

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

**Inflation Report**  
**for the First 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 on 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 on 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

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In the first quarter of 2014, acceleration of inflationary processes was observed. At the end of March 2014, the annual inflation accounted for 6.2%, whereas in the fourth quarter of 2013 it was fixed at 4.8%. The adjustment of the Tenge exchange rate versus the US Dollar that was performed on February 11, 2014, served as the main source for the price growth. Along with that, the growth rates of prices for consumer goods notably increased whereas the growth of tariffs for paid services started to slow down. The moratorium for the increase in tariffs of natural monopolies that was brought into effect till May 1, 2014, was also conducive to the fact. Measures taken by the government and local executive authorities in order to stabilize prices and to prohibit unjustified price growth and shortage of goods helped decrease the price pressure.

During January-March 2014, the inflation accounted for 3.3% (in the first quarter of 2013 – 1.9%), which is notably higher than in the fourth quarter of 2013 – by 1.5%. In the structure of the consumer price index, prices for all major groups of goods and services increased. Acceleration of the price growth for foodstuffs and non-food products occurred because of the increase in price of imported goods in the domestic currency.

In the first quarter of 2014, the inflation was building up against minimal impact of monetary factors. During January-March 2014, the money supply (M3) as the main indicator of the supply of money increased by 10.3% and amounted to KZT 12796.2 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 quarter of 2014, according to preliminary data prepared by the Agency of Statistics of the Republic of Kazakhstan, accounted for 3.8%.

The real sector of the economy demonstrates multi-directional trends. During the first quarter of 2014 the industrial output decreased by 0.3%, among other things mainly because of decline in production in the mining industry and quarry operations – by 0.8%. The volume of electricity, gas and vapor supply and air conditioning increased by 1.6%, and the volume in the manufacturing industry increased by 0.3%. During the same period, the growth in agriculture accounted for 3.6%, and in the construction sector – for 3.9%.

As part of its monetary policy implementation, in the first 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, the official refinancing rate remained unchanged at 5.5% per annum; however, the interest rate on deposits attracted from banks has changed.

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 January-March 2014 amounted to KZT 8.9 bln., which is by 4 times less than in the same period of 2013. No short-term notes were issued in February-March 2014. Also, during the same period the volume of deposits attracted from banks decreased by 4.7 times to KZT 267.3 bln.

Total deposits with banks at the end of March 2014 amounted to KZT 11476.3 bln., having increased by 13.7% versus December 2013. Alongside with that, the volume of foreign currency deposits accounted for 45.0% during the same period.

In March 2014 as compared to December 2013, credits to the economy increased by 7.7% to KZT 12166.6 bln. During this period, the growth in the volume of credits to the population accounted for 6.3%.

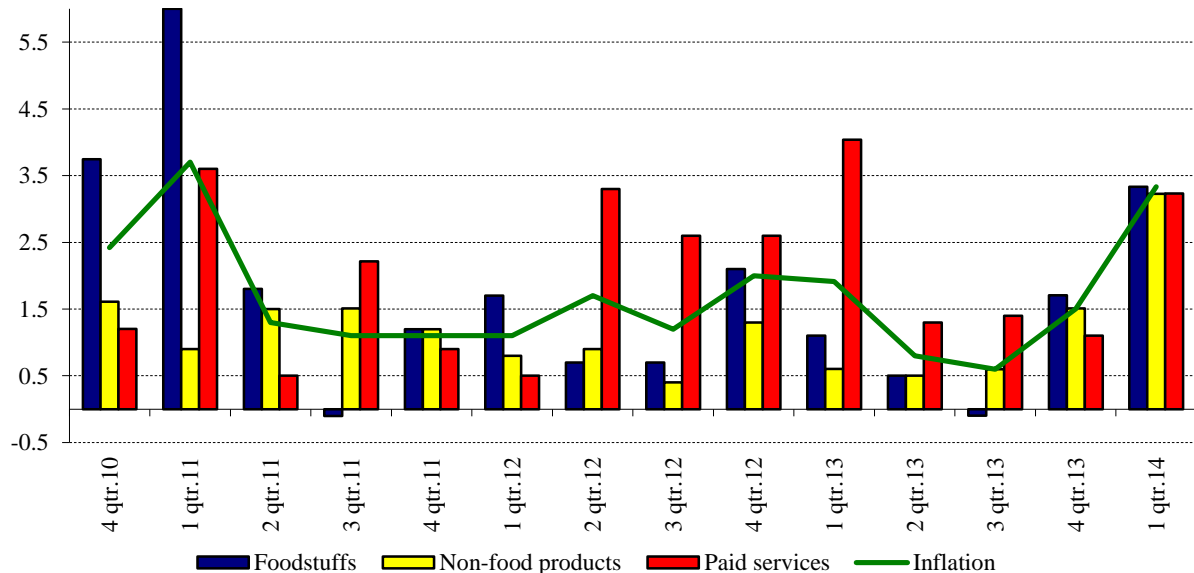
## 1. Inflationary Processes

### 1.1. Consumer Prices

In the first quarter of 2014, acceleration in the quarterly inflation was observed, mainly as a result of the exchange rate adjustment in February 2014. During this period, inflation accounted for 3.3% (in the first quarter of 2013 – 1.9%), whereas in the fourth quarter of 2013 it was at 1.5%. During January-March 2014, the inflation was building up under equal impact of all major groups of the consumer price index. Prices for foodstuffs increased by 3.3% (in the first quarter of 2013 – 1.1%). Non-food products and paid services increased by 3.2% (0.6% and 4.0%, respectively) in terms of price (Figure 1).

Figure 1

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



Source: Agency of Statistics of the Republic of Kazakhstan

In March 2014 versus December 2013, the highest increase in prices among foodstuffs occurred in the prices for fruits and vegetables – by 15.5%, including onions – by 43.8%, cabbage – by 37.9%, potatoes – by 25.3%, carrots – by 11.2%, sugar – by 9.0%, rice – by 4.0%, dairy products – by 3.9%, including cheeses – by 8.1%, and cottage cheese – by 7.2%. In addition to that, prices for fish and seafood increased by 2.7%, for macaroni products – by 1.9%, bread – by 1.2%, confectionery and non-alcoholic beverages – by 1.4% each, and tea – by 1.3%. During the same period, eggs cheapened by 12.2%, buckwheat – by 3.5%, sunflower oil – by 1.8%.

During January-March 2014, in the group of non-food products the prices for upper garments and fabrics increased by 2.2% each, for footwear – by 1.2%, medications – by 3.3%, household utensils – by 4.8%, including for household appliances and repair – by 6.5% each, detergents and cleansing products – by 5.8%. The price of gasoline increased by 0.1%, and the price of diesel fuel decreased by 0.4%.

In the structure of paid services, utility payments increased by 4.1% during the first quarter of 2014. Fees for cold water increased by 4.9%, rental payments – by 7.0%, solid waste collection – by 5.2%, electricity and gas transported by distribution networks – by 5.1%

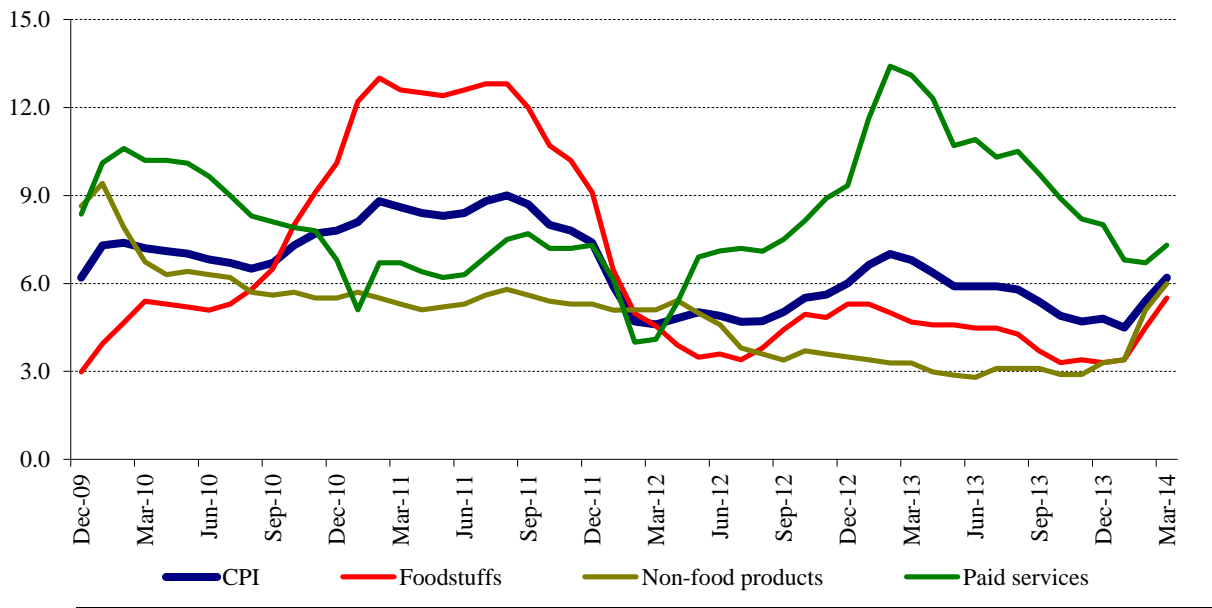


each; hot water fee increased by 2.7%, and the cost of upkeep – by 2.6%. Also, there was an increase in prices for transport services – by 3.6% (mainly due to increased prices for railway services – by 9.2%), for healthcare services – by 5.5%, as well as for services of restaurants and hotels – by 4.0%.

In March 2014, the annual inflation accounted for 6.2% (in December 2013 – 4.8%). In March 2014 versus March 2013, the price of foodstuffs increased by 5.5% (by 3.3%), the price of non-food products – by 6.0% (by 3.3%), and the price of paid services – by 7.3% (by 8.0%) (Figure 2).

Figure 2

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



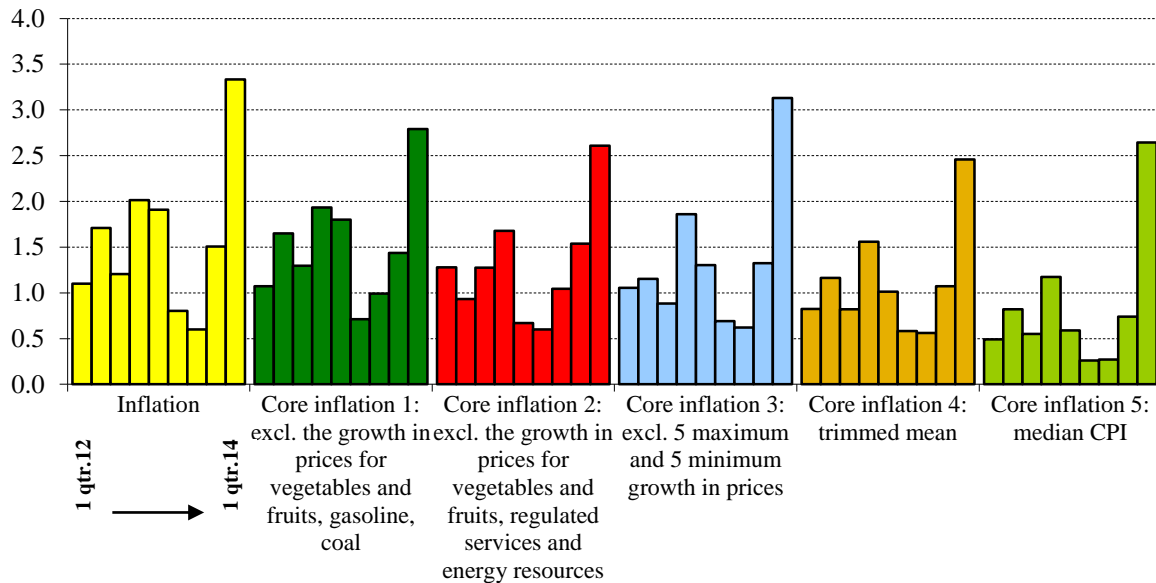
Source: Agency of Statistics of the Republic of Kazakhstan

**1.2. Core Inflation**

In the first quarter of 2014, core inflation indicators had been at a higher level both versus the previous quarter and versus the corresponding quarter of 2013. At the same time, 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.

Figure 3

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

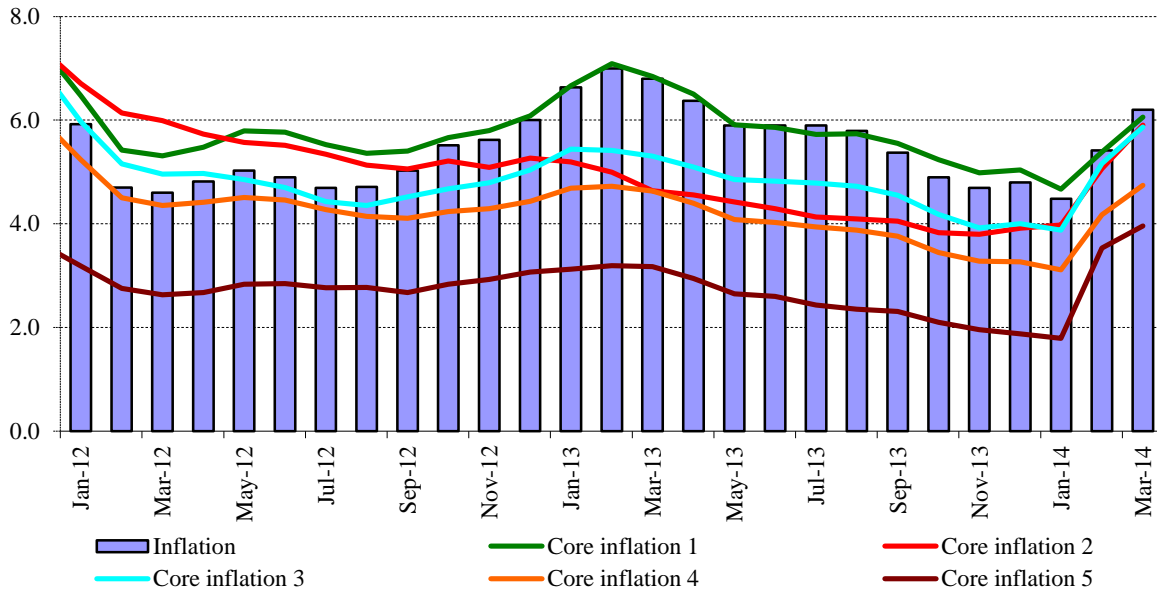


Source: Agency of Statistics of the Republic of Kazakhstan

In the first quarter of 2014, annual core inflation indicators were accelerating (Figure 4). At the same time, all core inflation indicators did not exceed the headline inflation at end-March 2014. At end-March 2014, all annual core inflation indicators had been at a higher level versus the indicators of December 2013. This shows slight acceleration of inflationary processes observed in the first quarter of 2014 (Figure 4).

Figure 4

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



Source: Agency of Statistics of the Republic of Kazakhstan

**1.3. Prices in the Real Sector of the Economy**

**1.3.1. Prices in the Industry**

In the first quarter of 2014, the producer prices increased by 11.3% (in the first quarter of 2013 – 1.5% growth). The cost of output increased in terms of price by 12.0%; at the same time, in its composition the price of interim consumption products increased by 13.6%, the means of production increased by 6.2% in terms of price, and the price of consumer goods increased by 1.6%. The prices of production services increased by 3.9%.

In the first quarter of 2014, prices in the mining industry increased by 14.0% versus the corresponding period of 2013 (in the first quarter of 2013 – the growth of 2.1%); in all likelihood, this was caused by the adjustment of the domestic currency exchange rate in February.

The price of energy resources, after its 2.6% decline in the previous quarter, in the first quarter of 2014 increased by 14.3% (in the first quarter of 2013 – the growth of 1.6%). Within raw energy resources, the price of oil extraction, because of its growth during three months (the largest growth in March – 11.0%), increased by 15.1% (in the first quarter of 2013 – 1.4%), the price of gas condensate increased by 19.3% (in the first quarter of 2013 – 3.3% growth).

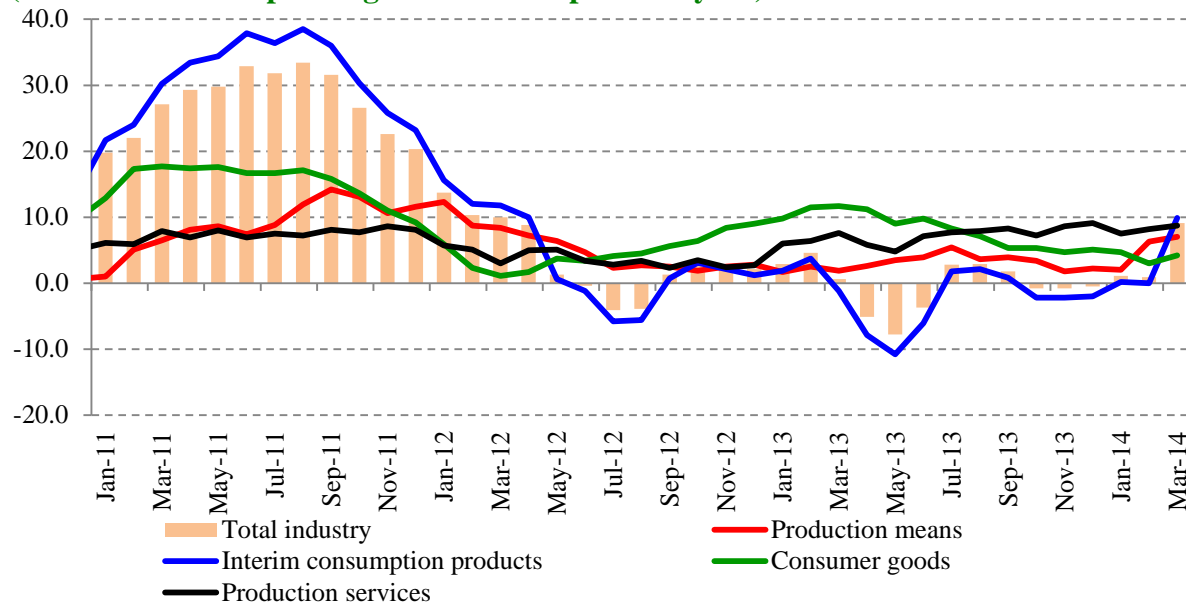
Prices in the mining industry, after their 0.4% decline in the previous quarter, increased by 6.2% in the reporting period (in the first quarter of 2013 – the decline of 0.8%). Alongside with that, in the first quarter of 2014 prices in the metallurgical industry increased by 13.8%, the cost of foodstuff production increased by 3.0% and refinery products increased by 6.1% in terms of price.

In the first quarter of 2014, prices in the electricity, gas and vapor supply and air conditioning increased by 5.7% (in the first quarter of 2013 – the growth of 4.8%).

In March 2014, the year-to-year growth in prices in industrial production (March 2014 to March 2013) accounted for 9.1% (in December 2013 - the annual decline in prices accounted for 0.5%) (Figure 5).

Figure 5

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



Source: Agency of Statistics of the Republic of Kazakhstan

The cost of output increased by 9.1% in annual terms, while the price of interim consumption products increased by 9.9%, the price of consumer goods increased by 4.2%, and the price of production means increased in price by 7.0%. The price of production services increased by 8.7%.

**1.3.2. Prices in Agriculture**

In the first quarter of 2014, prices for agricultural production realized across all channels increased by 1.1% (in the first quarter of 2013 – the growth of 3.1%). The dynamics of prices in agriculture was impacted by a higher growth in prices for plant production as compared to the livestock sector.

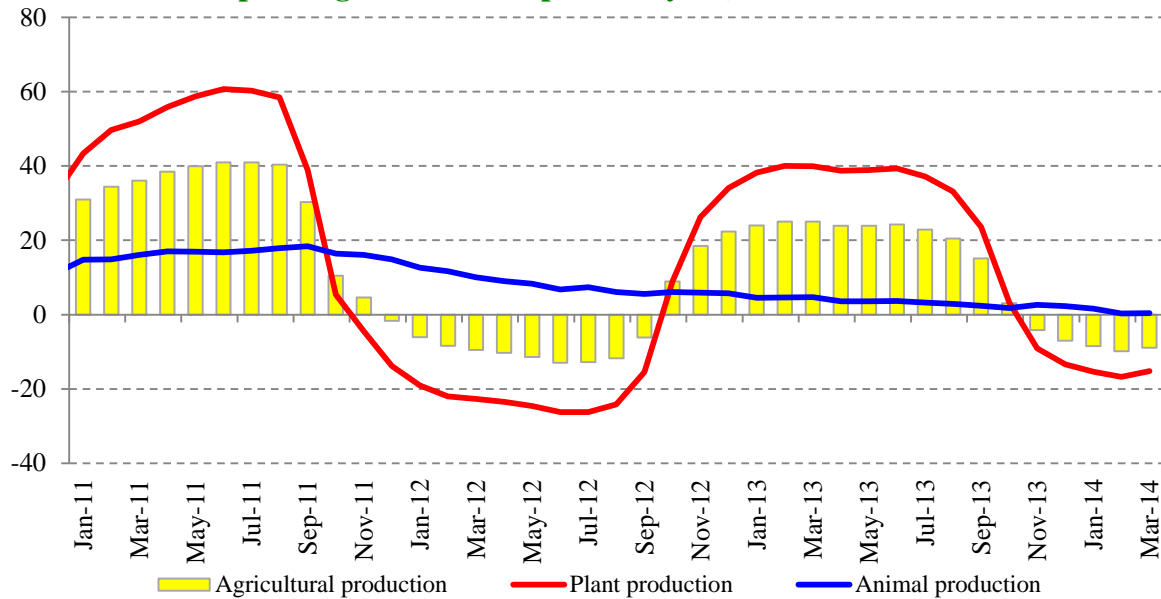
As compared to 9.7% decline in prices in the previous quarter, during January-March 2014 the plant production increased by 1.6% in terms of price (in the first quarter of 2013 – the growth of 3.9%). Within the plant production, prices for grain cultures increased by 1.2%, the price of vegetables increased by 10.6%, and potatoes increased by 7.3% in terms of price.

The price of animal production, after the 5.0% price growth in the fourth quarter of 2013, in the first quarter of 2014 increased by 0.2% (in the first quarter of 2013 – the growth of 2.1%). During January-March 2014, prices for flesh meat and poultry increased by 1.6%, the price of unpasteurized milk grew by 5.9%, and eggs decreased in price by 30.4%.

At end-March 2014, prices for agricultural products decreased by 8.9% in annual terms. The price of plant production decreased by 15.2%, and the price of animal production increased by 0.4% (Figure 6).

Figure 6

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



Source: Agency of Statistics of the Republic of Kazakhstan

**1.3.3. Monitoring of Enterprises**

In the first quarter of 2014, the demand for final products of enterprises in the real sector of the economy as a whole notably decreased; this is evidenced by the diffusion index of the change in the demand, which had fallen to 41.9 (from 49.4 in the fourth quarter of 2013). The indicator fell due to decreased share of enterprises with increased demand for their products (to 13.1% from 20.1% in the fourth quarter of 2013) and increased share of enterprises that noted the decrease in the demand for their products (to 29.4% from 21.4% in the fourth quarter of 2013).

Significant decrease in the demand was observed in such sectors as “accommodation and catering services”, “wholesale and retail trade, repair of cars and motorcycles”, “manufacturing industry”, “transport and warehousing”, and “construction”: the diffusion index in these sectors fell, respectively, to 38.6, 37.6, 38.4, 40.3 and 41.5 from 60.8, 47.8, 44.5, 48.9 and 47.9 in the fourth quarter of 2013. At the same time, there was a notable growth in the demand in the sector of “water supply, sewage system, control over waste collection and distribution”: the diffusion index had risen, respectively, to 57.7 from 44.2 in the fourth quarter of 2013. In the sector of “electricity, gas and vapor supply and air conditioning” growth rates of the demand slowed down significantly: the diffusion index had fallen to 55.4 (from 70.1 in the fourth quarter of 2013).

According to expectations of enterprises, in the second quarter of 2014 versus the first quarter of 2014, the demand for the final products of enterprises in the real sector as a whole notably increased: the diffusion index was 55. Alongside with that, the growth in the demand is anticipated virtually in all sectors: construction (the diffusion index had risen to 57 from 41.5 in the first quarter of 2014), “transport and warehousing” (to 53.1 from 40.3 in the first quarter of 2014), “mining industry” (to 56.4 from 48.1 in the first quarter of 2014), “agriculture, forestry and fishery” (to 61.1 from 55.4 in the first quarter of 2014), “information and communications” (to 52.3 from 45.3 in the first quarter of 2014), “wholesale and retail trade...” (to 53.7 from 37.6 in the first quarter of 2014). It is only the sector of

“electricity, gas and vapor supply...” where a notable decrease in the demand is anticipated (the diffusion index had fallen to 41 from 55.4 in the first quarter of 2014) caused by the seasonal factor.

In the first quarter of 2014, prices for final products of enterprises in the real sector of the economy as a whole increased significantly: the diffusion index of the change in prices for final products was 66.5 (in the fourth quarter of 2013 – 54.4). The growth in prices was observed in all sectors: “manufacturing industry” (the diffusion index was 68.7), construction (67.3), “electricity, gas and vapor supply...” (65.7), “accommodation and catering services” (63.2), “agriculture, forestry and fishery” (62), “water supply, sewage system...” (61.5).

In the first quarter of 2014, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) also significantly increased: the diffusion index was 65.3 (in the fourth quarter of 2013 it was 54.1).

In the second quarter of 2014 versus the first 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 was 62.8). The largest increase in the rates of price growth is anticipated in such sectors as: construction (the diffusion index was 66.6), manufacturing industry (64.9), “agriculture, forestry and fishery” (61.7), “accommodation and catering services” (61.4), and the “mining industry” (60.5).

In the second quarter of 2014, according to expectations of enterprises, prices for consumer products and services will continue to grow with some slowdown in the growth rates: the diffusion index of the change in prices made up 62.2 (65.3 in the first quarter of 2014).

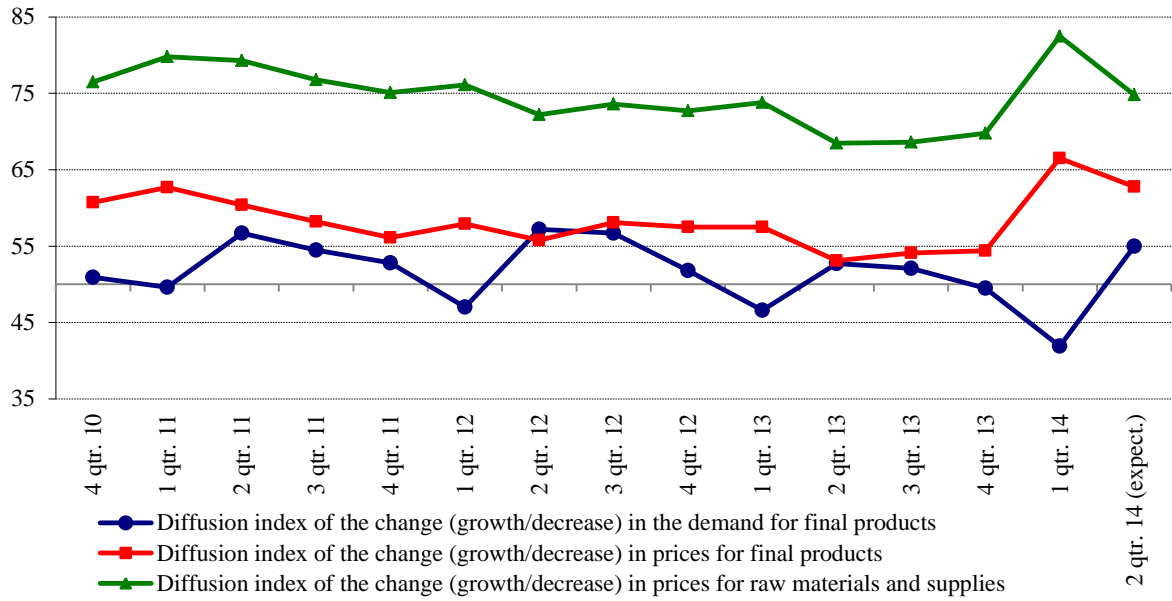
In the first quarter of 2014, the rates of growth in prices for raw materials and supplies continued to grow at higher rates: the diffusion index of the change in prices was 82.5 (in the fourth quarter of 2013 – 69.7). Increased rates of the price growth were observed in such sectors as: “accommodation and catering services” (the diffusion index has risen to 88.6 from 74.2 in the fourth quarter of 2013), “manufacturing industry” (to 85.5 from 67.9 in the fourth quarter of 2013), “electricity, gas and vapor supply...” (to 85.5 from 69.5 in the fourth quarter of 2013), construction (to 85 from 72.7 in the fourth quarter of 2013), “agriculture, forestry and fishery” (to 84.8 from 74.6 in the fourth quarter of 2013), and “mining industry” (to 80.6 from 73.7 in the fourth quarter of 2013).

According to expectations of enterprises, in the second quarter of 2014 prices for raw materials and supplies will continue to grow, заметно снизив темпы (the diffusion index was 74.8).

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 prices for final products and raw materials and supplies are expected in the second 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. Aggregate Demand

In the fourth quarter of 2013, GDP based on the final consumption method as compared to the corresponding period of 2012 increased in real terms, according to estimate, by 6.6% (in the fourth quarter of 2012, according to estimate, the growth accounted for 4.4%, and in the third quarter of 2013 the growth accounted for 6.5%).

The GDP growth in the fourth quarter of 2013 was impacted by the growth in gross formation while spending on final consumption decreased because of decreased household spending on current consumption, as well as decreased net exports.

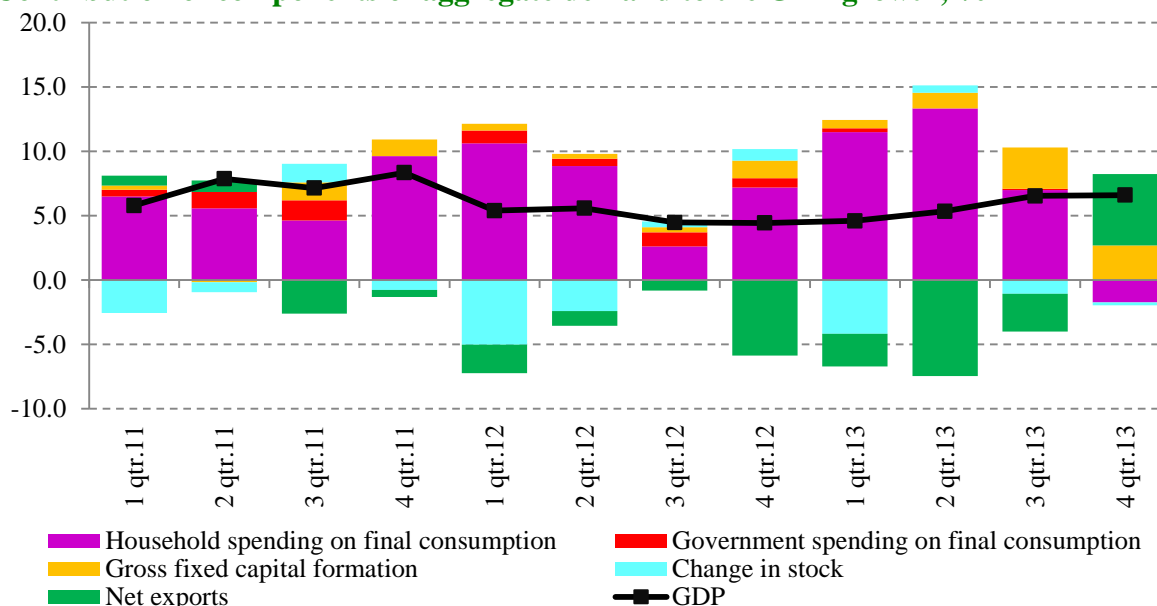
In the fourth quarter of 2013, according to estimate, spending on final consumption in general decreased versus the corresponding quarter of 2012 by 1.7% (the third quarter of 2013 – the growth of 12.4%), gross formation increased by 9.2% (the growth of 5.5%) and net exports decreased by 76.7% (the decrease of 160%).

As a result, household spending on consumption and general government spending on consumption made, respectively, negative and positive contribution to the formation of the GDP growth of (-)1.7% and (+)0.03%, respectively, and gross formation increased GDP by (+)2.5%.

Within the gross formation, fixed capital formation accounted for (+)2.7%, and the change in stock accounted for (-)0.2%. In their turn, net exports made positive contribution to the GDP growth of (+)5.5% (Figure 8).

Figure 8

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



Source: Information of the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

#### 2.1.1. Individual Consumption and Investment Demand

In the fourth quarter of 2013, household spending on final consumption decreased versus the corresponding period of 2012 by 2.4% (in the third quarter of 2013 – the growth of 14.4%).

In the fourth quarter of 2013, the growth rate of per capita income in nominal terms accelerated to 9.3% (in the third quarter of 2013 – the growth of 9.0%), and in real terms it

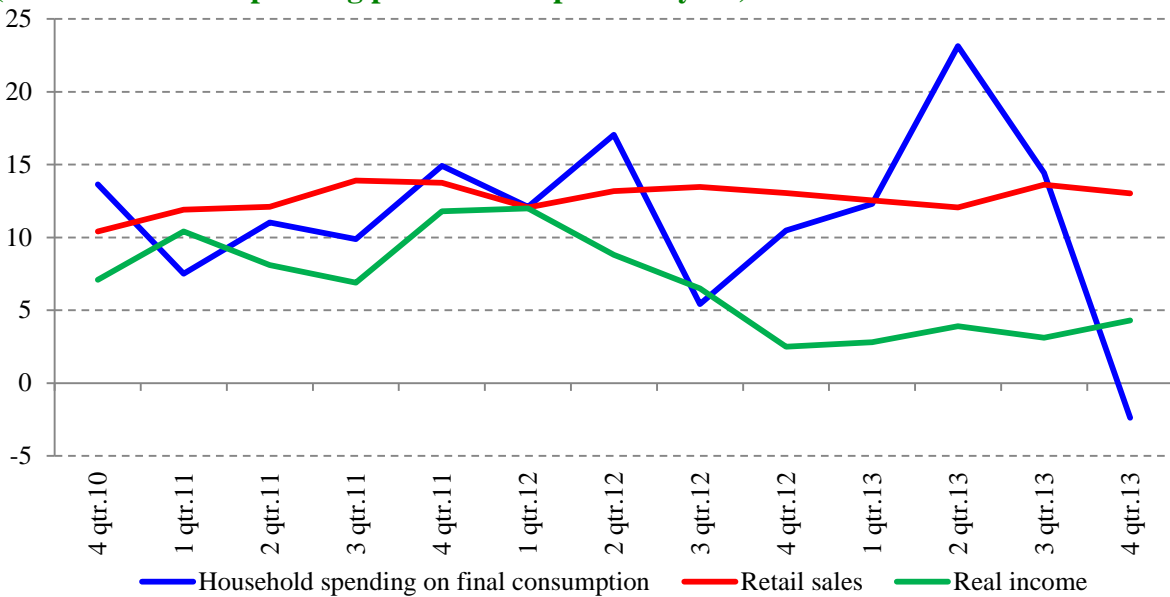


accelerated to 4.3% (the growth of 3.1%). At the same time, acceleration of the growth rates of household income didn't significantly affect retail sales, whose growth rates slightly decreased as compared to the third quarter of 2013, accounting for 13.0% (in the third quarter of 2013 – the growth of 13.6%).

The slowdown in the growth rates of retail sales was minor, however, one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption decreased to a greater extent by 2.4%, whereas a quarter before the growth accounted for 14.4% (Figure 9).

Figure 9

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



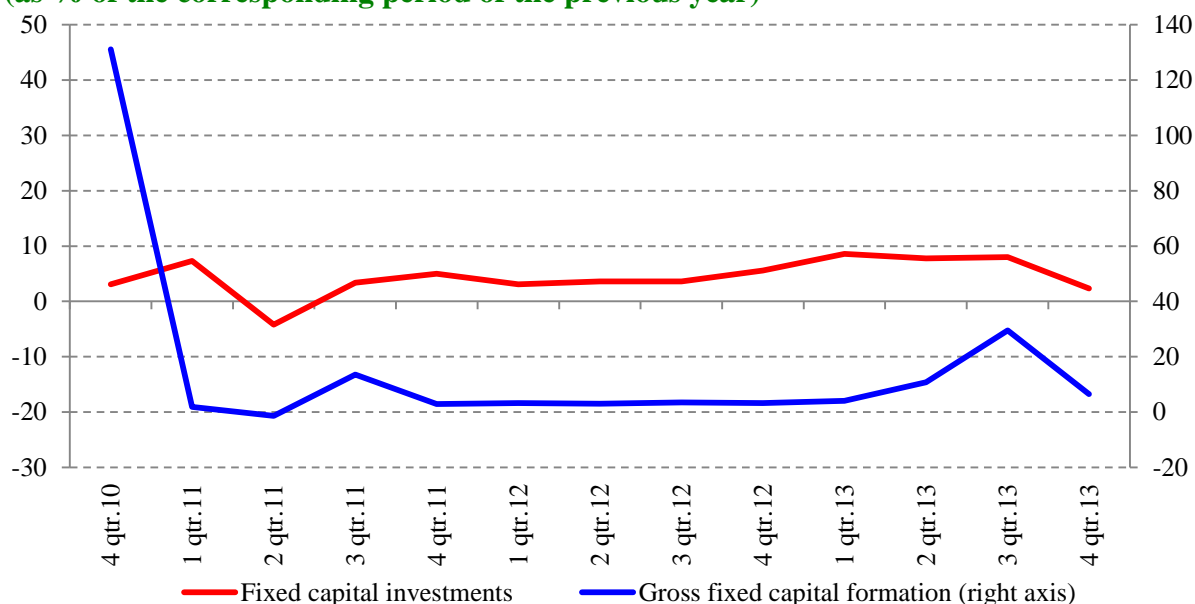
Source: Information of the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

Accelerated growth in the household income along with decreased retail sales was to a certain extent caused by growing activity in the deposit market. In the fourth quarter of 2013, household deposits increased by 5.2% on the whole; deposits in the domestic currency increased by 5.1%, whereas foreign currency deposits increased by 5.4%.

In the fourth quarter of 2013, decreased investment activity of enterprises was conducive to the slowdown in fixed capital investments to 2.3% (in the third quarter of 2013 the growth accounted for 8.0%). At the same time, the growth in gross fixed capital formation slowed down and its ratio versus the corresponding quarter of 2012 decreased to 6.5% (the third quarter of 2013 – the growth of 29.5%); despite the slowdown in its growth, gross fixed capital formation made positive contribution to the GDP growth of (+)2.7%, while the change in stock had negative impact on the GDP growth of (-)0.2% (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 Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

### 2.1.2. Government Consumption

In the fourth quarter of 2013 versus the corresponding period of 2012, government spending on final consumption increased by 0.3% (in the third quarter of 2013 – the growth of 1.0%).

During the fourth quarter of 2013 as a whole, the state budget spending was financed in the amount of KZT 2.1 trln. or 20.6% of GDP (as compared to the fourth quarter of 2012 – 11.0% increase).

Current state budget expenditures totaled KZT 1.5 trln., exceeding those of the fourth quarter of 2012 by 10.4%. Within the current expenditures, the following items demonstrated significant increase as compared to the corresponding quarter of 2012: expenditures related to purchases of services and works (by 4.1 times), interest payments on the domestic loans (by 33.0%), current transfers to individuals (by 11.9%), salaries and wages (by 5.6%), and contributions by employers (by 3.2%). At the same time, there was a decrease in expenditures related to current transfers abroad (by 92.4%), purchases of stock (by 88.1%), wage payouts to certain groups of individuals and deductions of contributions (by 83.2%), interest payments on foreign loans (by 11.8%) and current transfers to legal entities (by 2.5%).

In the fourth quarter of 2013, capital expenditures in the state budget increased by 1.6% versus the same period of 2012, mainly due to increased expenses on capital expenditures allocated to development, against reduced expenditures related to the major overhaul of property, plant and equipment.

In the fourth quarter of 2013 as compared to the fourth quarter of 2012, budget credits decreased by 74.0%, and expenditures related to acquisition of financial assets increased by 4.6 times.

During the fourth quarter of 2013, the state budget revenues totaled KZT1625.1 bln. or 15.8% of GDP, exceeding revenues in the fourth quarter of 2012 by 20.1%. In the structure of the state budget revenues two items are still prevailing: tax revenues – 90.7% (in the fourth quarter of 2012 – 94.1%), and official transfers – 5.2% (0.4%). 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 80.5 bln.

In the fourth quarter of 2013 as a whole, tax revenues increased by 20.1% versus the fourth quarter of 2012. The growth was secured by increased receipts on the value-added tax, personal income tax, social tax, excises, and corporate income tax, whereas revenues from the use of natural and other resources decreased by 13.8%.

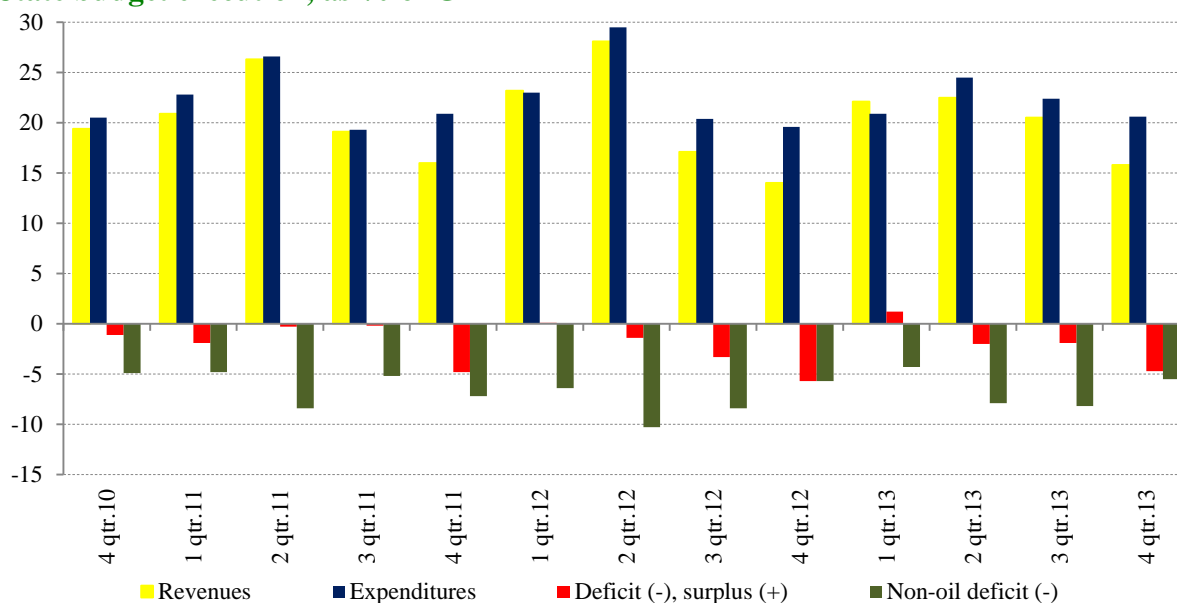
In the fourth quarter of 2013 as compared to the fourth quarter of 2012, non-tax revenues increased by 7.8%, mainly due to increased revenues from realization of goods (works, services) by state-owned entities funded from the budget, penalties, fines, sanctions, charges imposed by state-owned entities funded from the budget.

In the fourth quarter of 2013, the revenues from transfers increased by 16.1 times as compared to the fourth quarter of 2012, and revenues from the sale of fixed capital decreased by 22.6%.

Since expenditures were in excess of revenues in the fourth quarter of 2013, the state budget showed up a deficit of KZT 484.7 bln. (4.7% of GDP), in the fourth quarter of 2012 the deficit amounted to KZT 548.5 bln. (5.5% of GDP) (Figure 11). It should be noted that without the guaranteed transfer of KZT 80.5 bln. to the republican budget from the National Fund, the fourth quarter of 2013 would have ended with the non-oil deficit of KZT 565.2 bln.

Figure 11

**State budget execution, as % of GDP**



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

During the fourth quarter of 2013, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 431.9 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 71.7 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 124.5 bln.

As of January 1, 2014, the government domestic debt amounted to KZT 3614.6 bln. (35.2% of GDP), which exceeds the amount as of January 1, 2013 by 24.8% (29.1% of GDP). The growth was secured by the issue of government long-term savings treasury obligations (MEUZHKAM), government short-term treasury obligations (MEKKAM), government long-

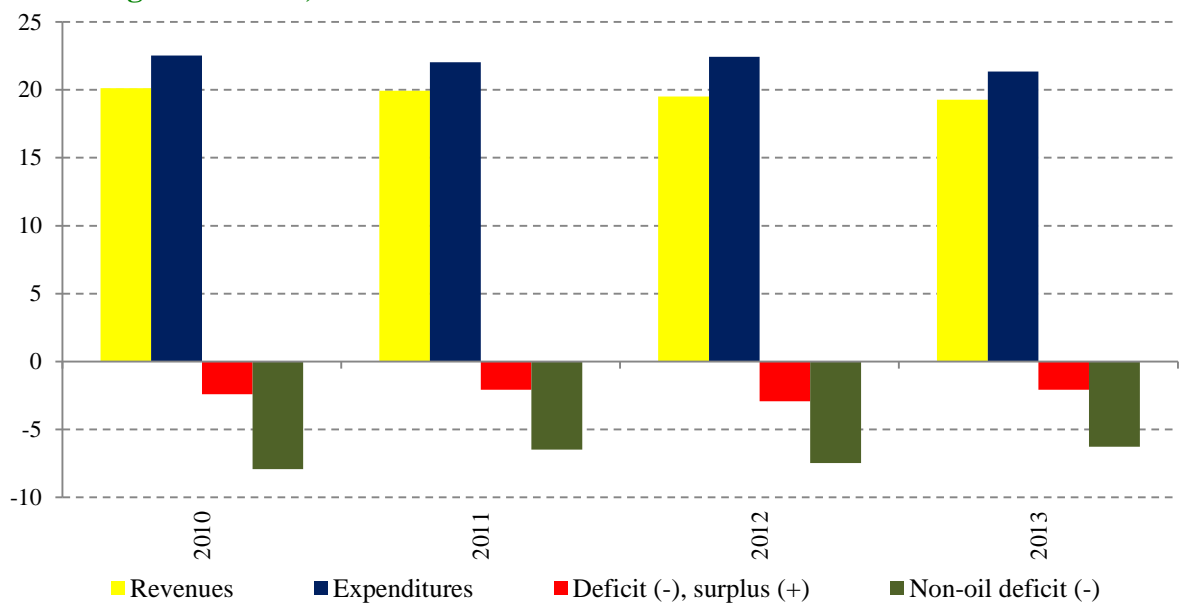
term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of January 1, 2014, the government external debt amounted to KZT 783.6 bln. (7.6% of GDP), having increased by 7.4% against the volume at January 1, 2013 (7.3% of GDP).

There is a downward trend in the state budget deficit. In the fourth quarter of 2013, the deficit accounted for (-)2.1% of GDP (in 2012 – the deficit of (-)2.9% of GDP) in annual terms (Figure 12).

Figure 12

**State budget execution, as % of GDP in annual terms**



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

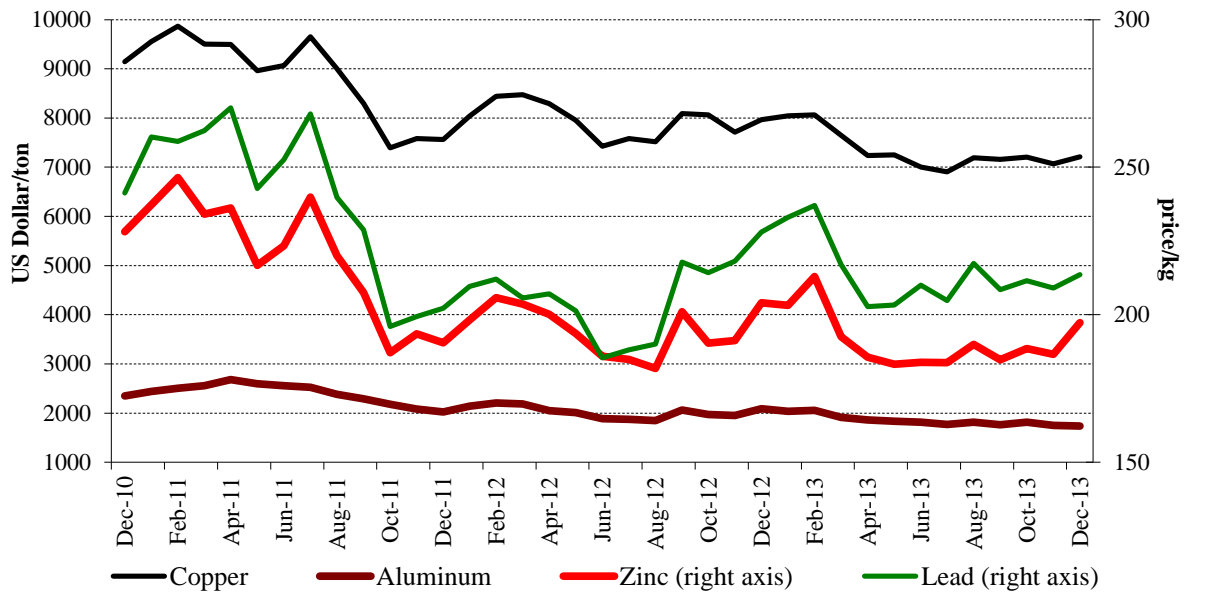
**2.1.3. External Sector**

**– World Prices**

In the fourth quarter of 2013, there was an increase in prices for certain metals. So, in the fourth quarter of 2013 prices for copper increased by 1.1% and were at US\$ 7162.7 per ton on average during the period. During the fourth quarter of 2013, prices for aluminum decreased by 0.9% and amounted to US\$ 1767.3 per ton. World prices for lead in October-December 2013 increased by 0.5%, amounting to 211.4 US cents per a kilo on average during the period. Prices for zinc grew by 2.5% 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



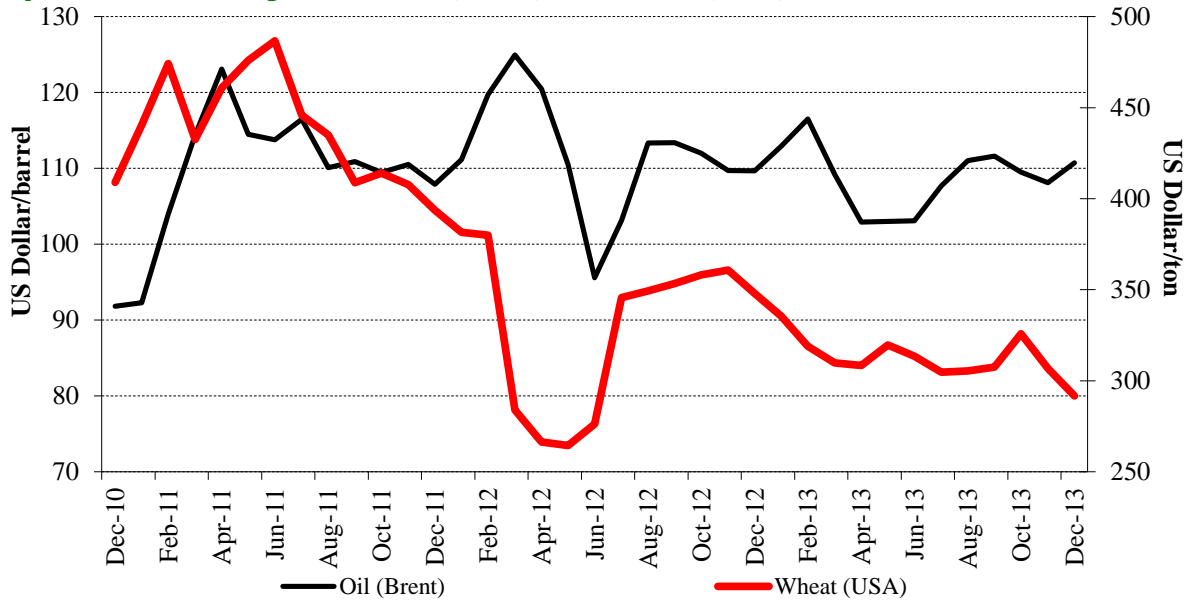
Source: World Bank

In the fourth quarter of 2013 against the third quarter of 2013, world prices for oil (Brent) decreased by 0.6% and were at US\$ 109.4 per barrel on average during the period (Figure 14).

In general, during the fourth quarter of 2013 as compared to the prior period, the world price for wheat (USA) increased by 0.7% and had been at US\$ 308.0 per ton on average (Figure 14).

Figure 14

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



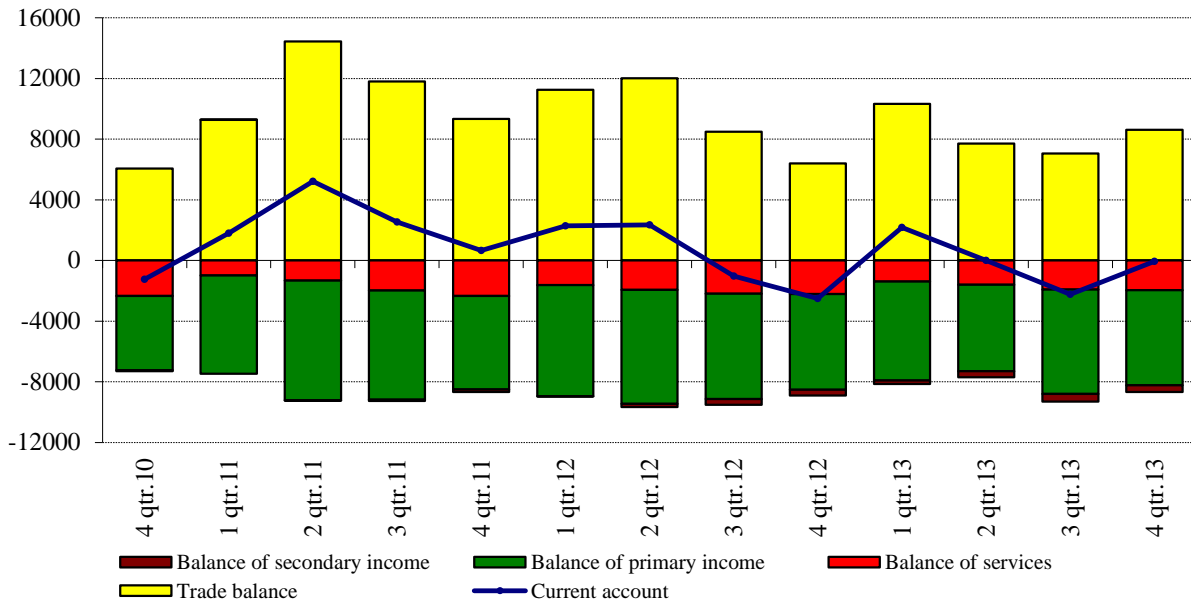
Source: World Bank

**– Balance of Payments**

At the end of the fourth quarter of 2013, the current account balance was in deficit of US\$ 66.7 mln. or -0.1% 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 fourth quarter of 2013, proceeds from the exports of goods increased versus the respective indicator for the fourth quarter of 2012 by 4.2% to US\$ 22.0 bln., and expenditures on commodity imports decreased by 9.0% as compared to the fourth quarter of 2012, amounting to US\$ 13.4 bln. The trade surplus increased by 34.7% and amounted to US\$ 8.6

bln. In the fourth quarter of 2013, the deficit in the balance of services decreased as compared to the fourth quarter of 2012 by 11.6% to US\$ 2.0 bln., and the deficit in the balance of primary income (salaries and wages, investment return and other primary income) decreased by 0.6% and amounted to US\$ 6.3 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to US\$ 442.2 mln.

The balance of the financial account (excluding reserve assets) in the fourth quarter of 2013 was negative and amounted to US\$ 1.4 bln. (a surplus of US\$ 400.1 mln. in the fourth quarter of 2012). Net acquisition (growth) in foreign assets of residents (less reserve assets) amounted to US\$ 1.6 bln. (US\$ 4.2 bln. in the corresponding period of 2012). Net incurred liabilities (growth) amounted to US\$ 3.0 bln. (US\$ 3.8 bln. in the fourth quarter of 2012).

As a result, at the end of the fourth quarter of 2013, the balance of payments was in deficit of US\$ 673.1 mln. (in the fourth quarter of 2012 – a surplus of US\$ 3.3 bln.).

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

In the fourth quarter of 2013, the aggregate terms of trade index was by 0.1% lower than the same indicator for the fourth quarter of 2012. Alongside with that, the terms of trade with the Euro zone countries decreased by 6.4%, and with Russia – decreased by 4.4% (Table 1).

Table 1

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

	3 qtr.12	4 qtr.12	1 qtr.13	2 qtr.13	3 qtr.13	4 qtr.13
Export prices	-9.4	-2.1	-0.2	-7.5	-5.4	-3.5
Import prices	-1.3	-2.5	-0.9	-5.1	3.2	-3.3
<b>Terms of trade</b>	-12.0	0.3	0.8	-2.8	-7.5	-0.1
including:						
<b>Euro zone countries</b>						
Export prices	-9.8	-0.9	0.1	-4.8	-1.6	1.4
Import prices	-7.3	-0.8	17.9	15.5	16.1	9.4
<b>Terms of trade</b>	-2.7	-0.1	-17.1	-20.1	-13.4	-6.4
<b>Russia</b>						
Export prices	-15.8	-19.9	-5.0	-9.7	-11.1	-10.4
Import prices	-1.3	2.7	-4.2	-4.7	-3.3	-6.0
<b>Terms of trade</b>	-19.7	-22.6	-0.7	-5.5	-7.6	-4.4

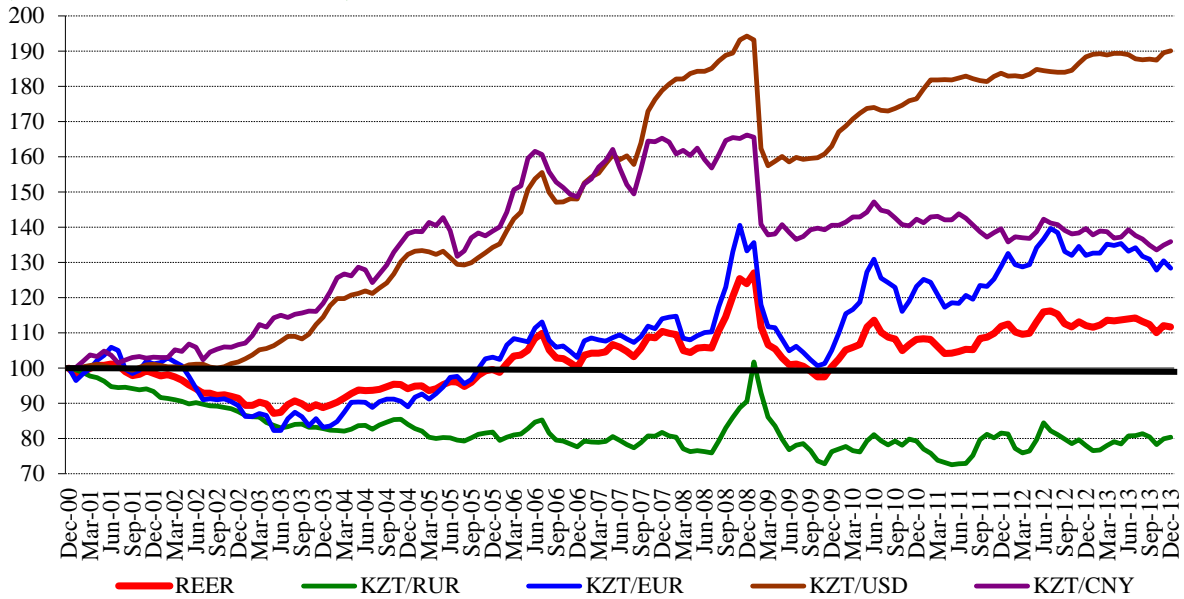
Source: National Bank of the Republic of Kazakhstan

At the end of the fourth quarter of 2013 versus the previous period, the index of the real effective exchange rate of the Tenge depreciated by 1.8%. The Tenge has depreciated versus the CIS currencies basket by 1.4% and versus the basket of other currencies – by 1.9%.

During the fourth quarter of 2013 versus the previous period, the Tenge appreciated in real terms versus the US Dollar by 0.7%, depreciated by 2.6% versus the Euro and depreciated by 1.7% versus the Russian ruble (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 first quarter of 2014 was KZT 171.35 per 1 US Dollar. The stock exchange rate at end-period was KZT 182.06 per 1 US Dollar. Since the beginning of the year the Tenge had depreciated versus the US Dollar by 18.2% in nominal terms (Figure 17).

Figure 17

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



Source: National Bank of the Republic of Kazakhstan

In January 2014 the Tenge depreciated versus the US Dollar by 0.9%.



In February 2014, the adjustment of the exchange rate was performed. A new exchange rate band of the Tenge versus the US Dollar was set at KZT 185 plus/minus 3 Tenge. As before, the exchange rate policy is intended to smooth dramatic swings of the exchange rate and its short-term volatility. A long-term trend of the exchange rate of the Tenge will be developing under the impact of macroeconomic factors.

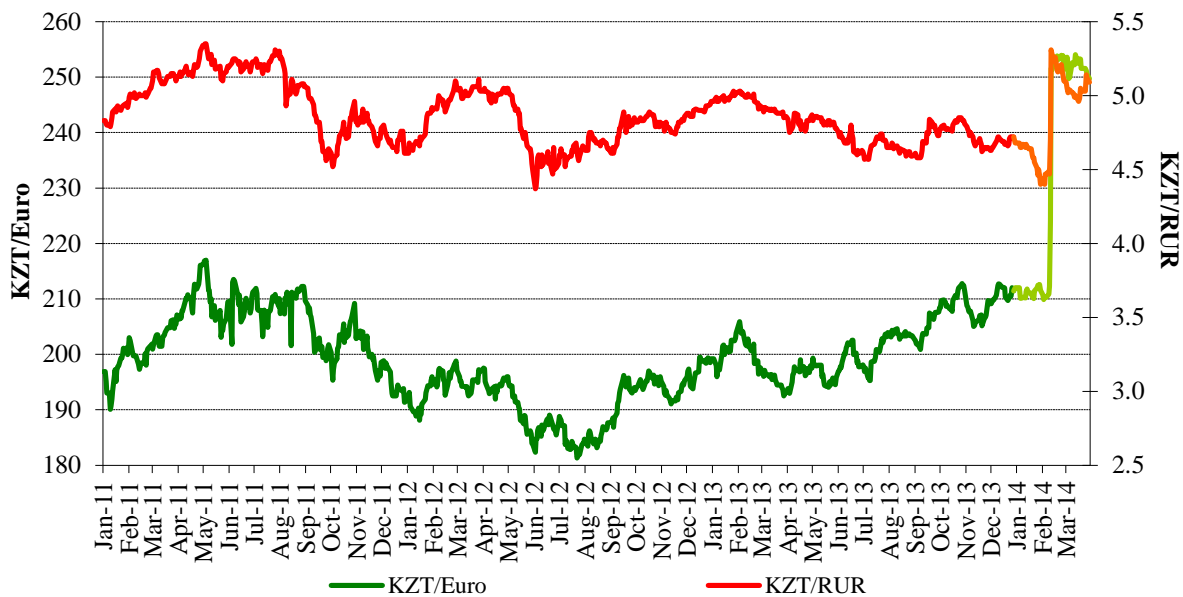
In March 2014, the exchange rate of the Tenge versus the US Dollar had stabilized and was set closer to the lower boundary of the band; the Tenge had depreciated by 1.1% over the month.

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

In general, during the first quarter of 2014, the official exchange rate of the Tenge versus the US Dollar depreciated by 18.5%, versus the Euro – by 18.2%, and versus the Russian ruble – by 8.5% (Figure 18).

Figure 18

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



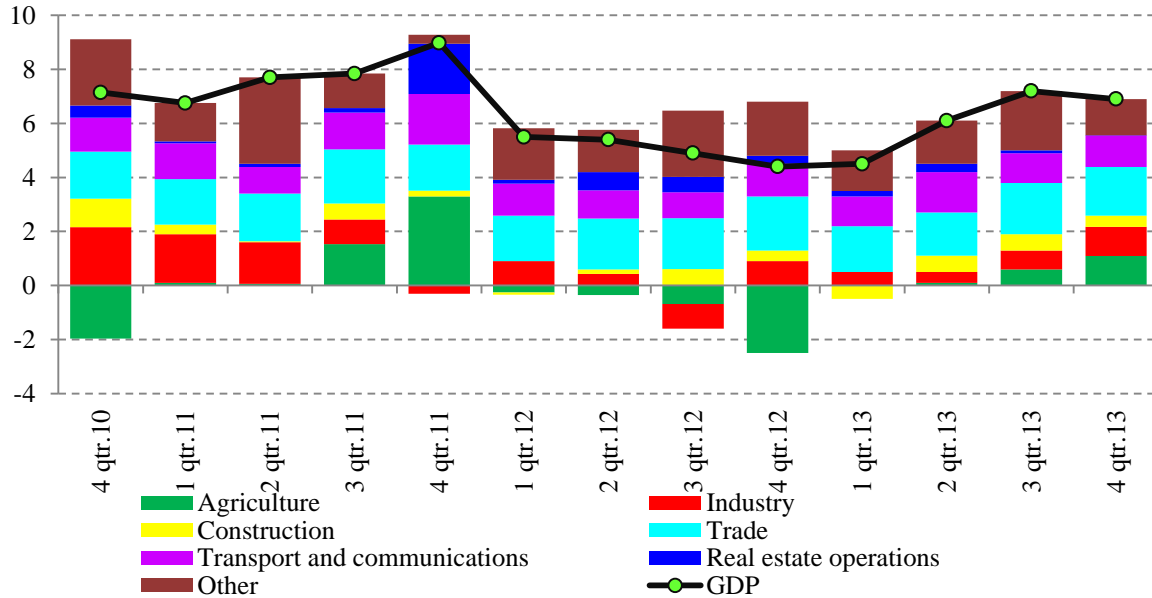
Source: National Bank of the Republic of Kazakhstan

**2.2. Production**

In the fourth quarter of 2013, the volume of GDP output amounted to KZT 10880.8 bln. in current prices. Being positively influenced by the growth of production in all key sectors of the economy, the GDP in real terms (in prices of the year 2005) increased versus the fourth quarter of 2012, according to estimate, by 6.9% (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 Agency of Statistics 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 of all key sectors comprising this component of the gross domestic product demonstrated growth. According to estimate, in the fourth quarter of 2013 the industrial output volume increased by 4.3% (in the third quarter of 2013 – the growth of 3.1%), the output volume in the construction sector increased by 4.4% (the growth of 5.7%), and in agriculture it increased by 25.4% (the growth of 13.3%). As a result, the segment of goods production made positive contribution to the GDP growth of (+)2.6%.

**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 such sectors as “activities in the area of administrative and ancillary service”, “activities of households which hire domestic servants and produce goods and services for their own consumption” and “arts, entertainment and leisure”, which decreased by 23.8%, 21.2% and 3.2%, respectively; however, due to insignificant share of such sectors, their negative contribution to the GDP formation was minor. 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 increase in the volume of net taxes on foodstuffs and imports by 18.1% has positively influenced the GDP growth by (+)0.8% (in the third quarter of 2013 – the contribution of (+)1.3%).

Therefore, the main driver for the GDP growth in the fourth quarter of 2013 (similarly to that in the third 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 first quarter of 2014 the number of people employed in the economy amounted to 8.6 million, having increased by 0.1% versus

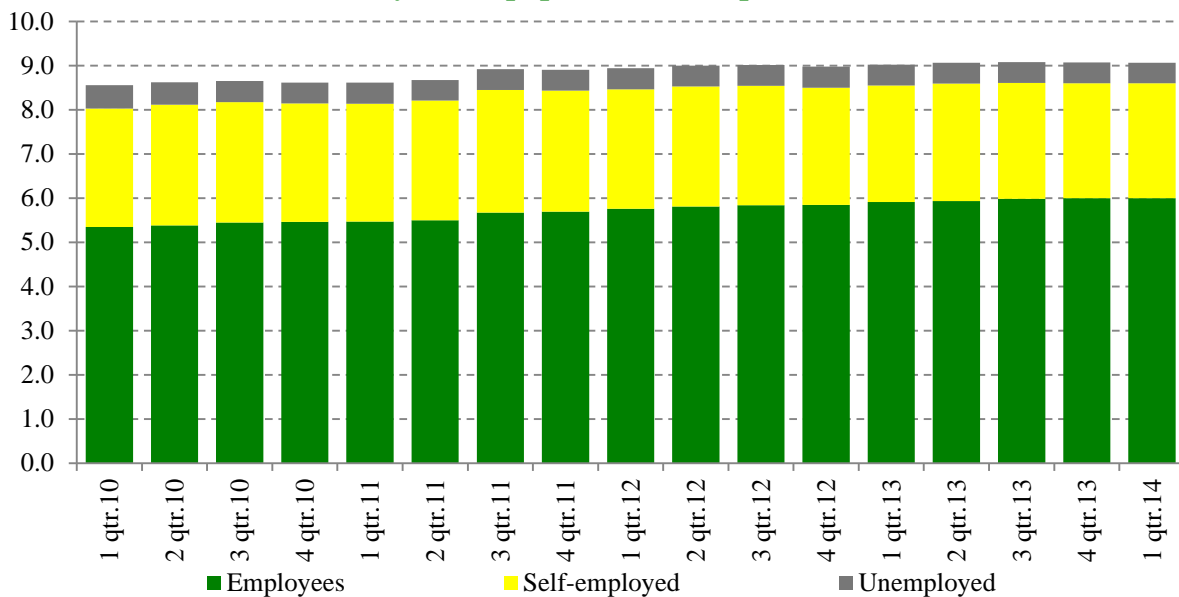
the fourth quarter of 2013 (the growth versus the first quarter of 2013 accounted for 0.5%). At the same time, the number of employees reached 6.0 million, having increased by 0.7% versus the fourth quarter of 2013, and the number of self-employed – 2.6 million (the decrease of 1.2%).

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 first quarter of 2014, the number of unemployed stood at 464,000 persons, which is by 0.5% less than in the prior period and by 2.2% less than in the first quarter of 2013 (Figure 20).

Figure 20

**The structure of economically active population, mln. persons**



Source: Agency of Statistics of the Republic of Kazakhstan

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

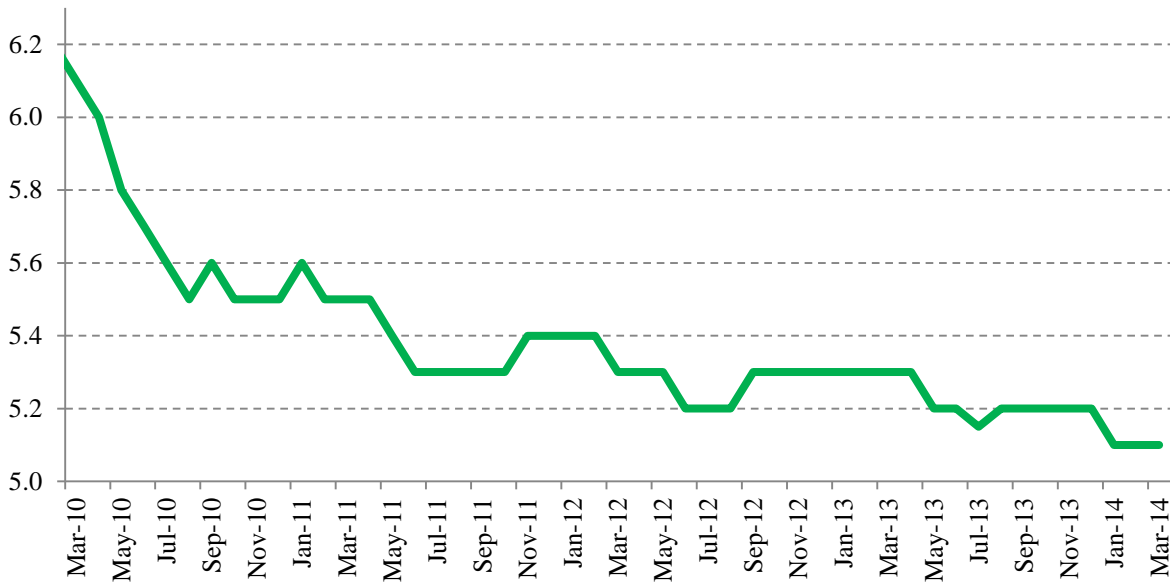
During January-March 2014, the growth in actual number of employees accounted for 1.2% versus the corresponding period of 2013, and was noted in virtually all types of economic activities to a greater or lesser extent.

The decrease in the number of the employed was observed in the following five sectors only: agriculture, fishery and forestry; industry; construction; real estate operations; public administration and defense and compulsory social security.

At the same time, the decrease in the number of the employed in some sectors was compensated by its growth in other sectors. As a result, the unemployment rate in the first quarter of 2014 slightly decreased to 5.1%, and it decreased by 0.2 percentage points versus the first quarter of 2013 (Figure 21).

Figure 21

Actual unemployment rate, %



Source: Agency of Statistics of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the fourth quarter of 2013, as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 7.1% (in the third quarter of 2013 – the growth of 6.3%), and real wages increased by 2.3% (the growth of 0.6%).

Compared to the previous quarter, nominal wages increased by 6.6%, and real wages increased by 5.6%.

In December 2013 versus December 2012, the highest increase in nominal wages was observed in the following sectors: “transport and warehousing” – by 29.4%; “agriculture, fishery and forestry” – by 13.9%; “arts, entertainment and leisure” – by 11.9%; “industry” – by 10.2%; “construction” – by 9.2%; “accommodation and catering services” – by 8.9%; and “information and communication” – by 8.7%.

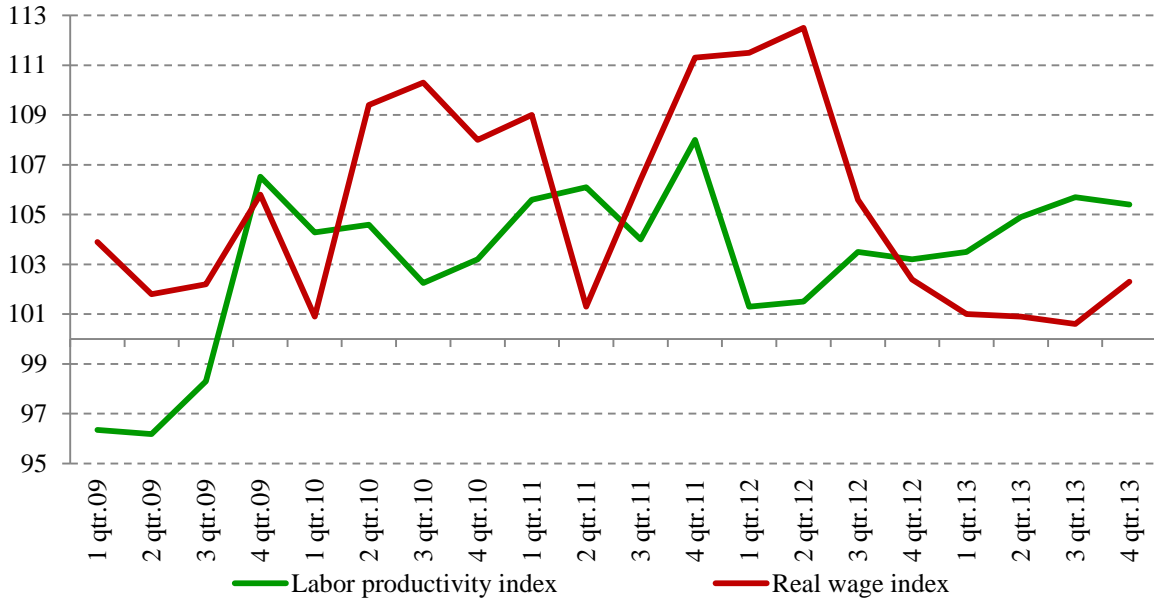
In December 2013, the highest wages in money terms were observed in the “financial and insurance activity” (KZT 275,100), and the lowest wages – in “agriculture, forestry and fishery” (KZT 63,500).

In the fourth quarter of 2013, wages of employees in real terms increased by 2.3%; this exceeds the growth rates of the three prior periods (in the first quarter of 2013 – the growth of 1.0%, in the second quarter of 2013 – the growth of 0.9%, and in the third quarter of 2013 – the growth of 0.6%).

In the fourth quarter of 2013, acceleration in the rates of wage growth and growth in the number of individuals employed in the economy had influenced the growth in the labor productivity index which slightly slowed to 5.4% (according to the National Bank’s estimate), whereas in the previous quarter the index growth accounted for 5.7% (Figure 22).

Figure 22

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



Source: Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

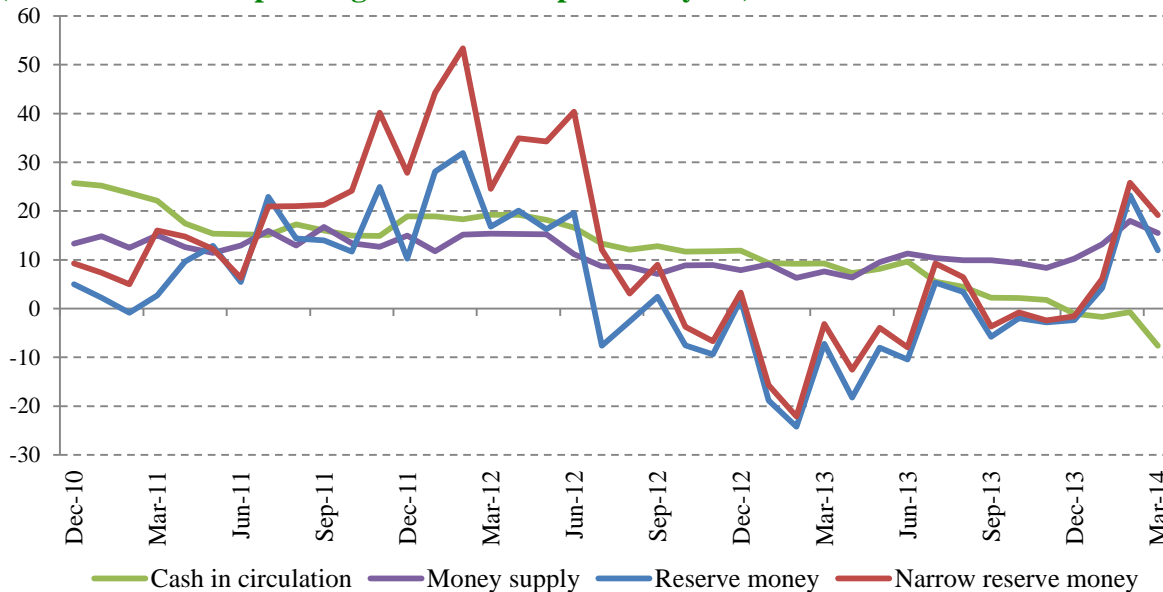
### 3. Money Supply

#### 3.1. Monetary Aggregates

In the first quarter of 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 first quarter of 2014, the reserve money expanded by 20.7% and amounted to KZT 3408.0 bln. at end-March 2014. Narrow reserve money expanded by 21.3% to KZT 3380.0 bln.

In March 2014 versus March 2013 the reserve money expanded by 11.9%.

In March 2014 against the corresponding period of 2013, net international reserves of the National Bank decreased by 7.0% to US\$ 25.7 bln. Foreign currency receipts to the Government’s accounts with the National Bank, increased bank correspondent account balances with the National Bank denominated in foreign currency were neutralized by foreign exchange sales in the domestic foreign currency market, servicing of the Government’s external debt and replenishment of the National Fund’s assets from gold and foreign currency reserves accounts. As a result, during the reviewed period **net currency reserves (CQTR)** decreased by 8.4%, and assets denominated in gold decreased by 2.3% as a result of decrease in its price in the global markets.

In March 2014 versus March 2013, net domestic assets of the National Bank less the National Fund’s assets decreased (Table 2), mainly as a result of increase in the expense side of the capital account (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)**

	2 qtr.13	3 qtr.13	4 qtr.13	1 qtr.14
<b>Net international reserves</b>	<b>-19.5</b>	<b>-20.1</b>	<b>-13.0</b>	<b>-7.0</b>
<b>Net domestic assets</b>	<b>153.0</b>	<b>75.6</b>	<b>158.5</b>	<b>-977.1</b>
Net claims on the Government	32.8	-1.3	47.6	10.3
Claims on the economy	221.2	115.0	28.1	58.8
Other net domestic assets	19.8	20.5	21.2	-52.4
<b>Reserve money</b>	<b>-10.4</b>	<b>-5.8</b>	<b>-2.3</b>	<b>11.9</b>
<b>Narrow reserve money</b>	<b>-7.9</b>	<b>-3.7</b>	<b>-1.6</b>	<b>19.2</b>

Source: National Bank of the Republic of Kazakhstan

**3.1.2. Money Supply**

During the first quarter of 2014, the money supply increased by 10.3% to KZT 12796.2 bln.

In March 2014 versus March 2013, its growth accounted for 15.5% 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)**

	2 qtr.13	3 qtr.13	4 qtr.13	1 qtr.14
<b>Net foreign assets</b>	<b>29.0</b>	<b>25.8</b>	<b>11.0</b>	<b>30.7</b>
<b>Domestic assets</b>	<b>4.6</b>	<b>-2.0</b>	<b>16.7</b>	<b>-4.0</b>
Claims on the Government	394.6	77.0	22.9	-10.7
Claims on the economy	12.0	12.4	12.7	19.4
Other net domestic assets	-26.2	-25.8	-14.6	-32.2
<b>Money supply</b>	<b>11.3</b>	<b>9.9</b>	<b>10.2</b>	<b>15.5</b>
Cash in circulation	9.7	2.2	-1.0	-7.6
Deposits of residents	11.5	11.1	12.2	18.9

Source: National Bank of the Republic of Kazakhstan

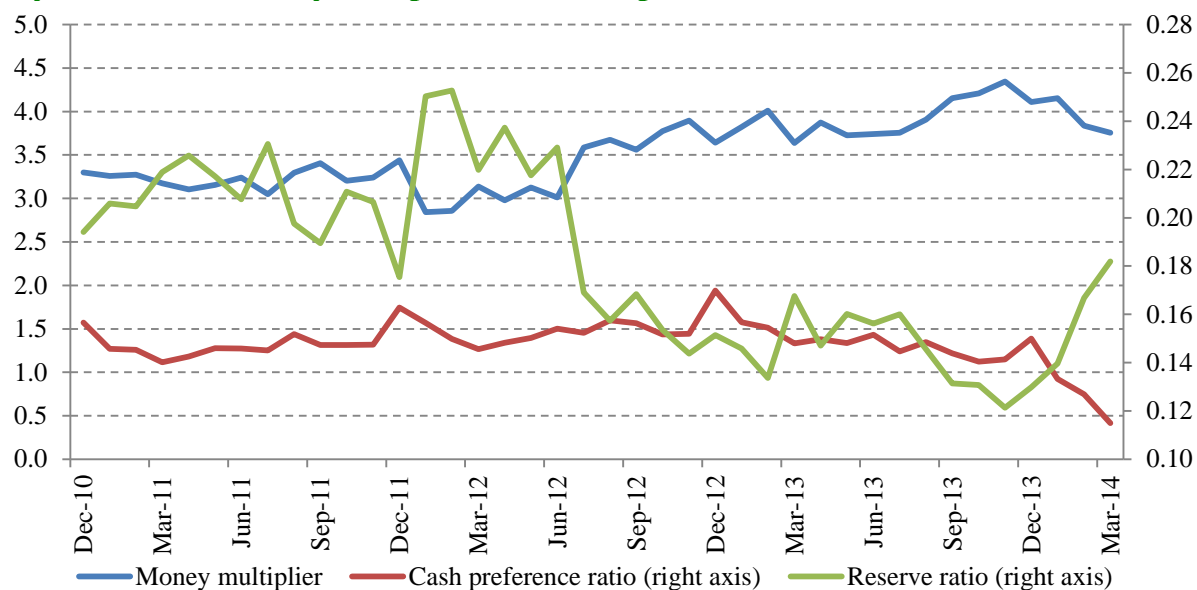
In the structure of net foreign assets of the banking system in March 2014 against the corresponding period of 2013, both net foreign assets of the National Bank (excluding the National Fund) and banks increased. The growth in net foreign assets of banks was mainly secured by the increase in liabilities 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 the main components of money supply. As a result, the share of deposits of residents in the structure of the money supply increased from 87.0% in March 2013 to 89.7% at end-March 2014.

The money multiplier increased from 3.64 in March 2013 to 3.75 in March 2014 as a result of outstripping rates of growth in the money supply versus the rates of expansion in the reserve money. The increase and the decrease in the reserve ratio and the cash preference ratio, respectively, were also conducive to the fact (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 first quarter of 2014 decreased by 12.7% to KZT 1319.9 bln.

In March 2014 versus March 2013, cash in circulation decreased by 7.6%. At the same time, cash payouts from the bank cashier’s departments increased by 14.1% to KZT 1.8 trln., and the receipts to the bank cashier’s departments increased by 21.9% to KZT 1.8 trln.

The decrease in cash in March 2014 versus the corresponding period of 2013 was associated with the growth in proceeds from foreign exchange sales by exchange offices, receipts for the payment of goods, services and works, receipts from loan repayments as well as decreased payouts associated with the labor compensation, payment of retirement benefits and allowances. The impact of the above factors was not neutralized by the increase in payouts to support ATMs, payouts on lump-sum transfers within Kazakhstan and from abroad (through the money transfer systems without opening an account) and other factors recorded during the reviewed period.

**3.2. Financial Market**

**3.2.1. Deposits of Residents**

At end-March 2014, deposits of residents amounted to KZT 11476.3 bln., having increased by 13.7% during the first quarter of 2014. Deposits of legal entities increased by 19.4%, and deposits of individuals increased by 4.9%.

Within the structure of deposits, the volume of time deposits (under the IMF classification – “other deposits”<sup>1</sup>) increased during the first quarter of 2014 by 6.9% and amounted to KZT 7731.9 bln. at end-March 2014. Term deposits in the domestic currency decreased by 10.3% to KZT 3865.6 bln., and foreign currency term deposits increased by

<sup>1</sup> 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.



32.4% to KZT 3866.4 bln. During the quarter, the percentage of term deposits in the total deposit base decreased from 71.7% to 67.4%.

In the first quarter of 2014, the status of the deposit base was characterized by significant growth in foreign currency deposits caused by the 58.0% increase in foreign currency holdings of legal entities. As a result, in the first quarter of 2014 the volume of foreign currency deposits increased by 45.0%, amounting to KZT 5468.9 bln., whereas deposits in the domestic currency decreased by 4.9%, to KZT 6007.4 bln.

The growth in the volume of foreign currency holdings by legal entities (during January, February and March 2014, by 15.8%, 30.9% and 4.3%, respectively) resulted in the increased dollarization of the deposit market and the decrease in the percentage of deposits in the domestic currency from 62.6% in December 2013 to 52.3% in March 2014.

Thus, the inflow of foreign currency to the accounts of legal entities served as a main source for the overall bank deposit base growth in the first quarter of 2014. Alongside with that, the growth in the Tenge deposits of legal entities also demonstrated positive dynamics, which was observed in January and March of 2014 (the growth of 1.2% and of 6.7%, respectively) (Table 4).

Table 4

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

	March 2011	March 2012	March 2013	March 2014
<b>Deposits of residents</b>	<b>6.7</b>	<b>7.1</b>	<b>7.3</b>	<b>13.7</b>
<i>of individuals</i>	<i>3.7</i>	<i>4.3</i>	<i>3.7</i>	<i>4.9</i>
<i>of non-bank legal entities</i>	<i>8.0</i>	<i>8.5</i>	<i>9.4</i>	<i>19.4</i>
<b>Deposits in the Tenge</b>	<b>12.4</b>	<b>3.5</b>	<b>3.9</b>	<b>-4.9</b>
<b>Deposits in foreign currency</b>	<b>-3.8</b>	<b>15.0</b>	<b>15.1</b>	<b>45.0</b>

Source: National Bank of the Republic of Kazakhstan

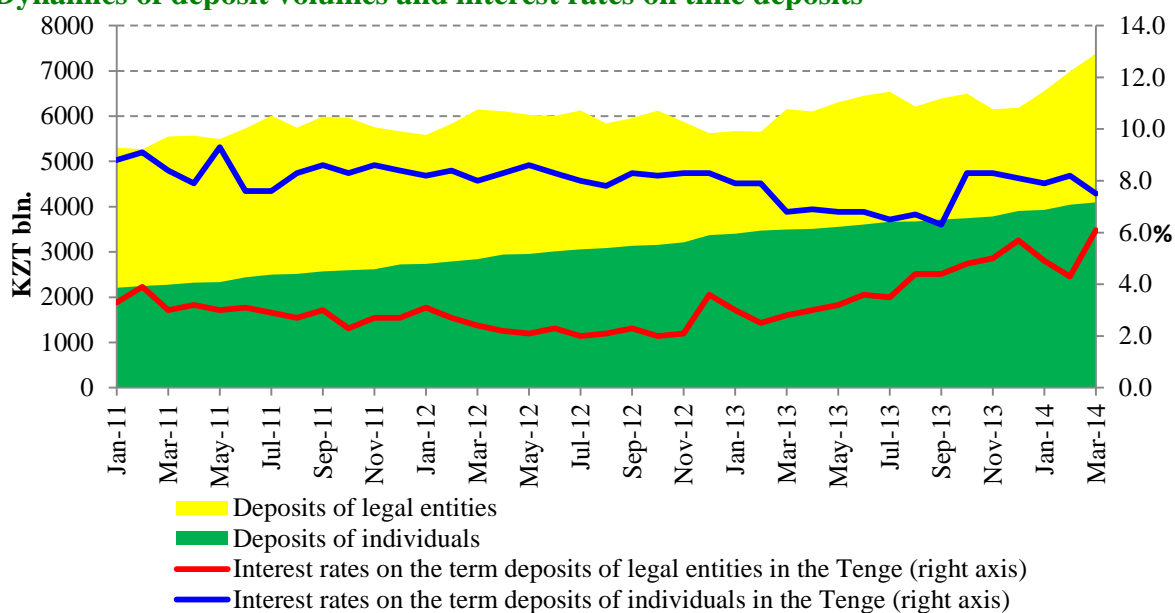
In the first quarter of 2014 as compared to the previous quarter, interest rates on deposits increased, due to the growth in interest rates in the domestic currency in February and the growth in interest rates on foreign currency deposits in March.

As a result, the average rate on the Tenge deposits in the first quarter of 2014 increased to 5.4% (the fourth quarter of 2013 – 5.3%), and on deposits in freely convertible currencies – decreased to 2.6% (3.0%).

The weighted average interest rate on Tenge time deposits of non-bank legal entities in March 2014 accounted for 6.1% (in December 2013 – 5.7%), and on deposits of individuals – 7.5% (8.1%) (Figure 25).

Figure 25

**Dynamics of deposit volumes and interest rates on time deposits**

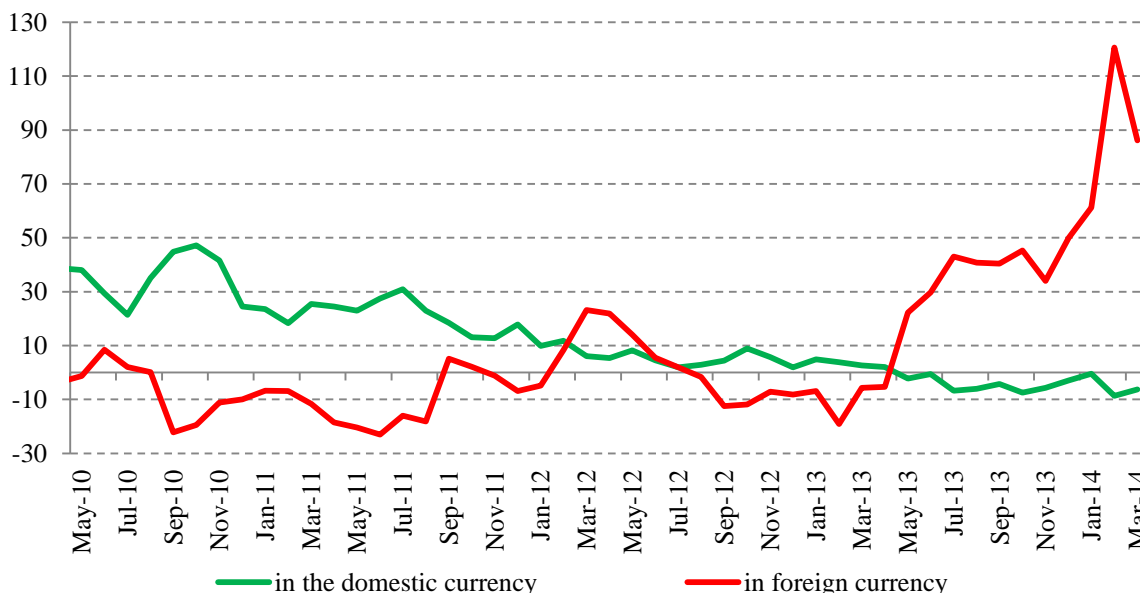


Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2014, the volume of deposits of legal entities increased by 19.4% to KZT 7380.6 bln., with their annual growth (March 2014 to March 2013) accounting for 19.9%. In annual terms, deposits of legal entities in the domestic currency decreased by 6.3%, and foreign currency deposits increased by 86.2% (Figure 26).

Figure 26

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



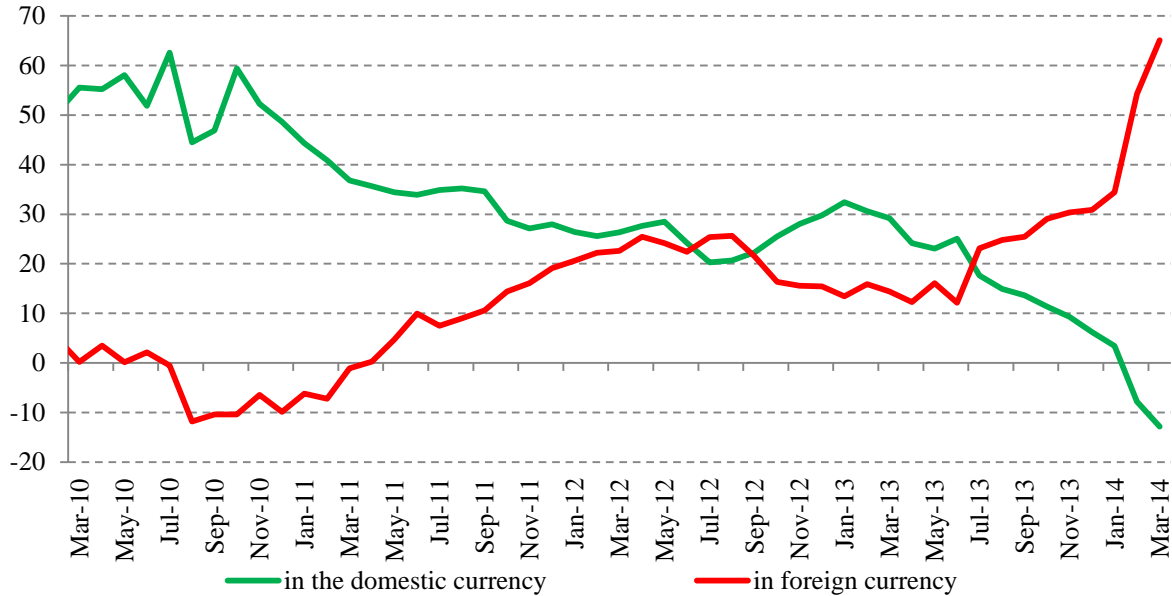
Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2014, the volume of deposits of individuals increased by 4.9% to KZT 4095.7 bln., with its annual growth accounting for 17.2%. In annual terms,

deposits of individuals in the domestic currency decreased by 12.9%, and foreign currency deposits increased by 65.1% (Figure 27).

Figure 27

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



Source: National Bank of the Republic of Kazakhstan

**3.2.2. Credits to the Economy**

During the first quarter of 2014, bank credits to the economy increased by 7.7% to KZT 12166.6 bln. During January-March 2014, credits to legal entities increased by 8.4%, amounting to KZT 8310.5 bln., and credits to individuals increased by 6.3% to KZT 3856.1 bln.

The volume of credits in the domestic currency increased by 0.1%, to KZT 7941.0 bln., and the volume of foreign currency credits grew by 26.0%, to KZT 4255.6 bln.

During January-March 2014, long-term lending increased by 6.7% to KZT 9771.6 bln., and short-term lending increased by 12.4%, amounting to KZT 2395.1 bln. As a result, the percentage of long-term credits in March 2014 as compared to December 2013 decreased from 81.1% to 80.3%.

In March 2014, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities increased to 10.7% (in December 2013 – 10.0%), and on credits in the Tenge provided to individuals – accounted for 19.7% (in December 2013 – 20.3%). In general, in the first quarter of 2014 the downward interest rate trend was noted, which was caused by the decreased cost of borrowing for individuals, along with a minor increase in the interest rates on retail loans (Figure 28).

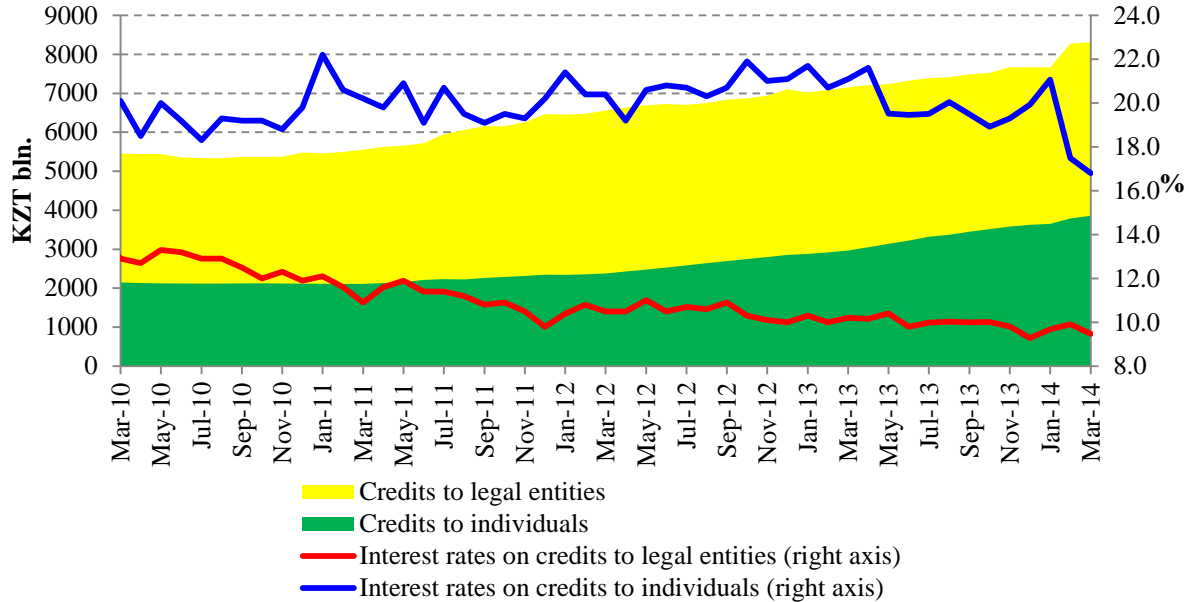
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.0%), other purposes (23.4%), new construction and reconstruction (12.9%), as well as for consumer needs of individuals (19.5%).

As per the breakdown by sector, the highest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 49.7%, trade – 19.1%, construction – 12.0%, and industry – 11.1%.

During the first quarter of 2014, credits delivered to the agricultural sector increased by 15.8%, communications – by 12.9%, transport – by 12.8%, trade – by 5.3%, industry – by 5.5%, and to the construction sector – by 5.7%.

Figure 28

**Dynamics of credits to the economy and their interest rates**



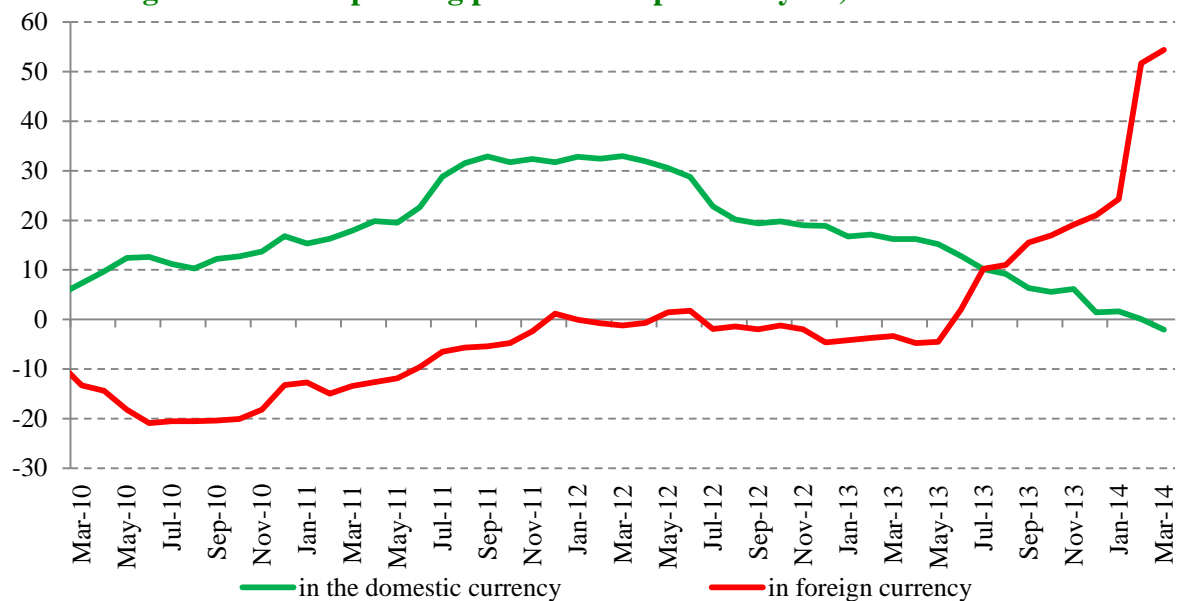
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in annual terms (March 2014 to March 2013) increased by 16.2%. There were changes in the structure of credits by their tenors. At end-March 2014, the share of medium- and long-term credits in total credits to legal entities accounted for 74.2%, whereas in December 2013 it reached 74.6%.

On a year-to-year basis, credits to legal entities in the domestic currency decreased by 2.1%, and foreign currency credits increased by 54.4% (Figure 29).

Figure 29

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



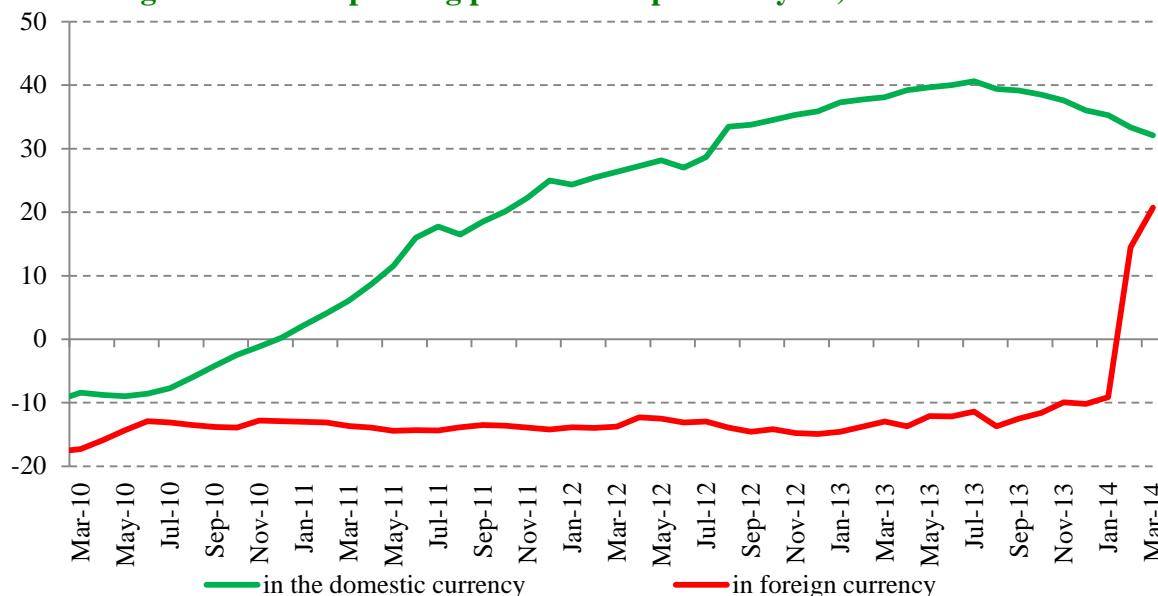
Source: National Bank of the Republic of Kazakhstan

In March 2014 as compared to the corresponding period of 2013, the volume of credits to individuals increased by 30.0%. At end-March 2014, the share of medium- and long-term credits in total credits to individuals decreased and accounted for 93.6% versus 95.0% in December 2013.

In annual terms, credits distributed to the population in the domestic currency demonstrated the increase of 32.1%, and in foreign currency – 20.7% 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

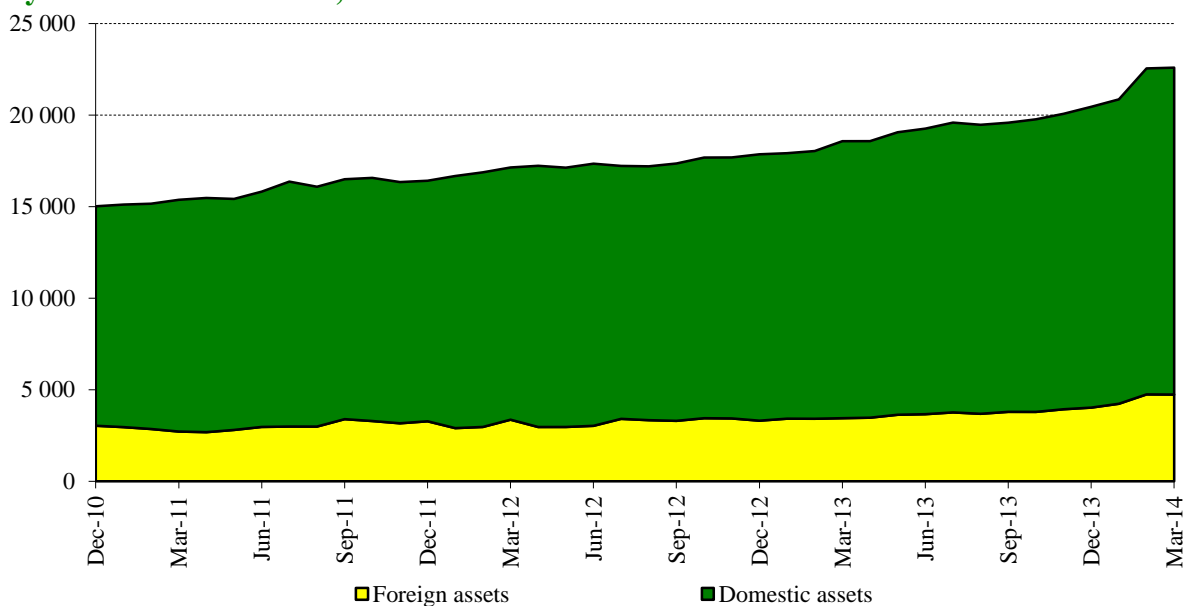
**3.2.3. Bank Assets and Liabilities**

– **Assets**

In the first quarter of 2014, the amount of bank assets, calculated on the basis of the Monetary Survey, increased by 10.5% to KZT 22.6 trln. On a year-to-year basis (March 2014 to March 2013) bank assets increased by 21.6% (Figure 31).

Figure 31

**Dynamics of bank assets, KZT bln.**



Source: National Bank of the Republic of Kazakhstan

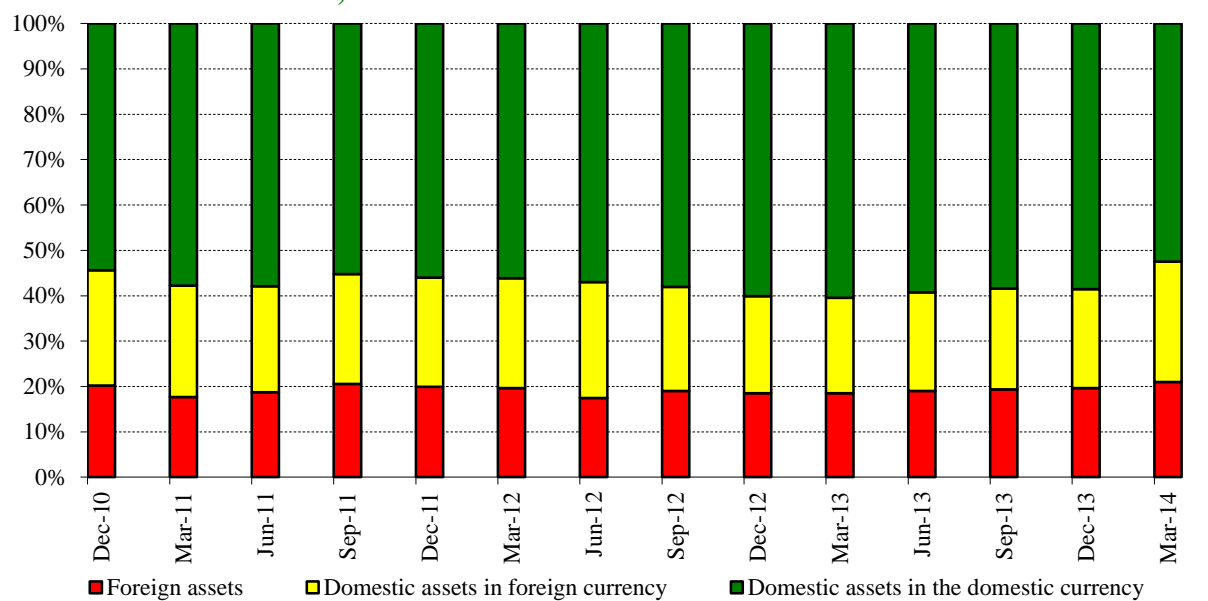
Foreign assets of banks in March 2014 accounted for 21.0% of the total volume of assets or KZT 4.7 trln. They increased by 37.5% versus March 2013.

Within the structure of foreign assets in March 2014, credits to non-residents accounted for 48.9% (in December 2013 – 49.1%), deposits placed with non-residents – 27.4% (27.9%), securities issued by non-residents – 5.0% (5.3%), and other accounts receivable – for 18.7% (17.6%).

In March 2014, domestic assets accounted for 79.03% or 17.8 trln., with domestic assets in the local currency accounting for 66.4% or KZT 11.9 trln., and foreign currency assets – 33.6% or KZT 6.0 trln. During the first quarter of 2014, domestic assets increased by 8.7%, where assets in the local currency decreased by 1.0%, and assets in foreign currency increased by 34.6% (Figure 32).

Figure 32

**Structure of bank assets, %**



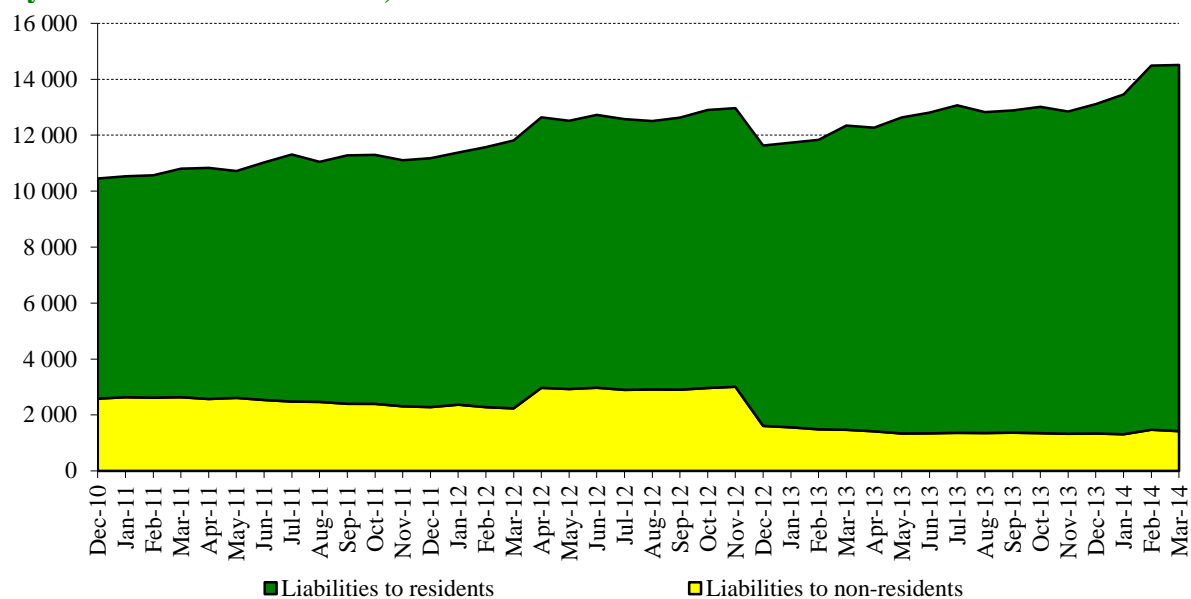
Source: National Bank of the Republic of Kazakhstan

**– Liabilities**

In the first quarter of 2014, total bank liabilities, calculated on the basis of the Monetary Survey, increased by 10.7% and amounted to KZT 14.5 trln. at end-March 2014 (Figure 33).

Figure 33

**Dynamics of bank liabilities, KZT bln.**



Source: National Bank of the Republic of Kazakhstan

In March 2014 as compared to December 2013, bank liabilities to non-residents increased by 6.2% to KZT 1.4 trln. (US4 7.8 bln.), and decreased by 3.4% versus the corresponding month of 2013. At end-March 2014, bank liabilities to non-residents accounted for 9.8% of total bank liabilities.

Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in March 2014 as compared to December 2013 increased from 20.45% to 20.48%, the share of liabilities on securities decreased from 62.1% to 62.0%, and credits received from non-residents increased from 15.3% to 15.6%, respectively.

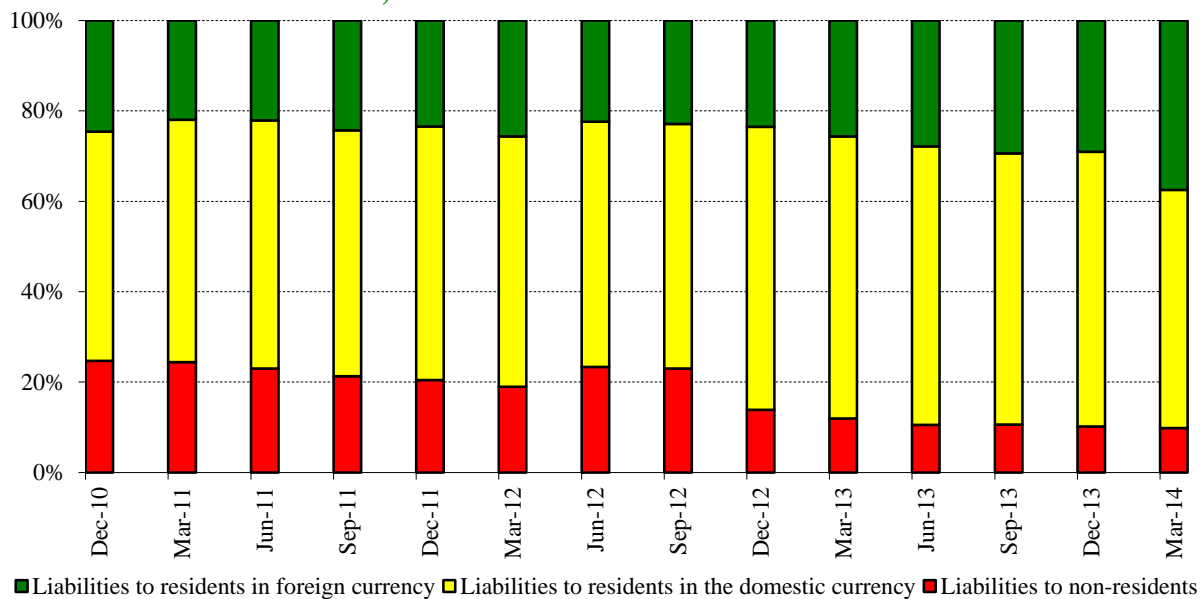
During the first quarter of 2014, liabilities to residents increased by 11.2% to 13.1 trln., with the 4.0% decrease in liabilities in the domestic currency to KZT 7.7 trln., and 43.0% increase in foreign currency liabilities to KZT 5.4 trln. (Figure 34).

Thus, in the first quarter of 2014, there was an increase in liabilities both to non-residents and residents, with significant increase in liabilities to residents in foreign currency.



Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

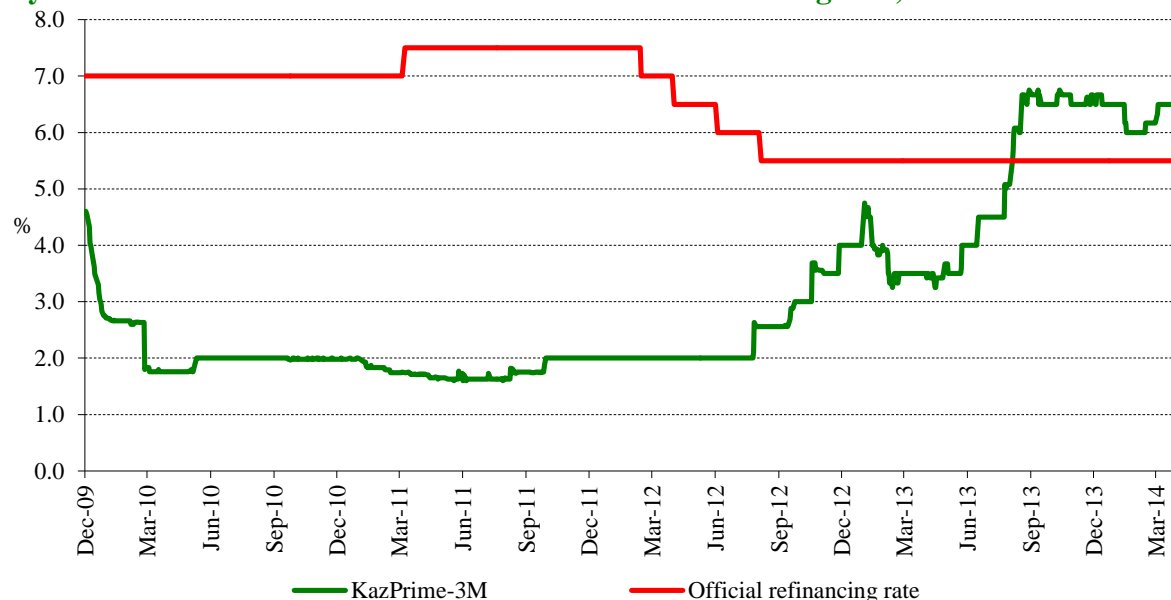
3.2.4. Financial Market Rates

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

The KazPrime index decreased from 6.57% on average during the fourth quarter of 2013 to 6.24% on average during the first quarter of 2014. At end-March 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 increased level of rates was observed.

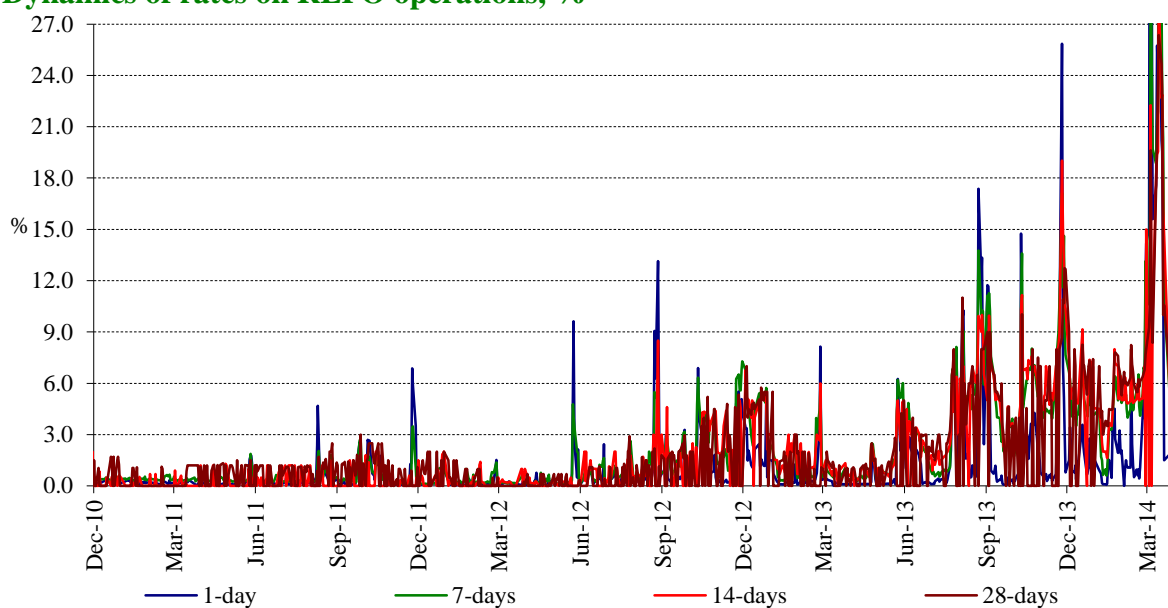
In the first quarter of 2014, the weighted average rate on 1-day operations in the sector of automatic REPO increased and accounted for 11.17% (in the fourth quarter of 2013 – 3.18%). Its maximum level was 71.65%, and minimum – 0.07%.

The weighted average rate on 7-day REPO operations in the first quarter of 2014 was fluctuating within the range from 0.6% to 33.49% (during the period as a whole, the weighted average rate accounted for 8.78%), on 14-day REPO operations – from 1.63% to 28.97% (during the period as a whole, the weighted average rate accounted for 7.73%), and on 28-day REPO operations – from 3.0% to 26.35% (during the period as a whole, the weighted average rate accounted for 9.03%) (Figure 36).

In the first quarter of 2014, the transaction volumes in the sector of automatic REPO decreased by 23.0% versus the previous quarter.

Figure 36

**Dynamics of rates on REPO operations, %**



Source: Kazakhstan Stock Exchange

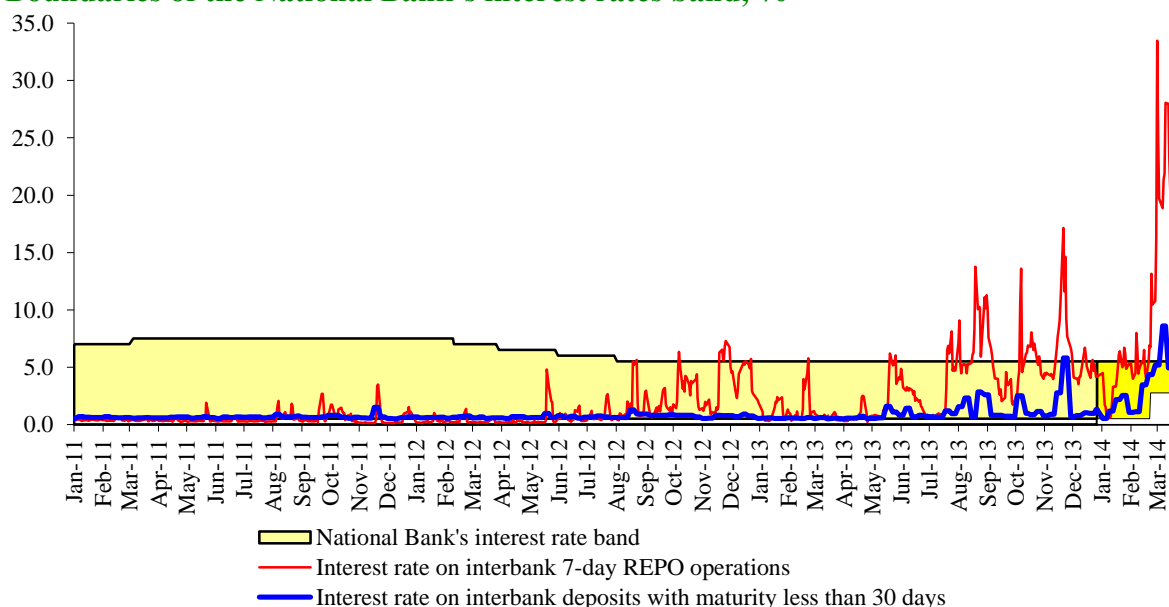
## 4. Monetary Policy Instruments and Operations

In the first quarter of 2014, the National Bank's interest rate band was changed. The official refinancing rate remained at 5.5% per annum. In February 2014, the National Bank made the decision to suspend the deposit-taking operations for 1 month; the interest rate on 7-day deposits was increased from 0.5% to 2.75%.

In the first quarter of 2014, while the volumes of available Tenge liquidity were decreasing, increased volatility in the money market was observed. This was accompanied by dramatic growth in the money market interest rates in February-March 2014. Weighted average rate on interbank deposits with maturity less than 30 days increased from 1.54% in the fourth quarter of 2013 to 3.14% in the first quarter of 2014. The weighted average rate on 7-day interbank REPO operations increased from 6.67% in the fourth quarter of 2013 to 8.78% in the first quarter of 2014 (Figure 37).

Figure 37

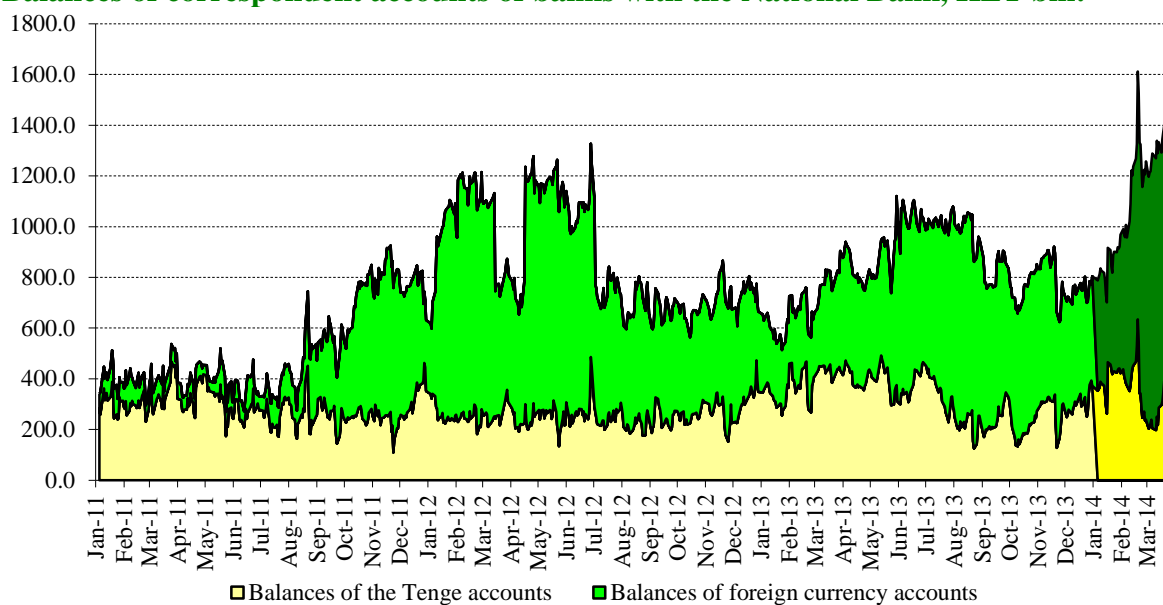
### Boundaries of the National Bank's interest rates band, %



Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2014, the dynamics in correspondent account balances of banks with the National Bank was multi-directional. Correspondent account balances of banks in the domestic currency were demonstrating growth until mid-February 2014, followed by their gradual decrease. Correspondent account balances of banks in foreign currencies were gradually increasing throughout the period. As a whole, the volume of correspondent account balances in the domestic currency at end-March 2014 as compared to December 2013 decreased by 9.9%, and correspondent account balances in foreign currency increased by 2.3 times (Figure 38).

Figure 38

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


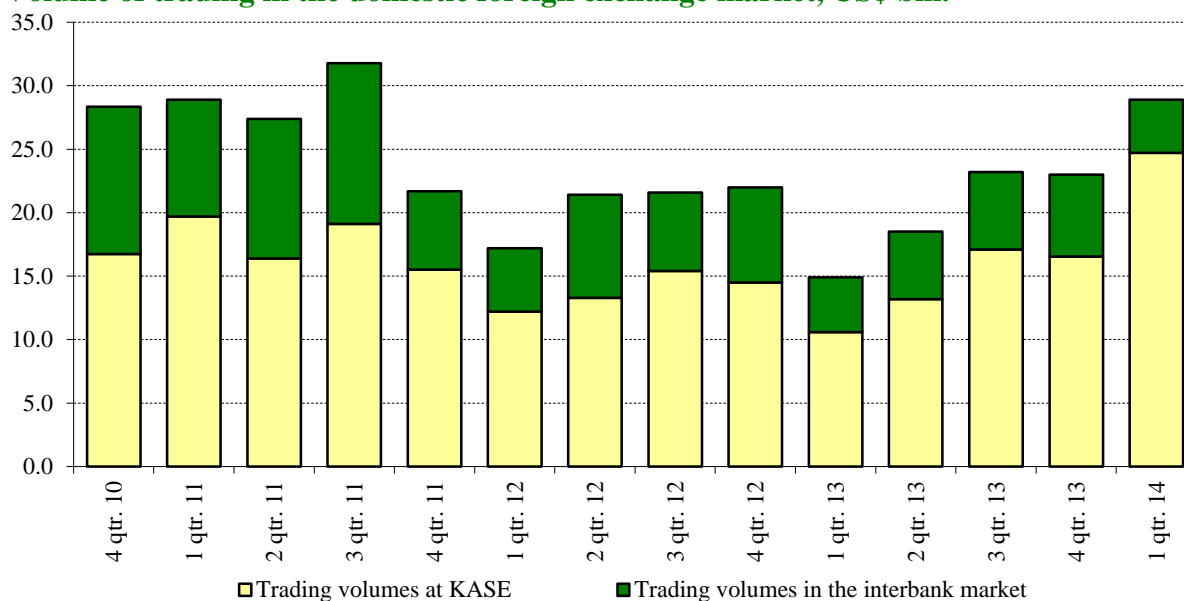
Source: National Bank of the Republic of Kazakhstan

#### 4.1. Interventions in the Domestic Foreign Exchange Market

In the first quarter of 2014, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$ 28.9 bln., having increased by 25.7% versus the fourth quarter of 2013.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 49.4% versus the fourth quarter of 2013 and amounted to US\$ 24.7 bln. (net trades at the Kazakhstan Stock Exchange made up 67% of gross trades). During the first quarter of 2014, the volume of transactions in the off-exchange foreign currency market decreased as compared to the previous quarter by 35.1% and amounted to US\$ 4.2 bln. (Figure 39).

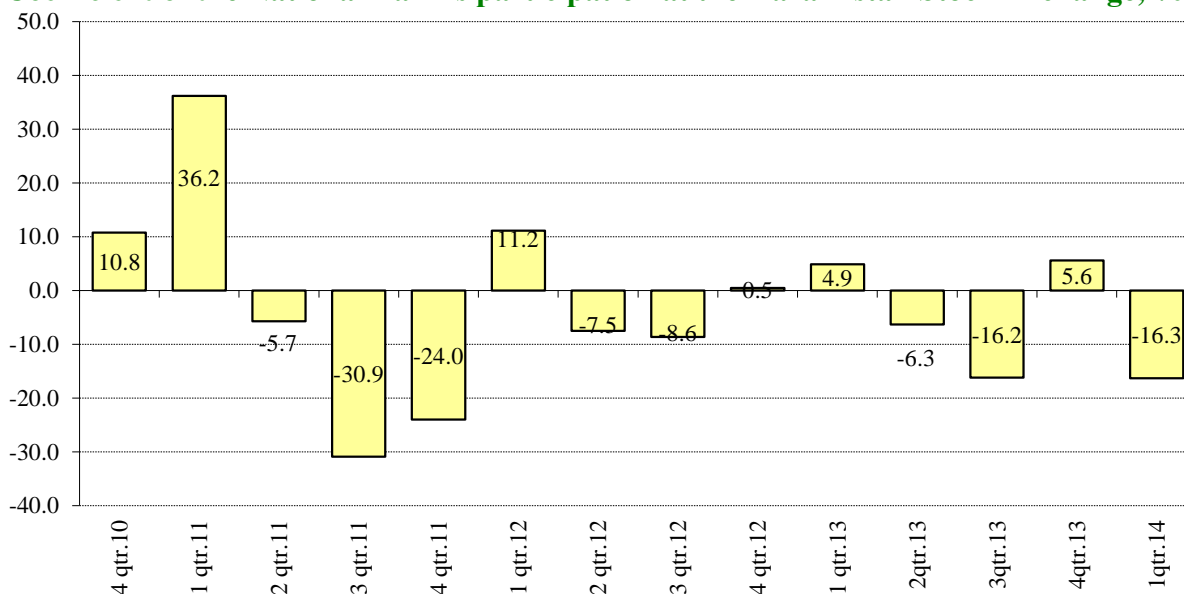
Figure 39

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


Source: National Bank of the Republic of Kazakhstan

At the end of the first quarter of 2014, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -16.3% (in the fourth quarter of 2013 it was 5.6%) (Figure 40). Thus, in the first 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, %**


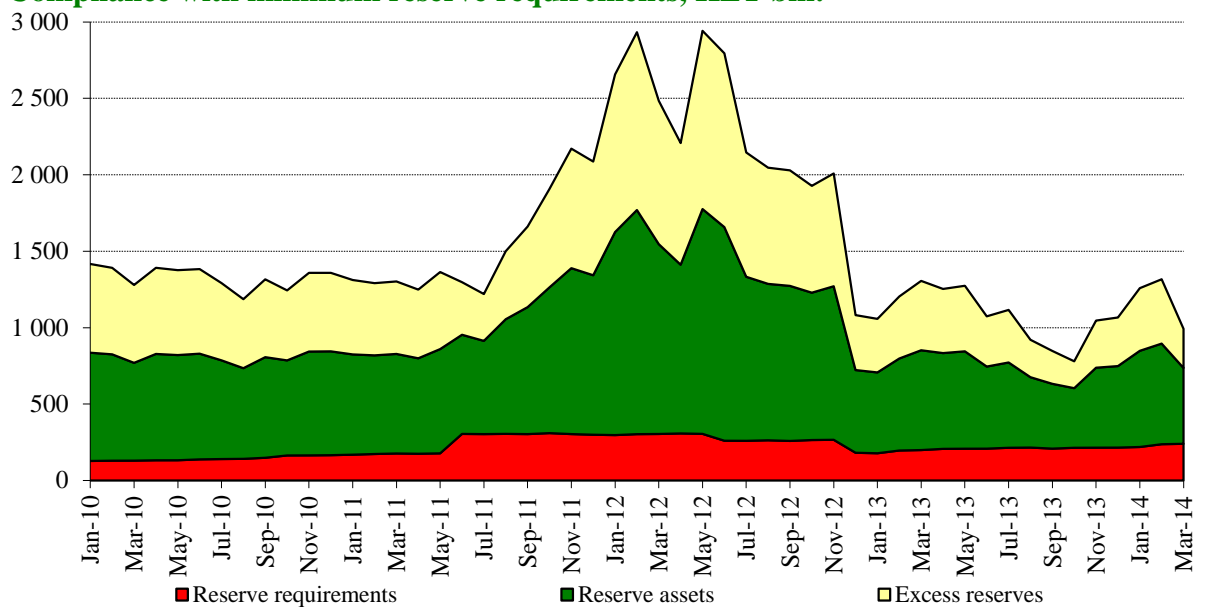
Source: National Bank of the Republic of Kazakhstan

## 4.2. Minimum Reserve Requirements

During January-March 2014, reserve assets exceeded the required reserving volume by 2.6 times on average (in the fourth quarter of 2013 – by 2.3 times, and in the first quarter of 2013 – by 3.1 times) (Figure 41).

Figure 41

**Compliance with minimum reserve requirements, KZT bln.**



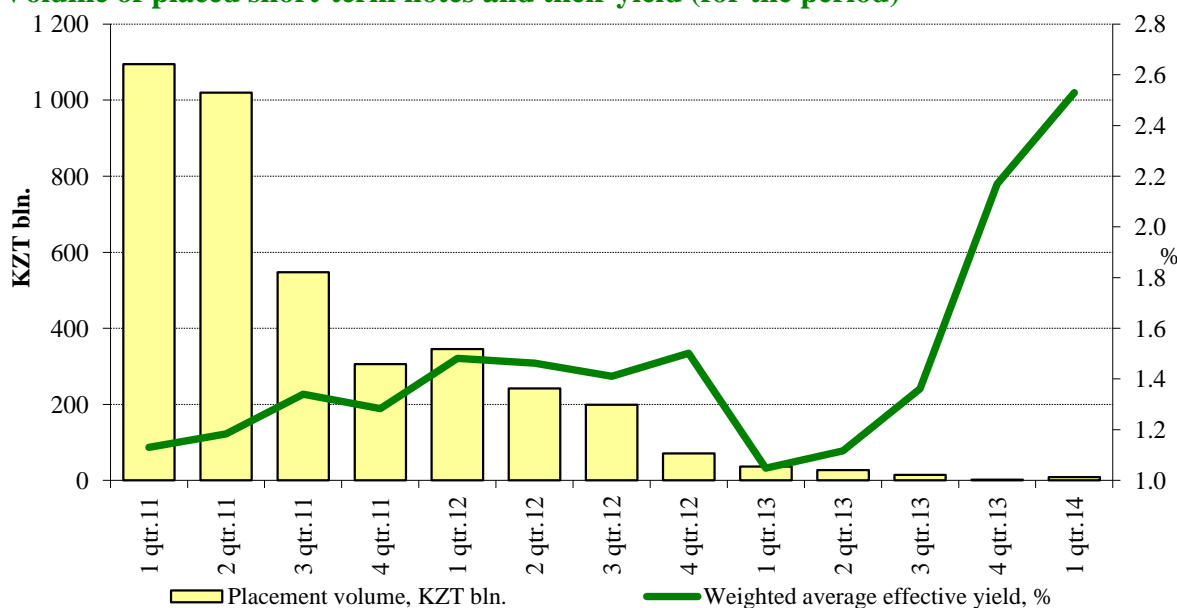
Source: National Bank of the Republic of Kazakhstan

**4.3. Open Market Operations**

In the first quarter of 2014, the demand of banks for short-term notes of the National Bank remained low. Only two auctions were held during this period (in January 2014), where 3-month and 6-month notes totaling KZT 8.9 bln. were placed. The volume of short-term notes issued in the first quarter of 2014 increased by 4.5 times versus the fourth quarter of 2013. The weighted average yield on placed notes increased from 2.17% in October 2013 to 2.53% in January 2014 (Figure 42).

Figure 42

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

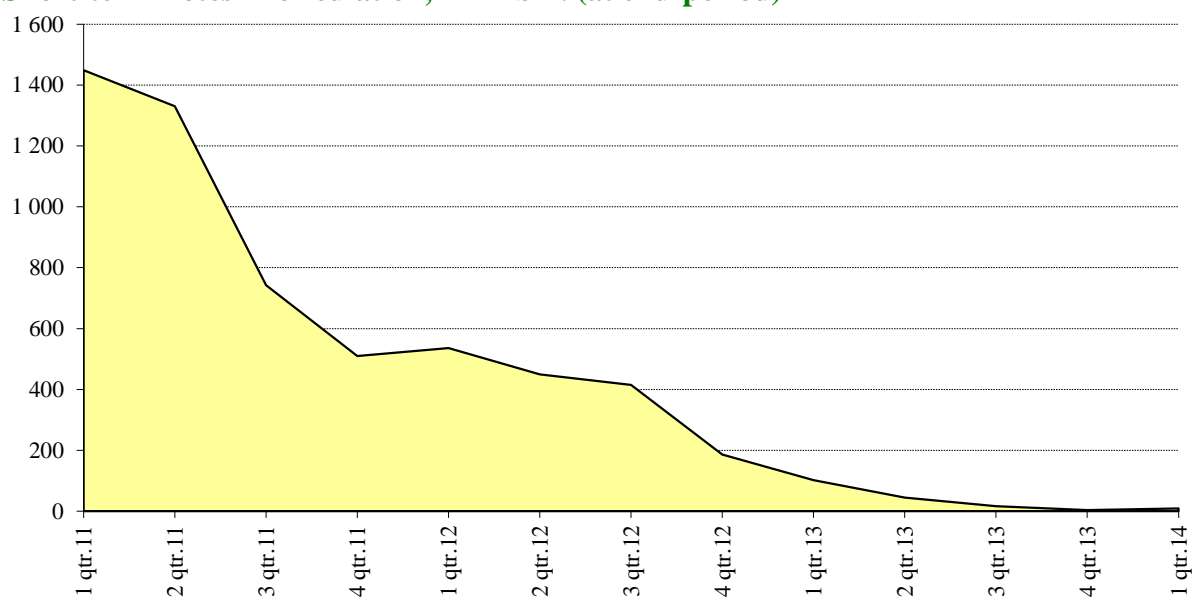


Source: National Bank of the Republic of Kazakhstan

At end-March 2014, the volume of short-term notes in circulation amounted to KZT 8.9 bln., which exceeds the volume of end-December 2013 by 2.5 times (Figure 43).

Figure 43

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



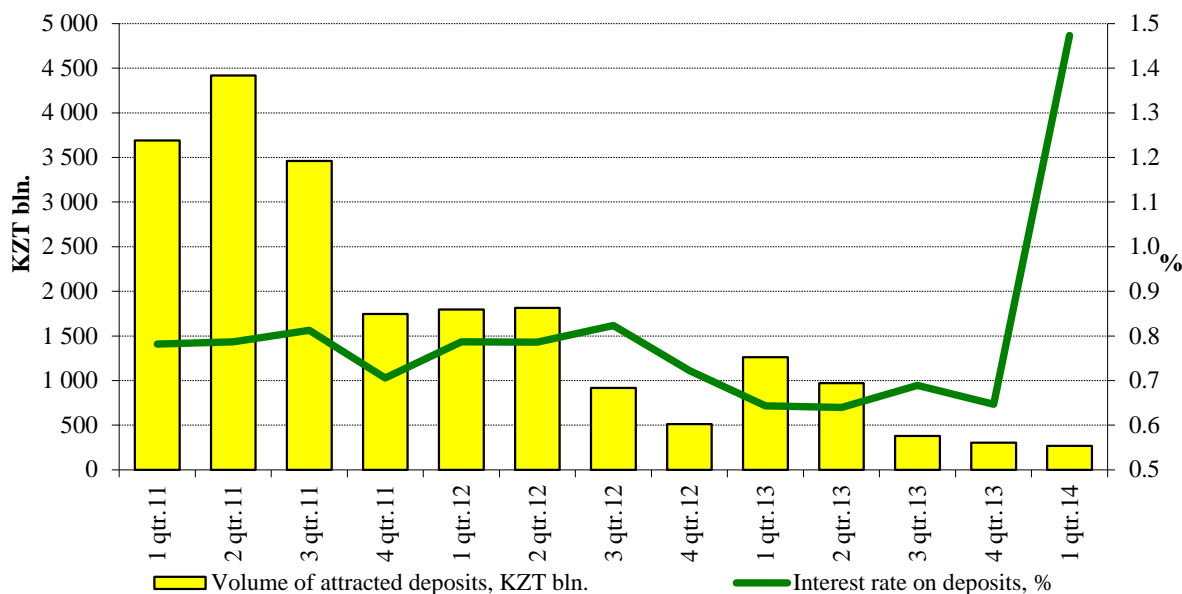
Source: National Bank of the Republic of Kazakhstan

#### 4.4. Standing Facilities

In the first quarter of 2014 as compared to the previous quarter, the volume of deposits attracted from banks somewhat decreased. The maximum volume of attraction of bank deposits was recorded in January. During the first quarter of 2014 as a whole, deposits worth KZT 267.3 bln. were attracted, which is by 12.1% less than the volume of the fourth quarter of 2013 and by 4.7 times less than in the first quarter of 2013.

The average interest rate on deposits increased from 0.65% in the fourth quarter of 2013 to 1.47% in the first quarter of 2014 (Figure 44); this was caused by the increase in interest rates on 7-day deposits from 0.5% to 2.75% at end-February 2014. As a result of the decision made by the National Bank to suspend taking 1-month deposits and increase the rate on 7-day deposits, there was 1.8 times increase in the volumes of attracted deposits in March 2014 versus February 2014.

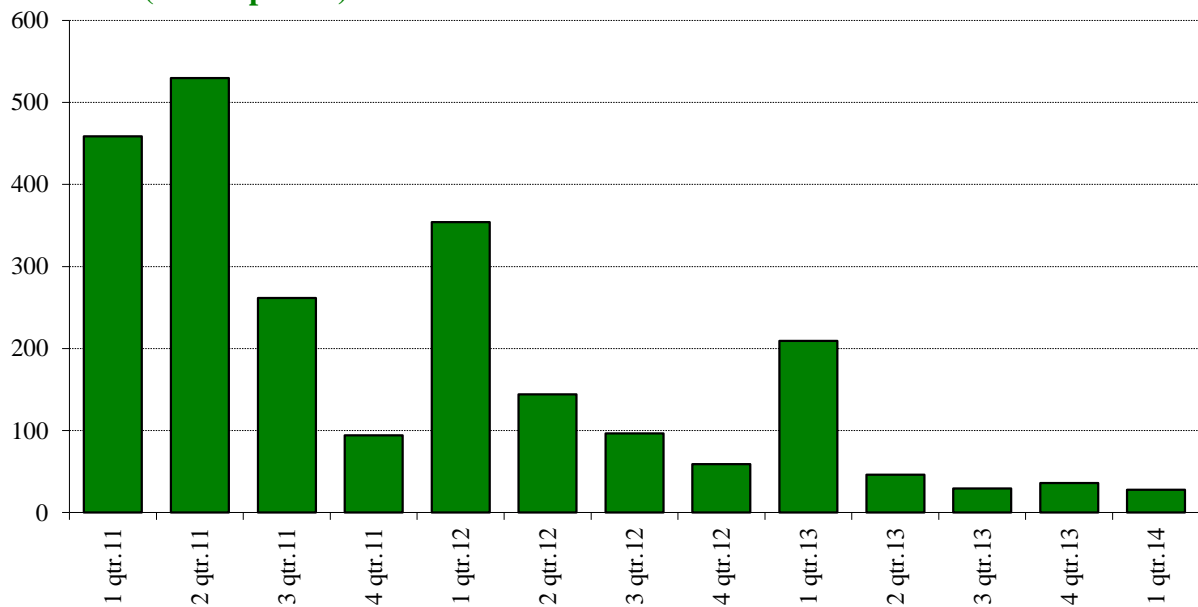
Figure 44

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


Source: National Bank of the Republic of Kazakhstan

In the first quarter of 2014, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-March 2014, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 28.0 bln., which is by 22.2% less than at end-December 2013 (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

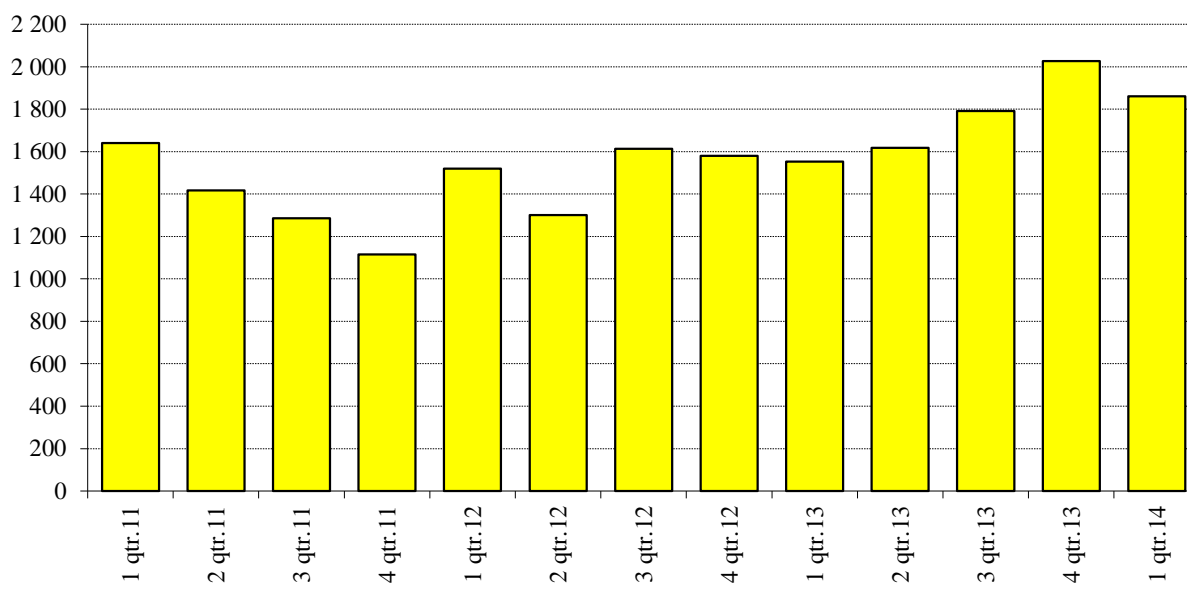
In addition to sterilization operations, in the first quarter of 2014 the National Bank continued to provide short-term Tenge liquidity to the banking sector by providing refinancing loans. The total volume of refinancing loans in the first quarter of 2014 amounted



to KZT 1.9 trln. The volume of such operations decreased by 8.2% as compared to the previous quarter (Figure 46).

Figure 46

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

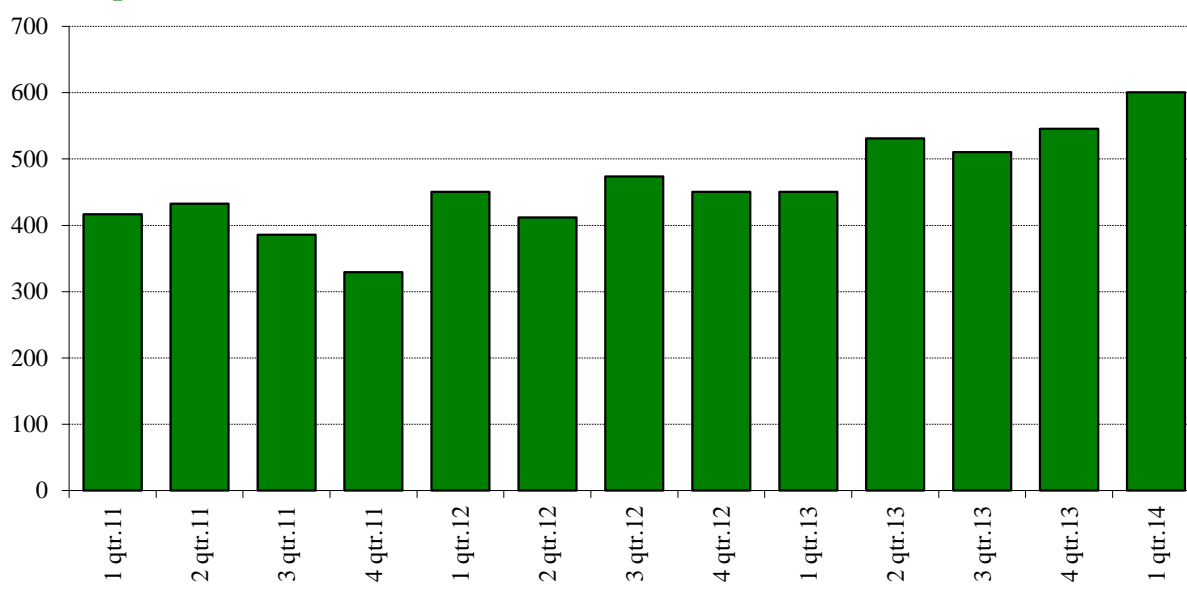


Source: National Bank of the Republic of Kazakhstan

At the end of March 2014, the volume of outstanding debt on refinancing loans amounted to KZT 600.4 bln. (Figure 47).

Figure 47

**Volume of outstanding liabilities on refinancing loans of the National Bank, KZT bln. (at end-period)**



Source: National Bank of the Republic of Kazakhstan