

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the 4th Quarter of 2013

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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 **Enterprise Monitoring**, 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 point (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

In the 4th quarter of 2013, the annual inflation rates were slowing. At the end of 2013, the annual inflation accounted for 4.8%, which represents the lowest rate of the annual inflation for the last 15 years. During 2013, the inflation was mainly building up under the impact of seasonal factors and increasing tariffs for paid services amidst low rates of growth in prices for certain foodstuffs and non-food products. In general, in 2013 the situation in the consumer market remained stable. The growth in gross volume in agriculture helps maintaining a favorable situation in the domestic food market.

In the 4th quarter of 2013, the inflation was at 1.5% (in the 3rd quarter of 2013 – 0.6%), which is by 0.5% less than in the 4th quarter of 2012. In the 4th quarter of 2013, there was an increase in prices for certain consumer products, including due to the increased consumer demand by the end of the quarter.

In the 4th quarter of 2013, the inflation was building up against minimal impact of seasonality factors. During October-December 2013, the money supply (M3) as the main indicator of the supply of money increased by 0.4% and amounted to KZT 11600.9 bln., and the reserve money expanded by 1.5% to KZT 2822.4 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 2013, according to preliminary data prepared by the Agency of Statistics of the Republic of Kazakhstan, accounted for 6.0%.

The real sector of the economy is developing steadily. During 2013, the industrial output grew by 2.3% in real terms, including the growth in the mining industry and quarry operations – by 1.6%. Over the same period, the growth in agriculture had accounted for 11.6%, in construction – 3.0%, and in cargo turnover – for 3.8%.

As part of its monetary policy implementation, in the 4th quarter of 2013 the National Bank continued to perform operations aimed to regulate the short-term Tenge liquidity in the money market. In the 4th quarter of 2013, the official refinancing rate remained unchanged at 5.5% per annum (since August 2012).

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 October-December 2013 amounted to KZT 2.0 bln., which is 36 times less than in the same period of 2012. However, no short-term notes were issued in November-December 2013. Also, the volume of deposits attracted from banks during the same period decreased by 40.5% to KZT 304.0 bln.

In December 2013, total deposits with banks amounted to KZT 10088.6 trln., having decreased by 0.2% versus September 2013 (the growth of 12.2% versus December 2012). At the same time, the growth in the volume of retail deposits accounted for 15.8%.

Credits to the economy in December 2013 versus September 2013 increased by 3.3% to KZT 12291.5 bln. The growth in the volume of credits to the population accounted for 5.2% during the period.

Evaluation of the Inflation Forecasts for the 4th Quarter of 2013 and for 2013 as a Whole

In the 4th quarter of 2013, the actual inflation rate (1.5%) was lower than the forecast (2.6-2.8%) published in the previous issue of the Inflation Report. Throughout the quarter, the inflation had been lower than the forecast.

The major growth in prices in the 4th quarter of 2013 was among the foodstuffs and non-food products. The growth in prices for such products as eggs, dairy products, fish and seafood, clothes, footwear, and gasoline should be pointed out. The rate of growth in prices

for paid services had been slower. However, the growth in utility tariffs including cold and hot water fees should be pointed out in their structure.

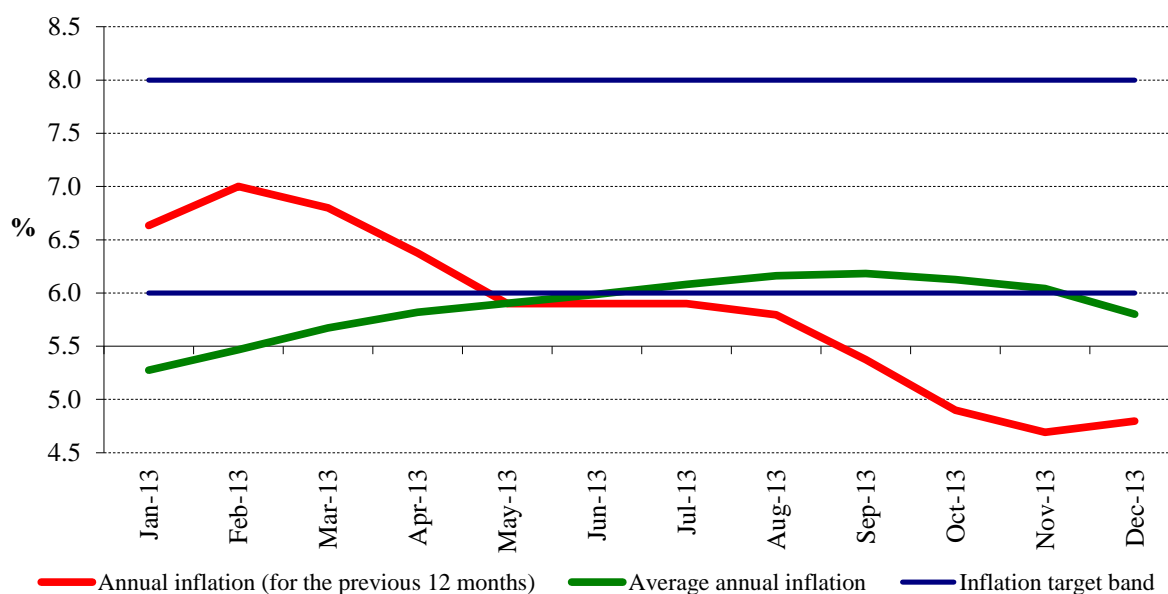
In general, based on the results of 2013, one may note that inflationary processes in Kazakhstan were building up, primarily, amidst growing prices for paid services to the population. The rates of growth in prices for foodstuffs and non-food products in 2013 were moderate, except for the 4th quarter of 2013.

In 2013, the highest rates of growth were observed in prices for such goods and services as eggs, fish and seafood, utilities, including cold water supply and electricity supply, healthcare services, services provided by cultural and educational establishments, and transport services.

The actual annual inflation at end-2013 accounted for 4.8%, being lower than the target (6.0-8.0%) set by the National Bank for the year 2013 (Figure 1).

Figure 1

Actual and forecasted inflation in 2013



Source: National Bank of the Republic of Kazakhstan

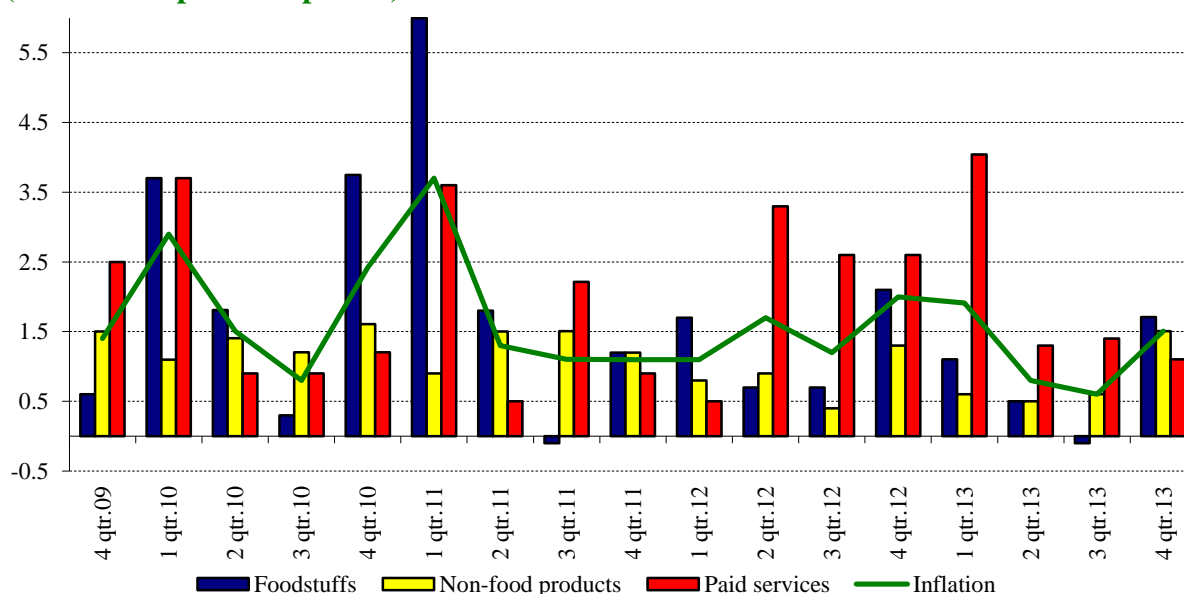
1. Inflationary Processes

1.1. Consumer Prices

In the 4th quarter of 2013, seasonal quarterly inflation was accelerating and had been at 1.5% (in the 4th quarter of 2012 – 2.0%), whereas in the 3rd quarter of 2013 it was at 0.6%. During October-December 2013, the inflation was mainly building up because of the growth in prices for foodstuffs by 1.7% (by 2.1%). In the 4th quarter of 2013, prices for non-food products increased by 1.5% (by 1.3%), and tariffs for paid services increased by 1.1% (by 2.6%) (Figure 2).

Figure 2

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



Source: Agency of Statistics of the Republic of Kazakhstan

In December 2013 versus September 2013, the highest increase in prices among foodstuffs occurred in the prices for eggs – by 31.0%, semolina – by 5.7%, cottage cheese – by 4.8%, butter – by 4.1%, fish and seafood – by 2.8%, beetroot – by 2.8%, and pearl barley – by 2.2%. In addition, tobacco prices increased by 7.6%. During the reporting period, the following products cheapened: buckwheat - by 5.9%, vegetable oil – by 2.0%, carrots – by 5.7%, onions – by 5.4%, potatoes – by 2.7%, as well as sugar – by 2.8%.

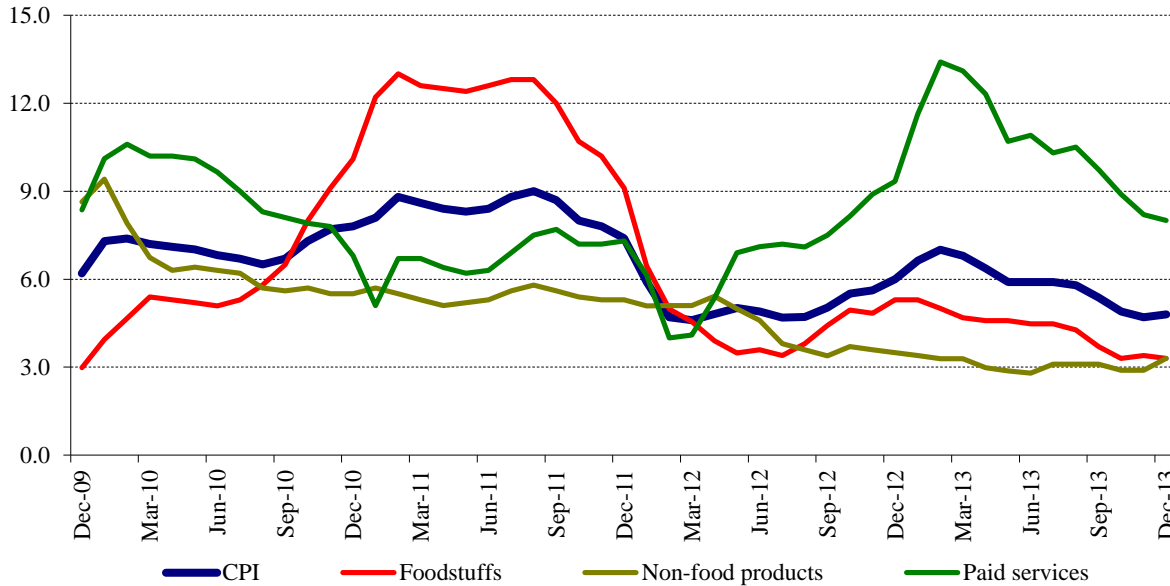
During October-December 2013, in the group of non-food products the prices for clothes and footwear increased by 2.0%, including footwear – by 2.1%, upper garments – by 1.9%, fabrics – by 1.4%, as well as medications – by 1.3%, and household utensils – by 1.0%. The price of gasoline increased by 1.9%, and the price of diesel fuel – by 0.7%.

In the structure of paid services, utility payments increased by 3.4% during the 4th quarter of 2013. Fees for cold water and sewage increased by 4.0% each, rental payments – by 3.2%, hot water fee – by 1.7% and the cost of upkeep – by 1.3%. Also, there was an increase in prices for transport services – by 0.5% (because of increased prices for air services – by 2.2%, and motor transport services – by 0.4%), for healthcare services – by 1.2%, as well as for services of restaurants and hotels – by 1.5%.

In December 2013, the annual inflation was 4.8% (in December 2012 – 6.0%). In December 2013 versus December 2012, the price of foodstuffs increased by 3.3% (by 5.3%), the price of non-food products – by 3.3% (by 3.5%), and the price of paid services – by 8.0% (by 9.3%) (Figure 3).

Figure 3

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



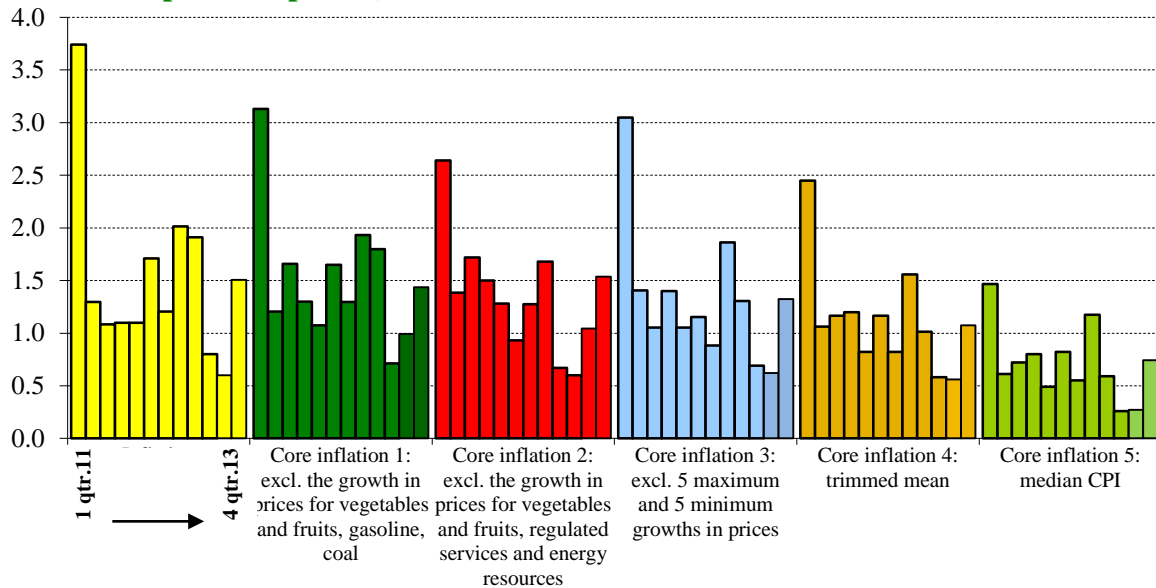
Source: Agency of Statistics of the Republic of Kazakhstan

1.2. Core Inflation

In the 4th quarter of 2013, core inflation indicators had been at a higher level versus the previous quarter. At the same time, in comparison with the same period of 2012, the inflation had lower rates of growth in respect of all core inflation indicators. Core inflation indicators didn't exceed the level of the headline inflation, except for core inflation-2 (Figure 4). 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 fuel and lubricants, utility services.

Figure 4

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



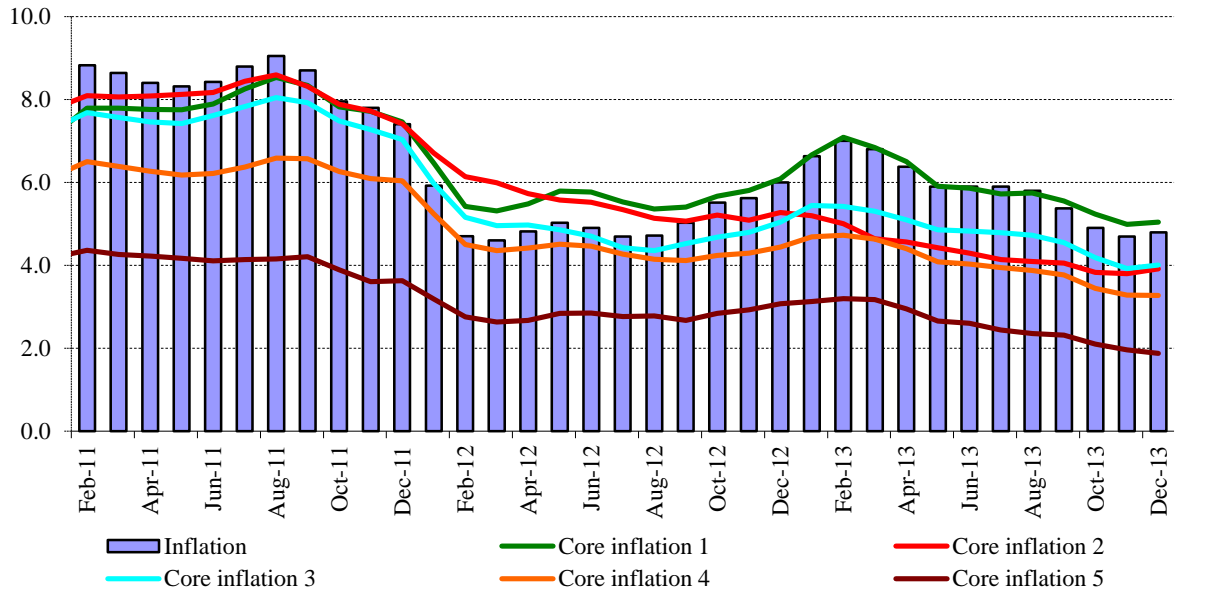
Source: Agency of Statistics of the Republic of Kazakhstan

In the 4th quarter of 2013, annual core inflation indicators were slowing down (Figure 5). In November core inflation-1, 2 and 3 somewhat slowed and in December its rate accelerated again. It was only core inflation-1 that exceeded the headline inflation at end-2013, whereas the rest of core inflation indicators had been at a lower level.

At end-December 2013, all core inflation indicators in annual terms were at a lower level as compared to the indicators in December 2012. This proves that inflationary processes are slowing down, amidst minimal impact of monetary factors on the inflation (Figure 5).

Figure 5

**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 4th quarter of 2013, the producer prices decreased by 1.7% (in the 4th quarter of 2012 – the decrease of 1.0%). The cost of output decreased in terms of price by 1.9%, at the same time, the price of interim consumption products decreased by 2.4%, the means of production decreased by 0.8% in terms of price, and the price of consumer goods increased by 1.7%. The prices of production services increased by 1.7%.

In the 4th quarter of 2013, due to lower oil prices in November versus October, prices in the mining industry decreased by 2.5%, against the 10.9% growth in the prior period (in the 4th quarter of 2012 – the decrease of 0.01%).

The price of energy resources, after their 11.2% increase in the previous quarter, decreased by 2.6% in the 4th quarter of 2013 (in the 4th quarter of 2012 – the growth of 0.4%). Within the composition of energy resources, the price of oil extraction decreased, due to its decrease in October and November, by 3.4% (in the 4th quarter of 2012 – the growth of 0.5%), and the price of gas condensate decreased by 2.2% (in the 4th quarter of 2012 – the decrease of 2.3%).

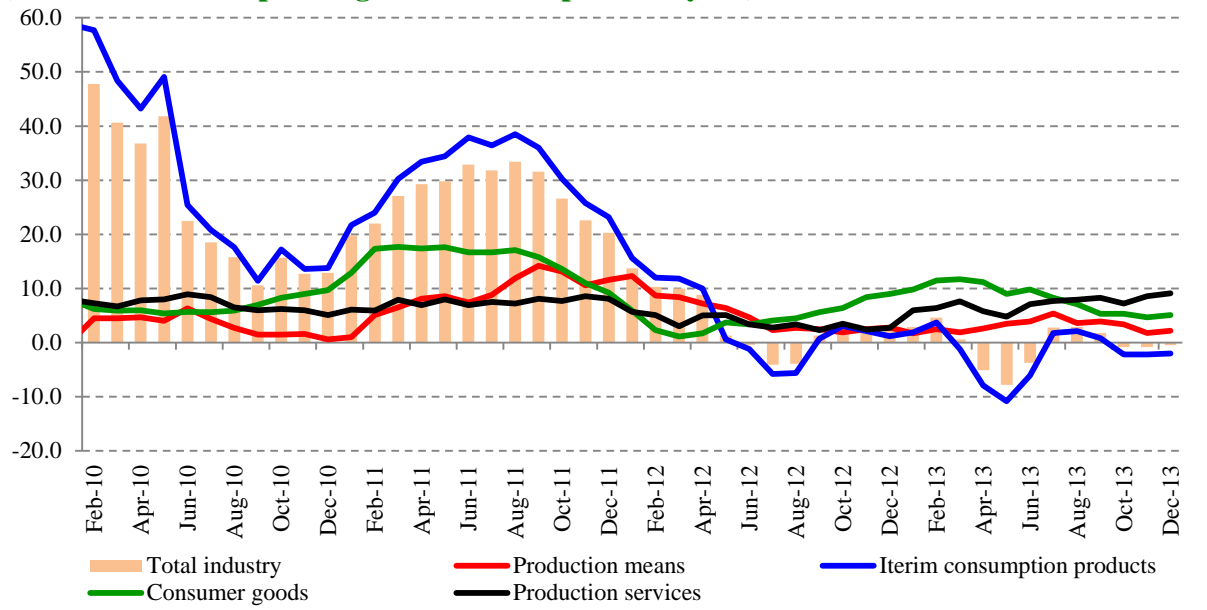
Prices in manufacturing industry, after their increase in the previous quarter by 0.2%, in the reporting quarter decreased by 0.4% (in the 4th quarter of 2012 – the growth of 2.3%). Alongside with that, in the 4th quarter of 2013, prices in the metallurgical industry decreased by 3.4%, production of foodstuffs decreased by 1.8% in terms of price, and the cost of refined products increased by 3.9%.

In the 4th quarter of 2013, prices for electric energy, gas and vapor supply and air conditioning increased by 1.3% (in the 4th quarter of 2012 – the growth of 2.0%).

In December 2013, the year-to-year decrease in prices in industrial production (December 2013 versus December 2012) accounted for 0.5% (in December 2012 - the annual growth in prices accounted for 2.1%) (Figure 6).

Figure 6

**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 decreased by 1.2 % in annual terms, while the price of interim consumption products decreased by 2.0%, the price of consumer goods increased by 5.1%, and the price of production means increased in price by 2.2%. The price of production services increased by 9.1%.

1.3.2. Prices in Agriculture

In the 4th quarter of 2013, prices for agricultural production realized across all channels decreased by 3.7% (in the 4th quarter of 2012 – the growth of 19.2%). The dynamics of prices in agriculture was impacted by a higher growth in prices for plant production as compared to the livestock sector.

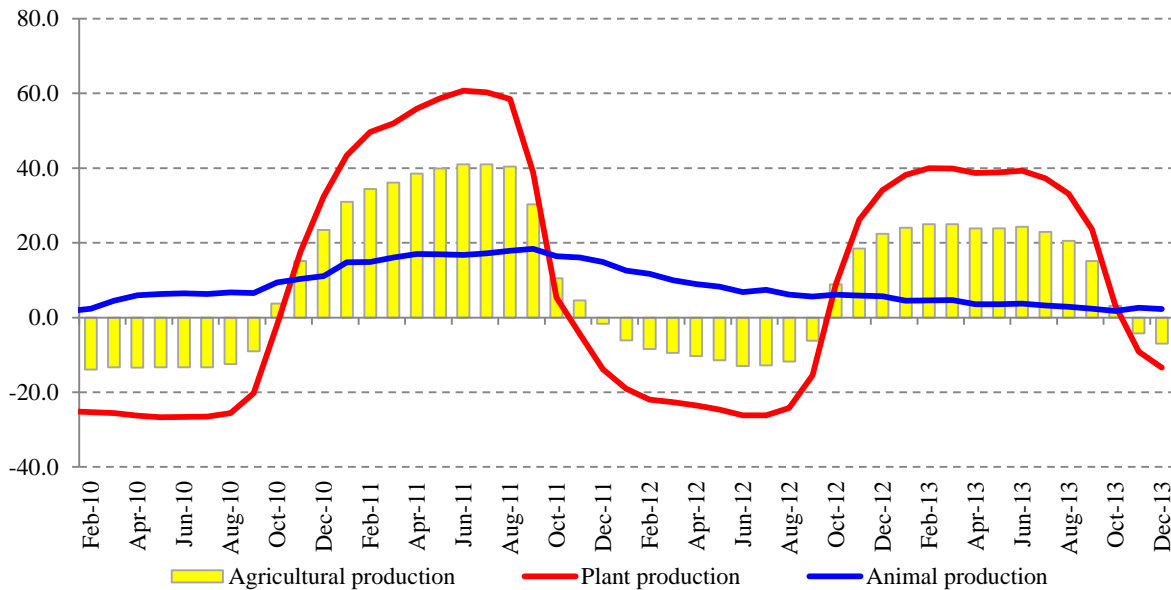
As compared to the decrease in prices by 5.9% in the previous quarter, during October-December 2013 the plant production cheapened by 9.7% (in the 4th quarter of 2012 – the growth of 28.8%). Within the plant production, prices for grain cultures decreased by 12.0%, for vegetables – by 6.5%, and for potatoes – by 5.5%.

The price of animal production, after the 0.2% growth in the 3rd quarter of 2013, increased by 5.0% in the 4th quarter of 2013 (in the 4th quarter of 2012 – the growth of 5.1%). During October-December 2013, prices for flesh meat and poultry increased by 0.2%, the price of unpasteurized milk grew by 6.8%, and eggs increased in price by 24.5%.

At end-December 2013, prices for agricultural products decreased by 7.0% in annual terms. The price of plant production increased by 13.4%, and the price of animal production increased by 2.3% (Figure 7).

Figure 7

**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 4th quarter of 2013, the demand for final products of enterprises in the real sector of the economy as a whole slightly slowed down; this is evidenced by the diffusion index of the change in the demand, which fell to 49.5 (from 52.1 in the 3rd quarter of 2013). The indicator fell due to decreased share of enterprises with increased demand for their products (to 20.3% from 21.9% in the 3rd quarter of 2013) and increased share of enterprises that noted the decrease in the demand for their products (to 21.4% from 17.8% in the 3rd quarter of 2013).

The largest decrease in the demand occurred in such sectors¹ as “water supply, sewage system, control over waste collection and distribution”, “manufacturing industry”, “wholesale and retail trade, repair of cars and motorcycles” and “construction”: the diffusion index for these sectors fell, respectively, to 44.2, 44.7, 47.7 and 47.9 from 57.4, 50.9, 53.5 and 50.9 in the 3rd quarter of 2013. However, the growth was observed in the following sectors: “production and distribution of electricity, gas and water”, “accommodation and catering services” and “agriculture, forestry and fishery”. The highest growth in the demand was in “electricity, supply of gas, vapor...”: the diffusion index has risen to 70.1 (from 48.8 in the 3rd quarter of 2013), which is associated with the seasonality, in the first instance. The growth in the demand was slowing in the mining industry and in the sector of “information and communications”.

In the 1st quarter of 2014 as compared to the 4th quarter of 2013, the demand for the final products of enterprises in the real sector as a whole will not change: the diffusion index is 50. At the same time, a multidirectional change in the demand is anticipated in the sectoral breakdown: the growth in the demand is anticipated in such sectors as “water supply, sewage system...” (the diffusion index has risen to 53.8 from 44.2 in the 4th quarter of 2013),

¹ Names of the sectors are provided based on new CCEA introduced by the Agency of Statistics of the Republic of Kazakhstan.

“information and communications” (to 56 from 50 in the 4th quarter of 2013), “agriculture, forestry and fishery” (to 58 from 56.2 in the 4th quarter of 2013), and the decline in the demand – in the sectors of “accommodation and catering services” (the diffusion index – 45.8), construction (47.3), manufacturing industry (47.6) and “wholesale and retail trade...” (48.7).

In the 4th quarter of 2013, prices for final products of enterprises continued to grow at a moderate pace in the real sector as a whole: the diffusion index of the change in prices for final products was 54.4 (in the 3rd quarter of 2013 – 54.1). At the industry level, a similar situation of the moderate growth in prices was observed: construction (the diffusion index was 58.2), “wholesale and retail trade...” (57.2), “accommodation and catering services” (56.8), “agriculture, forestry and fishery” (56), “electricity supply, supply of gas, vapor...” (54.9). The growth in prices for final products slowed down in the sector of “information and communications” (the diffusion index fell to 51.2 from 53.3 in the 3rd quarter of 2013).

In the 4th quarter of 2013, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) also continued their moderate growth: the diffusion index was 54.3 (in the 3rd quarter of 2013 it was 52.1).

In the 1st quarter of 2014 versus the 4th quarter of 2013, a notable growth in prices for final products is anticipated in the real sector of the economy as a whole (the diffusion index was 58); it is caused by increased rates of growth in prices in the majority of sectors. The largest increase in the rates of price growth is anticipated in such sectors as: “electricity supply, supply of gas, vapor...”, “information and communications”, “water supply, sewage system...”, and manufacturing and mining industries.

In the 1st quarter of 2014, according to expectations of enterprises, prices for consumer products and services will grow moderately, with some increase in the growth rates: the diffusion index of the change in prices is 57.7 (54.3 in the 4th quarter of 2013).

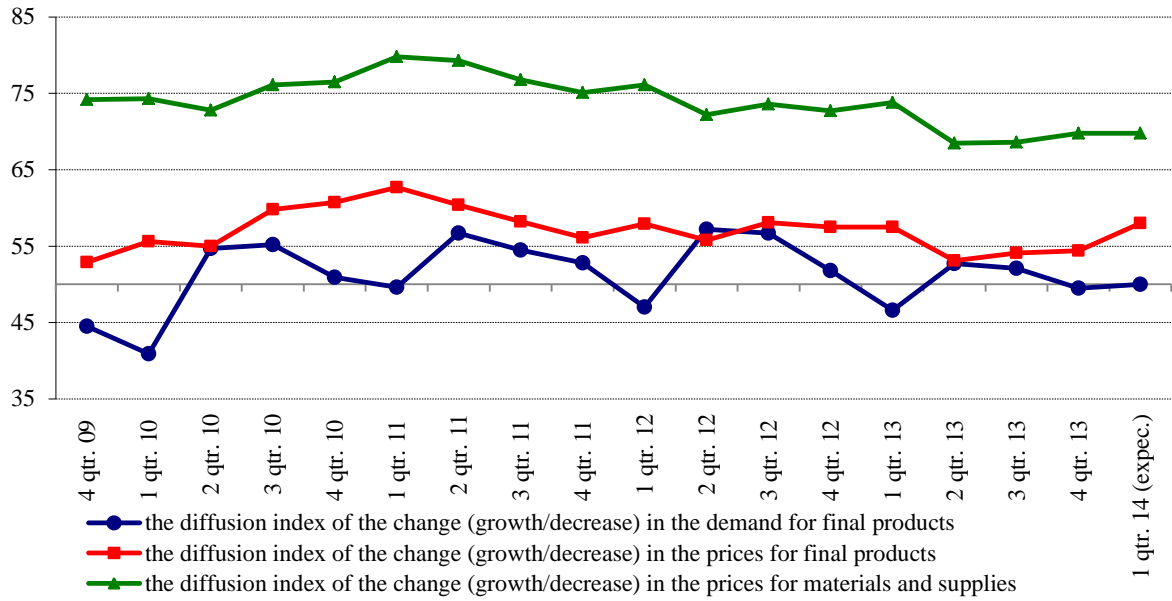
In the 4th quarter of 2013, the rates of growth in prices for raw materials and supplies continued to grow at a relatively high pace: the diffusion index of the change in prices was 69.8 (in the 3rd quarter of 2013 – 68.6). The increased rates of growth in prices were observed in the mining industry (the diffusion index has risen to 74.5 from 68.6 in the 3rd quarter of 2013) and manufacturing industry (to 67.9 from 65.7 in the 3rd quarter of 2013); in the sectors of “electricity supply, supply of gas, vapor...” (to 69.5 from 68.3 in the 3rd quarter of 2013), “accommodation and catering services” (to 74.6 from 70.7 in the 3rd quarter of 2013). Some slowdown in the rates of price growth occurred in the sectors of “water supply; sewage system...”, (the diffusion index fell to 67.3 from 70.4 in the 3rd quarter of 2013) and construction (to 72.6 from 74.7 in the 3rd quarter of 2013).

For the 1st quarter of 2014, the diffusion index of the change in prices for raw materials and supplies is 69.8, according to expectations of enterprises. The share of enterprises anticipating the decline in prices decreased to 0.7% from 1.5% in the 4th quarter of 2013.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of enterprises about the 1st quarter of 2014 versus 4th quarter of 2013 are characterized by the fact that the demand for final products will not change, moderate growth in prices for final products will continue and the rates of growth in prices for raw materials and supplies will be relatively high (Figure 8).

Figure 8

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 3rd quarter of 2013, GDP based on the final consumption method as compared to the respective period of 2012 increased in real terms, according to estimate, by 5.6% (the growth in the 3rd quarter of 2012, according to estimates, accounted for 5.1%, the growth in the 2nd quarter of 2013 – 5.0%).

The growth in GDP in the 3rd quarter of 2013 was impacted by the growth in spending on final consumption caused by increased household spending on current consumption, government spending on current consumption, gross formation and decreased net exports.

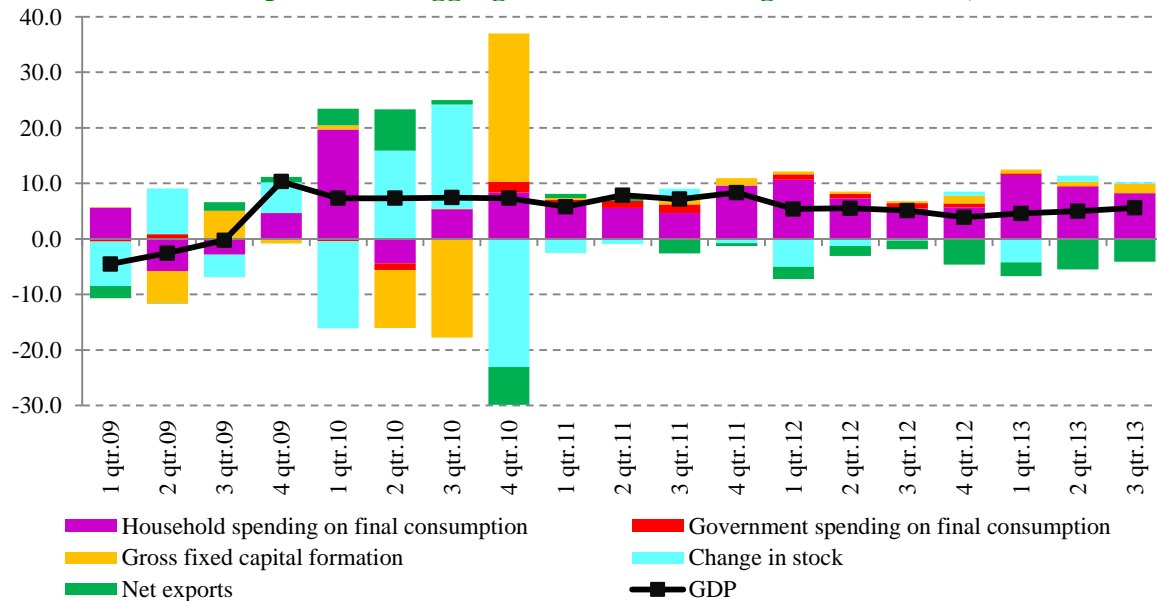
In the 3rd quarter of 2013, according to estimate, spending on final consumption in general increased versus the corresponding quarter of 2012 by 12.8% (2nd quarter of 2013 – the growth of 13.0%), gross formation increased by 4.9% (the growth of 8.3%), and negative value of net exports increased by 2.9 times (the decrease of 48.3%).

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 (+)8.2% and (+)0.1%, respectively, and gross formation increased GDP by (+)1.9 %.

Within the gross formation, fixed capital formation accounted for (+)1.6%, and the change in stock accounted for (+)0.3%. In their turn, net exports made negative contribution to the GDP growth of (-)4.1% (Figure 9).

Figure 9

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



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 3rd quarter of 2013, household spending on final consumption increased by 16.1% versus the respective period of 2012 (in the 2nd quarter of 2013 – the growth of 16.8%).

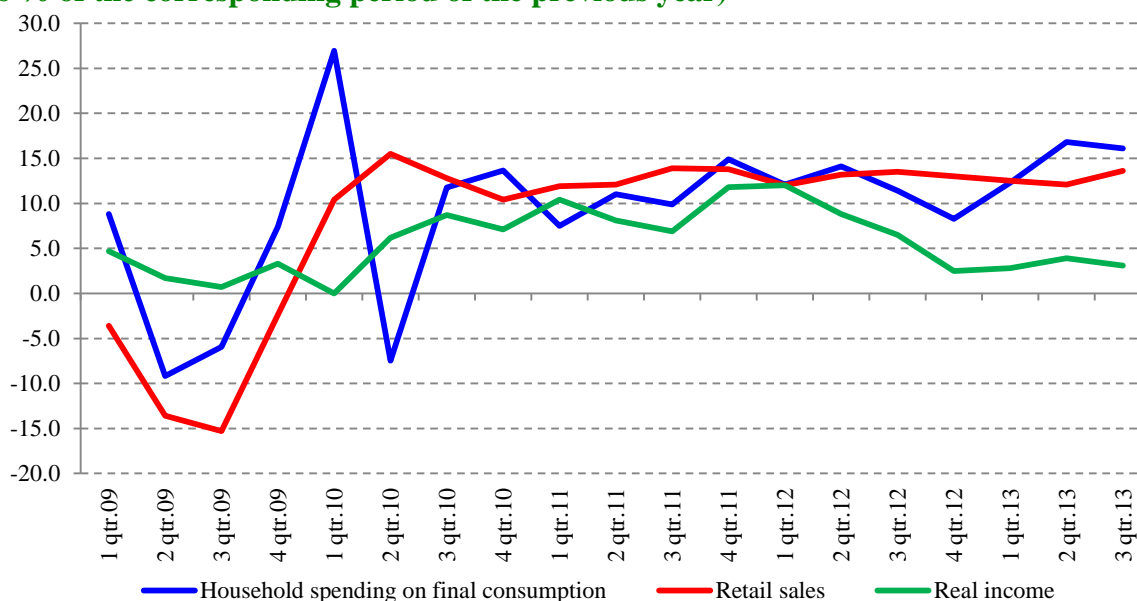
In the 3rd quarter of 2013, the growth rate of per capita income in nominal terms slowed down to 9.0% (in the 2nd quarter of 2013 – the growth of 10.2%), and in real terms it slowed down to 3.1% (the growth of 3.9%). At the same time, the slowdown in the growth rates of household income didn't significantly affect retail sales whose growth rate even

slightly accelerated, as compared to the 2nd quarter of 2013 года, accounting for 13.6% (in the 2nd quarter of 2013 – the growth of 12.1%).

The acceleration in the growth rates of retail sales was minor and didn't significantly affect one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption, which increased to 16.1%, whereas a quarter before the growth accounted for 16.8% (Figure 10).

Figure 10

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

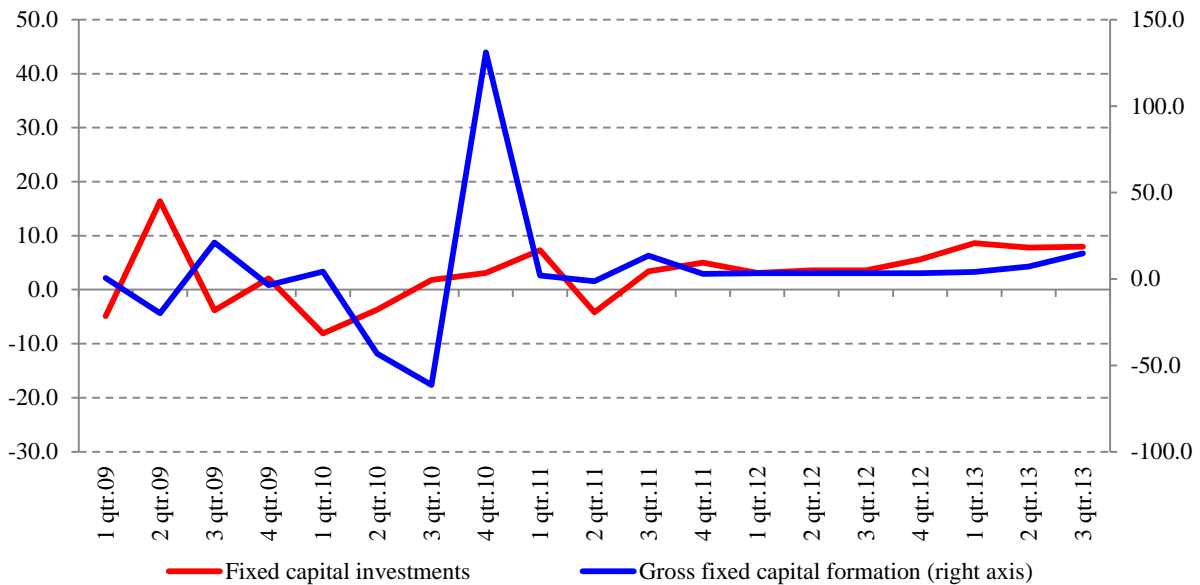
Acceleration in the growth rates of retail sales alongside with slowing rates of growth in household income to some extent was caused by the steadily increasing lending activity.

After the 3.9% growth in credits to the population in the 1st quarter of 2013 and in the 2nd quarter of 2013 – by 8.6%, in the 3rd quarter of 2013 the growth rate slowed down to 7.1%. At the same time, in the 3rd quarter of 2013 the growth in consumer loans to individuals accounted for 12.2% (in the 2nd quarter of 2013 – the growth of 14.3%).

The growth in investment activity of enterprises helped increasing the volume of fixed capital investments by 8.0% in the 3rd quarter of 2013 (in the 2nd quarter of 2013 the growth accounted for 7.8%). The increase in gross fixed capital formation accelerated, and the growth rate increased versus the previous quarter to 14.7% (2nd quarter of 2013 – the growth of 7.1%), thus making positive contribution to the GDP growth of (+)1.6%; change in stock made positive contribution to the GDP growth of (+)0.3% (Figure 11).

Figure 11

**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 3rd quarter of 2013 versus the corresponding period of 2012, government spending on final consumption increased by 1.3% (in the 2nd quarter of 2013 – the growth of 1.5%).

During the 3rd quarter of 2013 as a whole, the state budget spending was financed in the amount of KZT 1829.8 bln. or 22.4% of GDP (the increase of 14.5% versus the 3rd quarter of 2012).

Current state budget expenditures totaled KZT 1.3 trln., exceeding those of the 3rd quarter of 2012 by 14.5%. 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 3.9 times), interest payments on the domestic loans (by 48.1%), current transfers to legal entities (by 33.2%), current transfers to individuals (by 10.6%), and salaries and wages (by 4.5%). At the same time, there was a decrease in expenditures related to purchases of stock (by 86.8%), in wage payouts to certain groups of individuals and deductions of contributions (by 77.3%), in current transfers abroad (by 55.6%) and interest payments on foreign loans (by 12.0%).

In the 3rd quarter of 2013, capital expenditures in the state budget increased by 8.7% 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 3rd quarter of 2013 as compared to the 3rd quarter of 2012, budget credits decreased by 45.2%, and expenditures related to acquisition of financial assets increased by 3.1 times.

During the 3rd quarter of 2013, the state budget revenues totaled KZT 1673.7 bln. or 20.5% of GDP, exceeding revenues in the 3rd quarter of 2012 by 25.1%. In the structure of the state budget revenues two items are still prevailing: tax revenues – 66.7% (in the 3rd quarter of 2012 – 67.1%), and official transfers – 30.5% (29.6%). 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 510.0 bln.

In the 3rd quarter of 2013 as a whole, tax revenues increased by 24.3% as compared to the 3rd quarter of 2012. The growth was secured by the growth in the receipts on the value-added tax, corporate income tax, excises, social tax, personal income tax, whereas revenues from the use of natural and other resources decreased by 14.6%.

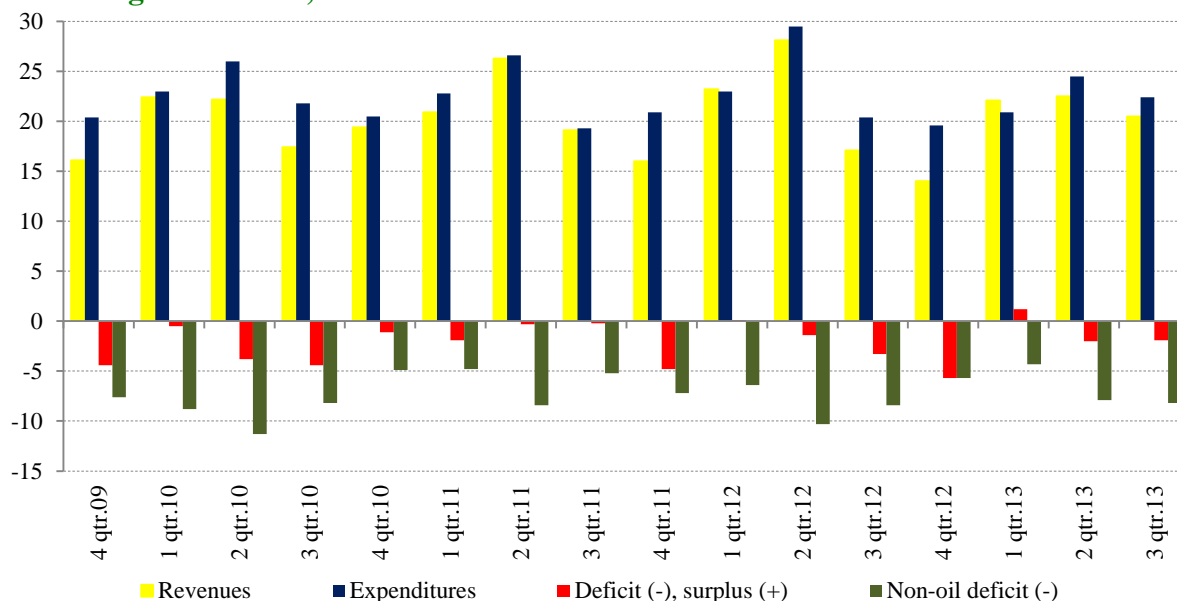
In the 3rd quarter of 2013, non-tax revenues increased by 9.3%, mainly due to increased revenues from realization of goods (works, services) by state-owned entities funded from the budget, penalties, fines, sanctions, charges imposed by state-owned entities funded from the budget.

In the 3rd quarter of 2013, the revenues from transfers increased as compared to the 3rd quarter of 2012 by 29.1%, and revenues from the sale of fixed capital increased by 4.0%.

Since expenditures were in excess of revenues in the 2nd quarter of 2013, the state budget showed up a deficit of KZT 156.1 bln. (1.9% of GDP), in the 3rd quarter of 2012 – the deficit of KZT 261.0 bln. (3.3% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 510.0 bln. to the republican budget from the National Fund, the 3rd quarter of 2013 would have ended with the non-oil deficit of KZT 666.1 bln.

Figure 12

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 3rd quarter of 2013, the Ministry of Finance borrowed KZT 293.3 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 65.9 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 71.3 bln.

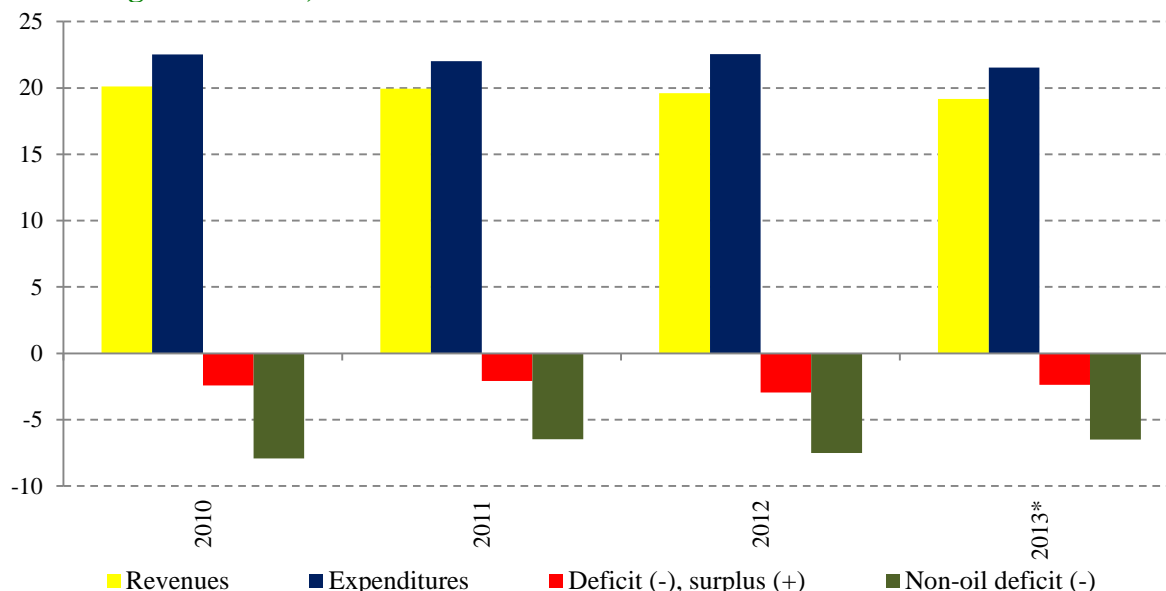
As of October 1, 2013, the government domestic debt amounted to KZT 3295.4 bln. (40.4% of GDP), which exceeds the amount as of October 1, 2012 by 29.6% (32.4% of GDP). The growth was secured by the issue of government long-term savings treasury obligations (MEUZHKAM), government short-term treasury obligations (MEKKAM), government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of October 1, 2013, government external debt amounted to KZT 747.2 bln. (9.1% of GDP), having increased by 10.0% against the volume at October 1, 2012 (8.7% of GDP).

There is a downward trend in the state budget deficit. In the 3rd quarter of 2013, the deficit accounted for (-)2.4% of GDP (in 2012 – the deficit of (-)2.9% of GDP) in annual terms (Figure 13).

Figure 13

State budget execution, as % of GDP in annual terms



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

* - for the period from the 4th quarter of 2012 through the 3rd quarter of 2013

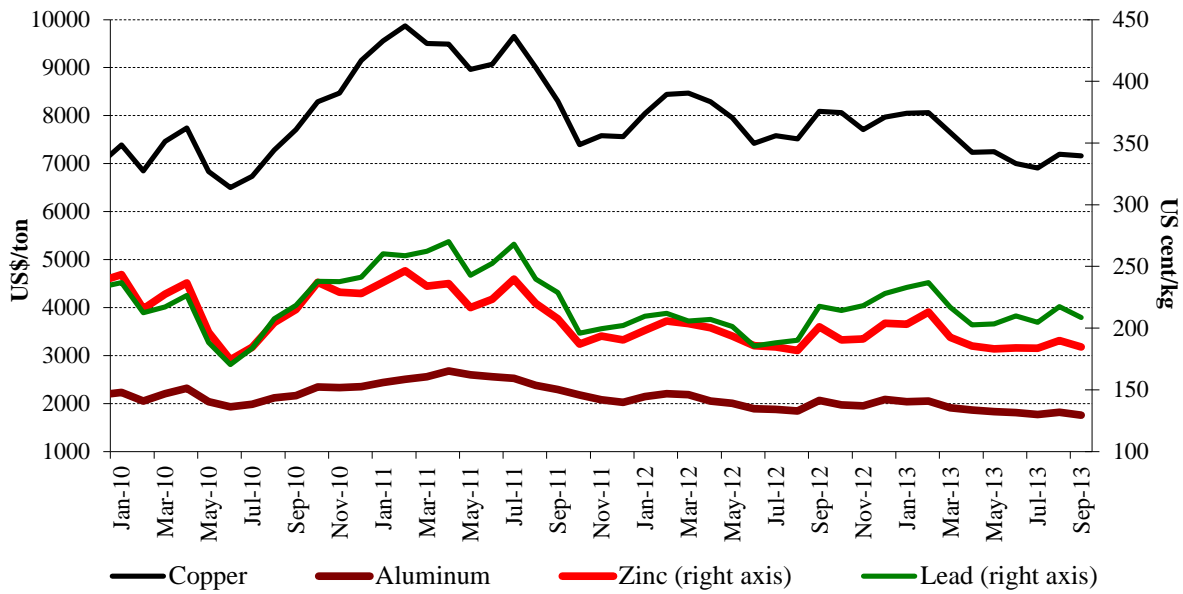
2.1.3. External Sector

– **World Prices**

In the 3rd quarter of 2013, there was an increase in prices for certain metals in the beginning of the period, and in September the prices were declining. So, in the 3rd quarter of 2013, prices for copper decreased by 1.0% and were at US\$ 7086.3 per ton on average during the period. During the 3rd quarter of 2013, prices for aluminum decreased by 2.9% and amounted to US\$ 1782.8 per ton. In July-September 2013, world prices for lead grew by 2.4%, amounting to 210.2 US cents per a kilo on average during the period. Prices for zinc grew by 1.0% with the average price during the period of 186.1 US cents per a kilo (Figure 14).

Figure 14

Dynamics of world prices for metals



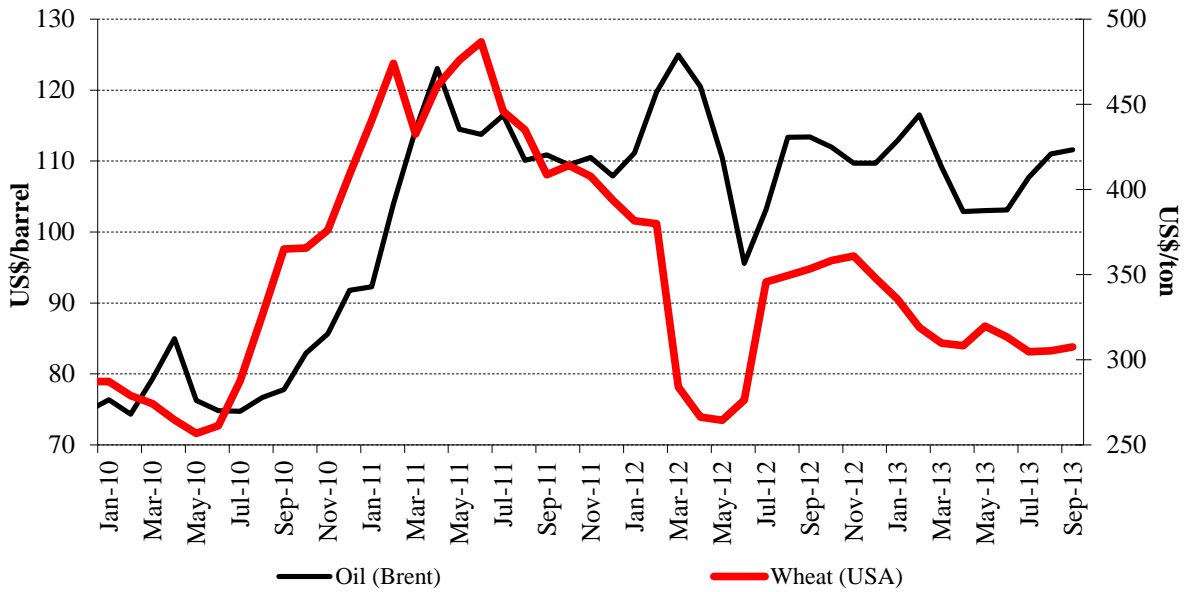
Source: World Bank

In the 3rd quarter of 2013 against the 2nd quarter of 2013, world prices for oil (Brent) increased by 6.9% and were at US\$ 110.1 per barrel on average during the period (Figure 15).

In general, in the 3rd quarter of 2013 as compared to the prior period, the world price for wheat (USA) decreased by 2.5% and had been at US\$ 305.8 per ton on average (Figure 15).

Figure 15

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



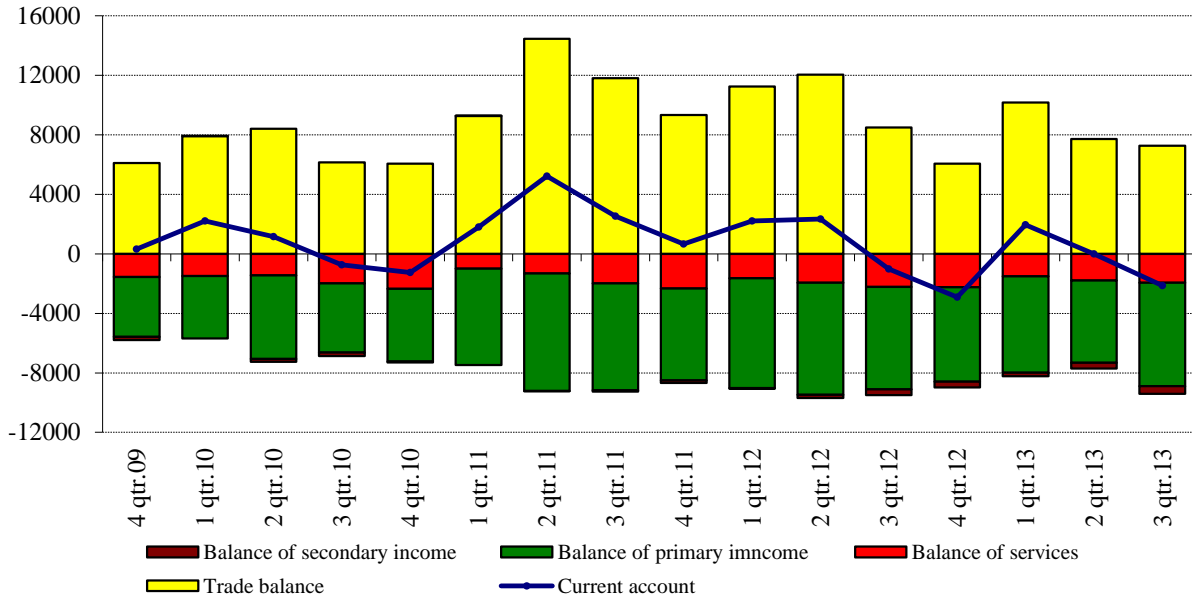
Source: World Bank

– Balance of Payments

At the end of the 3rd quarter of 2013, the current account balance was in deficit of US\$ 2.1 bln. or -3.6% of GDP in the corresponding period (Figure 16).

Figure 16

Current account balance, US\$ mln.



Source: National Bank of the Republic of Kazakhstan

In the 3rd quarter of 2013, proceeds from the exports of goods decreased versus the respective indicator for the 3rd quarter of 2012 by 6.1% to US\$ 20.2 bln., and expenditures on commodity imports decreased by 0.8% as compared to the 3rd quarter of 2012, amounting to US\$ 12.9 bln. The trade surplus decreased by 14.3% and amounted to US\$ 7.3 bln. In the 3rd

quarter of 2013, the deficit in the balance of services decreased as compared to the 3rd quarter of 2012 by 12.1% to US\$ 1.9 bln., and the deficit in the balance of primary income (salaries and wages, investment return and other primary income) increased by 0.8% and amounted to US\$ 7.0 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to US\$ 504.1 mln.

The balance of the financial account (excluding reserve assets) in the 3rd quarter of 2013 was negative and amounted to US\$ 1.1 bln. (a surplus of US\$ 2.3 bln. in the 3rd quarter of 2012). Net growth in foreign assets of residents (less reserve assets) amounted to US\$ 2.6 bln. (US\$ 6.7 bln. in the corresponding period of 2012). The growth in foreign liabilities (net) amounted to US\$ 3.7 bln. (US\$ 4.4 bln. in the 3rd quarter of 2012).

As a result, at the end of the 3rd quarter of 2013, the balance of payments was in surplus of US\$ 2.8 bln. (in the 3rd quarter of 2012 – a surplus of US\$ 3.6 bln.).

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

In the 3rd quarter of 2013, the aggregate terms of trade index was by 6% lower than the same indicator for the 3rd quarter of 2012. Alongside with that, the terms of trade with the Euro zone countries decreased by 13%, and with Russia – decreased by 4% (Table 1).

Table 1

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

	2 qtr.12	3 qtr.12	4 qtr.12	1 qtr.13	2 qtr.13	3 qtr.13
Export prices	1	-9	-2	0	-8	-5
Import prices	-12	-1	-2	-2	-7	2
Terms of trade	15	-12	0	2	-1	-6
including:						
Euro zone countries						
Export prices	4	-10	-1	0	-5	-2
Import prices	-8	-7	-1	18	16	16
Terms of trade	14	-3	0	-17	-20	-13
Russia						
Export prices	2	-16	-20	-5	-9	-11
Import prices	-16	-1	3	-7	-9	-7
Terms of trade	20	-20	-23	2	-1	-4

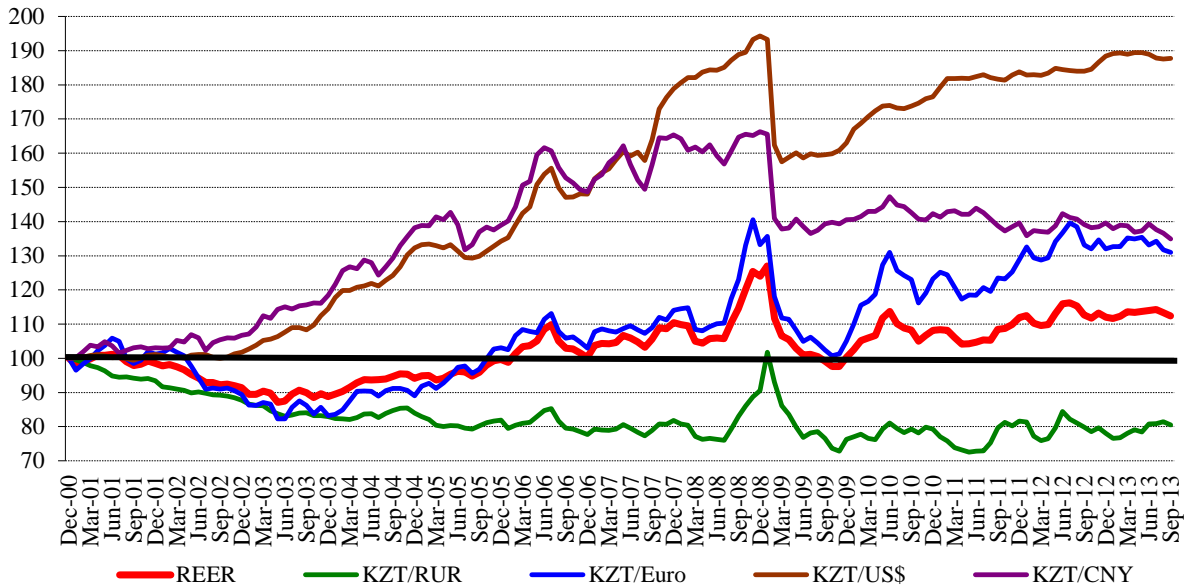
Source: National Bank of the Republic of Kazakhstan

At the end of the 3rd quarter of 2013 versus the prior period, the index of the real effective exchange rate of the Tenge depreciated by 0.3%. The Tenge has appreciated versus the CIS currencies basket by 1.4%, and it depreciated by 0.9% versus the basket of other currencies.

During the 3rd quarter of 2013 versus the prior period, the Tenge depreciated in real terms versus the US Dollar by 0.8%, versus the Euro – by 1.6%, and appreciated versus the Russian ruble by 1.8% (Figure 17).

Figure 17

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



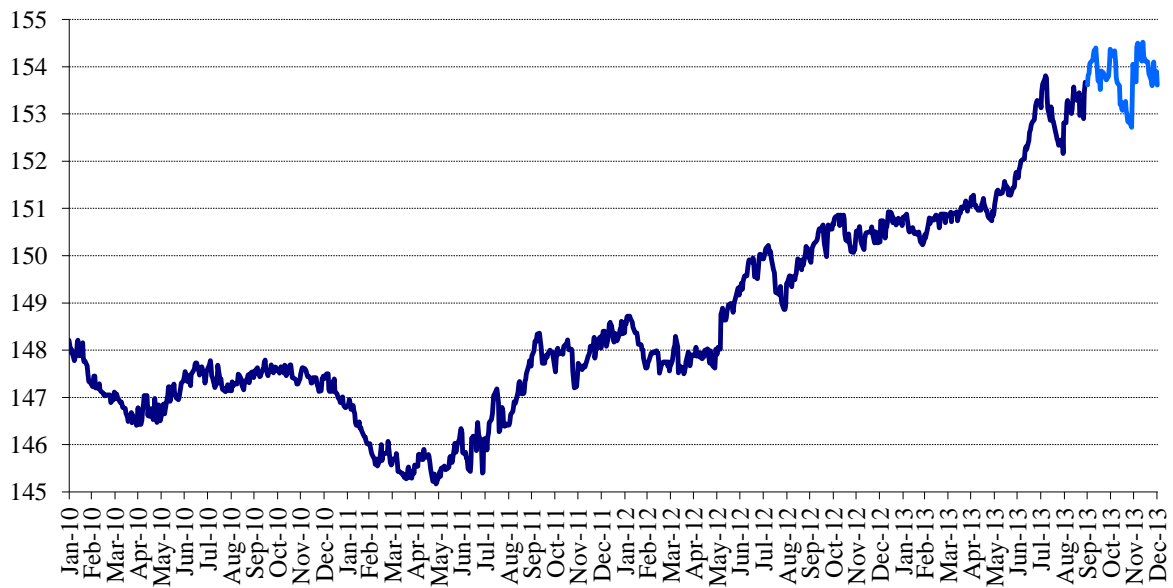
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the 4th quarter of 2013 was KZT 153.80 per 1 US Dollar. The stock exchange rate at end-period was KZT 154.06 per 1 US Dollar. Since the beginning of the year the Tenge had depreciated versus the US Dollar by 2.2% in nominal terms (Figure 18).

Figure 18

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



Source: National Bank of the Republic of Kazakhstan

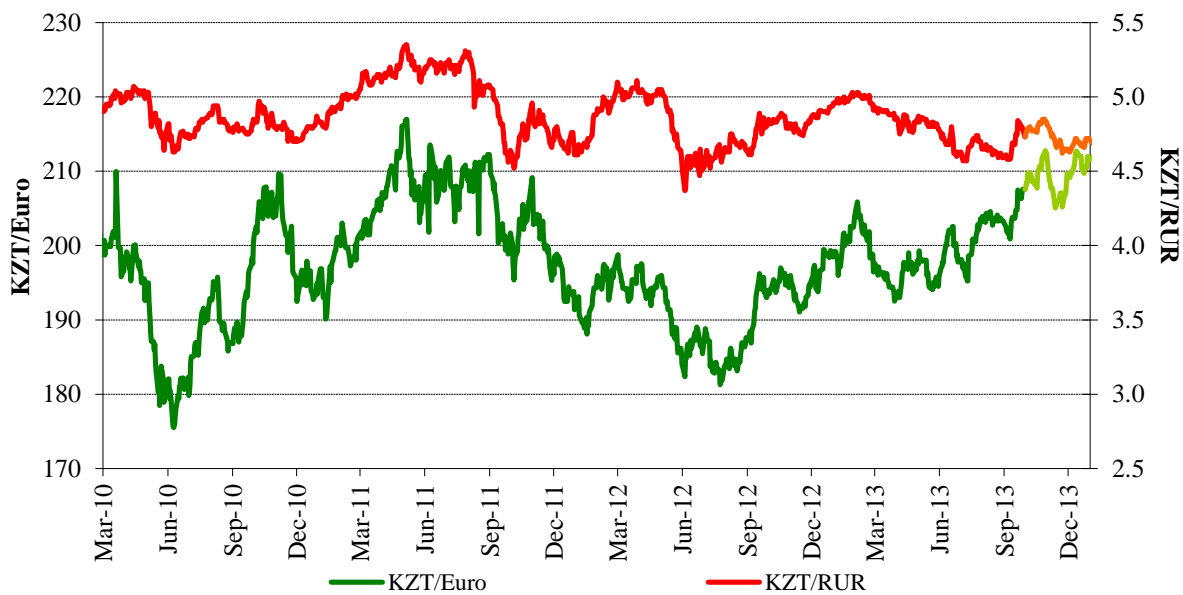
In October and December, the exchange rate of the Tenge was depreciating versus the US Dollar by 0.3% and 0.2%, respectively, and in November it appreciated by 0.4%.

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 4th quarter of 2013 the official exchange rate of the Tenge versus the US Dollar remained virtually unchanged; it depreciated by 1.7% versus the Euro and appreciated by 0.8% versus the Russian ruble (Figure 19).

Figure 19

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



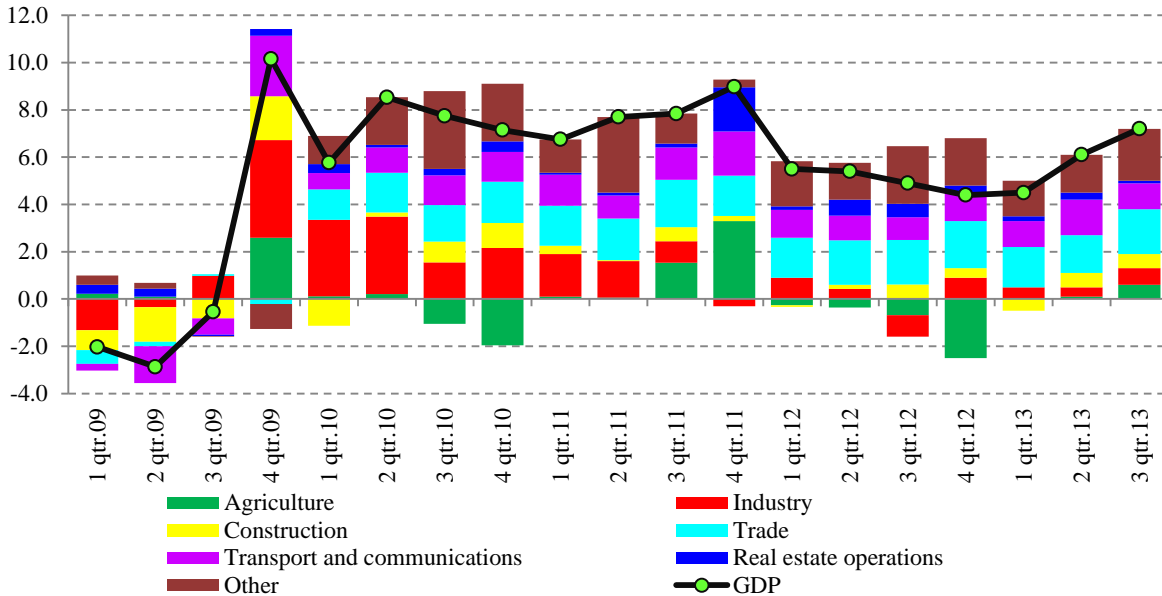
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the 3rd quarter of 2013, the volume of GDP output amounted to KZT 9106.5 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 3rd quarter of 2012, according to estimate, by 7.2% (Figure 20).

Figure 20

**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 3rd quarter of 2013, the industrial output volume increased by 3.1% (in the 2nd quarter of 2013 – the growth of 1.4%) the output volume of the agricultural sector increased by 13.3% (the growth of 2.2%), and in the construction sector it increased by 5.7% (the growth of 6.3%). As a result, the segment of goods production made positive contribution to the GDP growth of (+)1.9%.

Production of services. In the production of services, all key sectors of the economy, comprising this component of the gross domestic product, demonstrated growth. As a result, the sectors that comprise the production of services on aggregate made a positive contribution to the GDP growth (+)4.0%.

Net taxes on foodstuffs and imports. The increase in the volume of net taxes on foodstuffs and imports by 12.4% has positively influenced the GDP growth by (+)1.3% (in the 2nd quarter of 2013 – the contribution of (+)0.7%).

Therefore, the main driver for the GDP growth in the 3rd quarter of 2013 (similarly to that in the 2nd quarter of 2013) was the sector of the production of services.

2.3. Labor Market

2.3.1. Employment and Unemployment

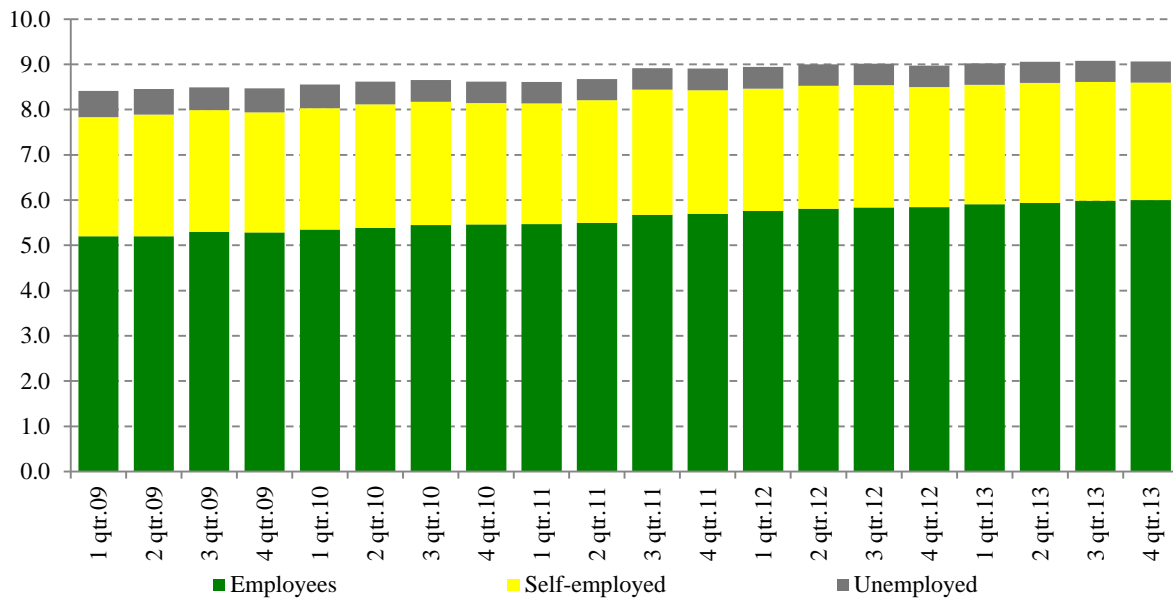
According to the preliminary estimates, the number of people employed in the economy in the 4th quarter of 2013 amounted to 8.6 mln., having decreased by 0.4% versus the prior period (the growth versus the 4th quarter of 2012 accounted for 0.9%). At the same time, the number of employees reached 6.0 mln., having decreased by 0.1% versus the 3rd quarter of 2013, and the number of self-employed was 2.6 mln. persons (the decrease of 1.1%).

Within the employee structure public and non-public institutions employee number accounted for 5.0 mln. persons (82.9% of all employees), for individuals – 0.7 mln. persons (11.3%), and at farms – 0.3 mln. persons (5.8%).

In the 4th quarter of 2013, the number of unemployed stood at 466,300 persons, which is by 0.4% less than in the prior period and by 1.8% than in the 4th quarter of 2012 (Figure 21).

Figure 21

The structure of economically active population, mln. persons



Source: Agency of Statistics of the Republic of Kazakhstan

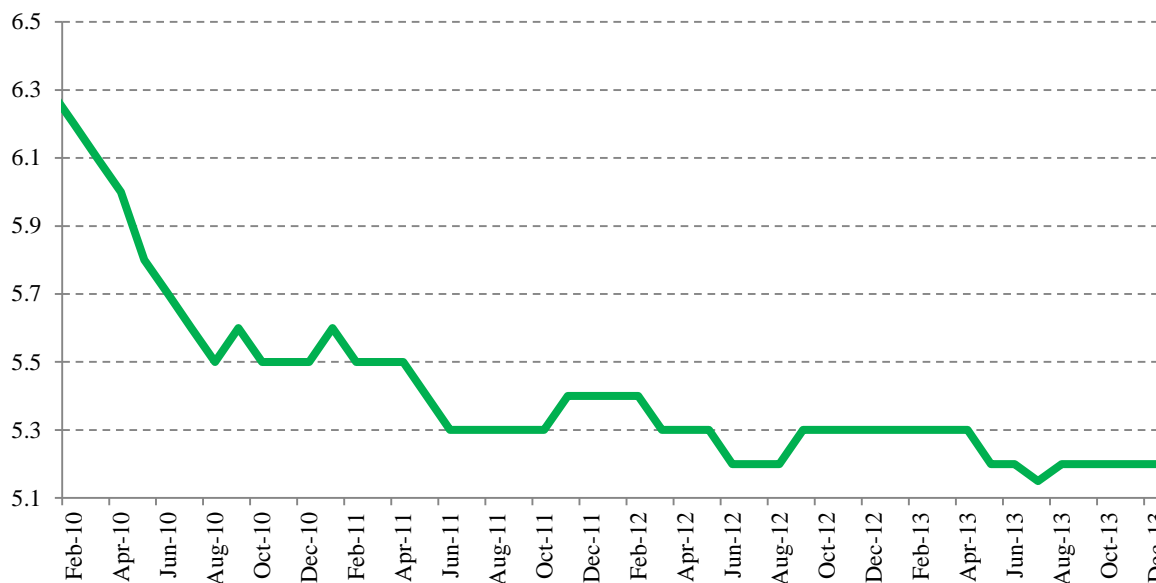
In October and November 2013, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

The key sectors that were driving the growth in employment as compared to the corresponding months of 2012 were: electricity supply; supply of gas and vapor and air conditioning; trade; professional, scientific and technical activity; financial and insurance services; activities in the area of administrative and ancillary service; public administration and defense; healthcare and social services; education; arts, entertainment and leisure.

The decrease in the number of the employed was observed in the following sectors: manufacturing industry; transport and warehousing; accommodation and catering services; and real estate operations.

At the same time, the decrease in the number of the employed in some sectors was fully compensated by its growth in other sectors. As a result, the unemployment rate in the in the 4th quarter of 2013 accounted for 5.2%, and remained unchanged as compared to the 3rd quarter of 2012 (Figure 22).

Figure 22

Actual unemployment rate, %

Source: Agency of Statistics of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the 3rd quarter of 2013 as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 6.3% (in the 2nd quarter of 2013 – the growth of 7.0%), and in real terms – by 0.6% (the growth of 0.9%).

Compared to the previous quarter, nominal wages increased by 2.2%, and real wages increased by 1.6%.

In September 2013 versus September 2012, the highest increase in nominal wages was observed in the following sectors: trade, repair of cars and motorcycles – 12.5%; real estate operations – 11.9%; water supply, sewage system, control over waste collection and distribution – 11.6%; electricity supply, supply of gas and vapor and air conditioning – by 11.5%; agriculture, forestry and fishery – by 11.0%; information and communications – 10.7%.

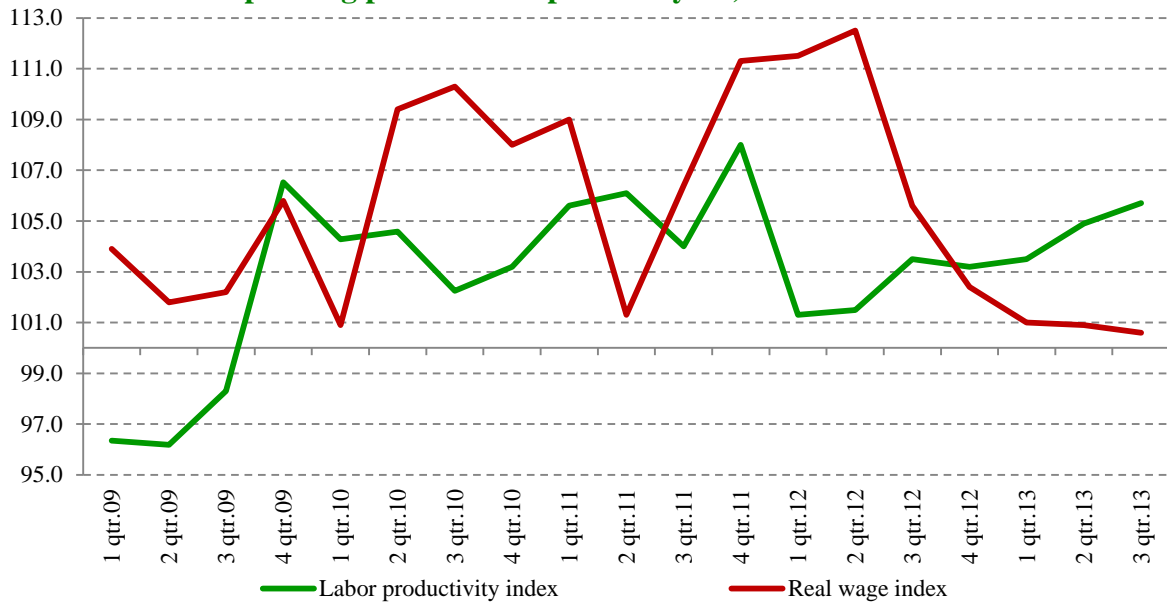
In September 2013, the highest wages in money terms were observed in the professional, scientific and technical activity (KZT 217,300), and the lowest – in the water supply sector (KZT 68,800).

In the 3rd quarter of 2013, wages of employees in real terms increased by 0.6%, which is lower than the rates of growth during the two prior periods (in the 1st quarter of 2013 – the growth of 1.0%, in the 2nd quarter of 2013 – the growth of 0.9%).

In the 3rd quarter of 2013, the slowdown in the rates of wage growth and the number of individuals employed in the economy had influenced the growth in the labor productivity index which increased (according to the National Bank's estimate) to 5.7% whereas in the previous quarter the growth in the index was 4.9% (Figure 23).

Figure 23

**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

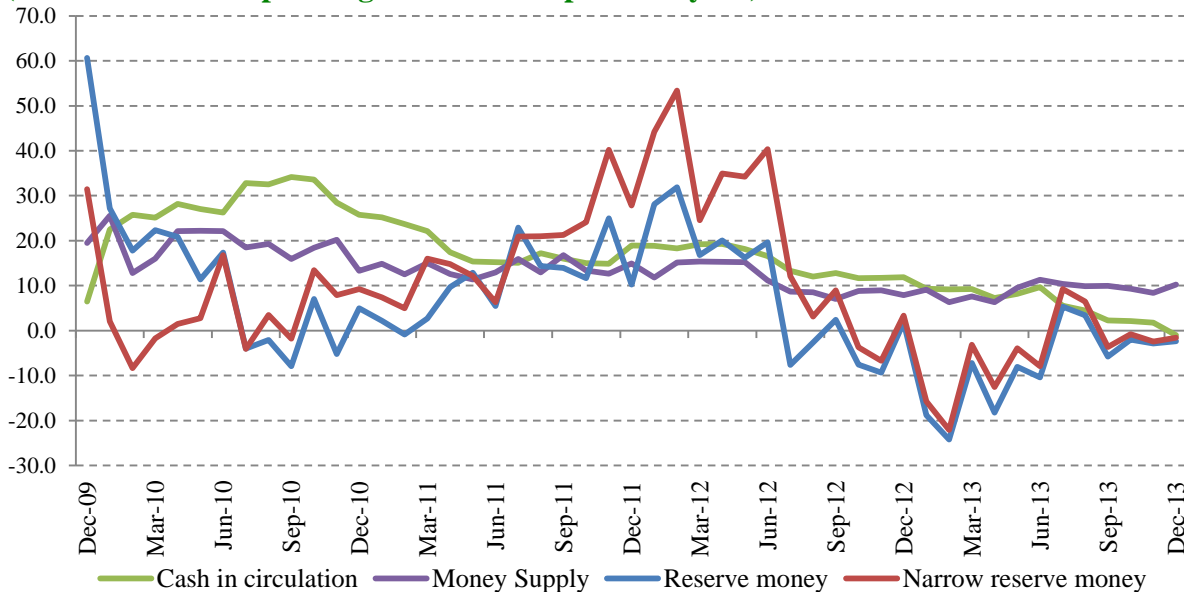
3. Money Supply

3.1. Monetary Aggregates

In the 4th quarter of 2013, the annual growth rates of the money supply were moderate; the growth rates of cash in circulation were negative, and the reserve money and narrow reserve money demonstrated contraction in annual terms (Figure 24).

Figure 24

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 4th quarter of 2013, the reserve money expanded by 1.5% and amounted to KZT 2822.4 bln. at end-December 2013. The narrow reserve money expanded by 1.2% to KZT 2786.4 bln.

In December 2013 as compared to December 2012, the reserve money contracted by 2.3%.

In December 2013 versus the corresponding period of 2012, net international reserves of the National Bank decreased by 13.0% to US\$ 24.1 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 by the National Bank, replenishment of the National Fund's assets from gold and foreign currency reserves accounts and servicing of the Government's external debt. As a result, during the reviewed period **net currency reserves (FCC) decreased** by 13.9%, and assets denominated in gold decreased by 9.7% as a result of conducted operations and decrease in its price in the global markets.

In December 2013 as compared to December 2012, net domestic assets of the National Bank less the National Fund's assets increased (Table 2), mainly due to the growth in the capital account, decreased liabilities to banks on short-term notes and the growth in claims on the domestic economy.

Table 2

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

	1 qtr.13	2 qtr.13	3 qtr.13	4 qtr.13
Net international reserves	-13.1	-19.5	-20.1	-13.0
Net domestic assets	95.7	153.0	75.6	158.5
Net claims on the Government	9.0	32.8	-1.3	47.6
Claims on the economy	262.7	221.2	115.0	28.1
Other net domestic assets	-1.9	19.8	20.5	21.2
Reserve money	-7.2	-10.4	-5.8	-2.3
Narrow reserve money	-3.1	-7.9	-3.7	-1.6

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the 4th quarter of 2013, the money supply increased by 0.4% to KZT 11600.9 bln.

In December 2013 as compared to December 2012, its growth accounted for 10.2% as a result of the growth both in net foreign assets and domestic assets of the banking system (Table 3).

Table 3

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

	1 qtr.13	2 qtr.13	3 qtr.13	4 qtr.13
Net foreign assets	5.7	29.0	25.8	11.0
Domestic assets	14.6	4.6	-2.0	16.7
Claims on the Government	209.9	394.6	77.0	22.9
Claims on the economy	11.1	12.0	12.4	12.7
Other net domestic assets	-13.6	-26.2	-25.8	-14.6
Money supply	7.6	11.3	9.9	10.2
Cash in circulation	9.2	9.7	2.2	-1.0
Deposits of residents	7.4	11.5	11.1	12.2

Source: National Bank of the Republic of Kazakhstan

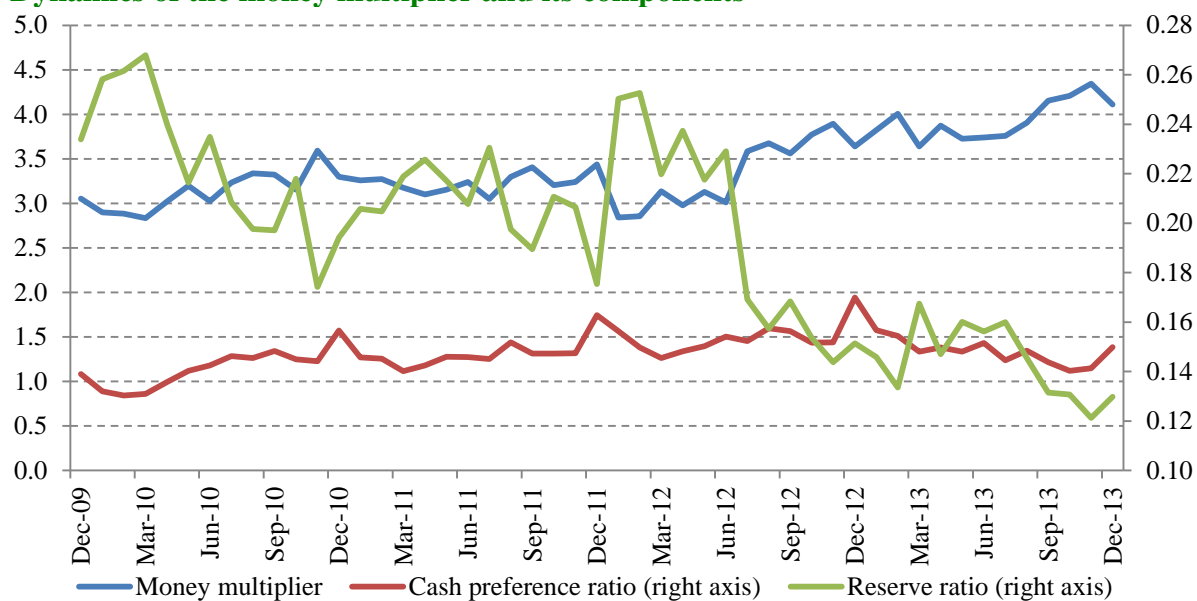
In the structure of net foreign assets of the banking system in December 2013 against the corresponding period of 2012, net foreign assets of banks increased whereas net foreign assets of the National Bank (excluding the National Fund) decreased. The growth in net foreign assets of banks was mainly secured by the increase in liabilities from non-residents to banks.

During the reviewed period, the outstripping rates of growth in the volume of deposits as compared to the decreased cash in circulation were 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 85.5% in December 2012 to 87.0% at end-December 2013.

The money multiplier increased from 3.64 in December 2012 to 4.11 at end-December 2013 as a result of growth in the money supply versus contraction in the reserve money. The decrease in the cash preference ratio and in the reserve ratio was also conducive to the fact (Figure 25).

Figure 25

Dynamics of the money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

During the 4th quarter of 2013, the volume of cash in circulation increased by 4.0% to KZT 1512.3 bln.

In December 2013 as compared to December 2012, cash in circulation decreased by 1.0%. Cash payouts from the bank cashier’s departments increased by 27.4% to KZT 2.3 trln., and the receipts to the bank cashier’s departments increased – by 28.5% to KZT 2.1 trln.

The main reasons for decreased cash in circulation in December 2013 as compared to December 2012 were the growth in the reviewed period in net receipts for the payment of goods, services and works, net receipts to accounts of individuals, increased net proceeds from foreign exchange sales, net receipts from loan repayments, net receipts in the system of money transfers and on other items¹. At the same time, the impact of these factors was not neutralized by increased net payouts to support ATMs and net payouts related to payment of salaries and wages, retirement benefits and allowances.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-December 2013, deposits of residents amounted to KZT 10088.6 bln., having decreased by 0.2% during the 4th quarter of 2013. Deposits of legal entities decreased by 3.2%, and deposits of individuals increased by 5.1%.

Within the structure of deposits, the volume of time deposits (under the IMF classification – "other deposits"²) increased by 4.3% during the 4th quarter of 2013 and

¹ The “Other proceeds” item reflects tax revenues, proceeds from levies and customs payments, proceeds from utility payments, proceeds from enterprises in the transport, communications sector, receipts of insurance payments as well as other receipts.

² 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.

amounted to KZT 7231.4 bln. at end-December 2013. Time deposits in the domestic currency increased by 4.1% to KZT 4311.1 bln., and foreign currency time deposits increased by 4.6% to KZT 2920.3 bln. During the quarter, the percentage of time deposits in the total deposit base increased from 68.6% to 71.7%.

In the 4th quarter of 2013, the dynamics of the deposit base was characterized by decreased foreign currency deposits caused by decreased foreign currency holdings of legal entities by 4.4%. As a result, in the 4th quarter the volume of foreign currency deposits decreased by 0.1%, amounting to KZT 3771.6 bln. At the same time, due to the 2.6% decrease in holdings of legal entities in the Tenge, deposits in the domestic currency decreased by 0.2% to KZT 6317.0 bln.

The decrease in the volume of foreign currency holdings by legal entities (during November and December 2013, by 10.2% and by 0.2%, respectively) was offset by the decrease in the Tenge deposits. As a result, the extent of dollarization of the deposit market remained unchanged and the percentage of deposits in the domestic currency remained the same as in September 2013 (62.6%).

Thus, the inflow of the domestic and foreign currency to the accounts of individuals served as a main source for the overall bank deposit base growth in the 4th quarter of 2013. The growth in the Tenge deposits of individuals was observed in December 2013 only, whereas in October and November deposits decreased by 0.8% and 2.7%, respectively.

In general, during 2013 the growth in the deposit base was mainly secured by the inflow of foreign currency savings (Table 4).

Table 4

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

	December 2010	December 2011	December 2012	December 2013
Deposits of residents	11.6	14.3	7.2	12.2
<i>of individuals</i>	<i>15.9</i>	<i>24.1</i>	<i>23.8</i>	<i>15.8</i>
<i>of non-bank legal entities</i>	<i>9.8</i>	<i>10.2</i>	<i>-0.7</i>	<i>10.0</i>
Deposits in the Tenge	29.1	20.5	9.6	0.1
Deposits in foreign currency	-11.0	2.8	2.0	40.6

Source: National Bank of the Republic of Kazakhstan

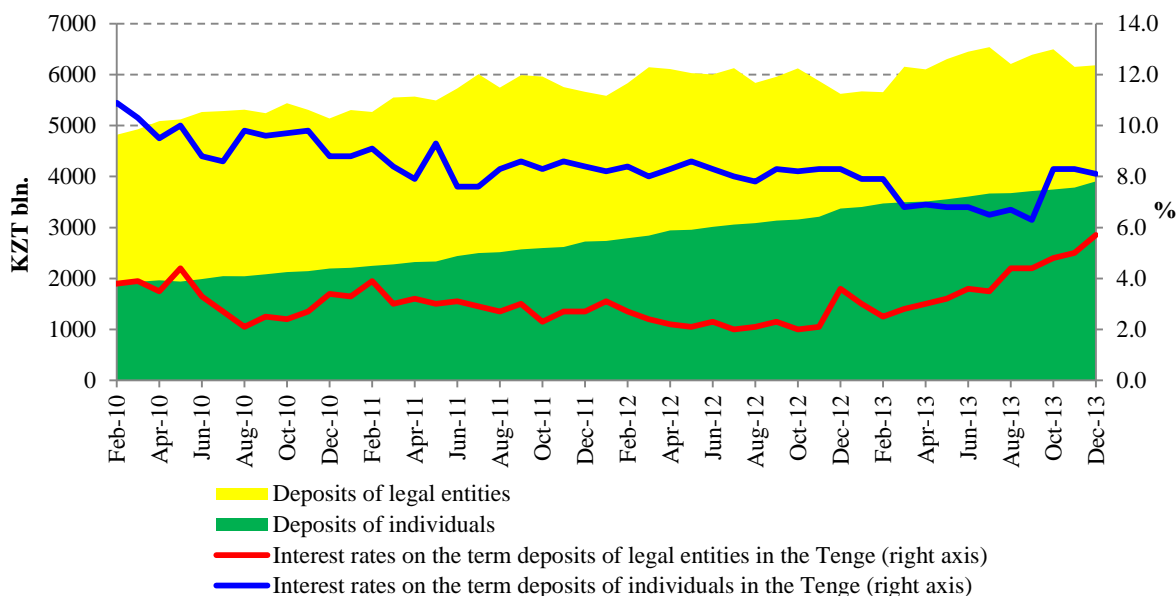
In the 4th quarter of 2013 versus the previous quarter, interest rates on deposits slightly increased, due to the growth in interest rates in the domestic currency from October to December 2013 and the growth in interest rates on foreign currency deposits in November and December.

As a result, the average rate on the Tenge deposits in the 4th quarter of 2013 increased to 5.3% (3rd quarter of 2013 – 5.1%), and on deposits in freely convertible currencies – to 3.0% (3.0%).

The weighted average interest rate on Tenge time deposits of non-bank legal entities in December 2013 accounted for 5.7% (in December 2012 – 3.6%), and on deposits of individuals – 8.1% (8.3%) (Figure 26).

Figure 26

Dynamics of deposit volumes and interest rates on time deposits

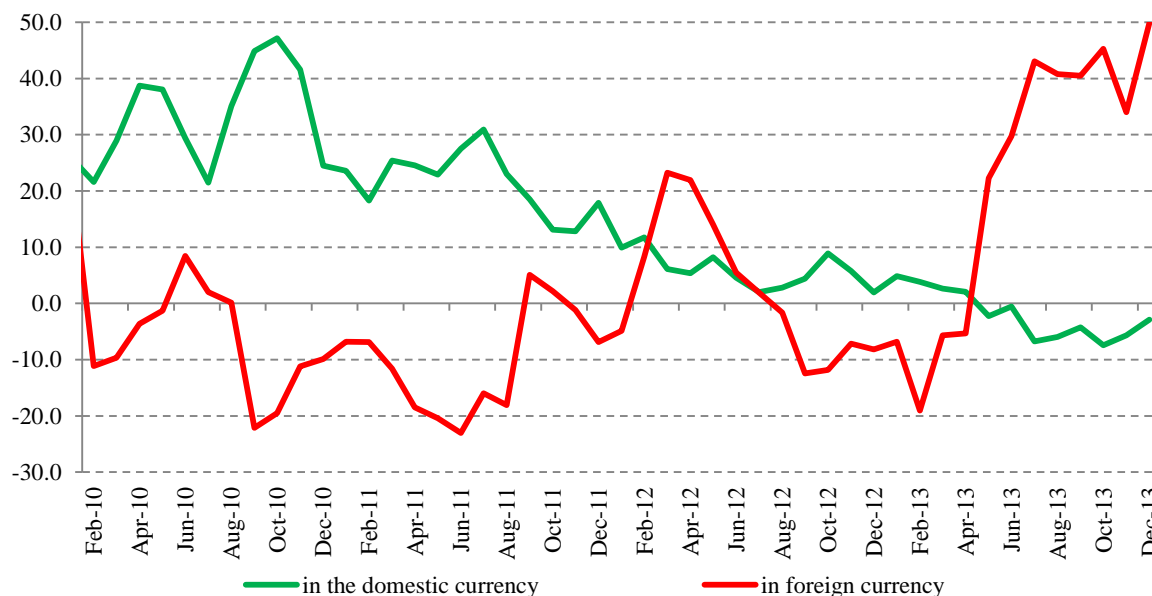


Source: National Bank of the Republic of Kazakhstan

During the 4th quarter of 2013, the volume of deposits of individuals decreased by 3.2% to KZT 6183.5 bln., with the year-to-year growth (December 2013 to December 2012) accounting for 10.0%. In annual terms deposits of legal entities in the domestic currency decreased by 2.9%, and foreign currency deposits increased by 49.9% (Figure 27).

Figure 27

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



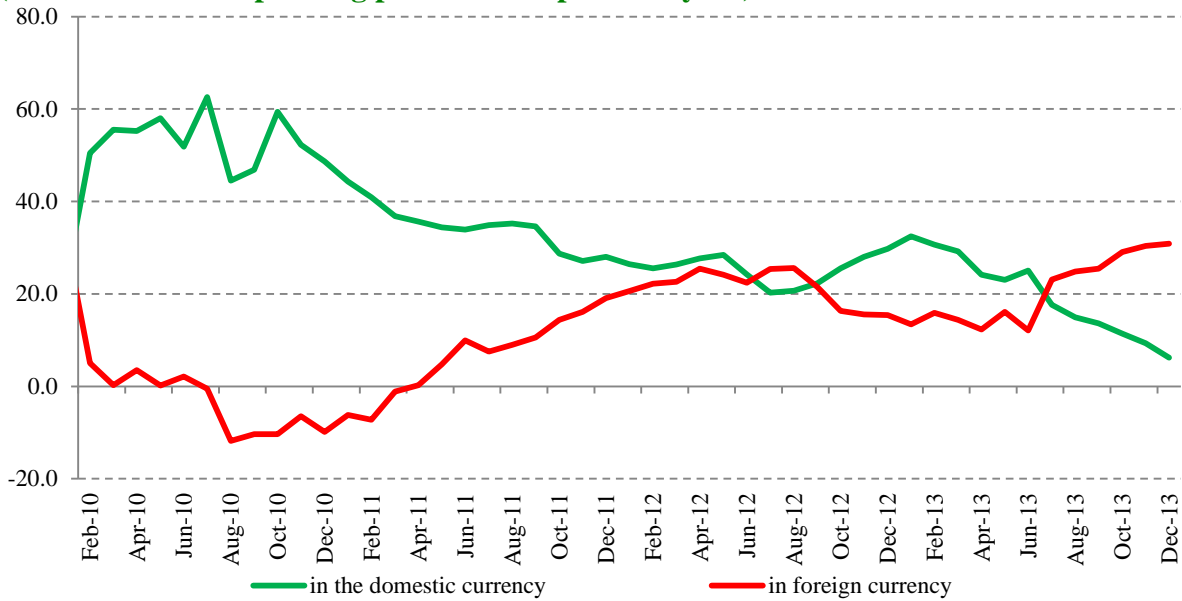
Source: National Bank of the Republic of Kazakhstan

During the 4th quarter of 2013, the volume of deposits of individuals increased by 5.1% to KZT 3905.1 bln., with the annual growth accounting for 15.8%. In annual terms,

deposits of individuals in the domestic currency increased by 6.2%, and foreign currency deposits increased by 30.9% (Figure 28).

Figure 28

**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 4th quarter of 2013, bank credits to the economy increased by 3.3% to KZT 11291.5 bln. During October-December 2013, credits to legal entities increased by 2.4%, amounting to KZT 7665.4 bln., and credits to individuals increased by 5.2% to KZT 3626.1 bln.

The volume of credits in the domestic currency increased by 3.1%, to KZT 7936.7 bln., and the volume of foreign currency credits increased by 3.5%, to KZT 3354.9 bln.

During October-December 2013, long-term lending increased by 2.8% to KZT 9161.4 bln., and short-term lending increased by 5.1%, amounting to KZT 2130.2 bln. As a result, the percentage of long-term credits in December 2013 versus September 2013 decreased from 81.5% to 81.1%.

In December 2013, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities remained unchanged versus September 2013 (10.5%), and on credits in the Tenge provided to individuals the rate increased to 20.3% (in September, 2013 – 19.6%). In general, in the 4th quarter of 2013 there was a downward trend in the interest rates caused by decreased cost of borrowing for legal entities; however, interest rates on credits to individuals were growing (Figure 29).

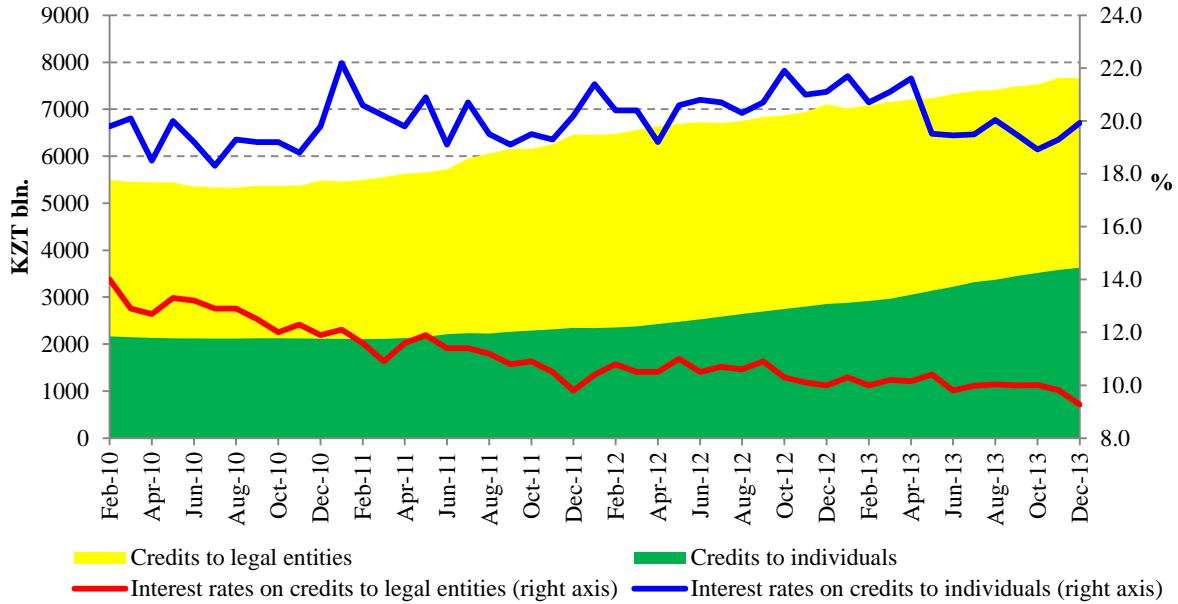
In the credit breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.1%), other purposes (22.9%), for consumer needs of individuals (19.5%), as well as for new construction and reconstruction (12.6%).

As per the breakdown by sector, the highest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 49.2%, trade – 19.5%, construction – 12.3%, and industry – 11.4%.

During the 4th quarter of 2013, credits to the communications sector increased by 7.2%, to the transport sector – by 7.1%, trade – by 2.3%, agriculture – by 8.4%, industry – by 2.0%. Credits to the construction sector decreased by 1.4%.

Figure 29

Dynamics of credits to the economy and their interest rates



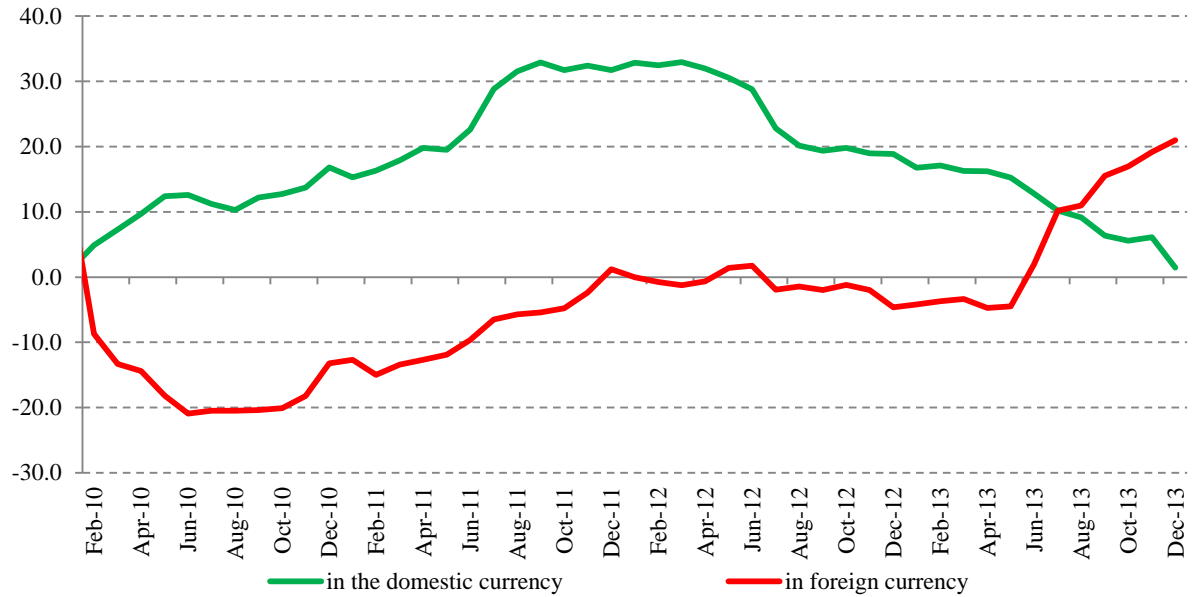
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities on a year-to-year basis (December 2013 to December 2012) increased by 7.9%. There were changes in the structure of credits in terms of their tenors. The share of medium- and long-term credits in total credits to legal entities accounted for 74.6% at end-December 2013 whereas in September 2013 it reached 75.1%.

Credits to legal entities provided in the domestic currency increased by 1.4% during 2013, and foreign currency credits – by 21.0% (Figure 30).

Figure 30

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



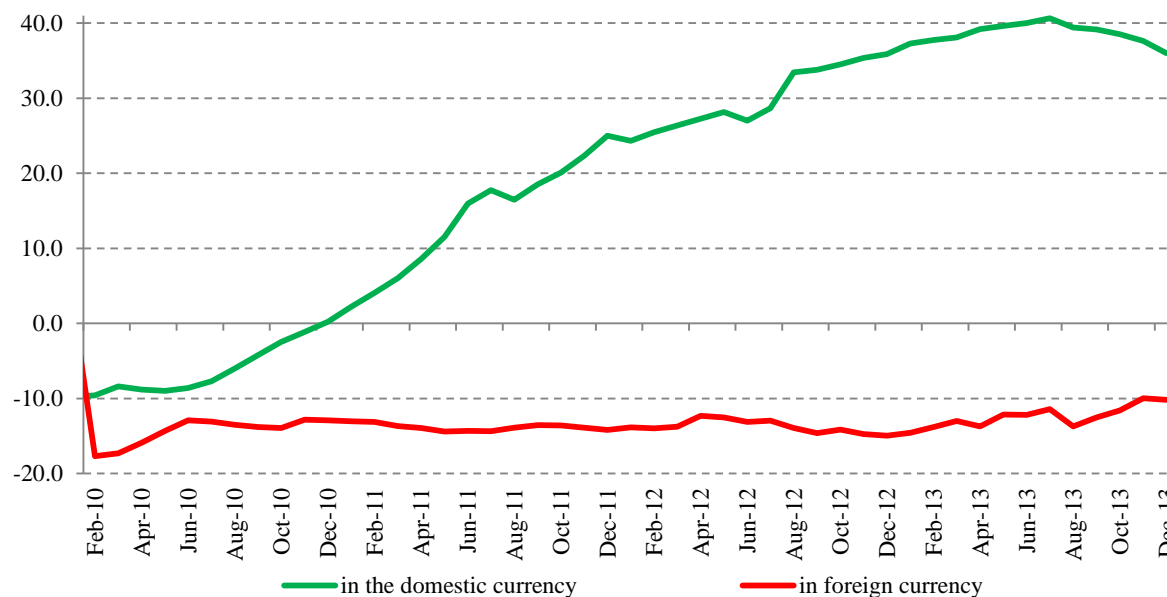
Source: National Bank of the Republic of Kazakhstan

In December 2013 as compared to the corresponding period of 2012, the volume of credits to individuals increased by 27.0%. At end-December 2013, the share of medium- and long-term credits in total credits to individuals slightly decreased and accounted for 95.0%, versus 95.2% in September 2013.

In the structure of credits to the population credits in the domestic currency demonstrated the increase of 36.0%, and foreign currency credits decreased by 10.2% (Figure 31).

Figure 31

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



Source: National Bank of the Republic of Kazakhstan

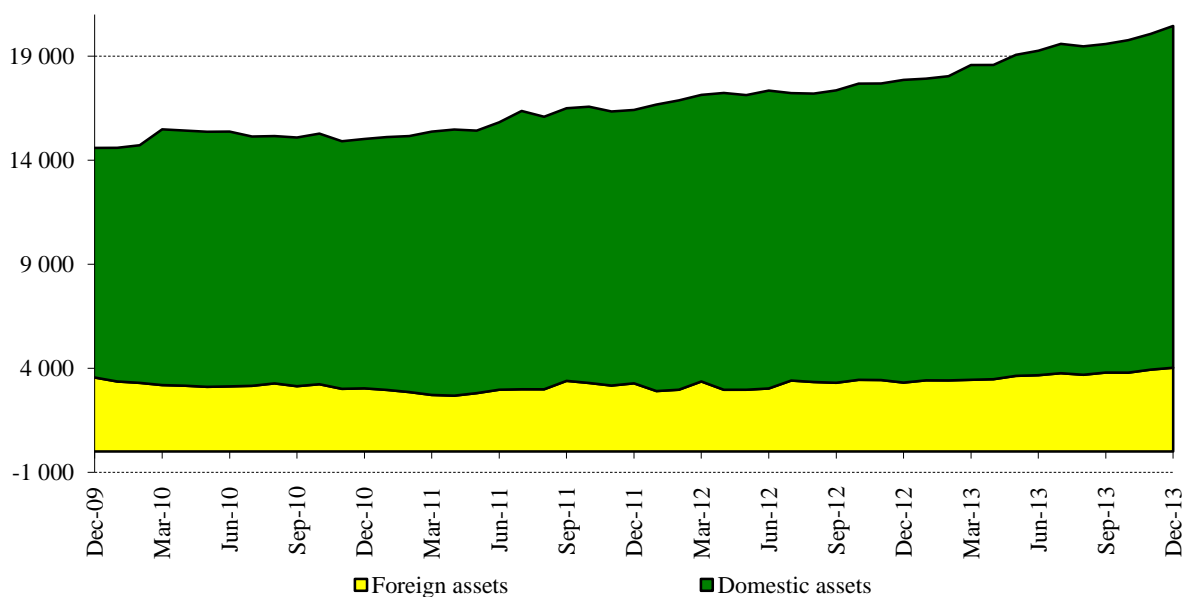
3.2.3. Bank Assets and Liabilities

– **Assets**

In the 4th quarter of 2013, the amount of bank assets, calculated on the basis of the Monetary Survey increased by 4.4% to KZT 20.4 trln. On a year-to-year basis (December 2013 to December 2012) bank assets increased by 14.5% (Figure 32).

Figure 32

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

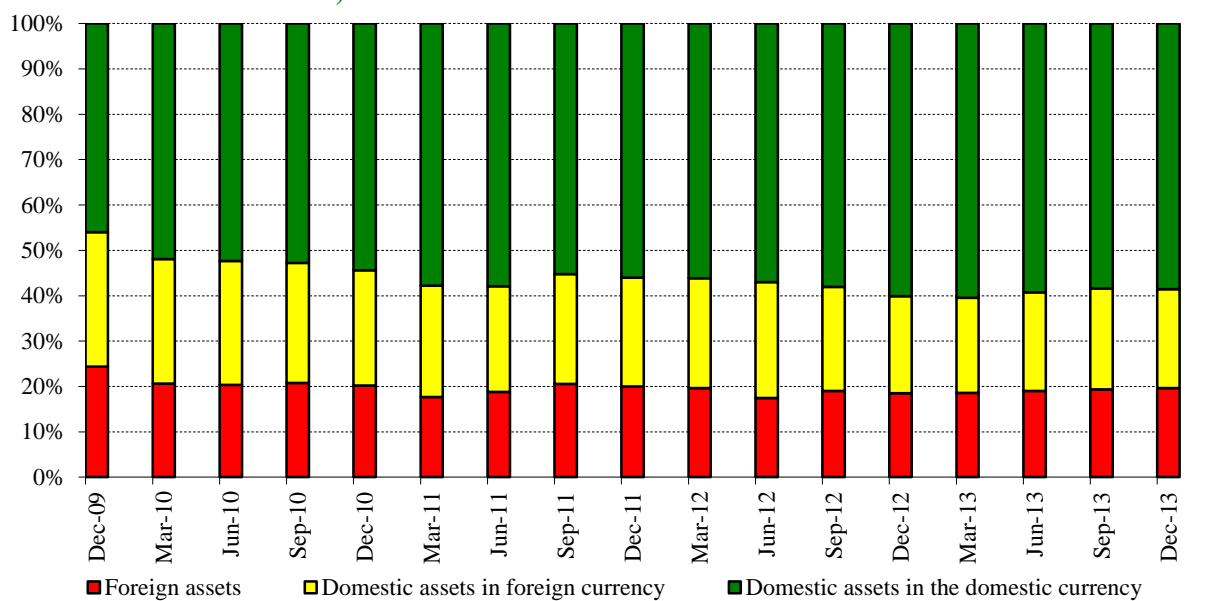
In December 2013, foreign assets of banks accounted for 19.7% of the total volume of assets or KZT 4.0 trln. As compared to December 2012, they increased by 21.6%.

In the structure of foreign assets in December 2013, credits to non-residents accounted for 49.1% (in September 2013 – 45.2%), deposits placed with non-residents – 27.9% (29.9%), securities issued by non-residents – 5.3% (5.8%), and other accounts receivable – 17.6% (19.1%).

In December 2013, domestic assets accounted for 80.3% or KZT 16.4 trln., with domestic assets in the local currency accounting for 72.9% or KZT 12.0 trln., in foreign currency assets – for 27.1% or KZT 4.5 trln. During the 4th quarter of 2013, domestic assets increased by 4.0%, where assets in the local currency increased by 4.7%, and assets in foreign currency increased by 2.3% (Figure 33).

Figure 33

Structure of bank assets, %



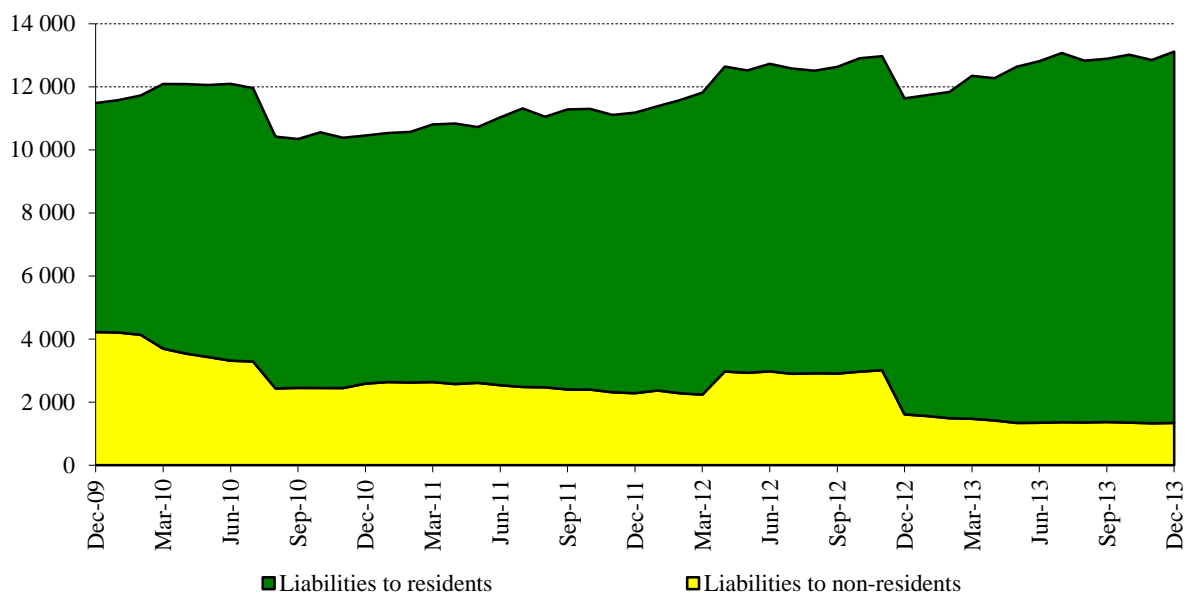
Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the 4th quarter of 2013, total bank liabilities, calculated on the basis of the Monetary Survey, increased by 1.8% and amounted to KZT 13.1 trln. at end-December 2013 (Figure 34).

Figure 34

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

In December 2013 versus September 2013, bank liabilities to non-residents decreased by 2.1% to KZT 1.3 trln. (US\$ 8.7 bln.); they decreased by 16.8% versus the corresponding month of 2012. At end-December 2013, bank liabilities to non-residents accounted for 10.2% of the total volume of bank liabilities.

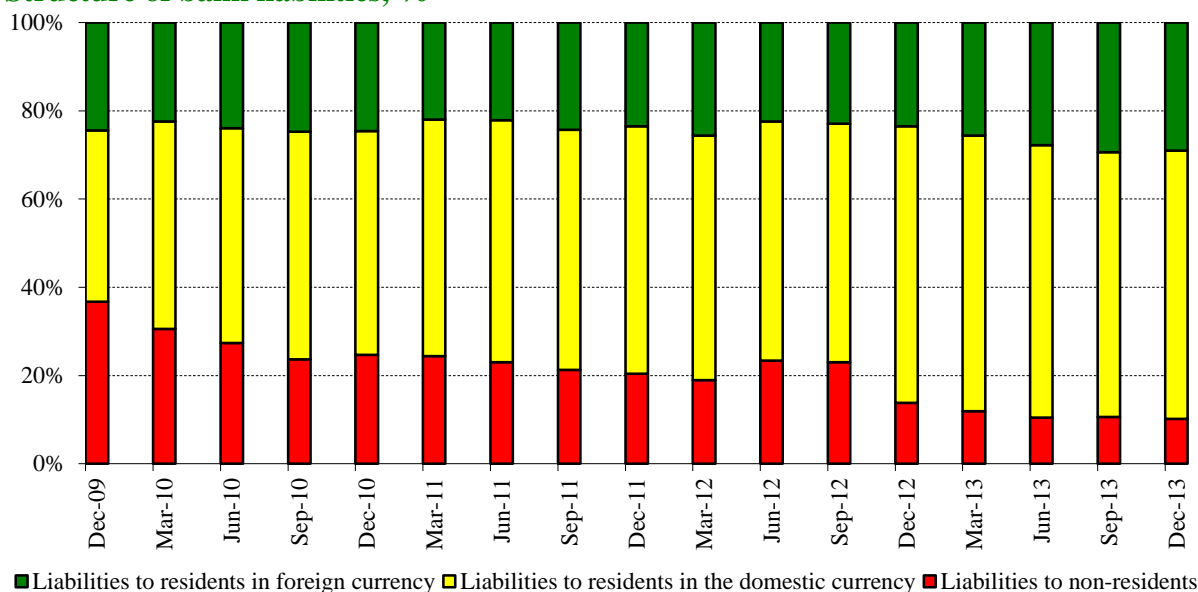
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in December 2013 versus September 2013 increased from 18.2% to 20.5%, the share of liabilities on securities decreased from 65.0% to 62.1%, and credits received from non-residents increased from 15.2% to 15.3%, respectively.

During the 4th quarter of 2013, liabilities to residents increased by 2.2% to KZT 11.8 trln., where liabilities in the domestic currency increased by 3.1% to KZT 8.0 trln., and foreign currency liabilities increased by 0.4% to KZT 3.8 trln. (Figure 35).

Thus, in the 4th quarter of 2013, bank liabilities to residents increased and liabilities to non-residents decreased.

Figure 35

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

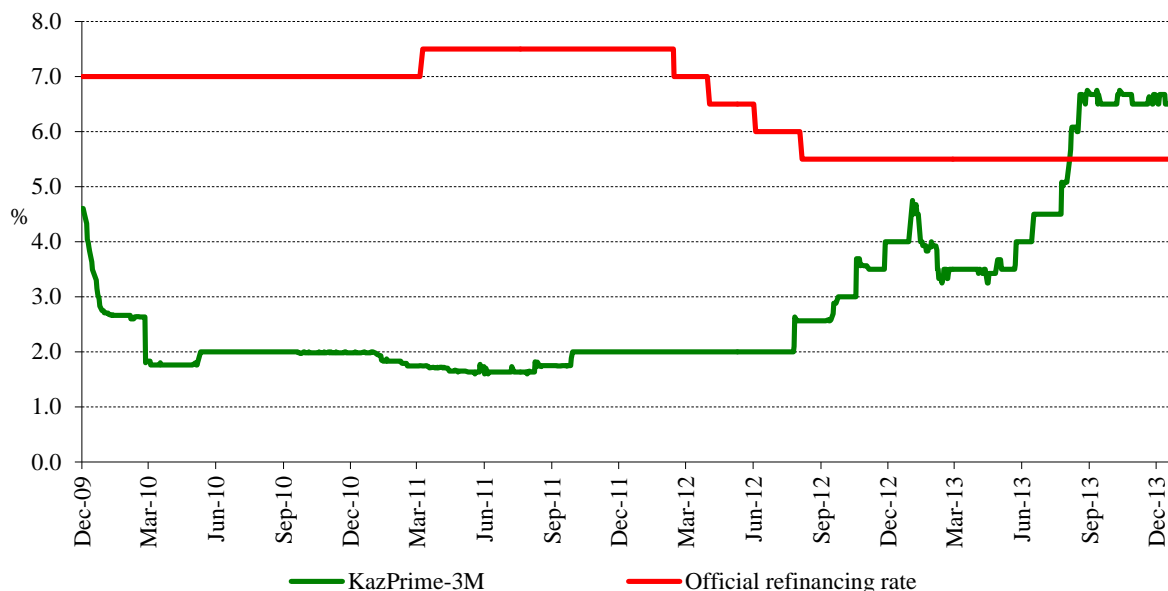
3.2.4. Financial Market Rates

In the 4th quarter of 2013, interest rates in the interbank market were increasing.

The KazPrime index had risen from 5.78% on average during the 3rd quarter of 2013 to 6.57% on average during the 4th quarter of 2013. At end-December 2013 versus September 2013, the index remained unchanged – 6.50% (Figure 36).

Figure 36

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.

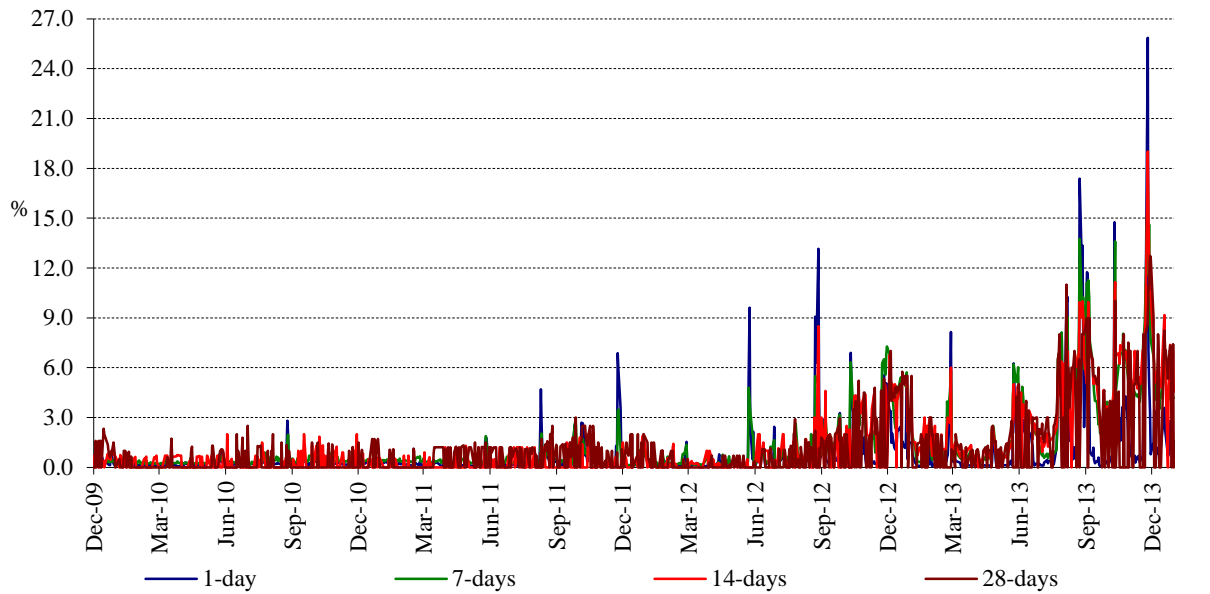
In the 4th quarter of 2013, the average weighted rate on 1-day operations in the sector of automatic REPO increased and accounted for 3.18% (in the 3rd quarter of 2013 – 2.81%). Its maximum level was 25.85%, and its minimum level – 0.07%.

In the 4th quarter of 2013, the weighted average rate on 7-day REPO operations was fluctuating within the range from 1.73% to 17.13% (the weighted average rate for the whole period was 6.67%), on 14-day REPO operations – from 2.45% to 19.02% (the weighted average rate for the whole period was 6.53%), and on 28-day REPO operations – from 3.50% to 12.73% (the weighted average rate for the whole period was 8.08%) (Figure 37).

In the 4th quarter of 2013, the transaction volumes in the sector of automatic REPO decreased by 5.8% as compared to the previous quarter.

Figure 37

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

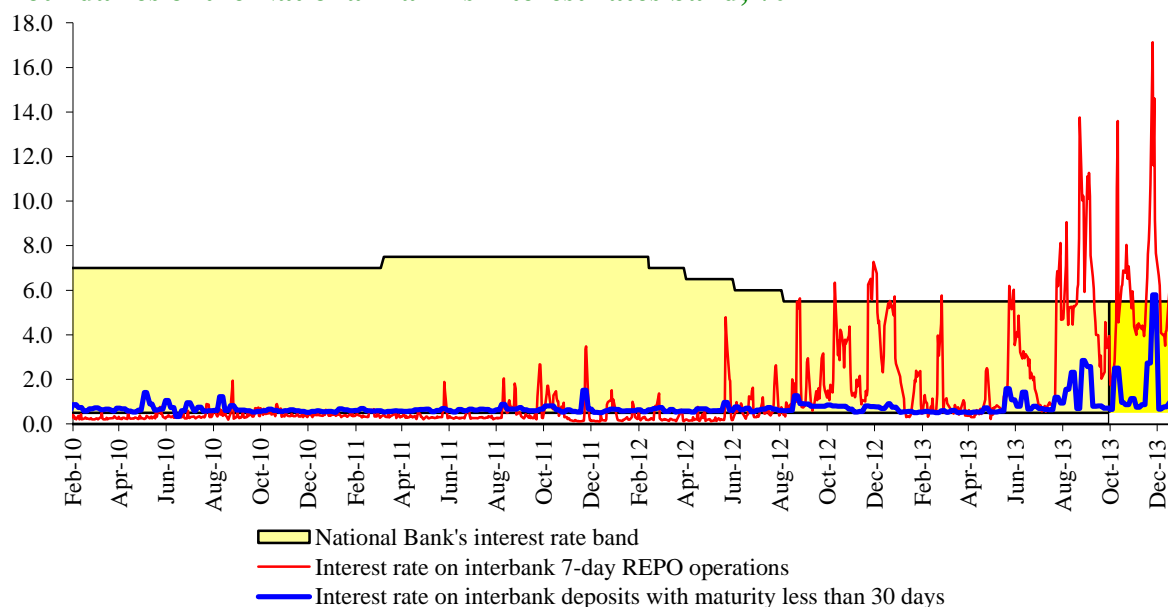
4. Monetary Policy Instruments and Operations

In the 4th quarter of 2013, the interest rate band of the National Bank remained unchanged. The official refinancing rate stood at 5.5% per annum. Interest rates on deposits attracted from banks also haven't changed: the rate on 7-day deposits is 0.5%, and on 1-month deposits – 1.0%.

In the 4th quarter of 2013, volatility in the money market increased, amidst decreased volumes of free Tenge liquidity, especially in the periods of tax refunds which fall on the second month of each quarter. This was accompanied by spikes in the interest rate dynamics. In the 4th quarter of 2013, the average level of interest rates was closer to the level of the official refinancing rate and in some periods it was exceeding such level. The weighted average rate on interbank deposits with maturity less than 30 days increased from 1.31% in the 3rd quarter of 2013 to 1.54% in the 4th quarter of 2013. The weighted average rate on interbank 7-day REPO operations increased from 6.29% in the 3rd quarter of 2013 to 6.67% in the 4th quarter of 2013 (Figure 38).

Figure 38

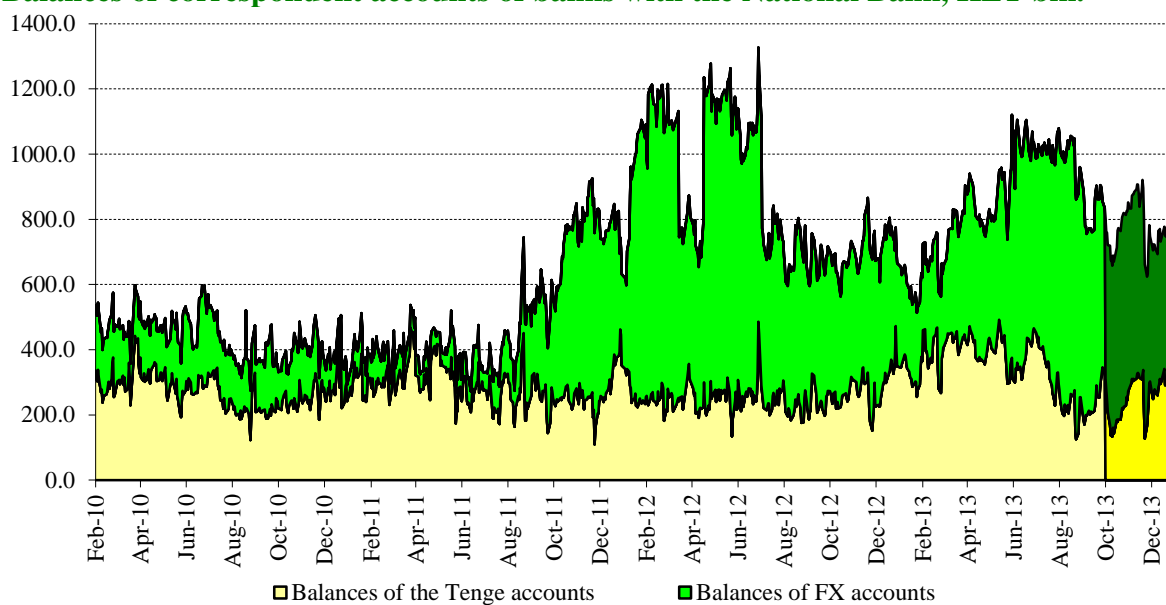
Boundaries of the National Bank's interest rates band, %



Source: National Bank of the Republic of Kazakhstan

In the 4th quarter of 2013, the dynamics in correspondent account balances of banks with the National Bank was multi-directional. Correspondent account balances of banks in the domestic currency somewhat decreased in October 2013 and increased in November-December. Correspondent account balances of banks in foreign currencies were gradually decreasing throughout the period. As a whole, the volume of correspondent account balances in the domestic currency at end-December 2013 as compared to September 2013 increased by 13.7%, and correspondent account balances in foreign currency decreased by 14.8% (Figure 39).

Figure 39

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


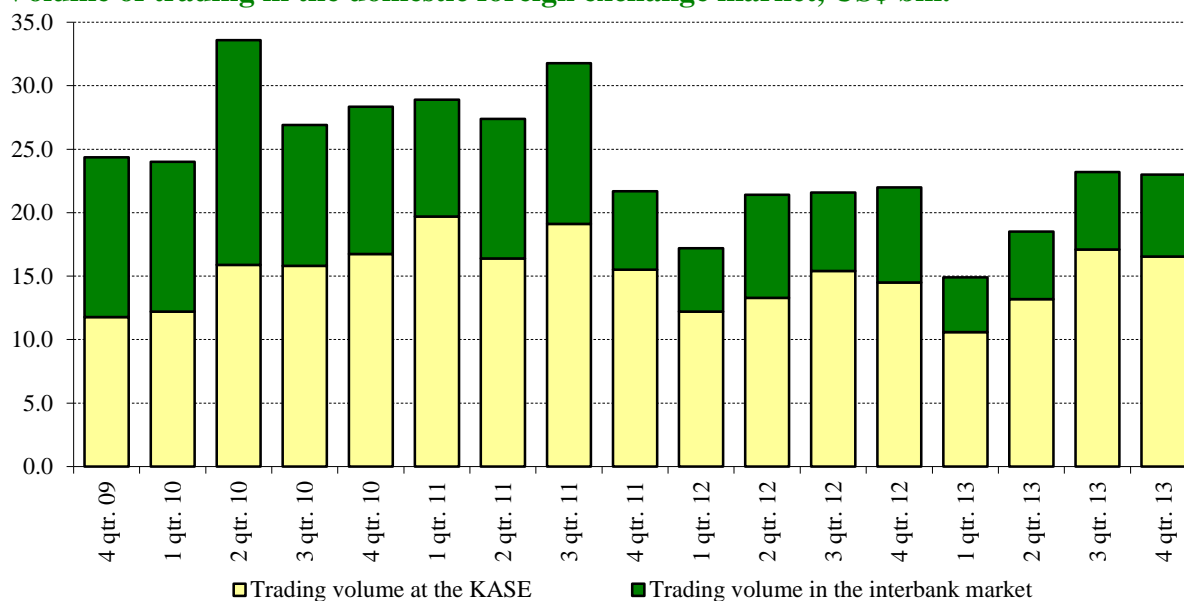
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the 4th quarter of 2013, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$ 23.0 bln., having decreased by 1.0% versus the 3rd quarter of 2013.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange decreased by 3.3% versus the 3rd quarter of 2013 and amounted to US\$ 16.5 bln. (net trades at the Kazakhstan Stock Exchange made up 81% of gross trades). During the 4th quarter of 2013, the volume of transactions in the off-exchange foreign currency market increased as compared to the previous quarter by 5.4% and amounted to US\$ 6.4 bln. (Figure 40).

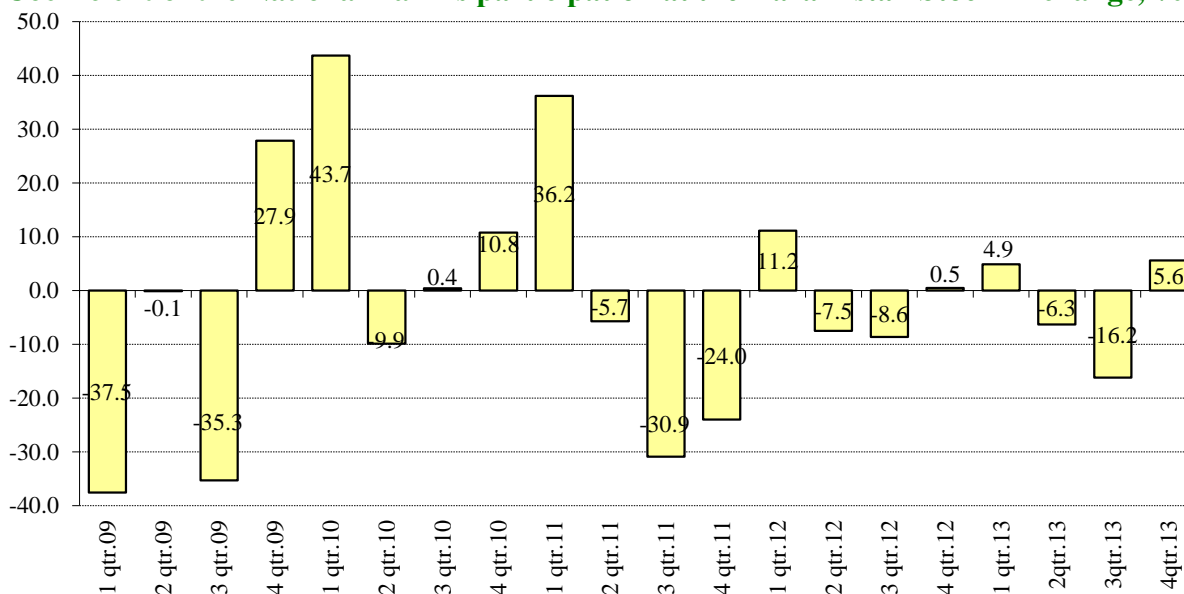
Figure 40

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


Source: National Bank of the Republic of Kazakhstan

At the end of the 4th quarter of 2013, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up 5.6% (in the 3rd quarter of 2013 it was 16.2%) (Figure 41). Thus, in the 4th quarter of 2013, the National Bank was primarily a buyer of foreign exchange in the domestic foreign exchange market.

Figure 41

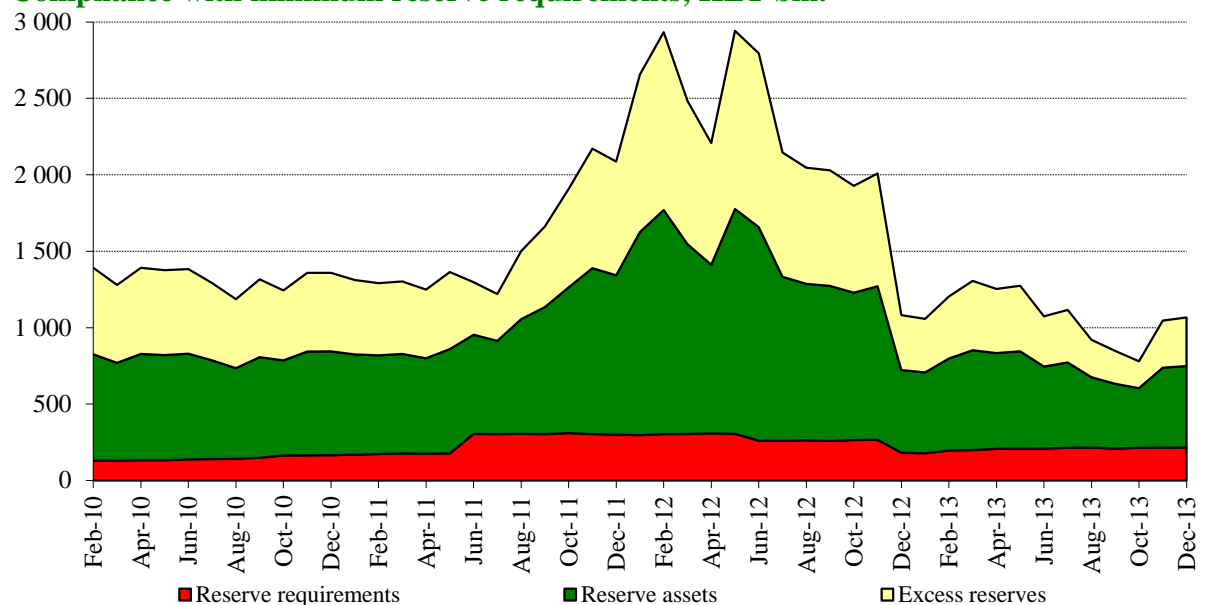
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %


Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During October-December 2013, reserve assets exceeded the required reserving volume by 2.3 times on average (in the 3rd quarter of 2013 – by 2.4 times, and in the 4th quarter of 2012 – by 3.1 times) (Figure 42).

Figure 42

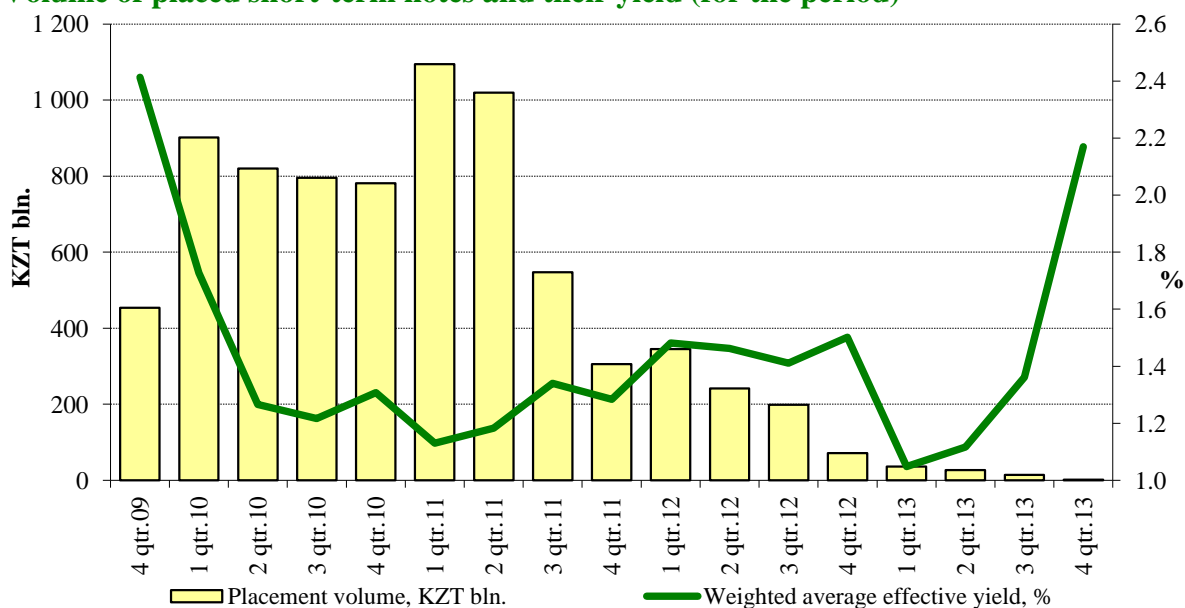
Compliance with minimum reserve requirements, KZT bln.


Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the 4th quarter of 2013, the demand of banks for short-term notes of the National Bank remained low. During the period, only one auction was held (in October 2013), where 3-month short-term notes worth KZT 2.0 bln. were placed. The volume of short-term notes issued in the 4th quarter of 2013 decreased by 7.2 times versus the 3rd quarter of 2013. The weighted average yield on placed notes increased from 1.36% in the 3rd quarter of 2013 to 2.17% in the 4th quarter of 2013 (Figure 43).

Figure 43

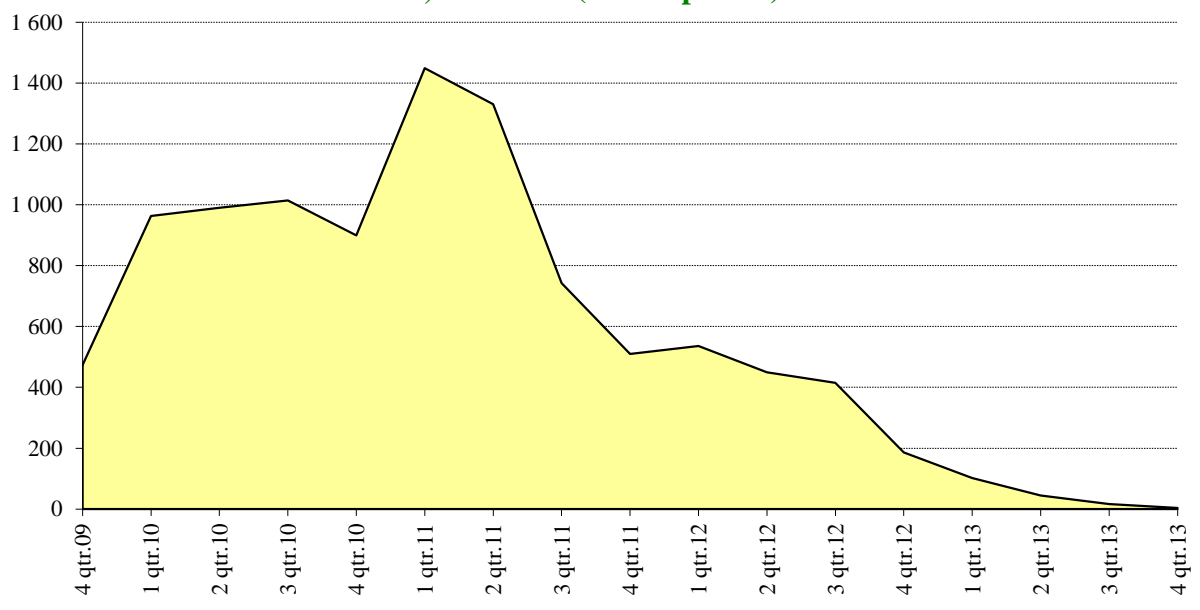
Volume of placed short-term notes and their yield (for the period)


Source: National Bank of the Republic of Kazakhstan

At end-December 2013, the volume of short-term notes in circulation amounted to KZT 3.6 bln., which is by 4.6 times less than the volume at end-September, 2013 (Figure 44).

Figure 44

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



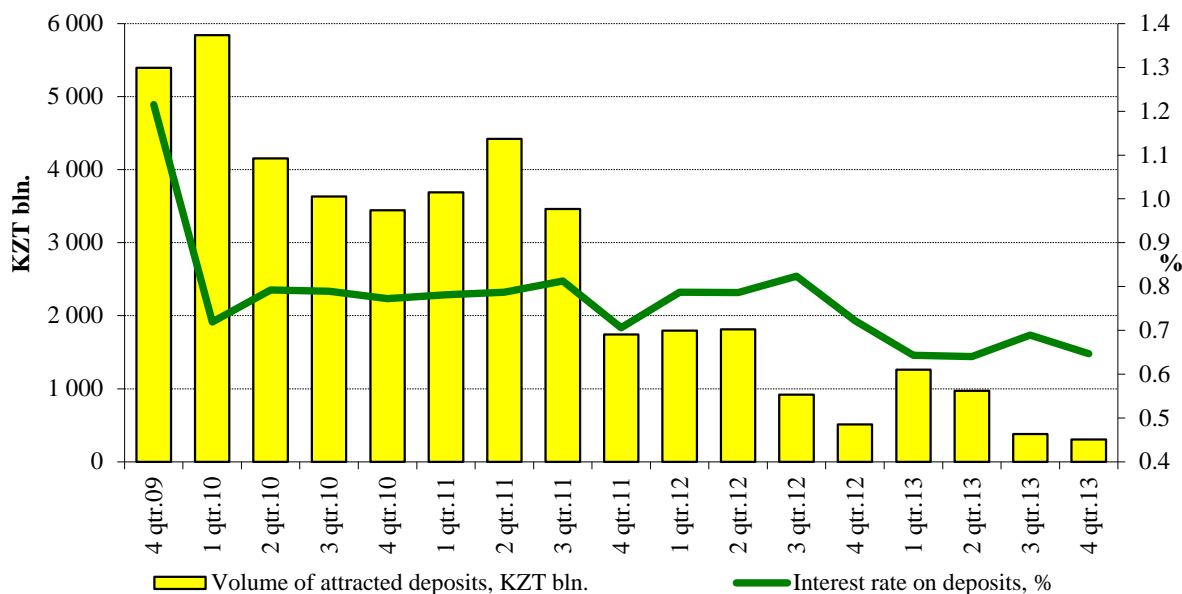
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the 4th quarter of 2013, the volume of deposits attracted from banks slightly decreased as compared to the previous quarter. The maximum volume of attraction of bank deposits was recorded in November and December. During the 4th quarter of 2013 as a whole, deposits worth KZT 304.0 bln. were attracted, which is by 19.9% less than the in the 3rd quarter of 2013 and by 1.7 times less as compared to the 4th quarter of 2012.

The average interest rate on deposits decreased from 0.69% in the 3rd quarter of 2013 to 0.65% in the 4th quarter of 2013 (Figure 45).

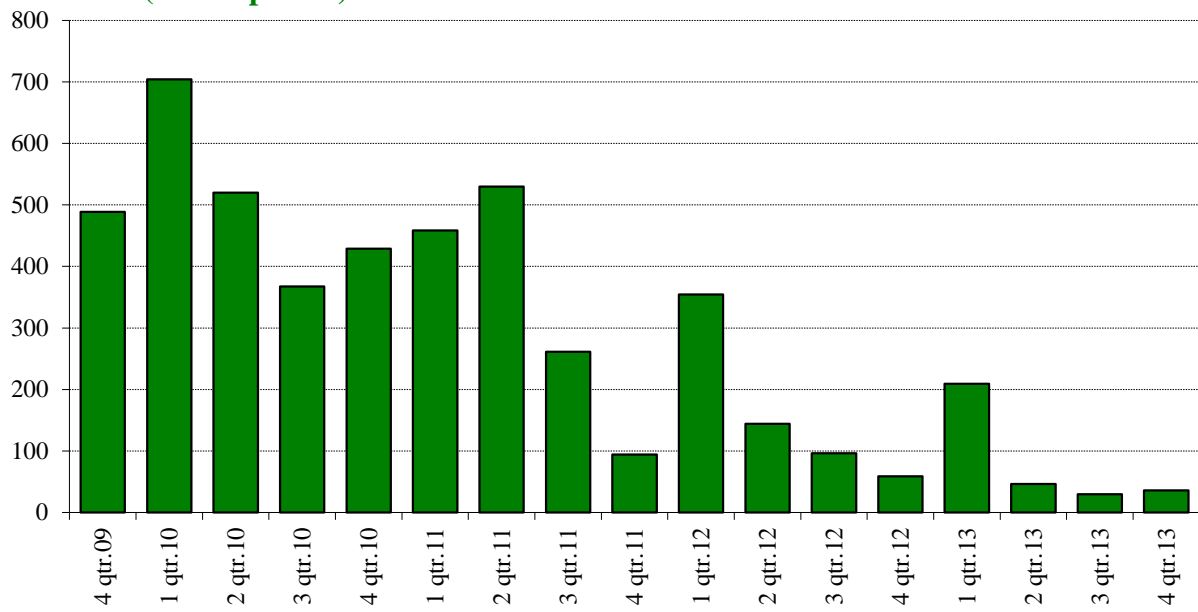
Figure 45

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


Source: National Bank of the Republic of Kazakhstan

In the 4th quarter of 2013, the volume of outstanding liabilities of the National Bank on bank deposits slightly increased. At end-December 2013, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 36.0 bln., which exceeds their volume at end-September 2013 by 22.0% (Figure 46).

Figure 46

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


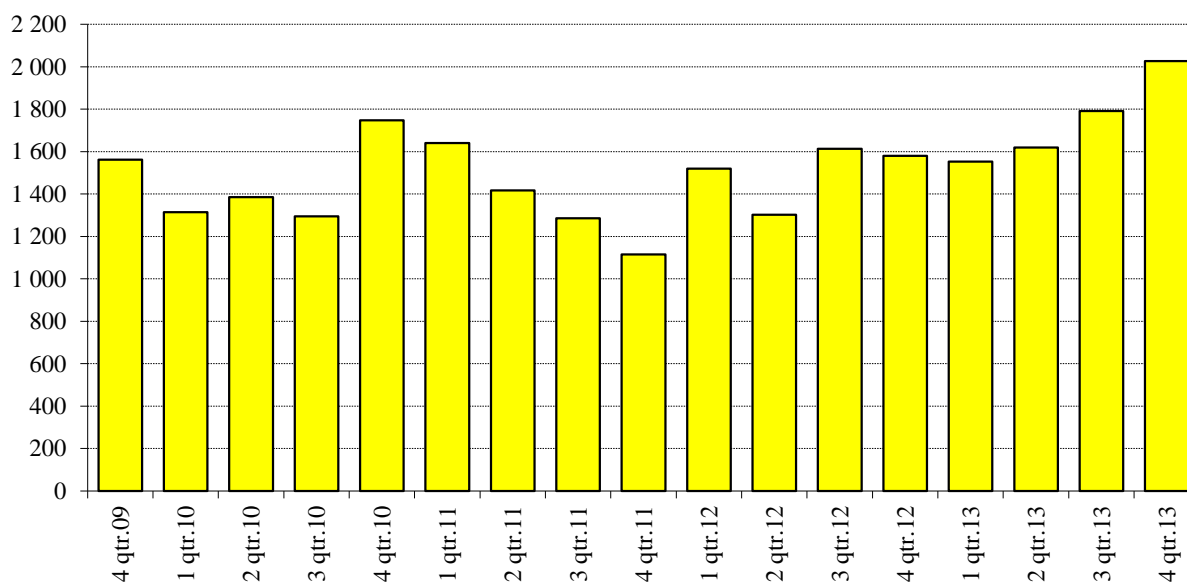
Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in the 4th quarter of 2013 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 4th quarter of 2013 amounted

to KZT 2.0 trln. The volume of such operations increased by 13.2% as compared to the previous quarter (Figure 47).

Figure 47

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

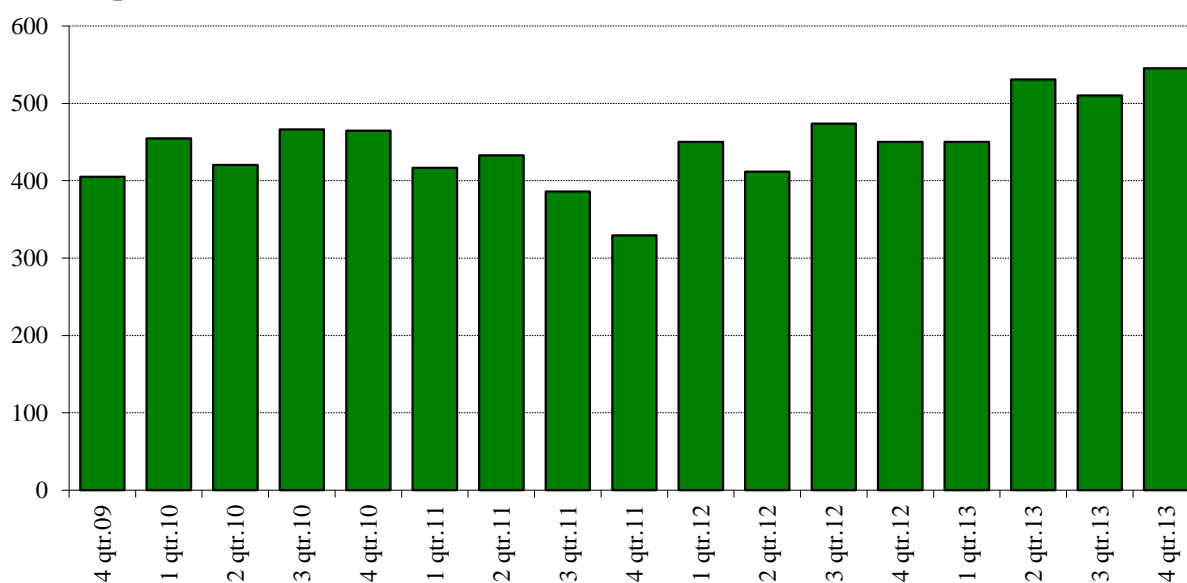


Source: National Bank of the Republic of Kazakhstan

At end-December 2013, the volume of outstanding debt on refinancing loans amounted to KZT 545.4 bln. (Figure 48).

Figure 48

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



Source: National Bank of the Republic of Kazakhstan