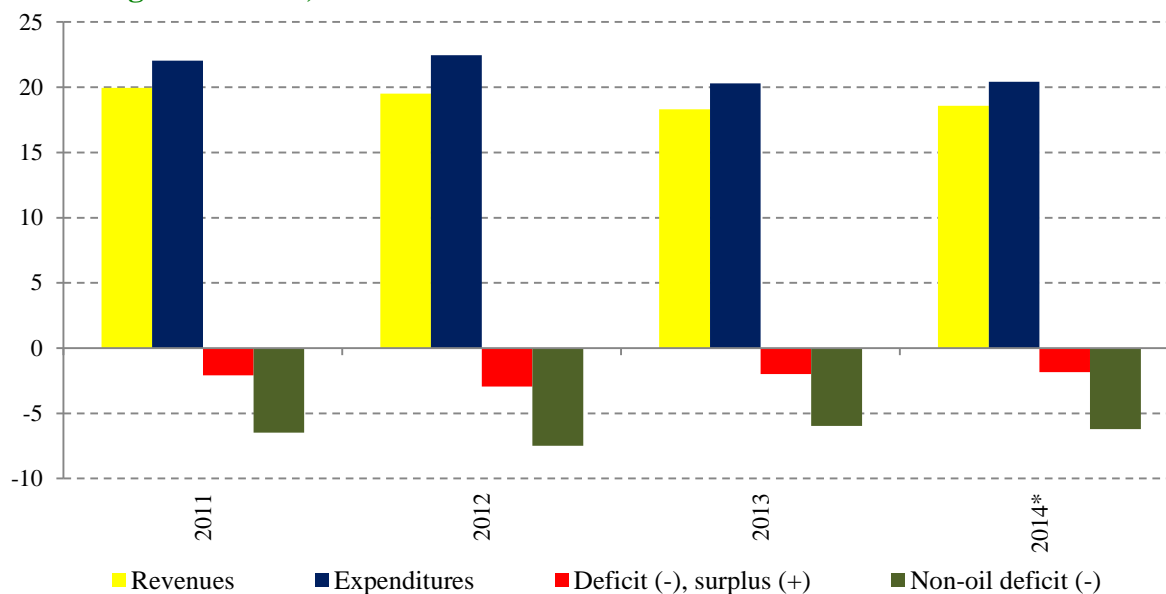
(MEUZHKA), government short-term treasury obligations (MEKKA), government long-term treasury obligations (MEUKA) and government medium-term treasury obligations (MEOKA).

As of April 1, 2014, the government external debt amounted to KZT 909.7 bln. (2.5% of GDP), having increased by 29.9% against the volume at April 1, 2013 (2.2% of GDP).

There is a downward trend in the state budget deficit. In the first quarter of 2014, the deficit accounted for (-)1.8% 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

* – for the period from the 2nd quarter of 2013 through the 1st quarter of 2014

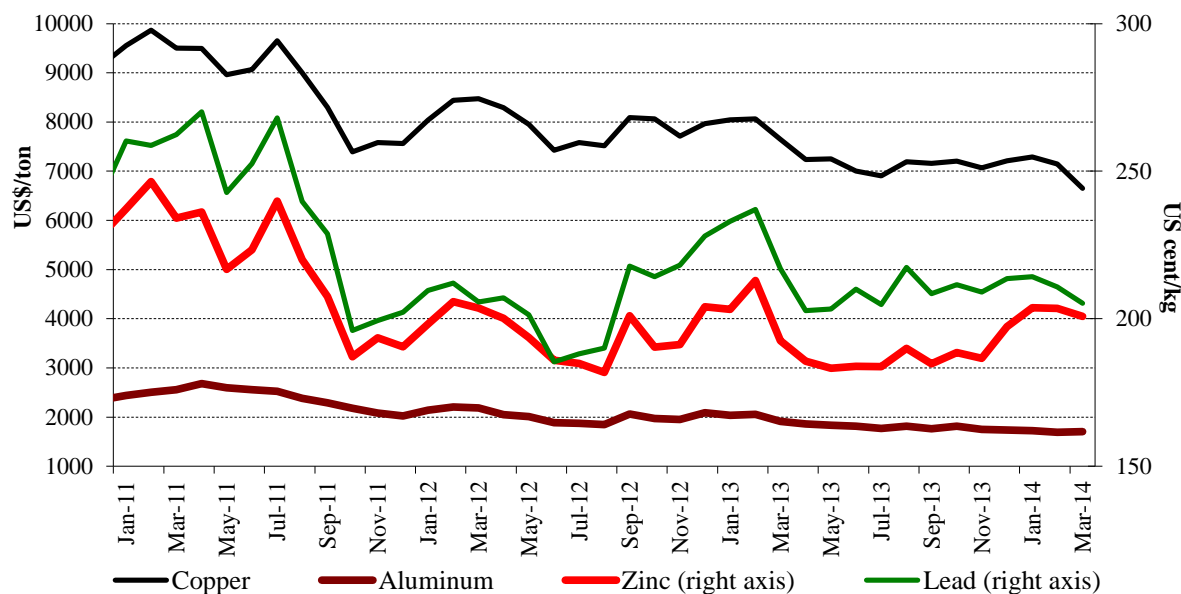
2.1.3. External Sector

– World Prices

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

In the first quarter of 2014, prices for copper decreased by 1.9% and were at US\$ 7030 per ton on average during the period. During the first quarter of 2014, prices for aluminum decreased by 3.3% and amounted to US\$ 1709 per ton. In January-March 2014, world prices for lead declined by 0.6% amounting to 210.1 US cents per a kilo on average during the period. Prices for zinc grew by 6.2% with the average price during the period of 190.8 US cents per a kilo (Figure 13).

Figure 13

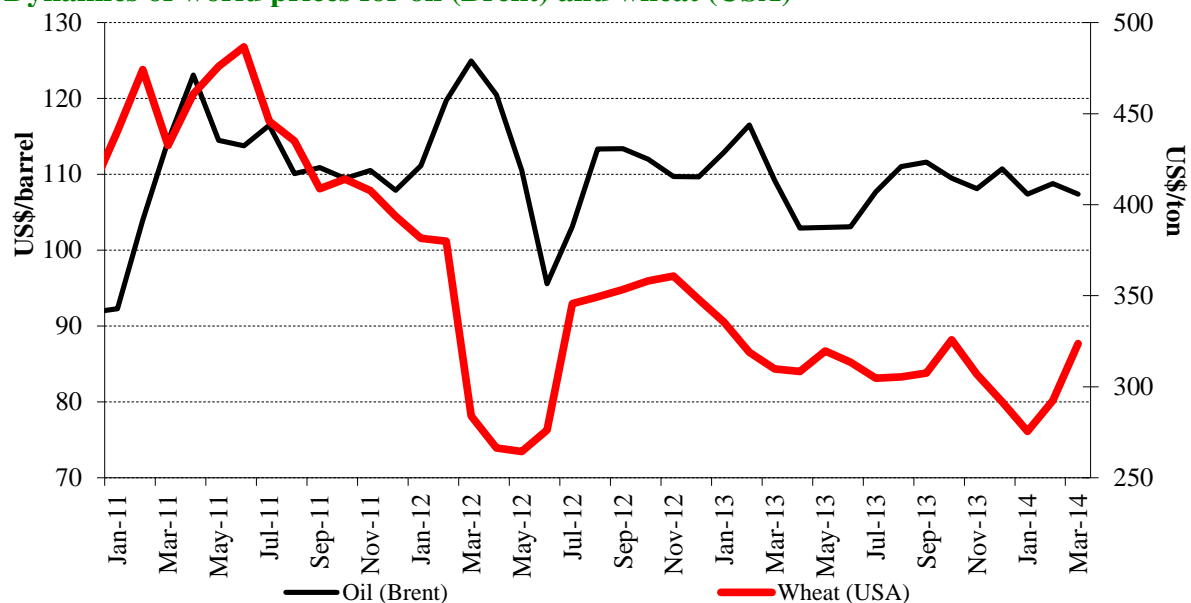
Dynamics of world prices for metals

Source: World Bank

In January-March 2014, world price for oil (Brent) decreased by 1.4% and was at US\$ 107.9 per barrel on average during the period (Figure 14).

World prices for wheat, after their decline in January-February 2014, increased again in March 2014. In general, during the first quarter of 2014 as compared to the prior period, the world price for wheat (USA) decreased by 3.5% and had been at US\$ 297.1 per ton on average (Figure 14).

Figure 14

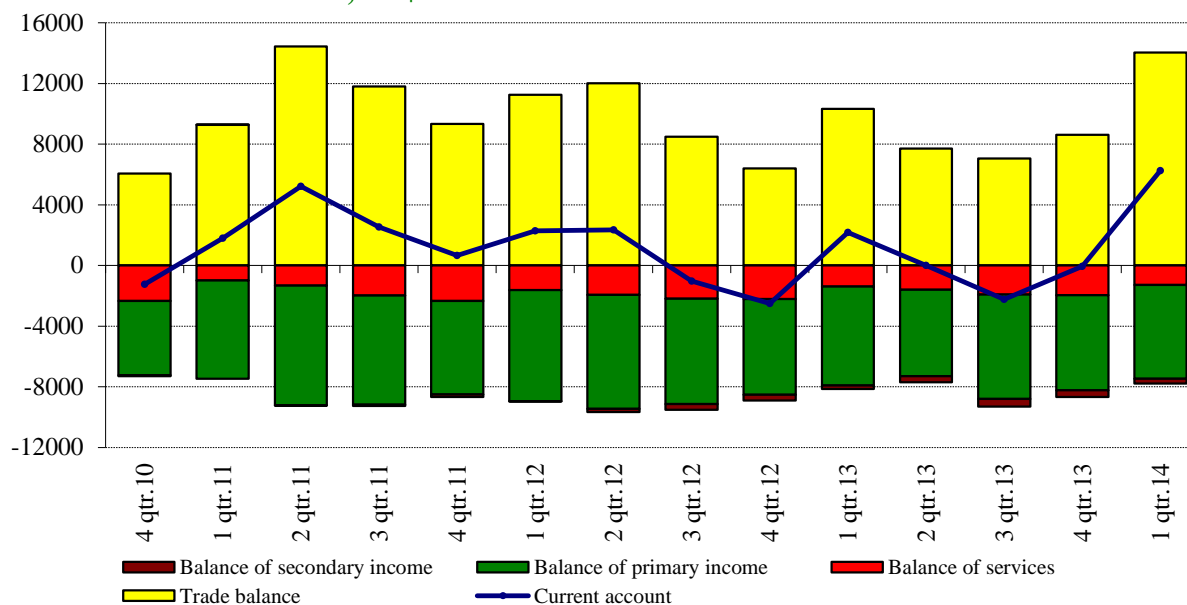
Dynamics of world prices for oil (Brent) and wheat (USA)

Source: World Bank

– Balance of Payments

At the end of the first quarter of 2014, the current account balance was in surplus of US\$ 6259.0 mln. or 14.1% of GDP of the corresponding period (Figure 15).

Figure 15

Current account balance, US\$ mln.

Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2014, proceeds from the exports of goods increased versus the respective indicator for the first quarter of 2013 by 10.8% to US\$ 22.7 bln., and expenditures on commodity imports decreased by 14.6% as compared to the first quarter of 2013, amounting to US\$ 8.7 bln. The trade surplus increased by 36.0% and amounted to US\$ 14.0

bln. In the first quarter of 2014, the deficit in the balance of services decreased as compared to the first quarter of 2013 by 8.9% to US\$ 1.3 bln., and the deficit in the balance of primary income (salaries and wages, investment return and other primary income) decreased by 4.9% and amounted to US\$ 6.2 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to US\$ 318.4 bln.

The balance of the financial account (excluding reserve assets) in the first quarter of 2014 was positive and amounted to US\$ 203.9 mln. (a positive balance of US\$ 654.1 mln. in the first quarter of 2013). Net acquisition (growth) of foreign assets of residents (less reserve assets) amounted to US\$ 3.1 bln. (US\$ 5.4 bln. in the corresponding period of 2013). Net incurred liabilities (growth) amounted to US\$ 2.9 bln. (US\$ 4.8 bln. – in the first quarter of 2013).

As a result, at the end of the first quarter of 2014, the balance of payments was in deficit of US\$ 1.3 bln. (in the first quarter of 2013 – a deficit of US\$ 289.6 mln.).

– Terms of Trade and the Real Effective Exchange Rate

In the first quarter of 2014, the aggregate terms of trade index was by 6% lower than the same indicator for the first quarter of 2013. Alongside with that, the terms of trade with the Euro zone countries decreased by 23%, and with Russia – decreased by 11% (Table 1).

Table 1

Change in price indices and terms of trade

(as % of the corresponding period of the previous year)

	1 qtr.13	2 qtr.13	3 qtr.13	4 qtr.13	1 qtr.14
Export prices	0	-7	-5	-3	-5
Import prices	-1	-5	3	-3	2
Terms of trade	1	-3	-7	0	-6
including:					
Euro zone countries					
Export prices	0	-5	-2	1	0
Import prices	18	16	16	9	31
Terms of trade	-17	-20	-13	-6	-23
Russia					
Export prices	-5	-10	-11	-10	-13
Import prices	-4	-5	-3	-6	-3
Terms of trade	-1	-5	-8	-4	-11

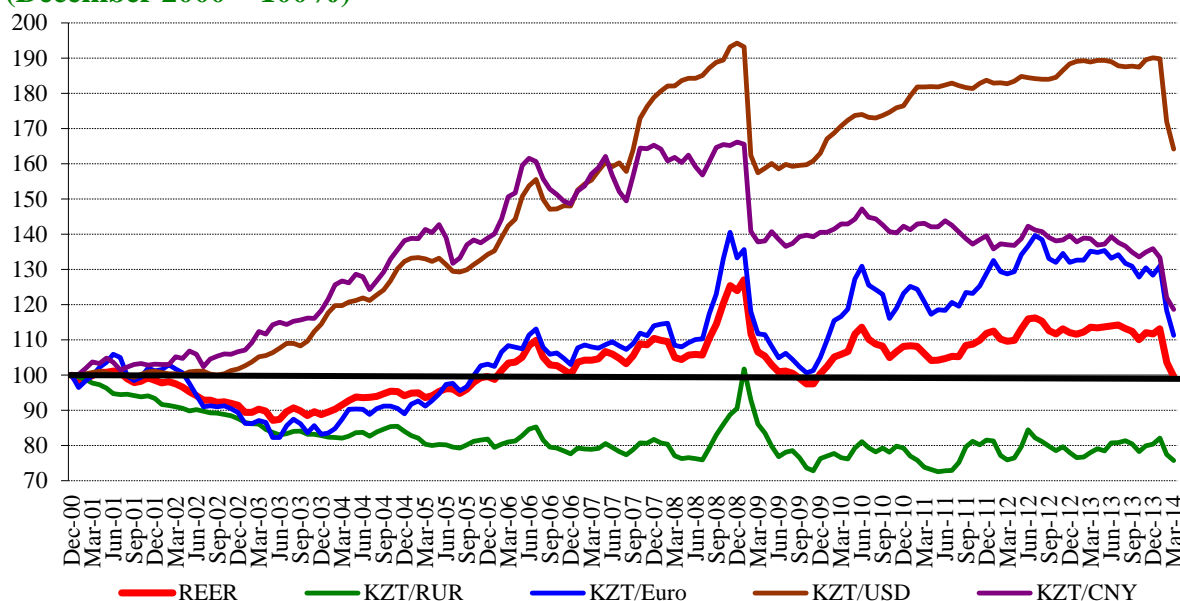
Source: National Bank of the Republic of Kazakhstan

At the end of the first quarter of 2014 versus the previous period, the index of the real effective exchange rate of the Tenge depreciated by 5.3%. The Tenge has depreciated versus the CIS currencies basket by 1.2% and versus the basket of other currencies – by 6.5%.

During the first quarter of 2014 versus the previous period, the Tenge depreciated in real terms versus the US Dollar by 7.2%, versus the Euro – by 6.7%, and versus the Russian ruble – by 1.4% (Figure 16).

Figure 16

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



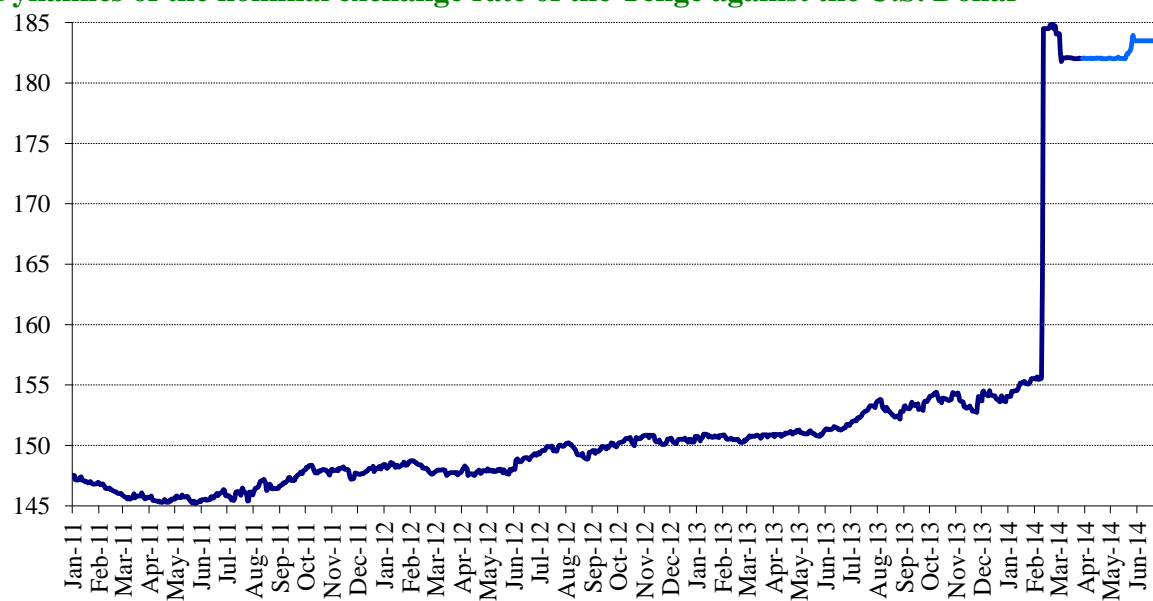
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge during the second quarter of 2014 was KZT 182.74 per 1 US Dollar. The stock exchange rate at end-period was KZT 183.52 per 1 US Dollar. Since the beginning of the year the Tenge had depreciated versus the US Dollar by 19.1% (Figure 17).

Figure 17

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



Source: National Bank of the Republic of Kazakhstan

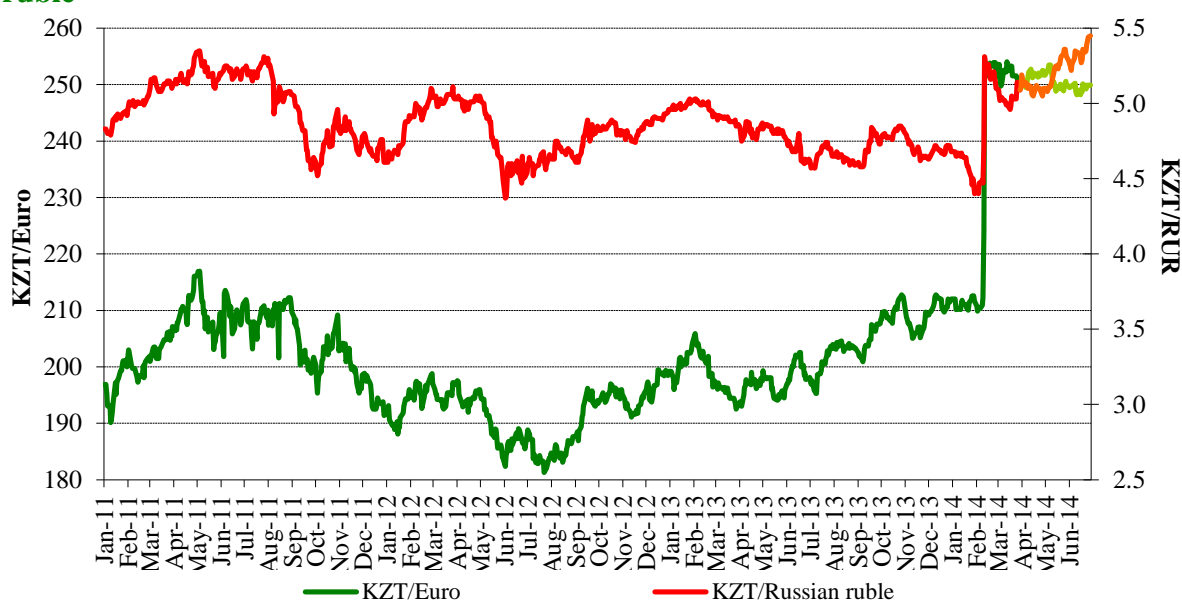
In April 2014, the exchange rate of the Tenge didn't undergo any changes, in May it depreciated by 0.9% versus the US Dollar and in June – remained virtually unchanged.

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

In general, during the second quarter of 2014, the official exchange rate of the Tenge versus the US Dollar depreciated by 0.8%, versus the Euro – by 0.1%, and versus the Russian ruble – by 7.1% (Figure 18).

Figure 18

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



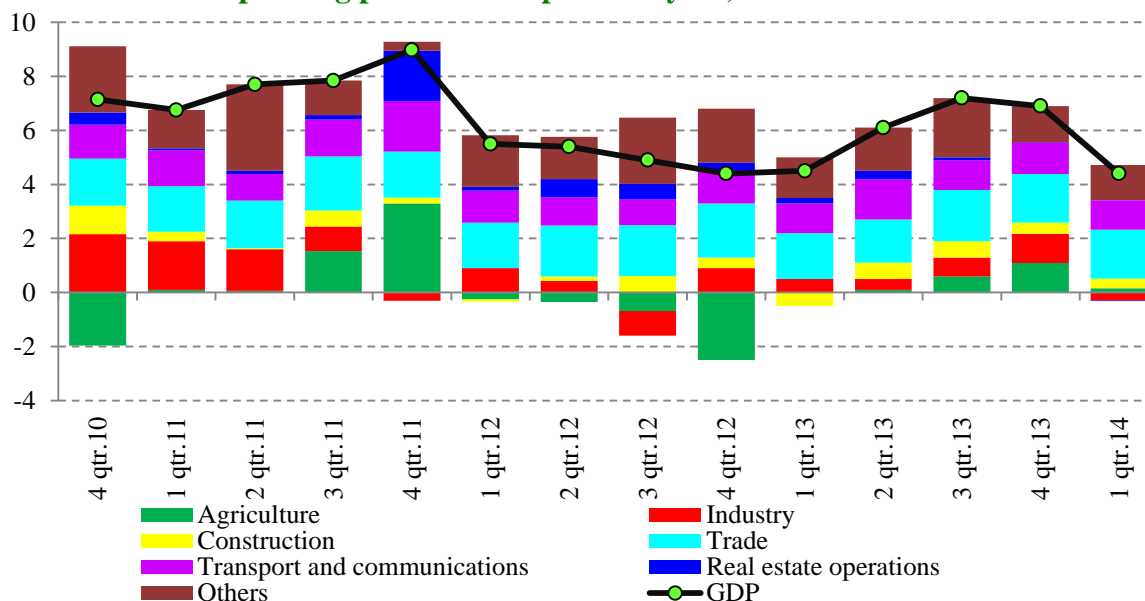
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the first quarter of 2014, the volume of GDP output amounted to KZT 7565.9 bln. in current prices. Being positively influenced by the growth of production nearly in all sectors of the economy except the industry, the GDP in real terms (in prices of the year 2005) increased versus the first quarter of 2013, according to estimate, by 4.4% (Figure 19).

Figure 19

Contribution of key sectors of the economy to 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, agriculture and construction demonstrated growth, whereas the industry demonstrated the decline. According to estimate, in the first quarter of 2014 the construction volume increased by 3.9% (in the fourth quarter of 2013 – the growth of 4.4%), agriculture – increased by 3.5% (the growth of 25.4%), and the volume of industrial output decreased by 1.1% (the growth of 4.3%). As a result, the segment of goods production made positive contribution to the GDP formation of (+)0.2%.

Production of services. In the production of services, virtually all sectors comprising this component of the gross domestic product demonstrated growth. The exception was made by the segment of “real estate operations” which demonstrated a minor decrease of 0.3%; however, negative contribution of this sector to the formation of GDP growth was insignificant. As a result, the sectors that comprise the production of services sector on aggregate ensured positive contribution to the GDP growth of (+)3.4%.

Net taxes on foodstuffs and imports. The 16.0% increase in the volume of net taxes on foodstuffs and imports has positively influenced the formation of GDP growth of (+)0.8% (in the fourth quarter of 2013 such contribution made up (+)0.8%).

Therefore, the main driver for the GDP growth in the first quarter of 2014 (similarly to that in the fourth quarter of 2013) was the production of services sector.

2.3. Labor Market

2.3.1. Employment and Unemployment

According to the preliminary estimates, in the second quarter of 2014 the number of people employed in the economy amounted to 8.7 million, having increased by 0.7% versus the first quarter of 2014 (the growth versus the second quarter of 2013 accounted for 0.7%). At the same time, the number of employees reached 6.0 million, having increased by 0.3%

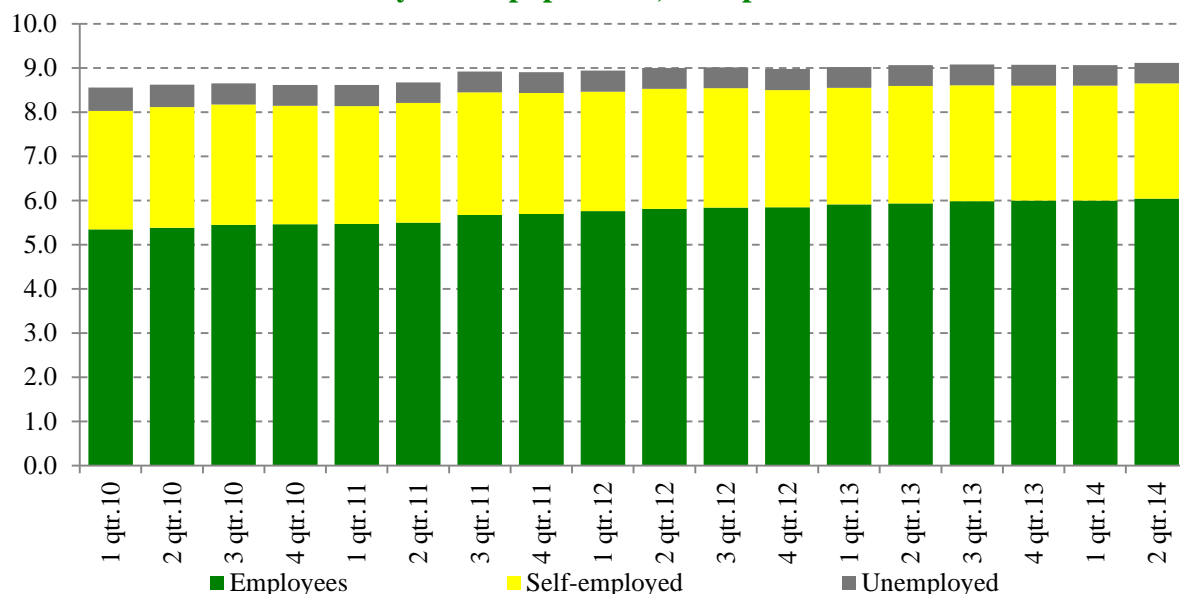
versus the first quarter of 2014, and the number of self-employed – 2.6 million (the growth of 1.8%).

Within the employee structure, public and non-public institutions employee number accounted for 5.0 million persons (83.1% of all employees), the number of people working for individuals – 0.7 million persons (11.8%), and at farms – 0.3 million persons (5.1%).

In the second quarter of 2014, the number of the unemployed stood at 461,000 persons, which is by 0.6% less than in the prior period and by 1.8% less than in the second quarter of 2013 (Figure 20).

Figure 20

The structure of economically active population, mln. persons



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

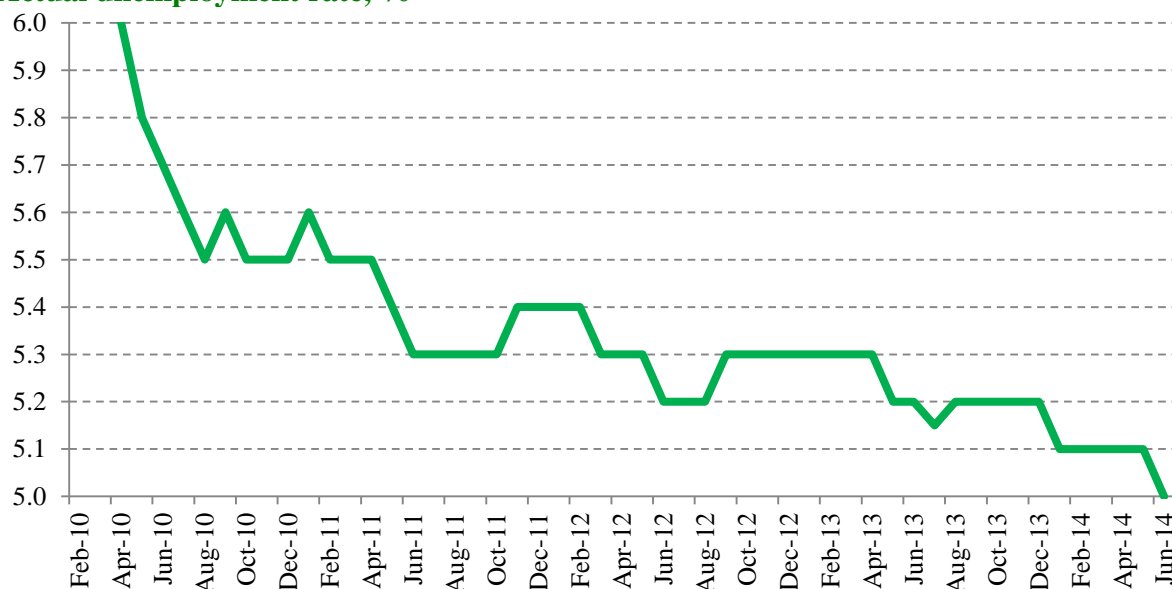
In April, May and June of 2014, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

The key sectors that promoted the growth in employment versus the corresponding months of 2013 were as follows: trade; education; financial and insurance activity; activity in the sphere of administrative and ancillary services; public administration and defense; transport and warehousing; healthcare and social services.

The decreased number of the employed was noted in the following sectors: agriculture, forestry and fishery; industry; real estate operations; construction.

The decrease in the number of the employed in some sectors was fully compensated by their growth in other sectors. As a result, the unemployment rate in the second quarter of 2014 decreased to 5.1%, and it decreased by 0.1 percentage points versus the second quarter of 2013 (Figure 21).

Figure 21

Actual unemployment rate, %

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

2.3.2. Wages and Productivity

In the first quarter of 2014, as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 7.5% (in the fourth quarter of 2013 – the growth of 7.1%), and real wages increased by 1.9% (the growth of 2.3%).

Compared to the previous quarter, nominal wages decreased by 6.8%, and real wages decreased by 9.5 %.

In March 2014 as compared to March 2013, nominal wages increased in all key economic activities except for such spheres as “public administration and defense”, “compulsory social insurance” and “information and communications”. The highest increase in nominal wages was observed in the following sectors: “construction” – by 15.7%; “accommodation and catering services” – by 12.8%; “financial and insurance activity” – by 12.2%; “transport and warehousing” – by 11.3%; “agriculture, forestry and fishery” – by 11.1%; and “industry” – by 11.0%.

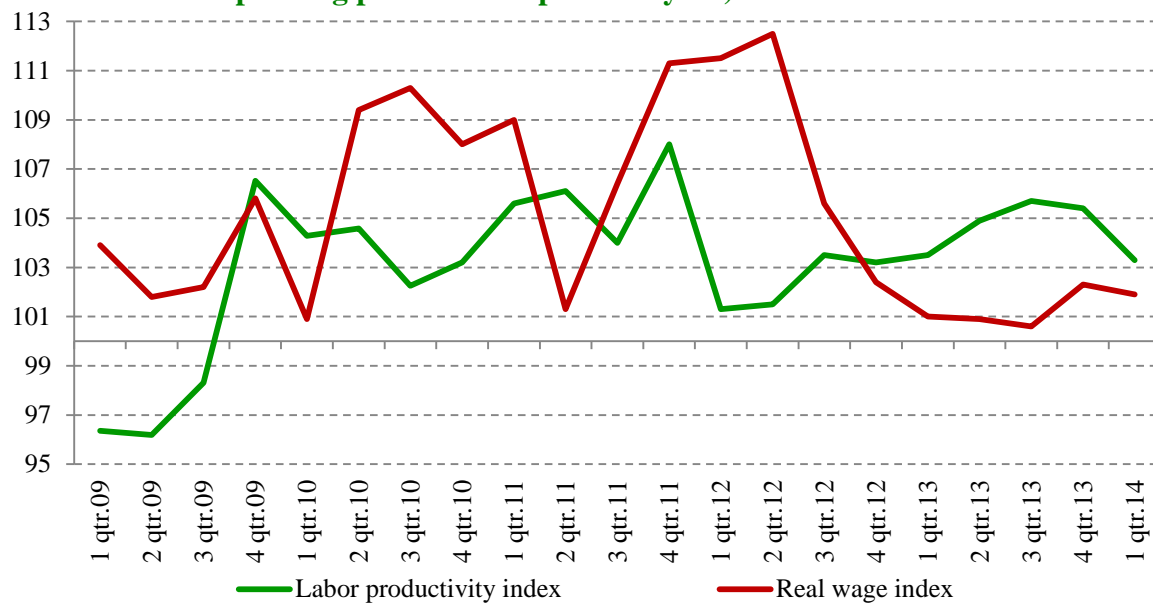
In March 2014, the highest wages in money terms were observed in the “professional, scientific and technical activity” (KZT 224,500) as well as in the “financial and insurance activity” (KZT 211,500), and the lowest wages – in “agriculture, forestry and fishery” (KZT 53,900).

In the first quarter of 2014, wages of employees in real terms increased by 1.9% versus the corresponding period of the last year; this indicator is below the growth rates in the fourth quarter of 2013 (the growth of 2.3%) and higher than the growth rates existing in the prior two periods (in the second quarter of 2013 – the growth of 0.9%, and in the third quarter of 2013 – the growth of 0.6%).

The slowdown in the rates of wage growth in the first quarter of 2014 along with the slowdown in the growth in the number of people employed in the economy affected the growth in the labor productivity index which also slowed down to 3.3% (according to the National Bank’s estimate), whereas a quarter before the index increased by 5.4% (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

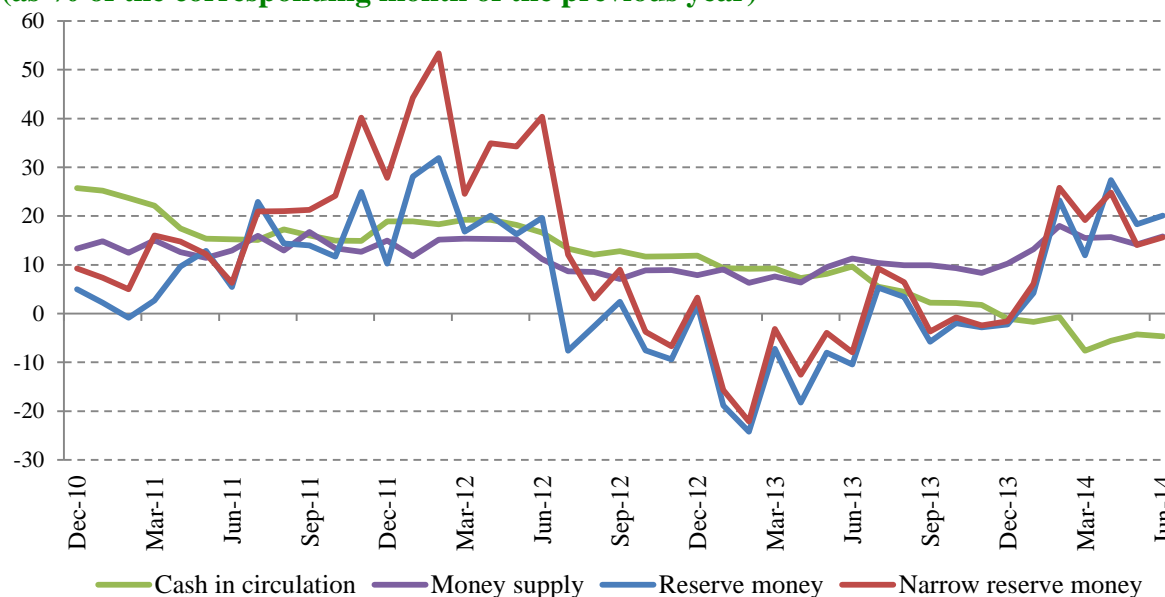
3.1. Monetary Aggregates

In the second quarter of 2014, the annual rates of expansion in the reserve money and narrow reserve money as well as the annual growth rates of the money supply were moderate, whereas the annual growth rates of cash in circulation had been negative (Figure 23).

Figure 23

Dynamics of monetary aggregates

(as % of the corresponding month of the previous year)



Source: National Bank of the Republic of Kazakhstan

3.1.1. Reserve Money

During the second quarter of 2014, the reserve money expanded by 9.0% and amounted to KZT 3715.3 bln. at end-June 2014. Narrow reserve money expanded by 4.3% to KZT 3524.5 bln.

In June 2014 versus June 2013, the reserve money expanded by 20.1%.

In June 2014 against the corresponding period of 2013, net international reserves of the National Bank increased by 0.3% to KZT 25.7 bln. Net currency reserves (CQTR) during the reviewed period decreased by 7.0%, and assets denominated in gold increased by 29.8% as a result of its price growth in the global markets.

In June 2014 versus June 2013, net domestic assets of the National Bank less the National Fund's assets decreased (Table 2), mainly as a result of decrease in other net domestic assets.

Table 2

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

	3 qtr.13	4 qtr.13	1 qtr.14	2 qtr.14
Net international reserves	-20.1	-12.9	-7.0	0.3
Net domestic assets	75.6	114.6	-977.1	-229.2
Net claims on the Government	-1.3	47.6	10.3	-4.3
Claims on the economy	115.0	28.1	58.8	32.9
Other net domestic assets	20.5	20.9	-52.4	-115.5
Reserve money	-5.8	-2.2	11.9	20.1
Narrow reserve money	-3.7	-1.6	19.2	15.6

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the second quarter of 2014, the money supply increased by 4.8% to KZT 13411.5 bln.

In June 2014 versus June 2013, its growth accounted for 15.8% as a result of the increase 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)

	3 qtr.13	4 qtr.13	1 qtr.14	2 qtr.14
Net foreign assets	25.8	11.0	30.7	30.8
Domestic assets	-2.0	12.8	-4.0	-9.1
Claims on the Government	77.0	22.9	-10.7	-19.9
Claims on the economy	12.4	12.7	19.4	15.5
Other net domestic assets	-25.8	-14.6	-32.2	-30.6
Money supply	9.9	10.2	15.5	15.8
Cash in circulation	2.2	-1.0	-7.6	-4.7
Deposits of residents	11.1	12.1	18.9	18.9

Source: National Bank of the Republic of Kazakhstan

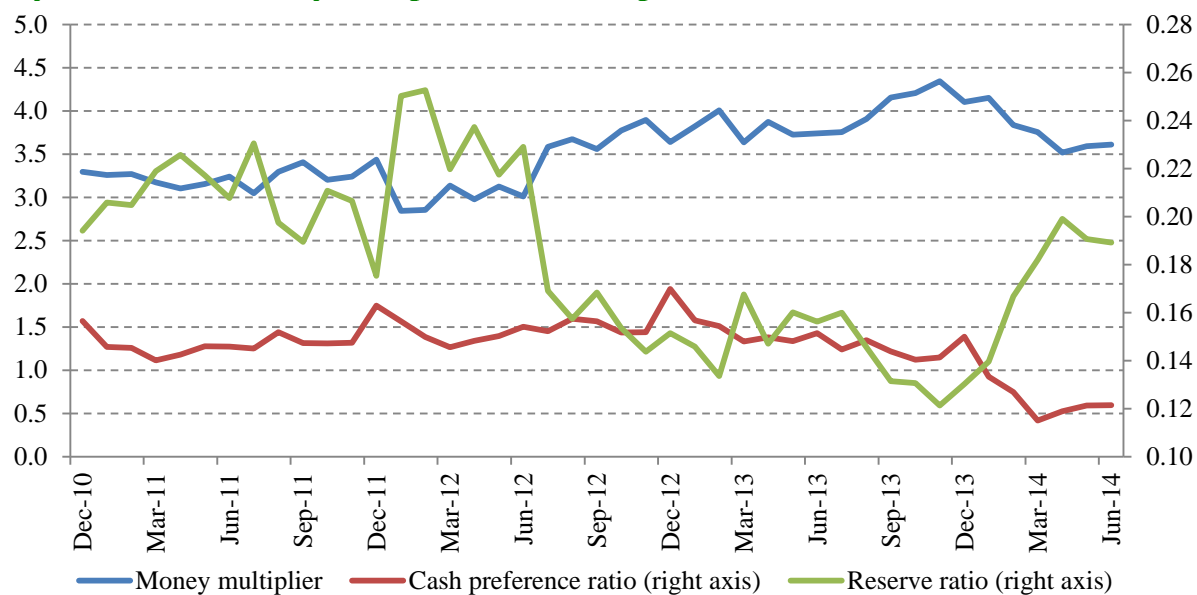
In the structure of net foreign assets of the banking system in June 2014 against the corresponding period of 2013, both net foreign assets of the National Bank (excluding the National Fund) and banks increased. The growth in net foreign assets of banks was mainly secured by the increase in liabilities from non-residents to banks (and the decrease in liabilities to non-residents).

During the reviewed period, the growth of residents' 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 86.8% in June 2013 to 89.2% at end-June 2014.

The money multiplier decreased from 3.74 in June 2013 to 3.61 in June 2014 as a result of outstripping rates of expansion in the reserve money versus the rates of growth 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

The volume of cash in circulation during the second quarter of 2014 increased by 10.0% to KZT 1452.2 bln.

In June 2014 versus June 2013, cash in circulation decreased by 4.7%. At the same time, cash payouts from the bank cashier's departments decreased by 12.2% to KZT 1.8 trln., and the receipts to the bank cashier's departments – by 11.7% to KZT 1.7 trln.

The decrease in cash in circulation in June 2014 against the corresponding period of 2013 was associated with the growth in net receipts on lump-sum transfers (without opening an account), as well as in net receipts from sales of goods, services and delivered works. The impact of the above factors was not neutralized by the increase of net 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. Moreover, decreased net receipts from foreign exchange operations also had not affected the negative dynamics of cash in circulation in the reviewed period.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-June 2014, deposits of residents amounted to KZT 11955.2 bln., having increased by 4.2% during the second quarter of 2014. Deposits of legal entities increased by 3.4%, and deposits of individuals increased by 5.6%.

Within the structure of deposits, the volume of term deposits (under the IMF classification – “other deposits”¹) increased during the second quarter of 2014 by 0.7% and amounted to KZT 7786.0 bln. at end-June 2014. Term deposits in the domestic currency increased by 6.3% to KZT 4109.6 bln., and foreign currency term deposits decreased by 4.9%

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.

to KZT 3676.4 bln. During the quarter, the percentage of term deposits in the total deposit base decreased from 67.4% to 65.1%.

In the second quarter of 2014, the status of the deposit base was characterized by significant growth of deposits in the domestic currency caused by 11.3% increase in the domestic currency holdings of legal entities. As a result, in the second quarter of 2014 the volume of deposits in the domestic increased by 10.1%, amounting to KZT 6615.7 bln., whereas foreign currency deposits decreased by 2.4%, to KZT 5339.4 bln.

The growth in the volume of the domestic currency holdings by legal entities in April and June of 2014 (by 3.3% and 8.2%, respectively), despite their minor decrease in May of 2014 (by 0.4%), resulted in the decreased dollarization of the deposit market and the increased percentage of deposits in the domestic currency from 52.3% in March 2014 to 55.3% in June 2014.

Thus, the inflow of the domestic currency to the accounts of legal entities served as a main source for the overall bank deposit base growth in the second quarter of 2014. Alongside with that, the growth in foreign currency deposits of legal entities demonstrated negative dynamics, which was noted in April (the decrease of 8.9%), despite their growth in May and June of 2014 (by 2.4% and 0.2%, respectively) (Table 4).

Table 4

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

	June 2011	June 2012	June 2013	June 2014
Deposits of residents	4.4	0.3	4.2	4.2
<i>of individuals</i>	<i>7.2</i>	<i>6.1</i>	<i>3.2</i>	<i>5.6</i>
<i>of non-bank legal entities</i>	<i>3.2</i>	<i>-2.3</i>	<i>4.8</i>	<i>3.4</i>
Deposits in the Tenge	5.2	3.8	0.6	10.1
Deposits in foreign currency	2.5	-6.4	11.8	-2.4

Source: National Bank of the Republic of Kazakhstan

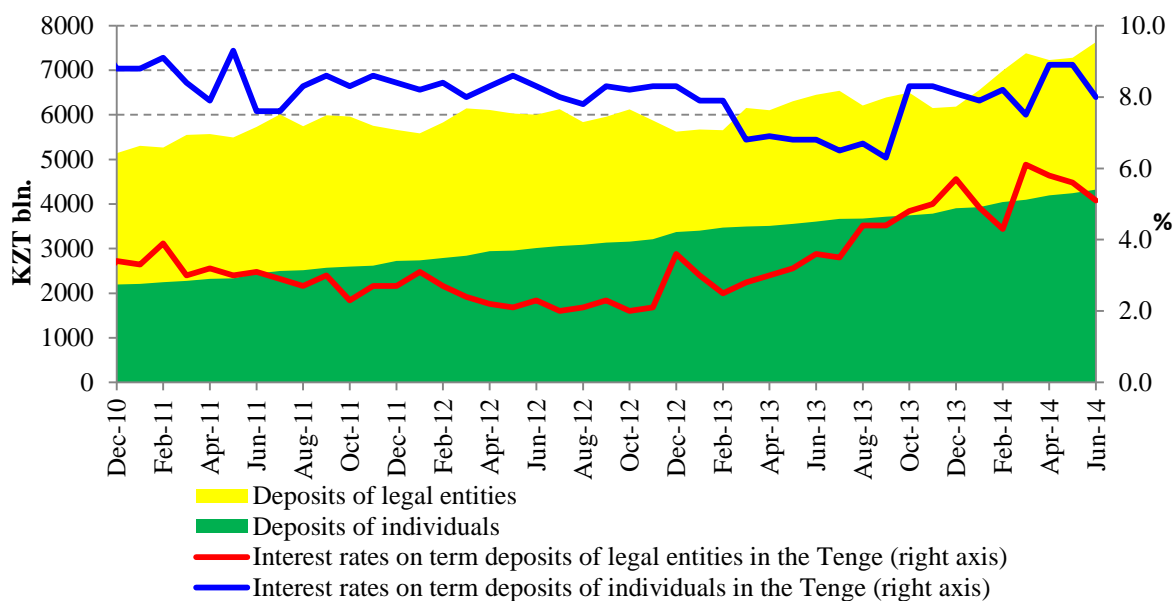
In the second quarter of 2014 as compared to the previous quarter, interest rates on deposits increased, due to the growth in interest rates in the domestic currency in April and the growth in interest rates on foreign currency deposits in May.

As a result, the average rate on the Tenge deposits in the second quarter of 2014 increased to 5.8% (during the first quarter of 2014 – 5.4%), and on deposits in freely convertible currencies – to 2.9% (2.6%).

The weighted average interest rate on Tenge term deposits of non-bank legal entities in June 2014 accounted for 5.1% (in March 2014 – 6.1%), and on deposits of individuals – 8.0% (7.5%) (Figure 25).

Figure 25

Dynamics of deposit volumes and interest rates on time deposits

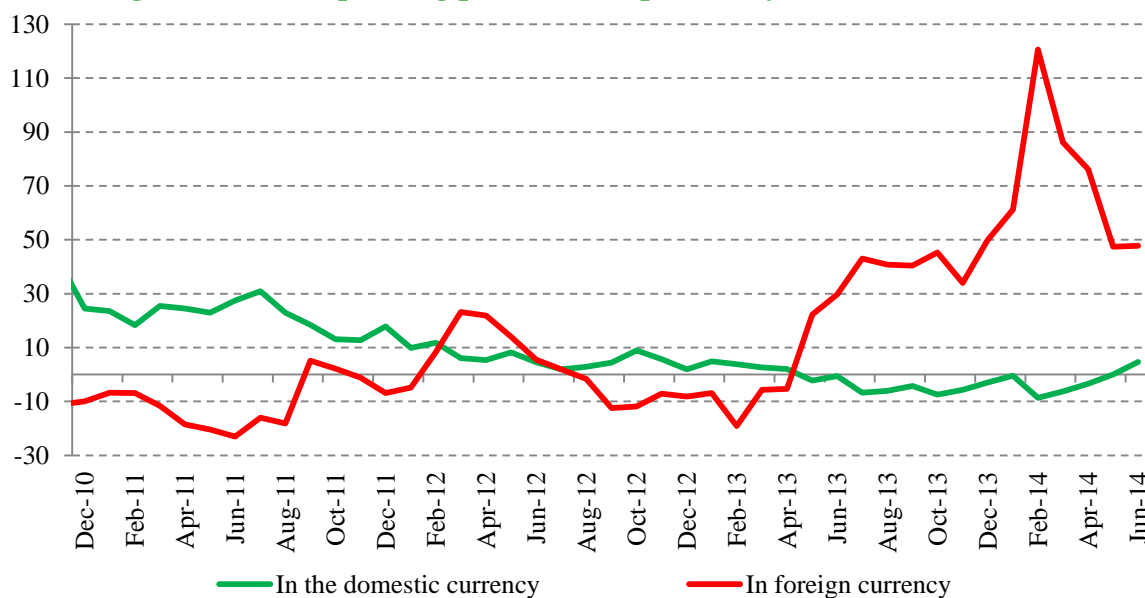


Source: National Bank of the Republic of Kazakhstan

During the second quarter of 2014, the volume of deposits of legal entities increased by 3.4% to KZT 7631.7 bln., with their annual growth (June 2014 to June 2013) accounting for 18.3%. In annual terms, deposits of legal entities in the domestic currency increased by 4.6 %, and foreign currency deposits increased by 47.7% (Figure 26).

Figure 26

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



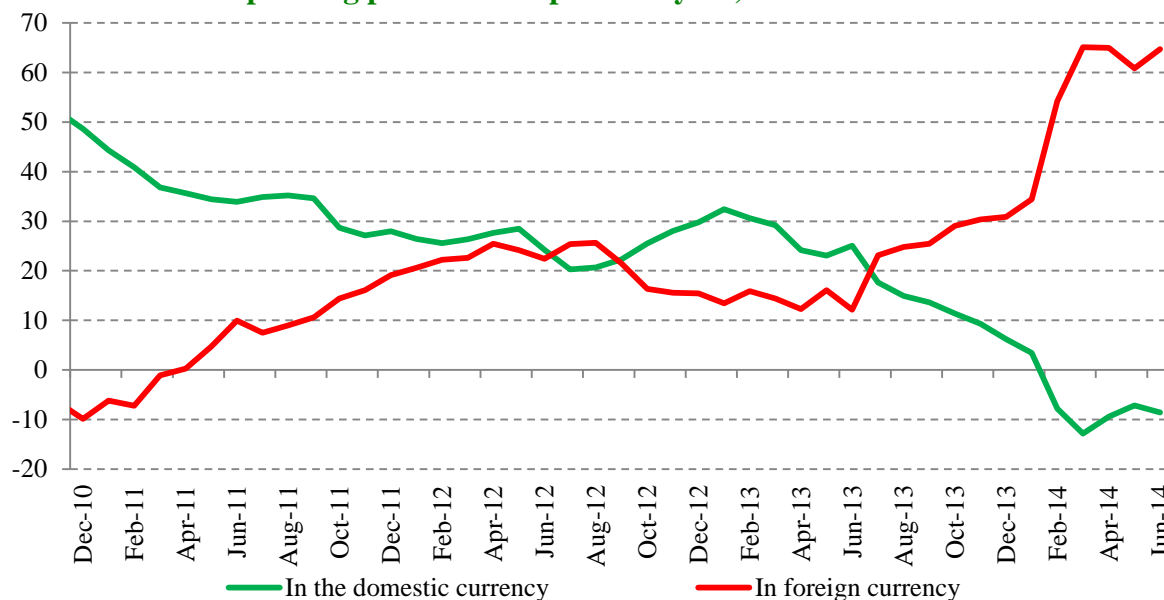
Source: National Bank of the Republic of Kazakhstan

During the second quarter of 2014, the volume of deposits of individuals increased by 5.6% to KZT 4323.4 bln., with its annual growth accounting for 19.9%. In annual terms,

deposits of individuals in the domestic currency decreased by 8.6%, and foreign currency deposits increased by 64.7% (Figure 27).

Figure 27

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



Source: National Bank of the Republic of Kazakhstan

3.2.2. Credits to the Economy

During the second quarter of 2014, bank credits to the economy decreased by 0.03% to KZT 12163.3 bln. During April-June of 2014, credits to legal entities decreased by 1.3%, amounting to KZT 8200.4 bln., and credits to individuals increased by 2.8% to KZT 3962.9 bln.

The volume of credits in the domestic currency increased by 2.2% to KZT 8118.1 bln., and the volume of foreign currency credits decreased by 4.3% to KZT 4045.2 bln.

During April-June of 2014, long-term lending increased by 0.1% to KZT 9785.6 bln., and short-term lending decreased by 0.7%, amounting to KZT 2377.7 bln. As a result, the percentage of long-term credits in June 2014 as compared to March 2014 increased from 80.3% to 80.5%.

In June 2014, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities decreased to 10.4% (in March 2014 – 10.7%), and the interest rate on credits in the Tenge provided to individuals accounted for 19.8% (in March 2014 – 19.7%). In general, in the second quarter of 2014 the cost of borrowing decreased versus the level of the prior period (Figure 28).

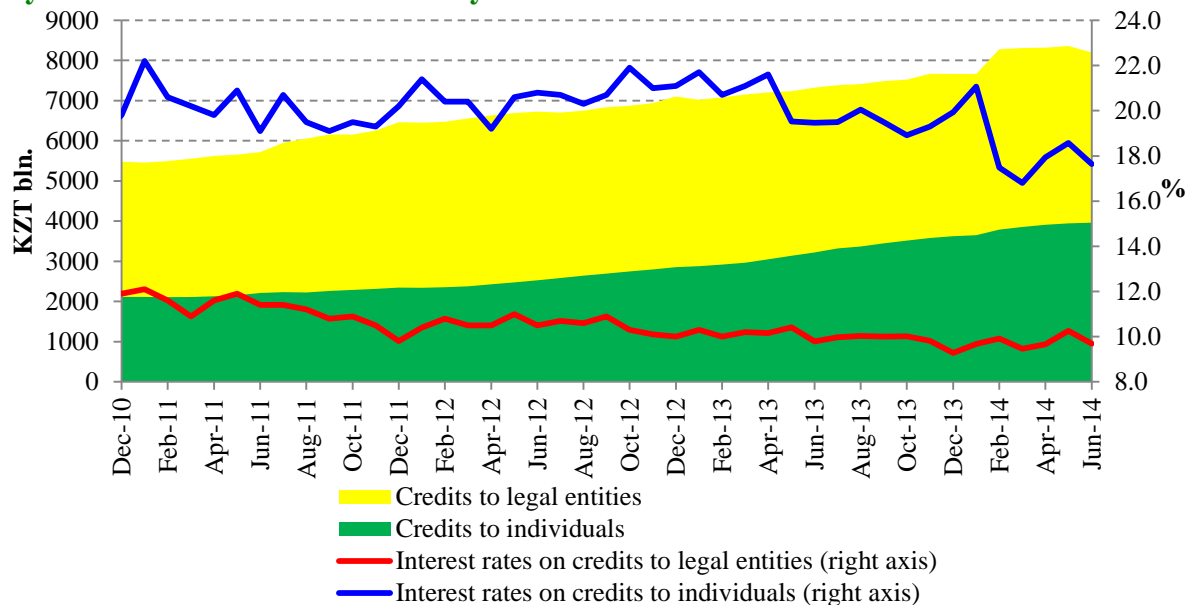
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.3%), other purposes (22.7%), new construction and reconstruction (12.7%), as well as for consumer needs of individuals (20.2%).

As per the breakdown by sector, the largest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 50.4%, trade – 19.6%, construction – 11.3%, and industry – 10.8%.

During the second quarter of 2014, credits delivered to the sector of trade increased by 2.8%. Credits to the communications sector decreased by 2.6%, to the industry – by 2.7%, agriculture – by 3.2%, transport – by 3.3%, and construction – by 6.1%.

Figure 28

Dynamics of credits to the economy and their interest rates



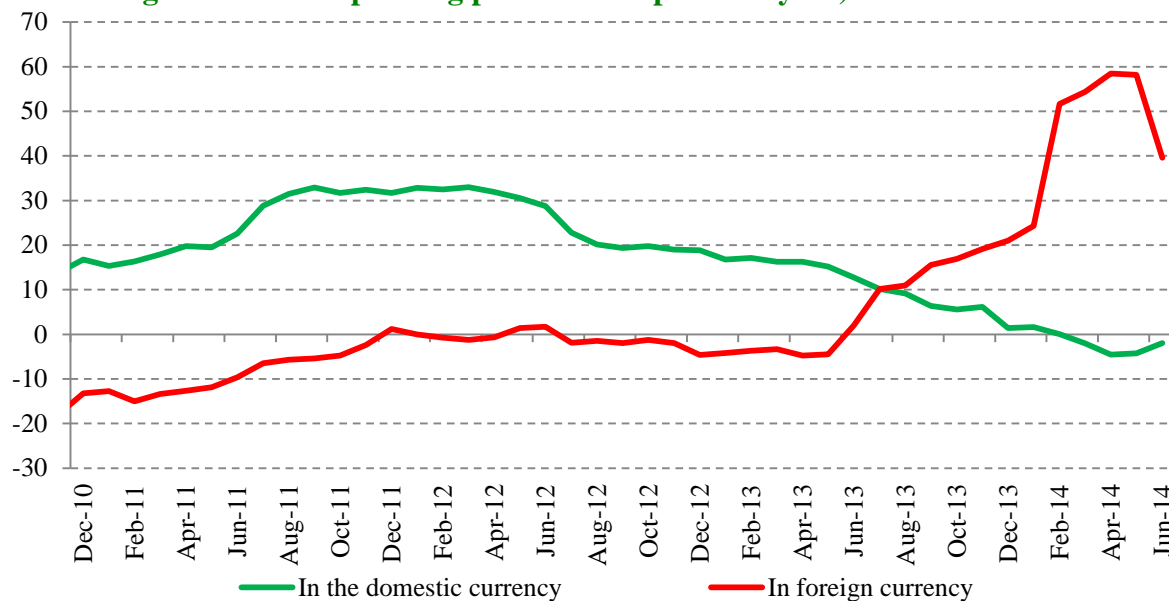
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in annual terms (June 2014 to June 2013) increased by 12.0%. There were changes in the structure of credits by their tenors. At end-June 2014, the share of medium- and long-term credits in total credits to legal entities accounted for 73.8%, whereas in March 2014 it was reaching 74.2%.

On a year-to-year basis, credits to legal entities in the domestic currency decreased by 2.0%, and foreign currency credits increased by 39.6% (Figure 29).

Figure 29

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



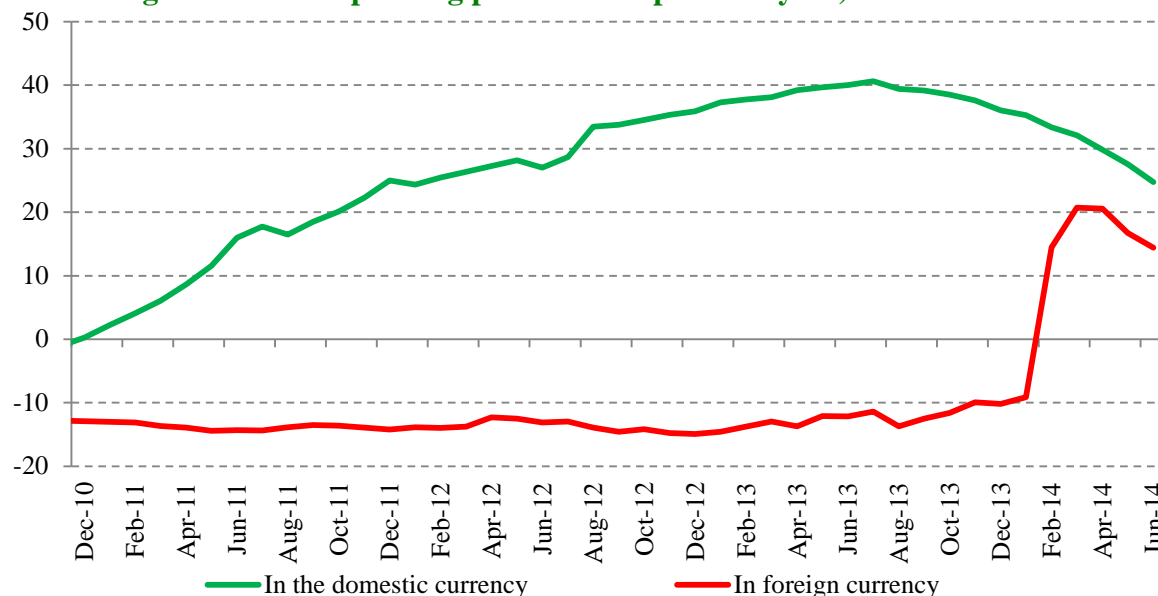
Source: National Bank of the Republic of Kazakhstan

In June 2014 as compared to the corresponding period of 2013, the volume of credits to individuals increased by 23.0%. At end-June 2014, the share of medium- and long-term credits in total credits to individuals slightly increased and accounted for 94.3% versus 93.6% in March 2014.

In annual terms, credits distributed to the population in the domestic currency demonstrated the increase of 24.8%, and in foreign currency – 14.4% growth (Figure 30).

Figure 30

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



Source: National Bank of the Republic of Kazakhstan

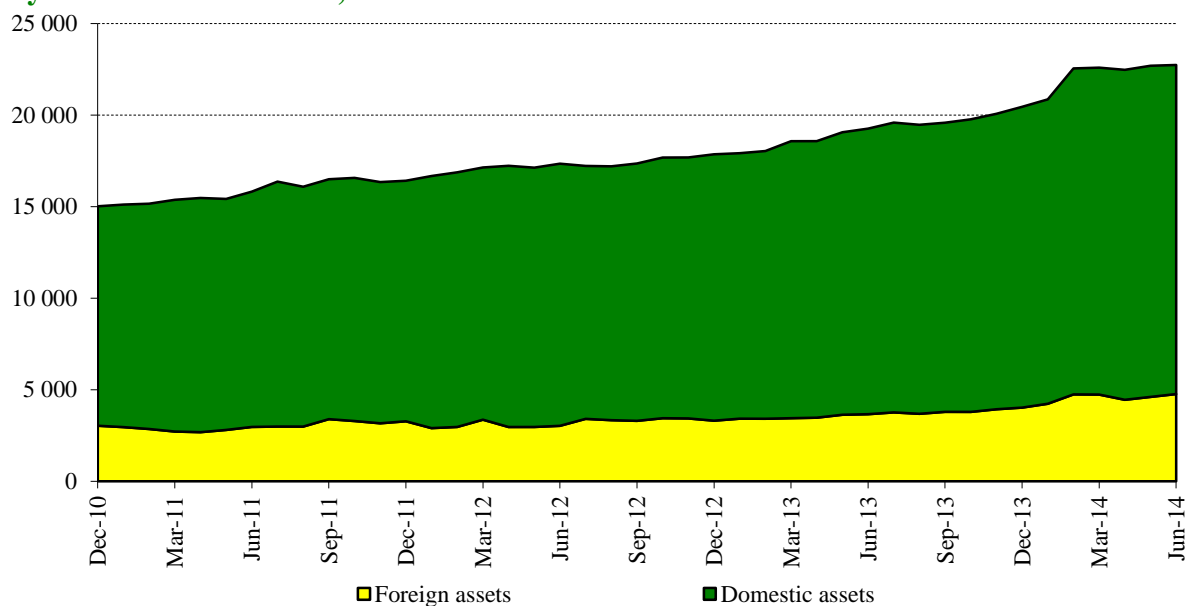
3.2.3. Bank Assets and Liabilities

– Assets

In the second quarter of 2014, the amount of bank assets calculated on the basis of the Monetary Survey increased by 0.6% to KZT 22.7 trln. On a year-to-year basis (June 2014 to June 2013), bank assets increased by 18.0% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

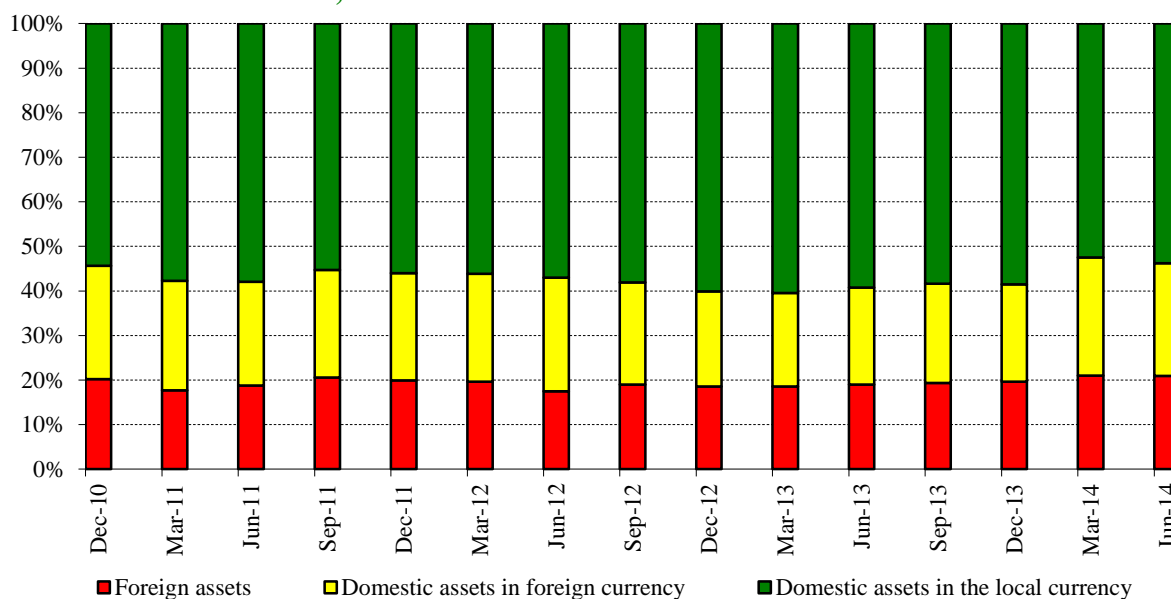
In June 2014, foreign assets of banks accounted for 21.0% of the total volume of assets or KZT 4.8 trln. They increased by 30.0% versus June 2013.

Within the structure of foreign assets in June 2014, credits to non-residents accounted for 48.7% (in March 2014 – 48.9%), deposits placed with non-residents – 28.5% (in March 2014 – 27.4%), securities issued by non-residents – 4.5% (in March 2014 – 5.0%), and other accounts receivable – for 18.3% (in March 2014 – 18.7%).

In June 2014, domestic assets accounted for 79.0% or 18.0 trln., with domestic assets in the local currency accounting for 68.0% or KZT 12.2 trln., and foreign currency assets – 32.0% or KZT 5.7 trln. During the second quarter of 2014, domestic assets increased by 0.7%, where assets in the local currency increased by 3.1%, and assets in foreign currency – decreased by 4.2% (Figure 32).

Figure 32

Structure of bank assets, %

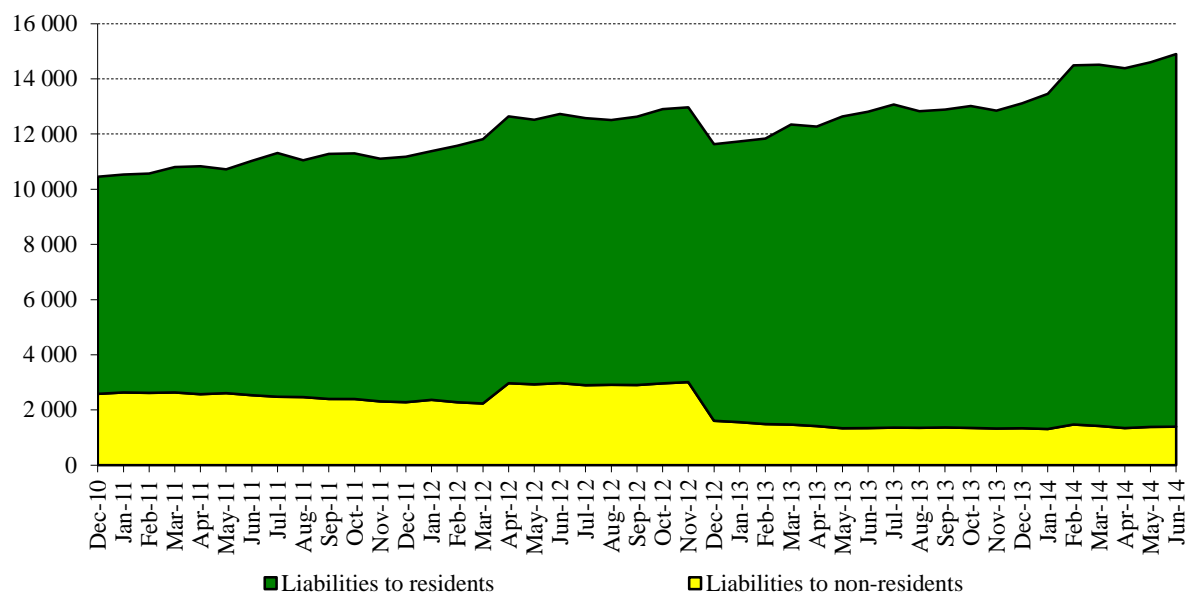


Source: National Bank of the Republic of Kazakhstan

– **Liabilities**

In the second quarter of 2014, total bank liabilities calculated on the basis of the Monetary Survey increased by 2.7% and amounted to KZT 14.9 trln. at end-June 2014 (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

In June 2014 as compared to March 2014, liabilities to non-residents decreased by 1.9% to KZT 1.4 trln. (US\$ 7.6 bln.), and increased by 3.8% versus the corresponding month of 2013. At end-June 2014, bank liabilities to non-residents accounted for 9.4% of total bank liabilities.

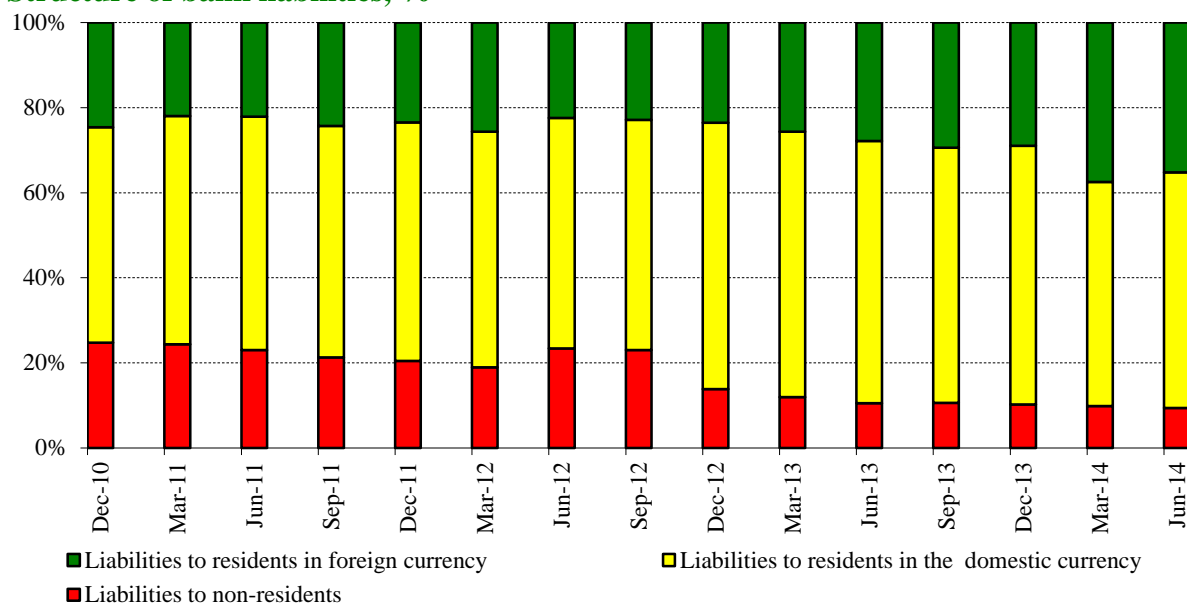
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in June 2014 as compared to March 2014 increased from 20.5% to 24.0%, the share of liabilities on securities decreased from 62.0% to 60.8%, and credits received from non-residents decreased from 15.6% to 12.9%, respectively.

During the second quarter of 2014, liabilities to residents increased by 3.2% to KZT 13.5 trln., with the 7.9% increase in liabilities in the domestic currency to KZT 8.3 trln., and 3.6% decrease in foreign currency liabilities to KZT 5.7 trln. (Figure 34).

Thus, in the second quarter of 2014, there was an increase in bank liabilities to residents and a decrease in liabilities to non-residents.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

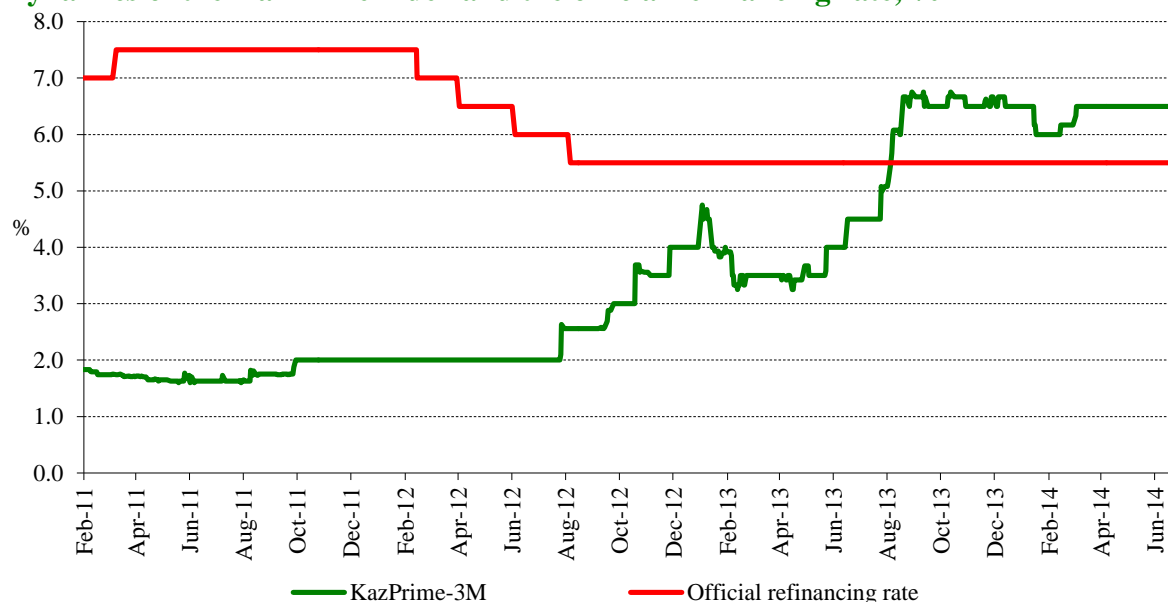
3.2.4. Financial Market Rates

In the second quarter of 2014, interest rates in the interbank market were decreasing.

The KazPrime index increased from 6.24% on average during the first quarter of 2014 to 6.50% on average during the second quarter of 2014. At end-June 2014 as compared to December 2013, the index remained unchanged – 6.50% (Figure 35).

Figure 35

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



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

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

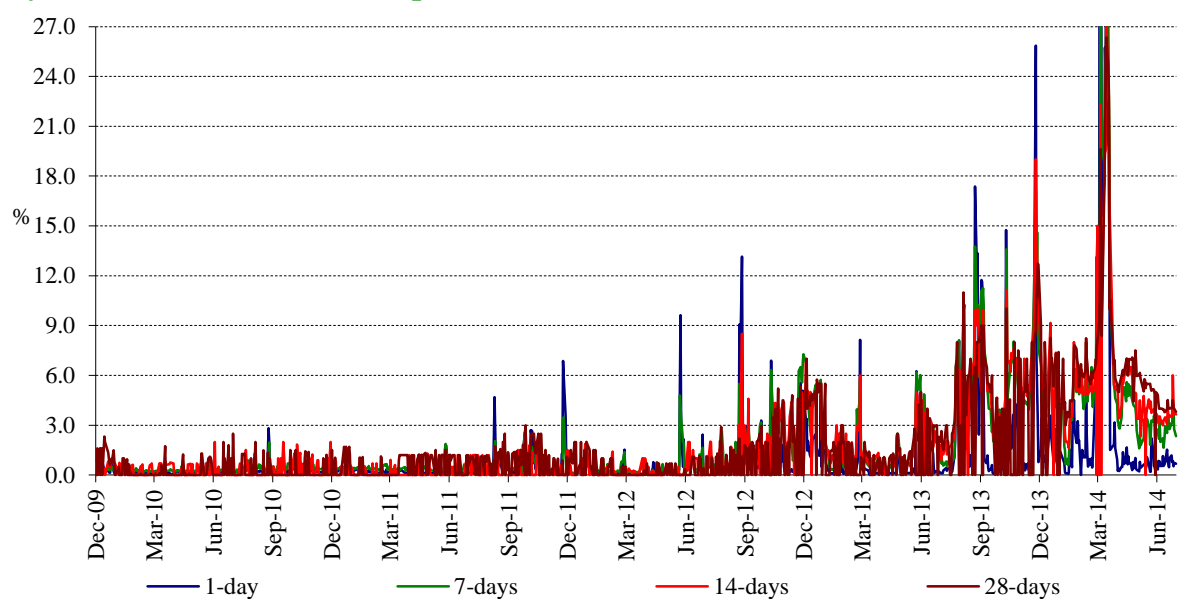
In the second quarter of 2014, the weighted average rate on 1-day operations in the sector of automatic REPO increased and accounted for 0.72% (in the first quarter of 2014 – 11.17%). Its maximum level was 2.22%, and minimum level – 0.19%.

The weighted average rate on 7-day REPO operations in the second quarter of 2014 was fluctuating within the range from 1.6% to 5.6% (during the period as a whole, the weighted average rate accounted for 3.41%), on 14-day REPO operations – from 2.35% to 6.72% (during the period as a whole, the weighted average rate accounted for 4.46%), and on 28-day REPO operations – from 3.79% to 7.50% (during the period as a whole, the weighted average rate accounted for 5.14%) (Figure 36).

In the second quarter of 2014, the transaction volumes in the sector of automatic REPO decreased by 24.2% versus the previous quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

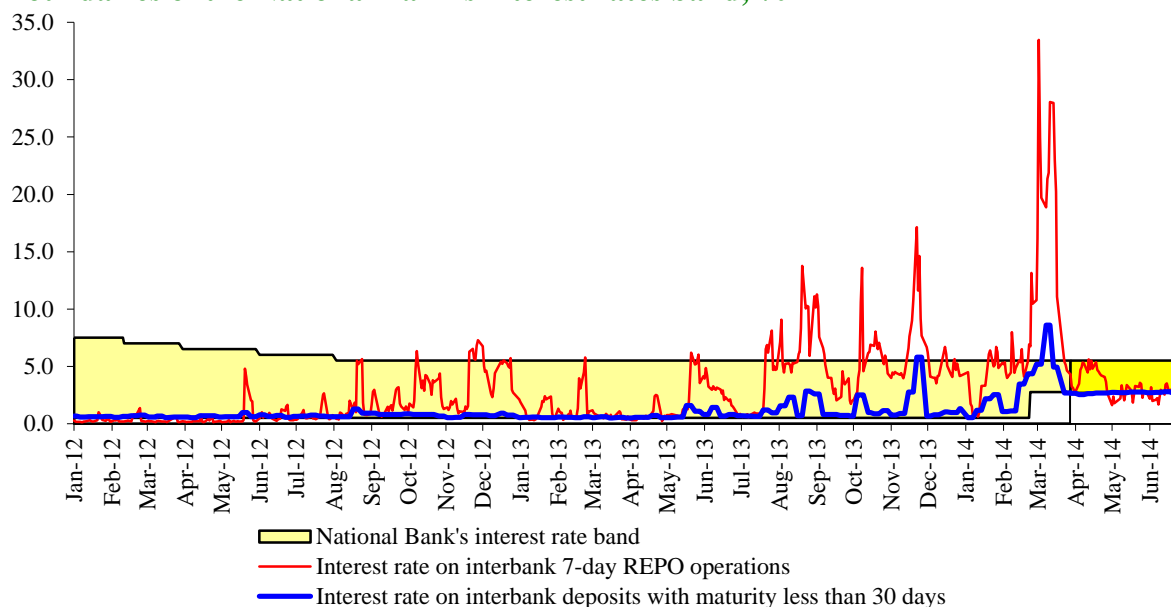
In the second quarter of 2014, the situation in the money market remained generally stable, and there were no significant fluctuations in the market.

In the second quarter of 2014, 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 2.75%.

Compared to the previous quarter, in the second quarter of 2014 the level of interest rates decreased. The weighted average rate on interbank deposits with maturity less than 30 days decreased from 3.14% in the first quarter of 2014 to 2.69% in the second quarter of 2014. The weighted average rate on 7-day interbank REPO operations decreased from 8.78% in the first quarter of 2014 to 3.41% in the second quarter of 2014 (Figure 37).

Figure 37

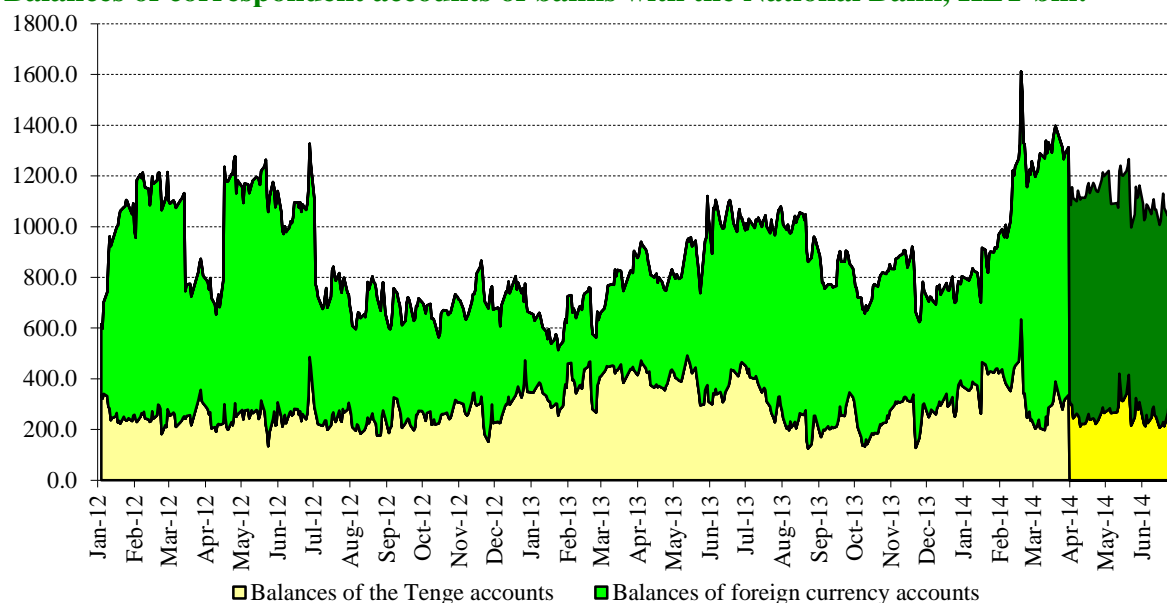
Boundaries of the National Bank's interest rates band, %



Source: National Bank of the Republic of Kazakhstan

In the second quarter of 2014, the dynamics in correspondent account balances of banks with the National Bank was multi-directional. In April-May 2014, correspondent account balances of banks in the domestic currency were demonstrating growth; in June 2014 they were gradually decreasing and started to grow again at the end of the period. Correspondent account balances of banks in foreign currencies slightly increased in April 2014, and in May-June of 2014 the trend for their gradual decline was observed. As a whole, the volume of correspondent account balances in the domestic currency at end-June 2014 as compared to March 2014, decreased by 4.3%, and correspondent account balances in foreign currency decreased by 18.4% (Figure 38).

Figure 38

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

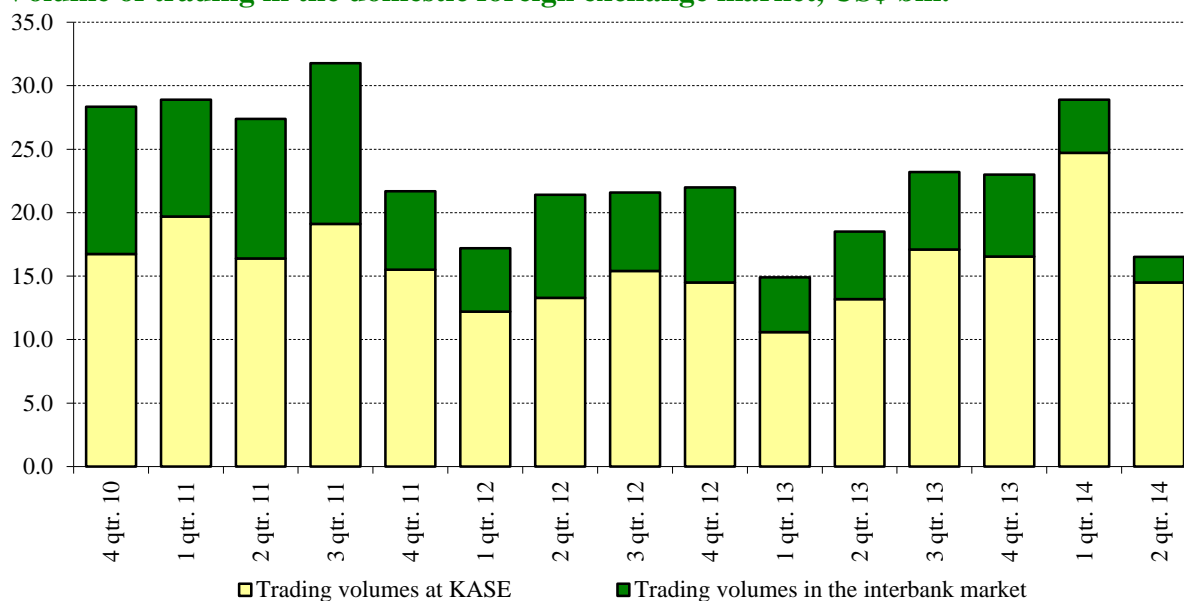
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the second quarter of 2014, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$ 16.5 bln., having decreased by 42.9% versus the first quarter of 2014.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange decreased by 41.5% versus the first quarter of 2014 and amounted to US\$ 14.5 bln. (net trades at the Kazakhstan Stock Exchange made up 90% of gross trades). During the second quarter of 2014, the volume of transactions in the off-exchange foreign currency market decreased by 51.8% as compared to the previous quarter and amounted to US\$ 2.0 bln. (Figure 39).

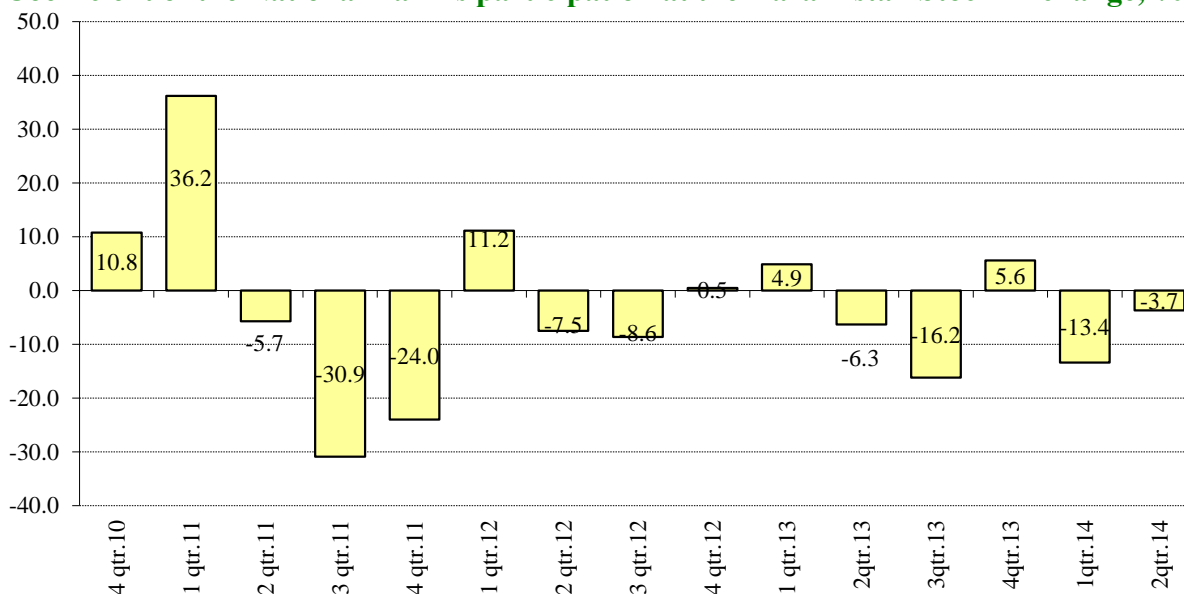
Figure 39

Volume of trading in the domestic foreign exchange market, US\$ bln.

Source: National Bank of the Republic of Kazakhstan

At the end of the second quarter of 2014, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -3.7% (in the first quarter of 2014 it was 13.4%) (Figure 40). Thus, in the second quarter of 2014, the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 40

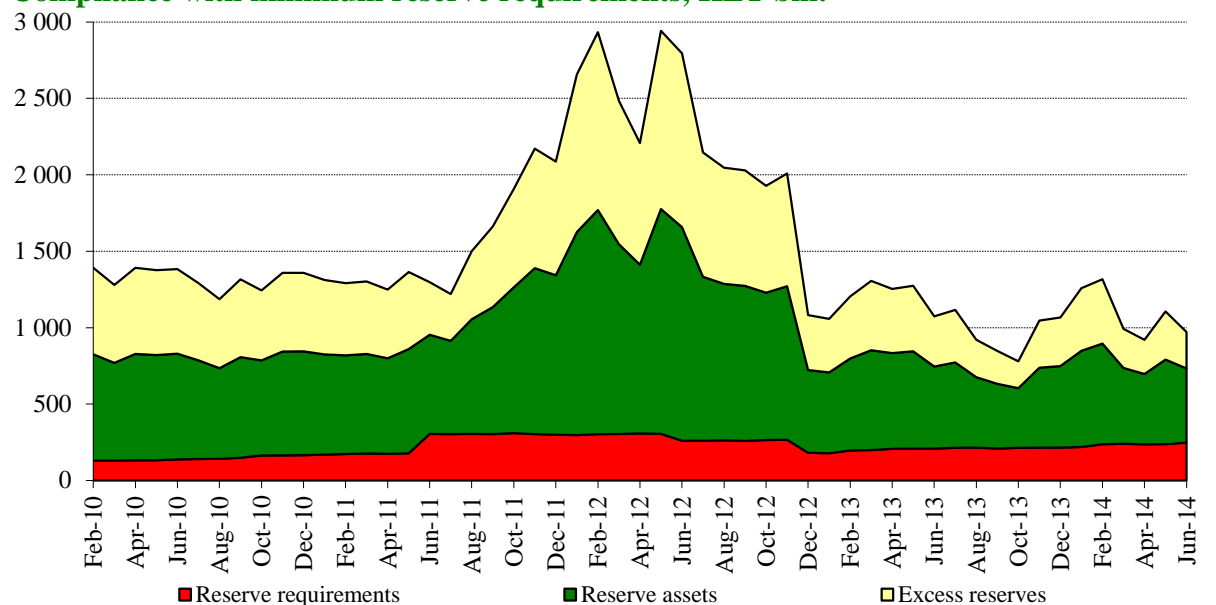
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %

Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During April-June of 2014, reserve assets exceeded the required reserving volume by 2.2 times on average (in the first quarter of 2014 – by 2.6 times, in the fourth quarter of 2013 – by 2.3 times) (Figure 41).

Figure 41

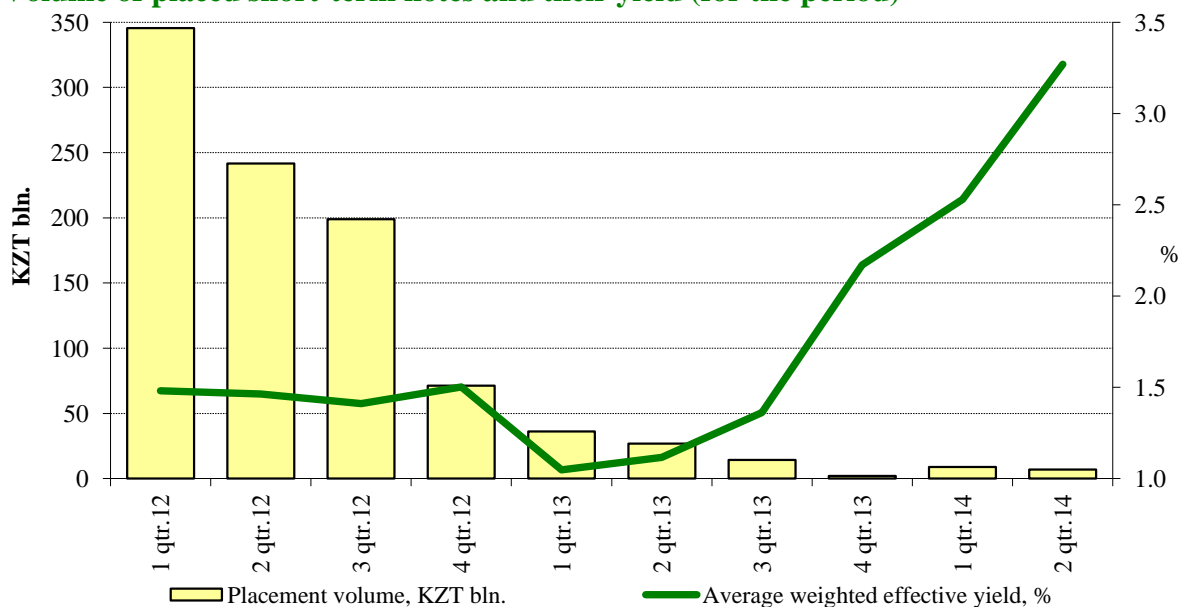
Compliance with minimum reserve requirements, KZT bln.

Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the second quarter of 2014, the demand of banks for short-term notes of the National Bank remained low. During the period, 3-month and 6-month notes totaling KZT 6.9 bln. were placed. The volume of short-term notes issued in the second quarter of 2014 decreased by 22.1% versus the first quarter of 2014. The average weighted yield on placed notes increased from 2.53% in January 2014 to 3.27% in May 2014 (Figure 42).

Figure 42

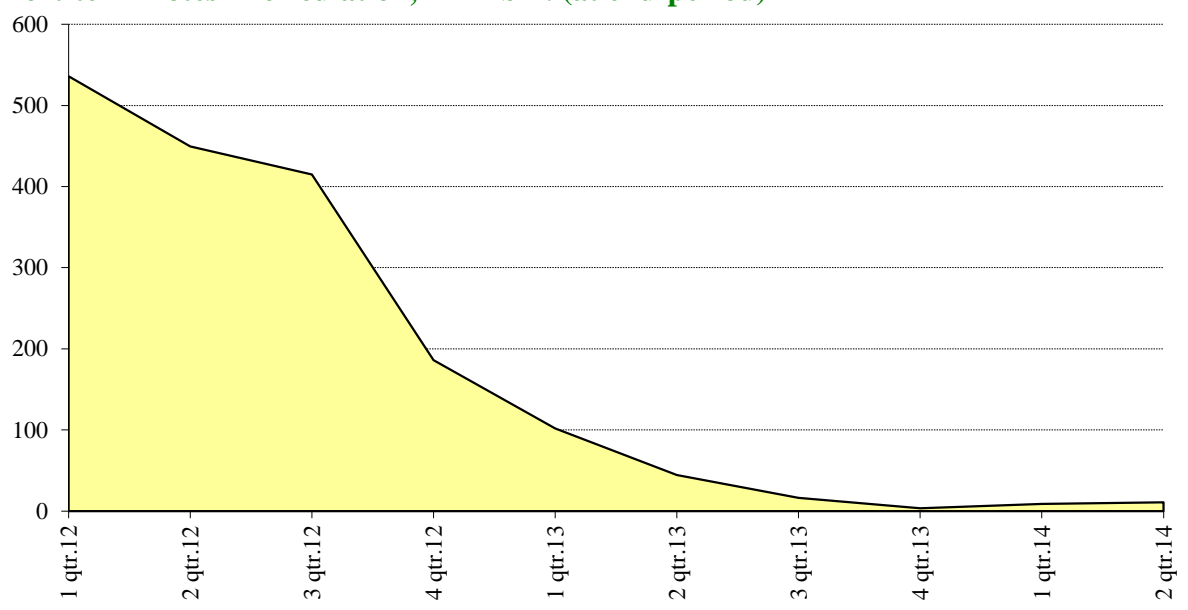
Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

At end-June 2014, the volume of short-term notes in circulation amounted to KZT 10.9 bln., which exceeds their volume at end-March 2014 by 22.1% (Figure 43).

Figure 43

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



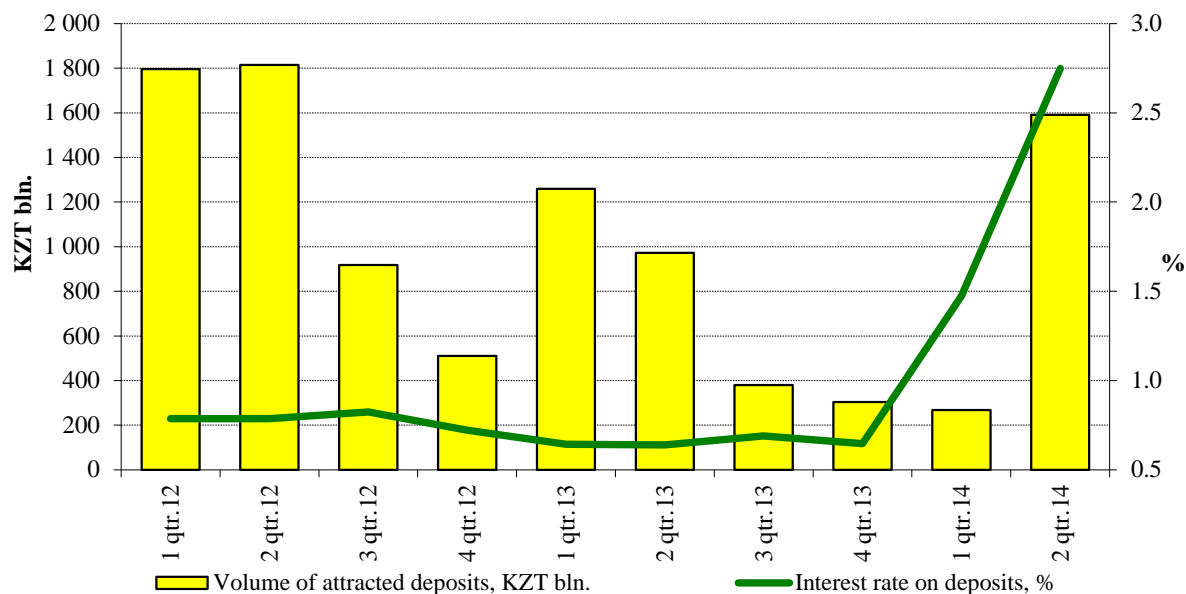
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the second quarter of 2014 as compared to the previous quarter, the volume of deposits attracted from banks increased. The maximum volume of attraction of bank deposits was recorded in May and June. During the second quarter of 2014 as a whole, deposits worth KZT 1.6 trln. were attracted, which exceeds their volume in the first quarter of 2014 by 6.0 times and the volume in the second quarter of 2013 – by 1.6 times.

The average interest rate on deposits increased from 1.47% in the first quarter of 2014 to 2.75% in the second quarter of 2014 (Figure 44).

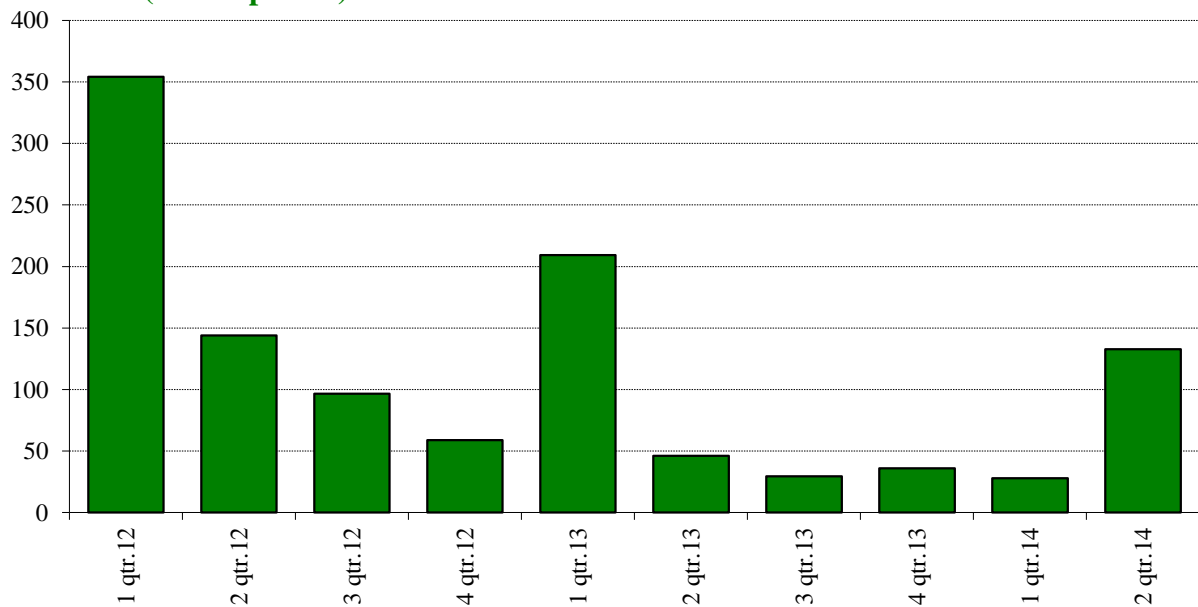
Figure 44

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

Source: National Bank of the Republic of Kazakhstan

In the second quarter of 2014, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-June 2014, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 132.7 bln., which exceeds the volume at end-March 2014 by 4.7 times (Figure 45).

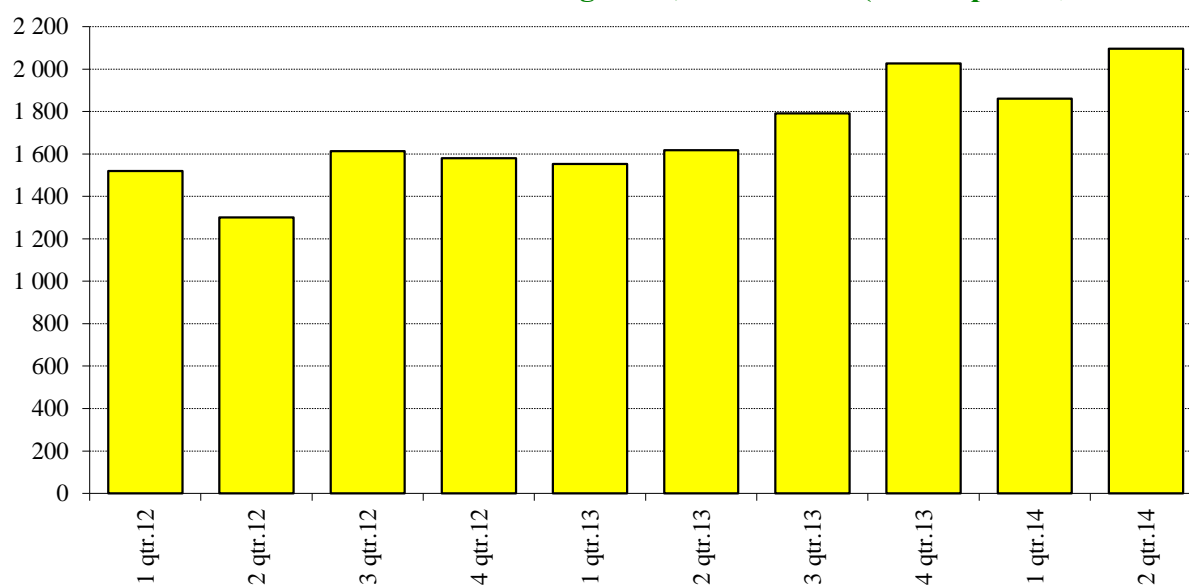
Figure 45

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 second quarter of 2014 amounted to KZT 2.1 trln. The volume of such operations increased by 12.7% 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