

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

Inflation Report  
for the Third 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

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In July-September 2013, annual inflation rates slowed down with the annual inflation accounting for 5.4% at end-September 2013. During the period the inflation was mainly building up under the impact of seasonal factors amidst slowing growth in prices for certain foodstuffs and increasing tariffs for paid services. No significant acceleration of inflationary processes is expected in the near term and the annual inflation will be kept within the established band of 6-8% by the end of 2013.

In the 3<sup>rd</sup> quarter of 2013, the inflation had been at 0.6% (in the 2<sup>nd</sup> quarter of 2013 – 0.8%); this is the lowest quarterly indicator for inflation since the 4<sup>th</sup> quarter of 2003 (in the 3<sup>rd</sup> quarter of 2003 – 0.5%). In the 3<sup>rd</sup> quarter of 2013, there was a decline in prices for fruit and vegetable production typical for a summer time. In addition to that, increased fees for cold water, water discharge, for provision of healthcare and education services made significant contribution to the quarterly inflation. The dynamics of monthly prices and tariffs for paid services during the reviewed period demonstrate some acceleration in the growth of tariffs. However, the rates of tariffs growth were slowing down in annual terms.

In the 3<sup>rd</sup> quarter of 2013, the inflation was building up against the minimal impact of monetary factors. During June-September 2013, the money supply (M3) as the main indicator of the supply of money decreased by 0.2% and amounted to KZT 11558.3 bln., and the reserve money contracted by 10.1% to KZT 2781.8 bln. On the whole, money supply corresponds to the needs of the economy and its volume is sufficient to ensure further economic growth.

Real GDP growth in July-September 2013, according to preliminary data prepared by the Agency of Statistics of the Republic of Kazakhstan, accounted for 5.7%.

The real sector of the economy is developing steadily. During January-September 2013, the industrial output grew by 2.1% in real terms, including the growth in the mining industry and quarry operations – by 3.0%. During the same period, the growth in agriculture accounted for 5.5%, in construction – for 2.5%, and in cargo turnover – 2.1%.

In the 3<sup>rd</sup> quarter of 2013 the official refinancing rate remained at 5.5% per annum (since August 2012).

With a view to regulate inflation and liquidity in the banking system, the National Bank in the 3<sup>rd</sup> quarter of 2013 continued conducting its operations as part of its monetary policy. Demand for securities issued by the National Bank on the part of banks remained limited. So, the volume of short-term notes issued during July-September 2013 amounted to KZT 14.3 bln., which is 14 times less than in the corresponding period of 2012. The volume of deposits attracted from banks also reduced by 58.6% to KZT 379.7 bln. During the reviewed period refinancing loans totaling KZT 1790.7 bln. were provided to banks, their amount exceeds that of July-September 2012 by 11.0%.

Steady growing confidence of the economic entities in the banking system is being observed. In September 2013, total deposits with commercial banks amounted to KZT 10104.7 trln., having increased by 0.5% versus June 2013 (and by 11.1% – versus September 2012). At the same time, the growth in the volume of deposits of individuals during the year accounted for 18.5%.

In September 2013 as compared to June 2013, credits to the economy increased by 3.7% to KZT 10935.7 bln. The growth in the volume of credits to the population in the reviewed period accounted for 7.1%.



### Evaluation of the Inflation Forecasts for the 3<sup>rd</sup> Quarter of 2013

In the 3<sup>rd</sup> quarter of 2013, the actual inflation rate (0.6%) had been lower than the forecast (0.7-0.9%) published in the previous issue of the Inflation Report. In July, actual inflation slightly exceeded the forecasts and in August and September it was lower than the forecast.

During the entire period the growth in prices accounted for 0.2% in each month. At the same time, in the 3<sup>rd</sup> quarter of 2013 the highest increase in prices occurred in the paid services. Within their structure, prices and tariffs for utilities should be mentioned, including the costs of upkeep, and fees for cold water and sewage. The price of healthcare services, transport services, education and cultural services also increased.

In the 3<sup>rd</sup> quarter of 2013, the increase in prices for non-food products was moderate. Among foodstuffs, the increase in prices for eggs and bread products is worth mentioning. However, the seasonal decline in prices for fruit and vegetable production as well as moderate rates of growth in prices for other goods were conducive to the fact that in the 3<sup>rd</sup> quarter of 2013 prices for foodstuffs remained stable.

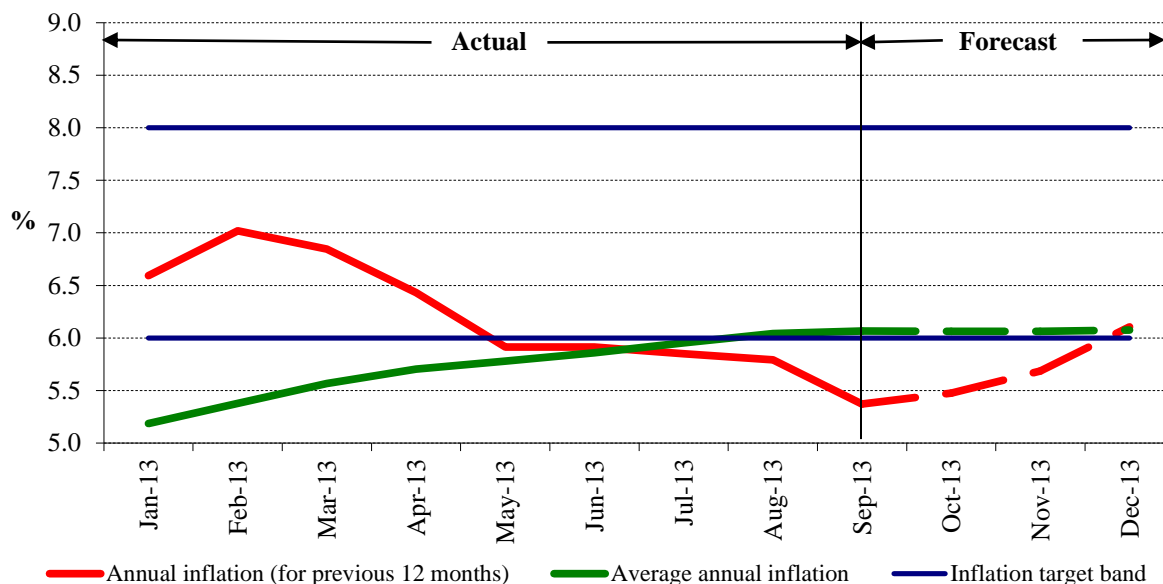
The actual annual inflation at end-September 2013 accounted for 5.4%, being also lower than the forecast published in the previous issue of the Inflation Report.

### Inflation Forecast for the 4<sup>th</sup> Quarter of 2013

In the 4<sup>th</sup> quarter of 2013 the inflation is expected to be within 2.6-2.8% (in the 4<sup>th</sup> quarter of 2012 the actual inflation was at 2.0%). This corresponds to the annual inflation of 6.0-6.2% at end-December 2013 (Figure 1).

Figure 1

#### Actual and forecasted inflation in 2013



Source: National Bank of the Republic of Kazakhstan

Enhanced impact on the part of seasonal factors as well as broadened consumer demand contributes to the increase in prices for certain goods and services during the last months of the year. As a rule, prices during the period demonstrate the highest level during the year.

In the 4<sup>th</sup> quarter of 2013, the increase in prices for such goods and services as fruit and vegetable production, eggs, dairy and meat products, clothes and footwear, and certain



types of utilities is anticipated. Besides, in the 4<sup>th</sup> quarter of 2013 the level of disbursing prices for fuel and lubricants will be raised in the country as a whole.

Prices and tariffs for certain types of utilities such as hot water supply, gas supply, and electricity may also go up due to the beginning of a heating season.

### **Inflation Forecast for 2014**

In 2014 the National Bank will continue taking actions to ensure the price stability in the country. Such actions imply the regulation of short-term Tenge liquidity in the money market by using all monetary policy instruments available to the National Bank. In 2014 it will continue to implement a new transmission mechanism of the monetary policy, which involves using new instruments for the regulation of short-term Tenge liquidity in the money market.

In 2014 new principles of the National Bank's interest rate policy implementation will be introduced. At the same time, its nature will be determined by the situation in the money market and foreign exchange market and the inflation rate. The level of the official refinancing rate will be maintained positive in real terms.

The National Bank will be taking actions aimed to ensure the stability of the exchange rate of the Tenge.

The National Bank expects that in 2014, in the absence of shock situations in the domestic and foreign markets, the situation in the Kazakhstan's consumer market will remain stable. The key factors that may have an upward impact on the inflation are persistent positive growth rates of output in the real economy, steady growth in the cash income of the population, and decreasing unemployment. Apart from that, a low level of competition and a high level of monopolization in certain markets of goods and services will continue having negative impact on the buildup of inflationary processes.

In 2014 the impact of monetary factors on the inflation will remain insignificant. Generally, the matters of ensuring the price stability in the Kazakhstan's consumer market will be addressed by joint efforts of the National Bank and the Government. According to estimates, in 2014 inflation indicators will be comparable with those of 2013.

**Inflation Forecast for the 1<sup>st</sup> Quarter of 2014.** In the 1<sup>st</sup> quarter of 2014, the increased inflation background in the consumer market will remain, with its main reason being the realization of seasonal factors. It will be accompanied by the growth in prices for certain foodstuffs, and tariffs for paid services. In the 1<sup>st</sup> quarter of 2014, the inflation is expected to be at 2.3-2.5%, which corresponds to the annual inflation of 6.6-6.8%.

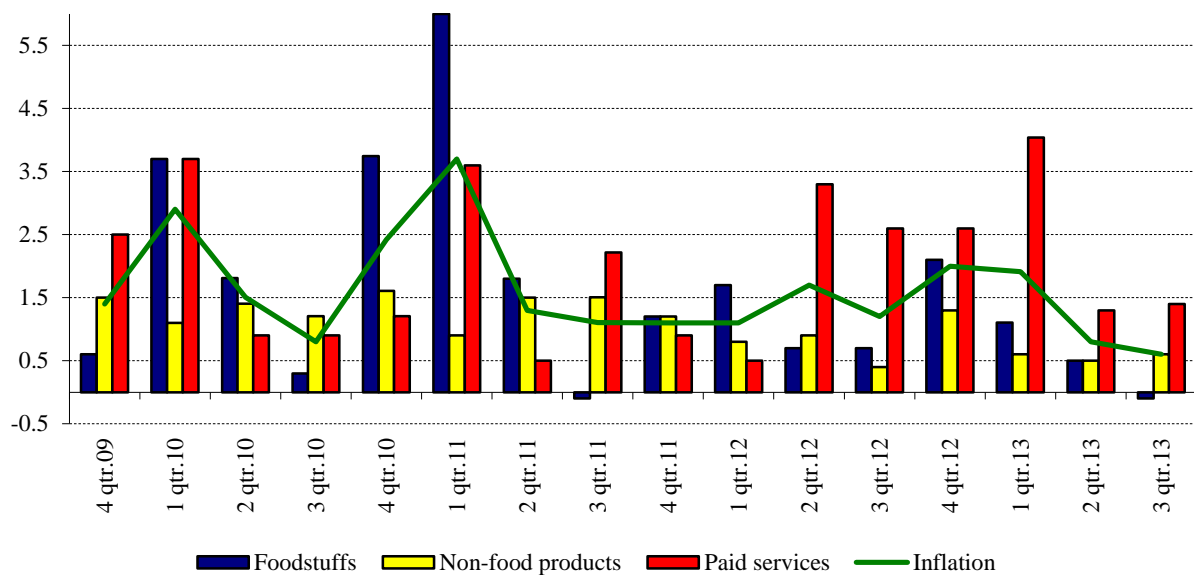
## 1. Inflationary Processes

### 1.1. Consumer Prices

In the 3<sup>rd</sup> quarter of 2013, there was significant slowdown in the quarterly inflation which had been at 0.6% (in the 3<sup>rd</sup> quarter of 2012 – 1.2%), whereas in the 2<sup>nd</sup> quarter of 2013 it was at 0.8%. During July-September 2013, the inflation was mainly building up because of the 1.4% growth in tariffs for paid services (by 2.6%). In the 3<sup>rd</sup> quarter of 2013, foodstuff prices decreased by 0.1% (the growth of 0.7%), and prices for non-food products increased by 0.6% (the growth of 0.4%) (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 September 2013 as compared to June 2013, the highest increase in prices among foodstuffs occurred in the prices for rice - by 5.3%, semolina – by 4.9%, eggs – by 1.7%, horse meat – by 1.4%, kefir – by 1.4%, tea – by 1.1%, fish and seafood – by 0.6%, and confectionery – by 0.8%. During the period, the following products cheapened: buckwheat – by 2.9%, oils and fats – by 0.2%, fruits and vegetables – by 8.2%, including cabbage – by 21.0%, onions – by 13.5%, carrots – by 11.0%, potatoes – by 10.6%, and beetroots – by 8.9%.

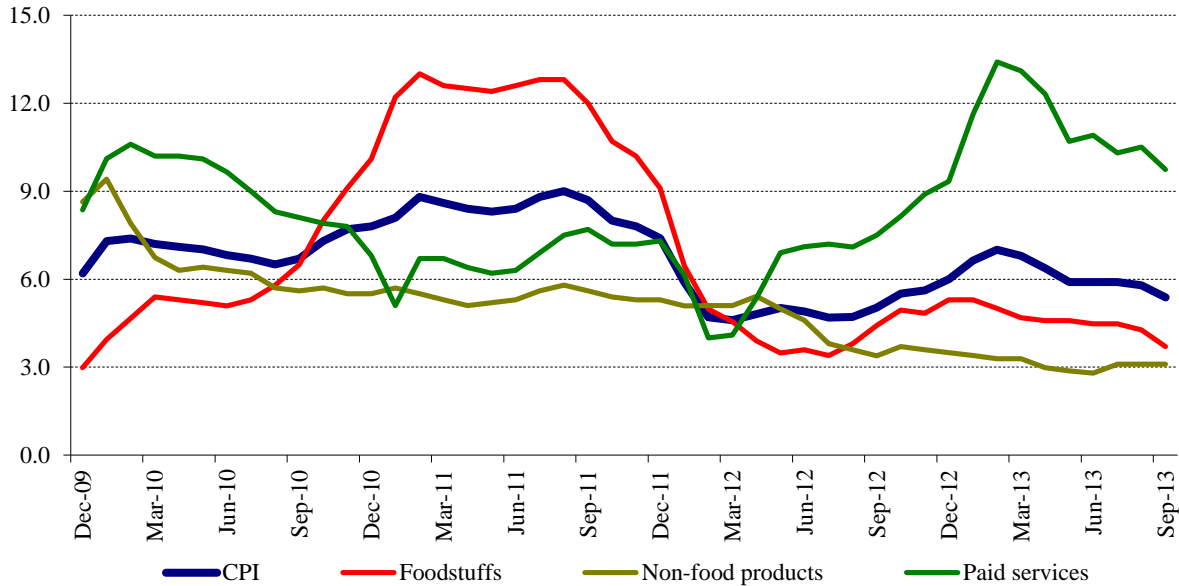
During July-September 2013, in the group of non-food products the prices for clothes and footwear increased by 0.8%, including for fabrics – by 0.8%, upper garments – by 0.8%, as well as for medications – by 0.6%. The price of gasoline increased by 0.2%, and the price of diesel fuel increased by 0.5%.

In the structure of paid services, during the 3<sup>rd</sup> quarter of 2013 utilities payments increased by 1.1%. Fees for cold water increased by 5.4%, for sewage – by 4.8%, solid waste collection – by 1.8%, and rental costs increased by 3.8%. The prices for transport services also increased – by 1.1% (because of increased price for railroad services – by 1.9%, and motor transport services – by 1.0%), for education services – by 4.2%, healthcare services – by 3.8%, as well as services of restaurants and hotels – by 1.2%.

In September 2013, the annual inflation accounted for 5.4% (in December 2012 – 6.0%). In September 2013 versus September 2012, the price of foodstuffs increased by 3.7% (by 5.3%), the price of non-food products – by 3.1% (by 3.5%), and the price of paid services – by 9.7% (by 9.3%) (Figure 3).

Figure 3

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



Source: Agency of Statistics of the Republic of Kazakhstan

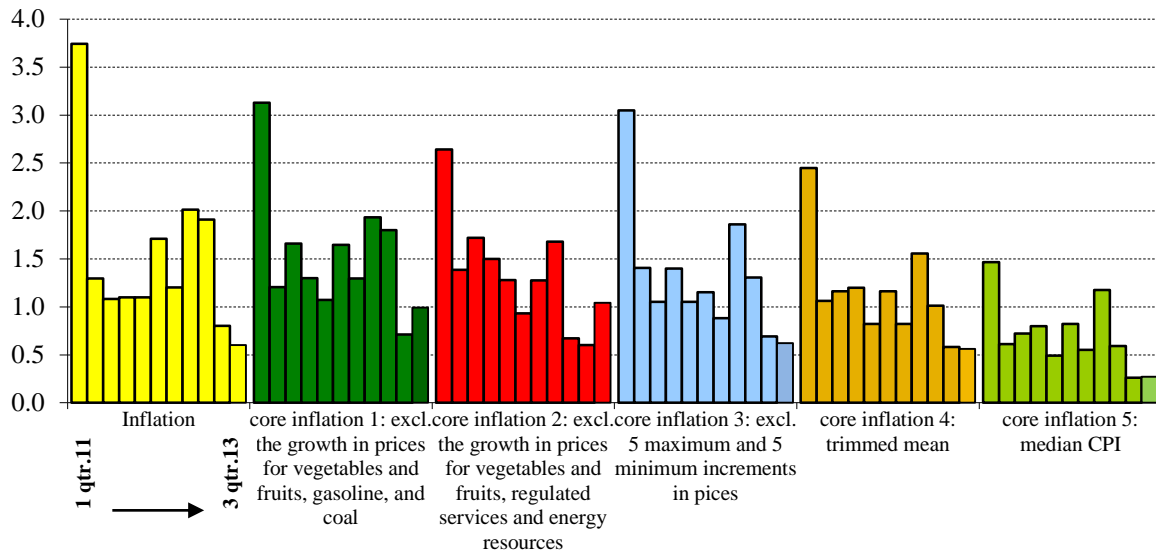
**1.2. Core Inflation**

In the 3<sup>rd</sup> quarter of 2013, core inflation indicators demonstrated multidirectional trends. Core inflation-1 and core inflation-2 accelerated versus the previous quarter, core inflation-3 – slowed down, the rates of core inflation-4 and core inflation-5 haven't changed. As compared to the corresponding period of 2012, all core inflation indicators demonstrated lower rates.

In the 3<sup>rd</sup> quarter of 2013, indicators of core inflation-1, core inflation-2 and core inflation-3 exceeded those of the headline inflation (Figure 4). This was mainly associated with the increased prices for fruit and vegetable production and moderate growth in prices for gasoline excluded when calculating core inflation.

Figure 4

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



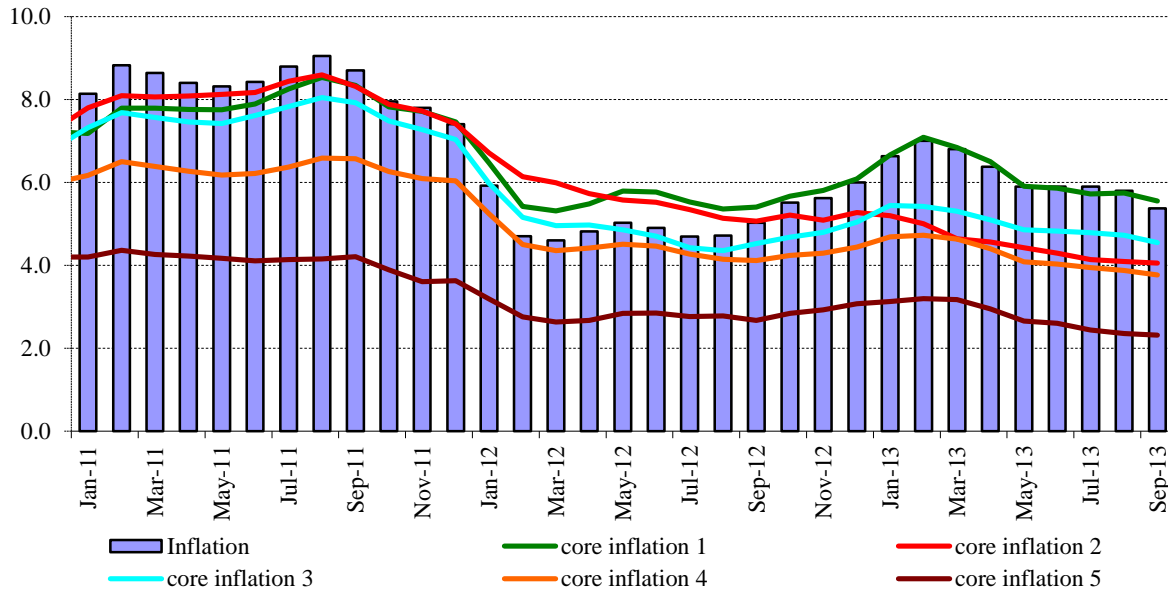
Source: Agency of Statistics of the Republic of Kazakhstan

In July-September 2013, core inflation indicators in annual terms slowed down (Figure 5). All core inflation indicators in annual terms hadn't exceeded the headline inflation at end-September 2013, except for core inflation-1.

At end-September 2013, all core inflation indicators in annual terms were at a lower level as compared to the indicators in December 2012 (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 3<sup>rd</sup> quarter of 2013, the industrial producer prices increased by 7.4% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 1.6%). The cost of output increased in terms of price by 7.7%, at the same time the price of interim consumption products increased by 8.9%, the means of production decreased by 0.1% in terms of price, and the price of consumer goods decreased by 0.9%. The prices of production services increased by 2.0%.

In the 3<sup>rd</sup> quarter of 2013, prices in the mining industry increased by 10.9%, being caused by higher oil prices as compared to the respective period of 2012 (in the 3<sup>rd</sup> quarter of 2012 – the growth by 2.2%).

The price of energy resources, after its decrease in the previous quarter by 10.0%, has increased by 11.2% in the 3<sup>rd</sup> quarter of 2013 (in the 3<sup>rd</sup> quarter of 2012 – the growth by 2.2%). Within the composition of energy resources, oil extraction price decreased, due to its growth in August, by 10.6% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 3.0%), the price of gas condensate increased by 27.0% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 0.5%).

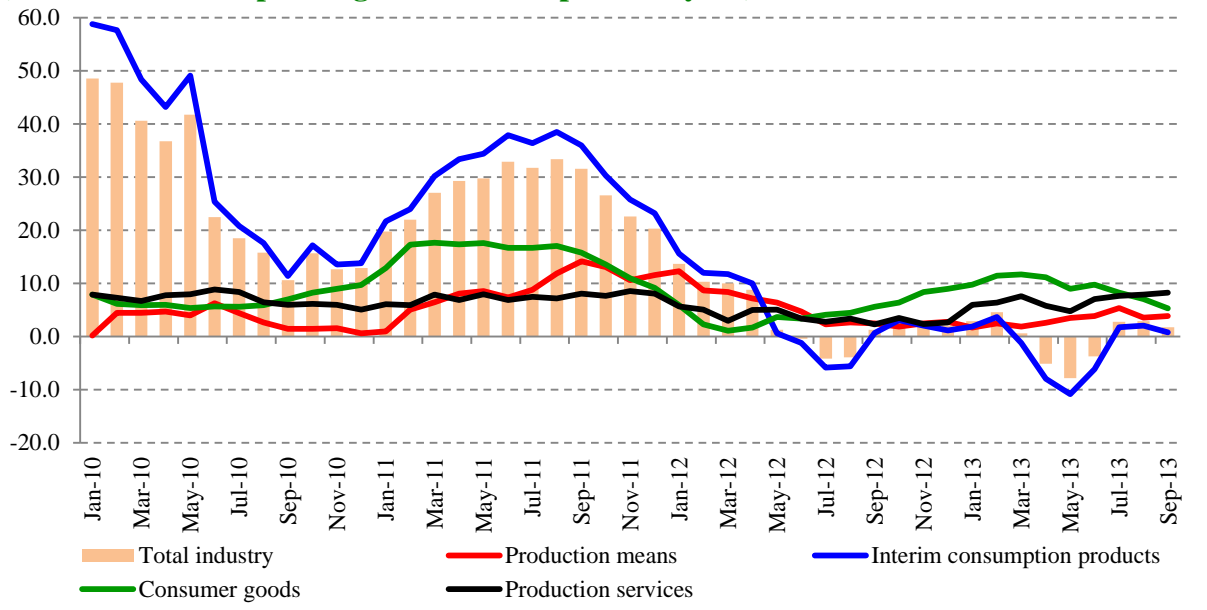
Prices in manufacturing industry, after their decline in the previous quarter by 1.6%, in the reporting quarter increased by 0.2% (in the 3<sup>rd</sup> quarter of 2012 – the decrease by 0.01%). In the 3<sup>rd</sup> quarter of 2013, prices in the metallurgical industry increased by 0.6%, the cost of refined products increased by 4.4%, and production of foodstuffs decreased by 1.3%.

In the 3<sup>rd</sup> quarter of 2013, prices for electric energy, gas and vapor supply as well as and air conditioning increased by 0.5% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 0.9%).

In September 2013, the year-to-year (September 2013 compared to September 2012) increase in prices in industrial production accounted for 1.8% (in September 2012 the annual growth in prices accounted for 1.3%) (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 increased by 1.3 % in annual terms, while the price of interim consumption products increased by 0.8%, the price of consumer goods increased by 5.3%, and the price of production means – by 3.9%. The price of production-related services increased by 8.3%.

**1.3.2. Prices in Agriculture**

In the 3<sup>rd</sup> quarter of 2013, prices for agricultural production realized across all channels decreased by 3.5% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 4.1%). The dynamics of prices in agriculture was impacted by the decreasing prices for plant production, despite the growth in the livestock sector.

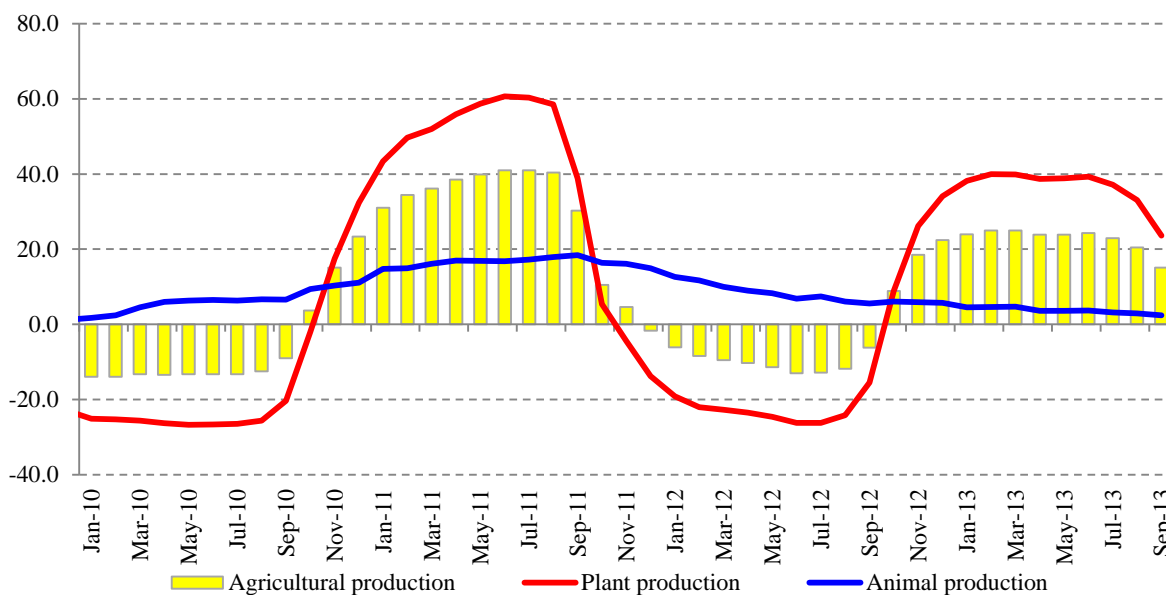
As compared to the decrease in prices by 1.9% in the previous quarter, during July-September 2013 the price of plant production decreased by 5.9% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 6.2%). Within the plant production structure, prices for grain cultures decreased by 6.4%, for vegetables – by 5.5%, and the price of potatoes went up by 4.2%.

The price of animal production, after 4.7% decrease in prices in the 2<sup>nd</sup> quarter of 2013, in the 3<sup>rd</sup> quarter of 2013 increased by 0.2% (in the 3<sup>rd</sup> quarter of 2012 – the growth by 1.5%). During July-September 2013, prices for flesh meat and poultry decreased by 1.3%, for unpasteurized milk – by 0.1%, and the price of eggs went up by 8.6%.

At end-September 2013, prices for agricultural products increased by 15.1% in annual terms. The price of plant production increased by 23.6%, and the price of animal production increased by 2.4% (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 3<sup>rd</sup> 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 52.1 (from 53 in the 2<sup>nd</sup> quarter of 2013). The indicator increased due to decreased share of enterprises with increased demand for their products (to 19.4% from 21.9% in the 2<sup>nd</sup> quarter of 2013) and decreased share of enterprises that noted the decrease in the demand for their products (to 13.2% from 17.8% in the 2<sup>nd</sup> quarter of 2013).

The growth in the demand for final products was observed in all sectors. The highest growth in the demand occurred in such sectors as the “production and distribution of electricity, gas and water”, mining industry, transport and communications: the diffusion index in these sectors has risen to 51, 54 and 53.7, respectively, from 41.7, 50 and 52.5 in the 2<sup>nd</sup> quarter of 2013. The rates of growth in the demand slowed down in the manufacturing industry, construction, and trade.

In the 4<sup>th</sup> quarter of 2013 versus the 3<sup>rd</sup> quarter of 2013, the growth in the demand for final products will continue in the real sector as a whole: the diffusion index of the change in the demand was 53.1, according to expectations of enterprises. Alongside with that, the growth in the demand is anticipated in the majority of sectors, with the most notable growth in the sector of “production and distribution of electricity, gas and water” (the diffusion index – 67.8), and in agriculture (62.7)). At the same time, the demand in the manufacturing industry is expected to decrease slightly (to 49.5 from 50.5 in the 3<sup>rd</sup> quarter of 2013) as well as in the sector of “real estate operations, rent and services to enterprises” (to 49.8 from 51.8 in the 3<sup>rd</sup> quarter of 2013).

In the 3<sup>rd</sup> quarter of 2013, prices for final products of enterprises in the real sector of the economy as a whole continued to grow at a moderate pace: the diffusion index of the change in prices for final products was 54.1 (in the 2<sup>nd</sup> quarter of 2013 – 53.1), with the number of enterprises that noted the price growth increased to 15.6% (from 14.1% in the 2<sup>nd</sup>



quarter of 2013), while the number of enterprises that noted the decrease in prices fell to 7.5% from 8% in the 2<sup>nd</sup> quarter of 2013).

In the majority of sectors prices for final products slowed their growth; the largest slowdown occurred in the sector of “production and distribution of electricity, gas and water” (the diffusion index has fallen to 53 from 56.9 in the 2<sup>nd</sup> quarter of 2013), in the manufacturing industry (to 50.8 from 52.2 in the 2<sup>nd</sup> quarter of 2013) and trade (to 55.1 from 57.8 in the 2<sup>nd</sup> quarter of 2013). A minor decrease in prices for final products occurred in the agricultural sector (the diffusion index has fallen to 49.1).

In the 3<sup>rd</sup> 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 slow growth: the diffusion index was 52.1 (in the 2<sup>nd</sup> quarter of 2013 it was 52.5).

In the 4<sup>th</sup> quarter of 2013, a continuing moderate growth in prices for final products versus the 3<sup>rd</sup> quarter is anticipated in the real sector of the economy as a whole (the diffusion index made up 55.5), caused by decreasing rates of growth in prices in the mining industry, construction and in the sector of “real estate operations, rent and services to enterprises”. The highest increase in the rates of the price growth is expected to occur in the agricultural sector, mining industry and trade.

In the 4<sup>th</sup> quarter of 2013, prices for consumer products and services are expected to grow moderately, just like in the real sector as a whole. The diffusion index of the change in prices will rise to 55.5 from 52.1 in the 3<sup>rd</sup> quarter of 2013.

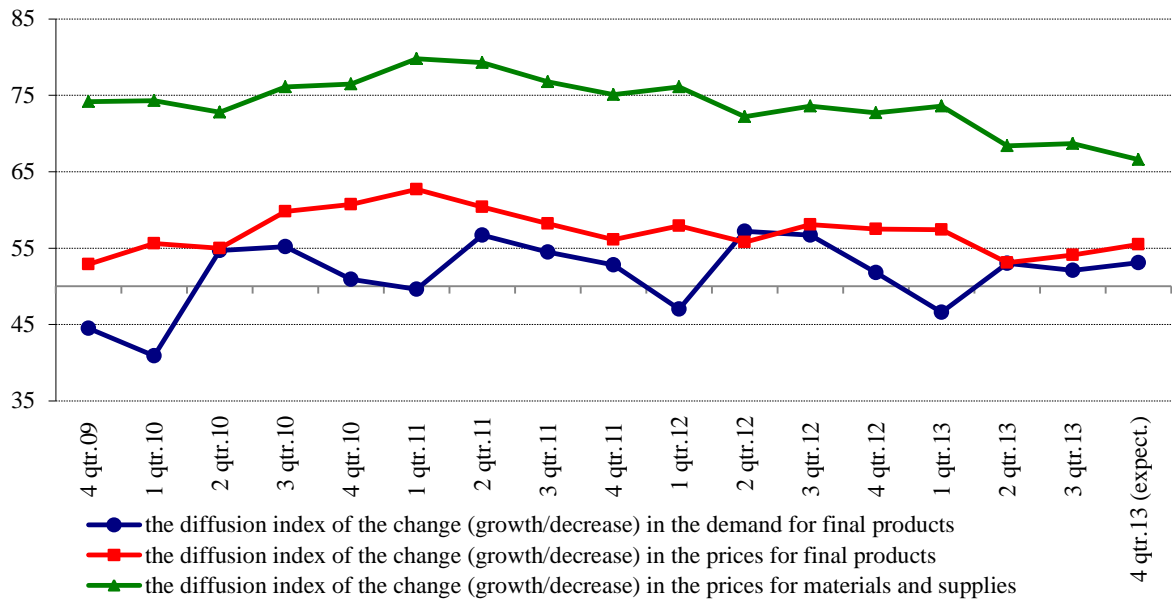
In the 3<sup>rd</sup> quarter of 2013, the rates of growth in prices for raw materials and supplies slightly increased: the diffusion index of the change in prices was 68.7 (in the 2<sup>nd</sup> quarter of 2013 – 68.4). The increase in the rates of the price growth was observed in agriculture (the diffusion index has risen to 76.2 from 74.5 in the 2<sup>nd</sup> quarter of 2013), in the mining industry (to 68.8 from 66 in the 2<sup>nd</sup> quarter of 2013) and in trade (to 66.6 from 64.2 in the 2<sup>nd</sup> quarter of 2013). The rates of price growth have notably decreased in the sector of “hotels and restaurants” (to 69.5 from 75.9 in the 2<sup>nd</sup> quarter of 2013) and in the sector of “production and distribution of electricity, gas and water” (to 70.3 from 76.7 in the 2<sup>nd</sup> quarter of 2013).

For the 4<sup>th</sup> quarter of 2013, the diffusion index of the change in prices for raw materials and supplies as anticipated by the enterprises fell to 66.6, which means some slowdown in the price growth rates versus the 3<sup>rd</sup> quarter. The indicator fell because of the decrease in the percentage of enterprises which anticipate the price growth to 1% from 2.8% in the 3<sup>rd</sup> quarter of 2013.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of enterprises about the 4<sup>th</sup> quarter of 2013 versus the 3<sup>rd</sup> quarter of 2013 are associated with some growth in the demand for final products, continuing moderate growth in prices for final products and the slowdown in the growth of prices for raw materials and supplies (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 2<sup>nd</sup> quarter of 2013, GDP based on the final consumption method as compared to the respective period of 2012 increased in real terms, according to the estimate, by 5.0% (the growth in the 2<sup>nd</sup> quarter of 2012, according to estimate, accounted for 5.5%, and the growth in the 1<sup>st</sup> quarter of 2013 – 4.6%).

In the 2<sup>nd</sup> quarter of 2013, the GDP was growing under the impact of the growth in spending on final consumption caused by the increased household spending on current consumption and general government spending on current consumption, and increased gross formation against decreased net exports.

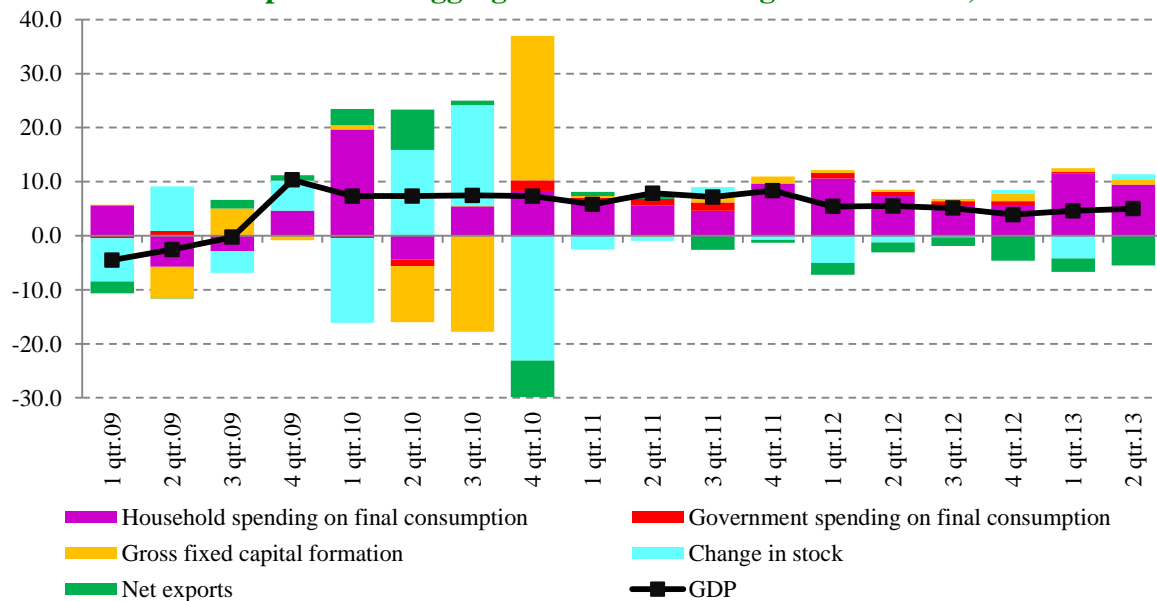
In the 2<sup>nd</sup> quarter of 2013, according to estimate, spending on final consumption generally increased versus the respective period of 2012 by 13.0% (1<sup>st</sup> quarter of 2013 – the growth by 10.4%), gross savings increased by 8.3% (the growth by 25.9%), and net exports decreased by 48.3 (the decrease by 22.9%).

As a result, household spending on consumption and general government spending on consumption made positive contribution to the formation of the GDP growth of (+)9.4% and (+)0.1%, respectively, and gross savings increased GDP by (+)1.9%.

Within the composition of gross savings, fixed capital formation accounted for (+)0.8%, and the change in stock accounted for (+)1.1%. Net exports, in turn, made a negative contribution to the GDP growth of (-)5.5% (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 2<sup>nd</sup> quarter of 2013, household spending on final consumption increased by 16.8% versus the respective period of 2012 (in the 1<sup>st</sup> quarter of 2013 – the growth by 12.3%).

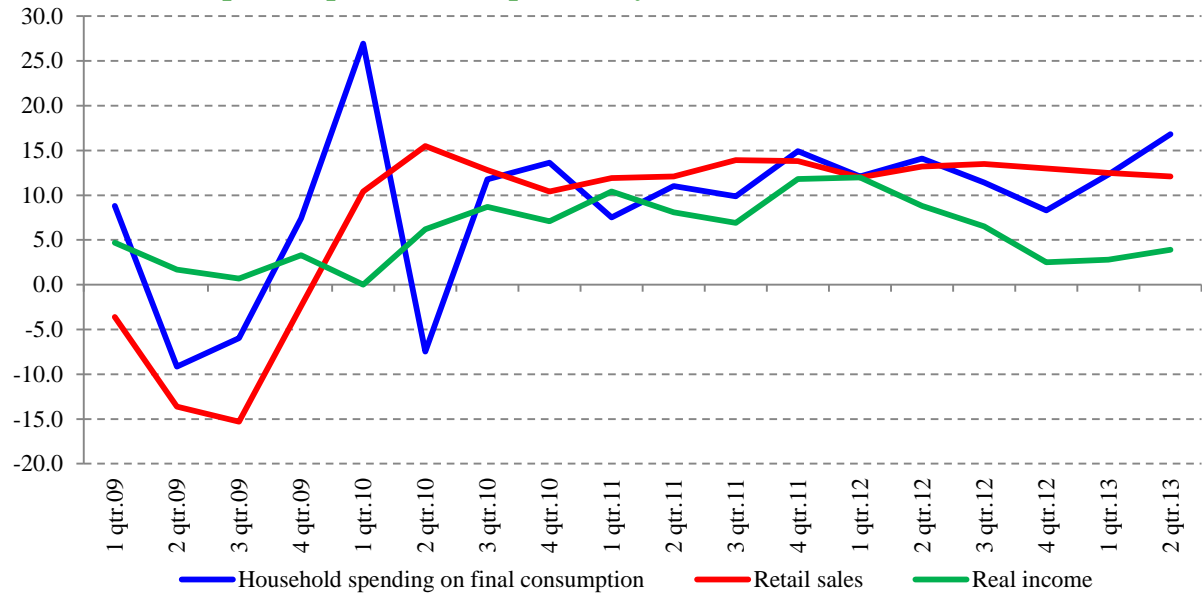
In the 2<sup>nd</sup> quarter of 2013, the growth rate of per capita income in nominal terms accelerated to 10.2% (in the 1<sup>st</sup> quarter of 2013 – the growth by 9.8%), and in real terms it accelerated to 3.9% (the growth by 2.8%). At the same time, the acceleration in the growth

rates of household income didn't significantly affect retail sales whose growth rate slightly slowed, as compared to the 1<sup>st</sup> quarter of 2013 and accounted for 12.1% (in the 1<sup>st</sup> quarter of 2013 – the growth by 12.5%).

The slowdown 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 16.8%, whereas a quarter before the growth accounted for 12.3% (Figure 10).

Figure 10

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



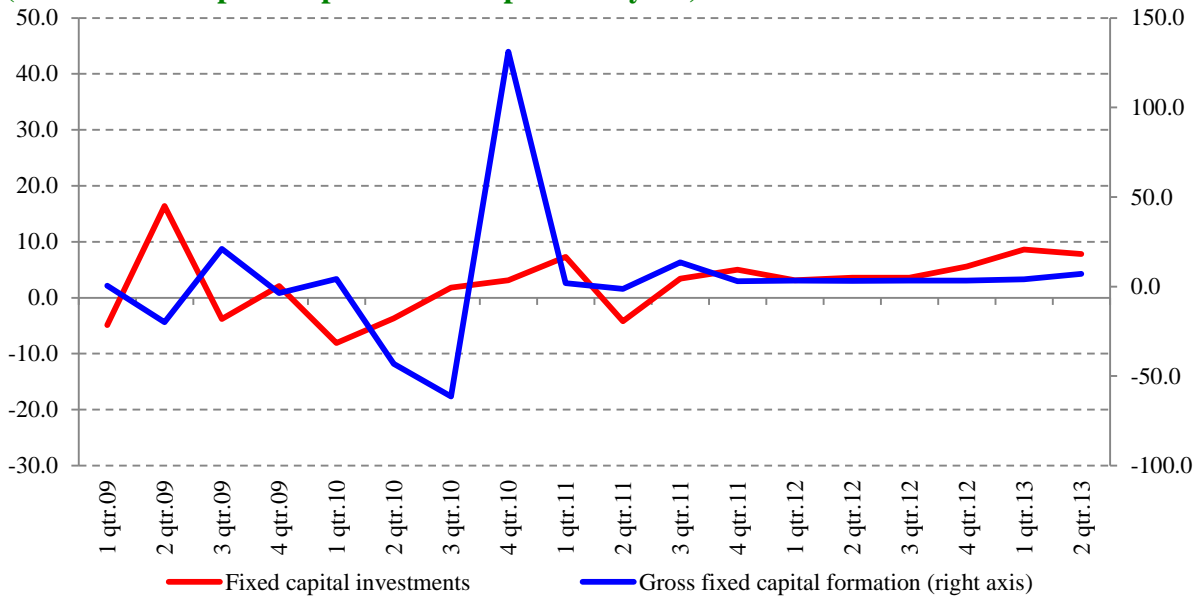
Source: Information of the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The growth rates of household income and spending on final consumption accelerated, however, the growth in retail sales slowed down; this is partially due to the growth in the delivery of services including information and communications (during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2013, the growth accounted for 10.1% and 19.3%, respectively), and transport and warehousing (7.1% and 8.5%).

Decreased investment activity of enterprises caused the slowdown in the growth of fixed capital investments in the 2<sup>nd</sup> quarter of 2013 to 7.8% (in the 1<sup>st</sup> quarter of 2013 the growth accounted for 8.6%). Alongside with that, the increase in gross fixed capital formation accelerated and the rate of growth increased to 7.1% versus the previous quarter (the growth by 4.1%) (Figure 11).

Figure 11

**Dynamics of spending on investments in fixed capital  
(as % of the respective 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 2<sup>nd</sup> quarter of 2013 as compared to the corresponding period of 2012, government spending on final consumption increased by 1.5% (in the 1<sup>st</sup> quarter of 2013 – the growth of 4.1%).

During the 2<sup>nd</sup> quarter of 2013 as a whole, the state budget spending was financed in the amount of KZT 1799.2 bln. or 24.5% of GDP (7.0% decrease versus the 2<sup>nd</sup> quarter of 2012).

Current state budget expenditures totaled KZT 1.4 trln., exceeding expenditures in the 2<sup>nd</sup> quarter of 2012 by 11.0%. Within the current expenditures the following items demonstrated significant increase as compared to the respective quarter of 2012: expenditures related to purchases of services and works (by 4.3 times), current transfers abroad (by 53.7%), current transfers to legal entities (by 48.4%), interest payments on domestic loans (by 45.3%) and wages (by 5.6%). At the same time, there was a decrease in expenditures related to purchases of stock (by 86.4%), wage payouts to certain groups of individuals and deductions of contributions (by 84.7%).

In the 2<sup>nd</sup> quarter of 2013, capital expenditures in the state budget decreased by 0.6% as compared to the respective period of 2012, mainly due to increased expenditures for the major overhaul.

In the 2<sup>nd</sup> quarter of 2013 as compared to the 2<sup>nd</sup> quarter of 2012, budget credits increased by 2.5 times, and expenditures related to acquisition of financial assets decreased by 87.5%.

During January-June 2013, the state budget revenues totaled KZT 1653.9 bln. or 22.5% of GDP, which is by 10.4% less than in January-June 2012. In the structure of the state budget revenues two items are still prevailing: tax revenues – 70.5% (in the 2<sup>nd</sup> quarter of 2012 – 57.2%), and official transfers – 26.5% (32.0%). 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 435.0 bln.

In the 2<sup>nd</sup> quarter of 2013 as a whole, tax revenues increased by 10.0% as compared to the 2<sup>nd</sup> quarter of 2012. The growth was secured by the growth in the receipts on the value-added tax, personal income tax, social tax, and excises whereas revenues from the use of natural and other resources decreased by 25.4% and corporate income tax – by 22.6%.

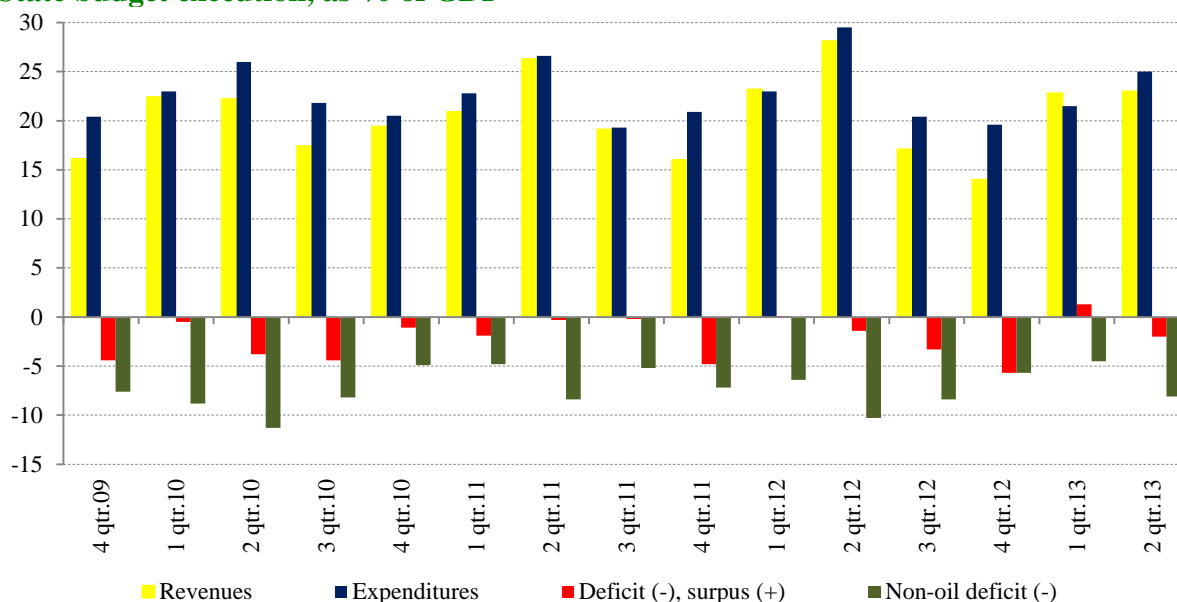
In the 2<sup>nd</sup> quarter of 2013 as compared to the 2<sup>nd</sup> quarter of 2012, non-tax revenues decreased by 80.7%, mainly due to decreased revenues from the public property, cash proceeds from public procurements conducted by state-owned entities funded from the budget, as well as from the receipts of grants.

In the 2<sup>nd</sup> quarter of 2013 the revenues from transfers decreased as compared to the 2<sup>nd</sup> quarter of 2012 by 26.3%, whereas revenues from the sale of fixed capital increased by 98.5%.

Since revenues were in excess of expenditures in the 2<sup>nd</sup> quarter of 2013, the state budget showed up a deficit of KZT 145.2 bln. (2.0% of GDP), and in the 2<sup>nd</sup> quarter of 2012 the deficit amounted to KZT 88.9 bln. (1.4% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 435.0 bln. to the republican budget from the National Fund, the 2<sup>nd</sup> quarter of 2013 would have ended with the non-oil deficit of KZT 580.2 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 2<sup>nd</sup> quarter of 2013, the Ministry of Finance borrowed KZT 217.9 bln. by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT 138.6 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 65.9 bln.

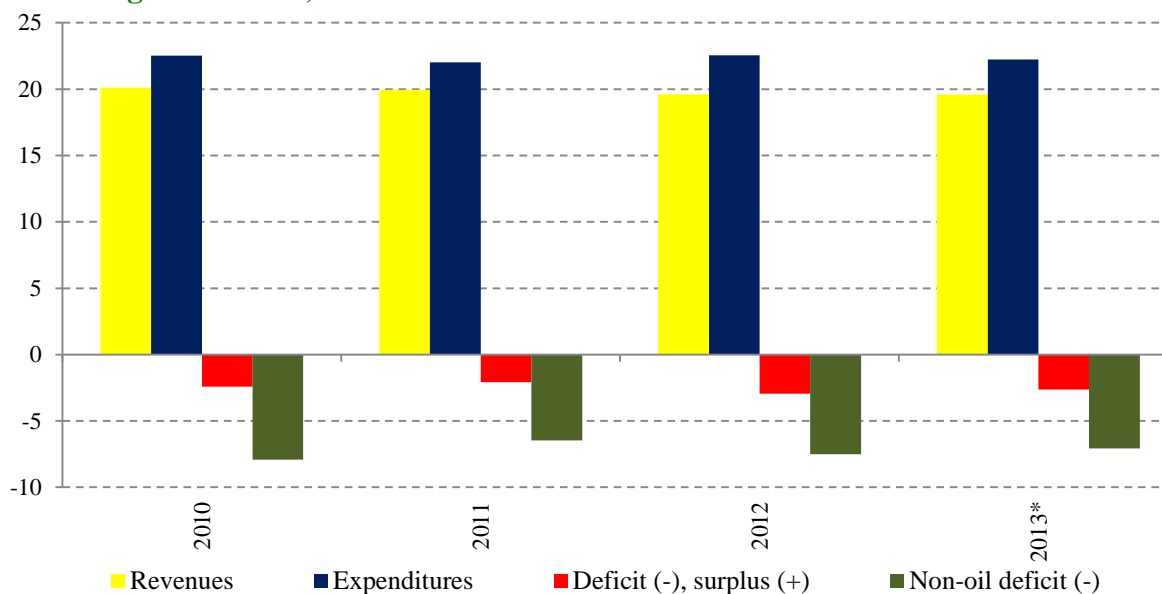
During the 2<sup>nd</sup> quarter of 2013, the government domestic debt increased to KZT 3086.3 bln. (42.1% of GDP), i.e. by 30.0% as compared to the 2<sup>nd</sup> quarter of 2012 (36.2% of GDP). The growth was secured by the issue of government long-term savings treasury obligations (MEUZHKAM), government short-term treasury obligations (MEKKAM), government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

In the 2<sup>nd</sup> quarter of 2013, government external debt increased by 8.0% as compared to the 2<sup>nd</sup> quarter of 2012 (10.1% of GDP) and totaled KZT 714.7 bln. (9.7% of GDP).

There is an upward trend in the state budget deficit. In the 2<sup>nd</sup> quarter of 2013 its deficit accounted for 2.0% of GDP (in 2012 – 1.6% 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 3<sup>rd</sup> quarter of 2012 through the 2<sup>nd</sup> quarter of 2013

**2.1.3. External Sector**

– **World Prices**

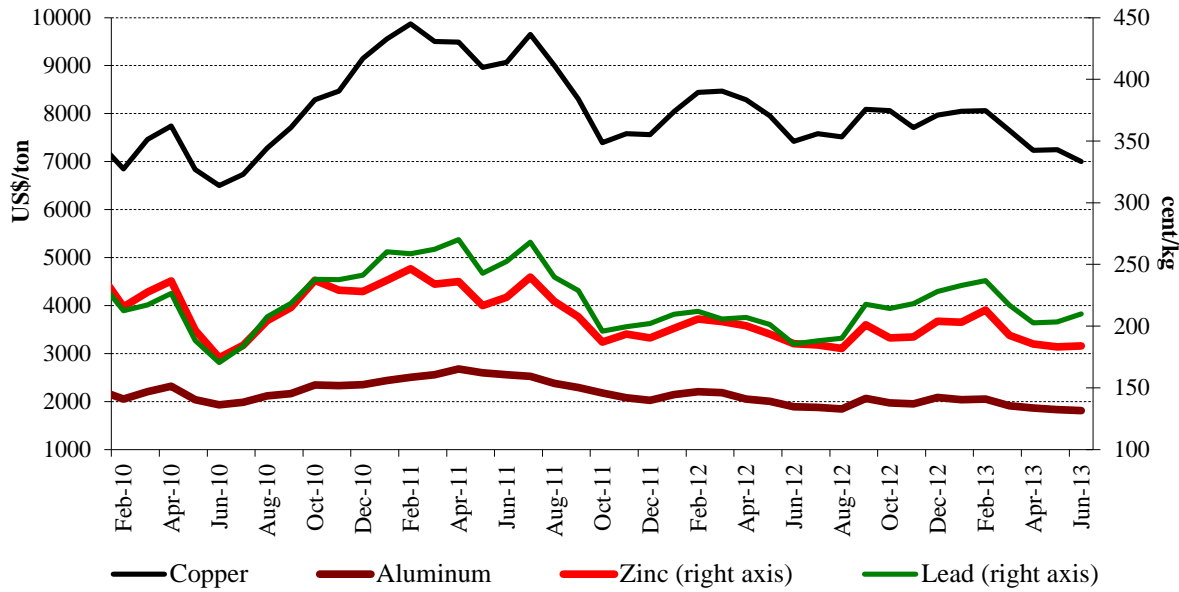
In the 2<sup>nd</sup> quarter of 2013, there was a decrease in prices for certain commodity items in the global commodity markets.

In the 2<sup>nd</sup> quarter of 2013, prices for copper decreased by 9.6% and were on average at US\$ 7161.3 per ton during the period. During the 2<sup>nd</sup> quarter of 2013, prices for aluminum decreased by 8.2% and were US\$ 1836.1 per ton. World prices for lead in April-June 2013 decreased by 10.3%, amounting to 205.3 US cents per kilo on average during the period. Prices for zinc decreased by 9.2%, with its average price equaling 184.2 cents per kilo during the period (Figure 14).



Figure 14

Dynamics of world prices for metals



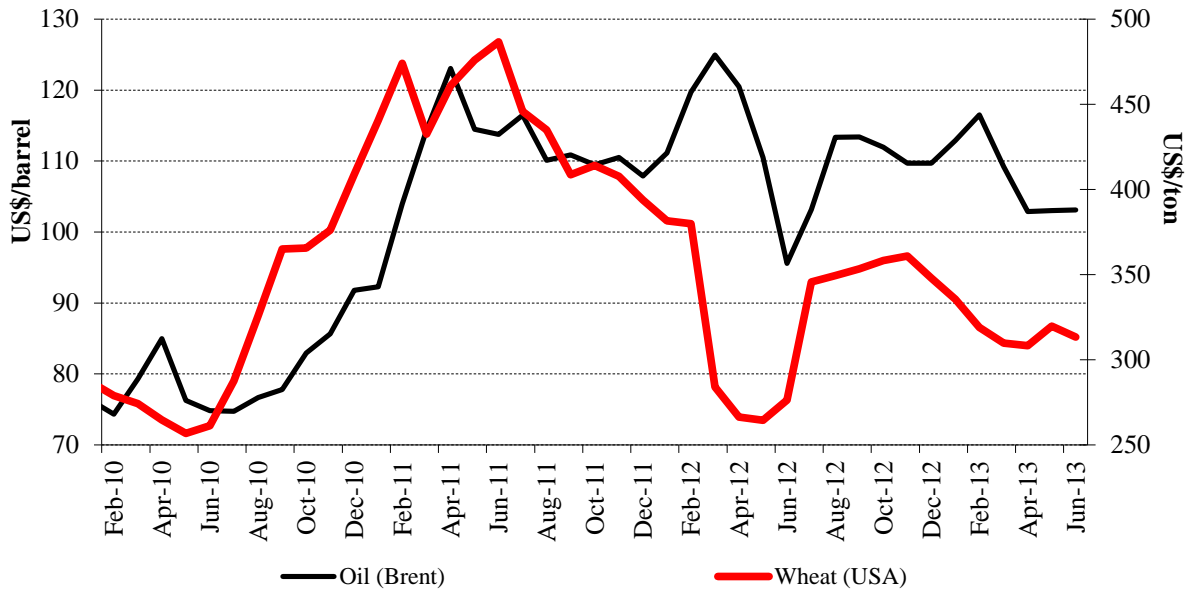
Source: World Bank

World prices for oil (Brent) in April 2013 decreased, in May-June 2013 an upward trend in their prices had outlined. During the 2<sup>nd</sup> quarter of 2013 as a whole, the prices decreased by 8.7% and were at US\$ 103.0 per barrel on average for the period (Figure 15).

In the 2<sup>nd</sup> quarter of 2013 as compared to the previous quarter, world prices for wheat (USA) decreased by 2.4% and had been at US\$ 313.8 per ton on average for the period (Figure 15).

Figure 15

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



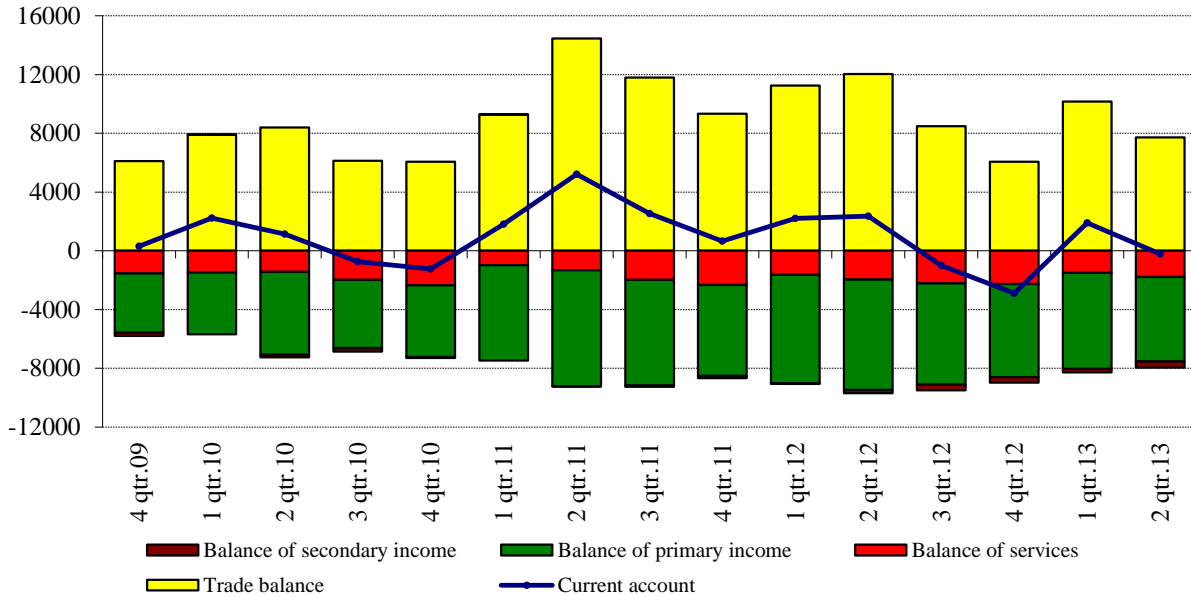
Source: World Bank

**– Balance of Payments**

At the end of the 2<sup>nd</sup> quarter of 2013, the current account balance was in deficit of US\$ 224.5 mln. or -0.5% to GDP of the respective period (Figure 16).

Figure 16

**Current account balance, US\$ mln.**



Source: National Bank of the Republic of Kazakhstan

In the 2<sup>nd</sup> quarter of 2013, proceeds from the exports of goods decreased versus the respective indicator for the 2<sup>nd</sup> quarter of 2012 by 11.1% to US\$ 20.9 bln., and expenditures on commodity imports increased by 14.9% as compared to the 2<sup>nd</sup> quarter of 2012, amounting to US\$ 13.2 bln. The trade surplus decreased by 35.9% and amounted to US\$ 7.7 bln. In the

2<sup>nd</sup> quarter of 2013 as compared to the 2<sup>nd</sup> quarter of 2012, the deficit in the balance of services decreased by 8.5% to US\$ 1.8 bln., and the deficit in the balance of primary income (labor remuneration, investment return and other primary income) decreased by 23.5% and amounted to US\$ 5.8 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to US\$ 396.5 mln.

The balance of the financial account (excluding reserve assets) in the 2<sup>nd</sup> quarter of 2013 was negative and amounted to US\$ 1.8 bln. (a negative balance of US\$ 1.1 bln. in the 2<sup>nd</sup> quarter of 2012). Net growth in foreign assets of residents (less reserve assets) amounted to US\$ 5.5 bln. (US\$ 3.7 bln. in the respective period of 2012). The growth in foreign liabilities (net) amounted to US\$ 7.2 bln. (US\$ 4.8 bln. in the 2<sup>nd</sup> quarter of 2012).

As a result, at the end of the 2<sup>nd</sup> quarter of 2013, the balance of payments was in surplus of US\$ 574.1 mln. (in the 2<sup>nd</sup> quarter of 2012 – negative balance of US\$ 419.5 mln.).

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

In the 2<sup>nd</sup> quarter of 2013, the aggregate terms of trade index was by 1% lower than the respective indicator for the 2<sup>nd</sup> quarter of 2012. Alongside with that, the terms of trade with the Euro zone countries decreased by 20%, and with Russia – decreased by 1% (Table 1).

Table 1

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

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

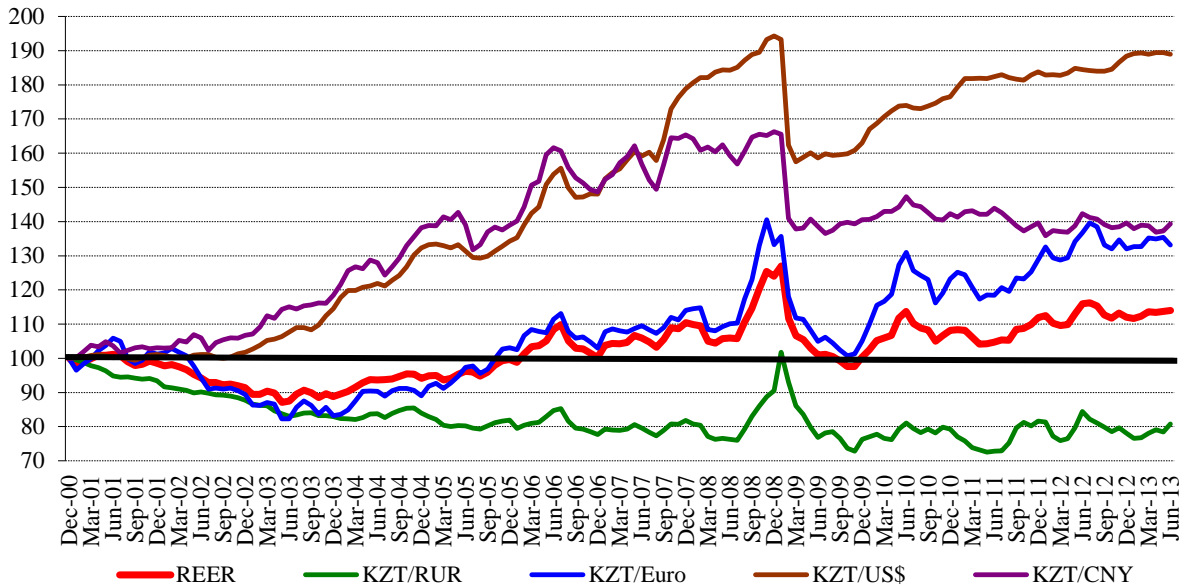
Source: National Bank of the Republic of Kazakhstan

At the end of the 2<sup>nd</sup> quarter of 2013 versus the prior period, the index of the real effective exchange rate of the Tenge appreciated by 1.2%. The Tenge has appreciated versus the CIS currencies basket by 2.6%, and it appreciated by 0.7% versus the basket of other currencies.

During the 2<sup>nd</sup> quarter of 2013 versus the prior period, the Tenge appreciated in real terms versus the US Dollar by 0.1%, versus the Euro – by 0.7%, and versus the Russian ruble – by 3.0% (Figure 17).

Figure 17

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



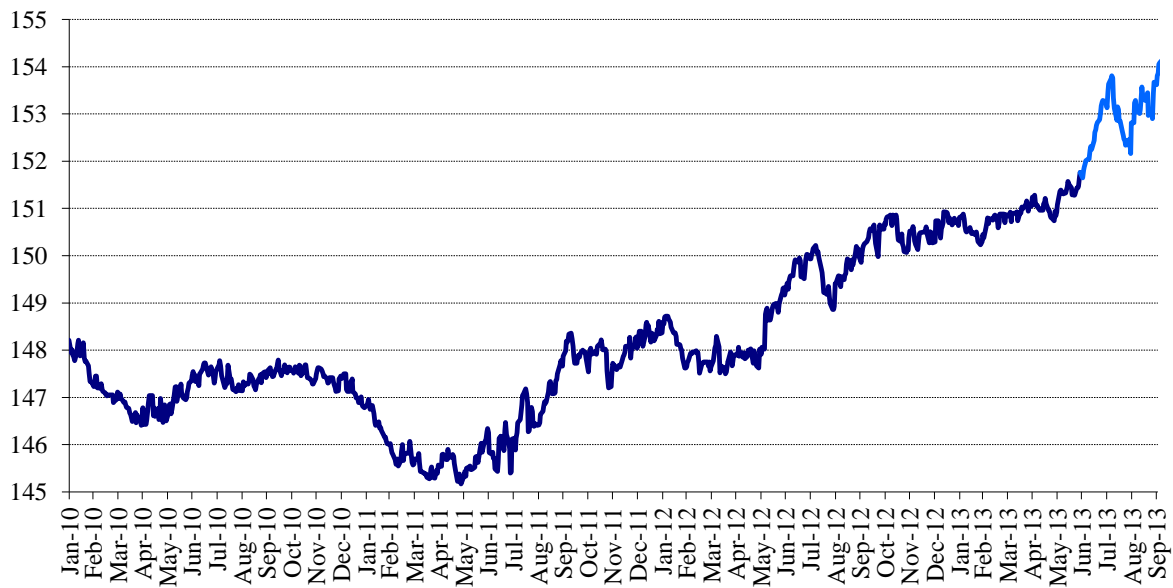
Source: National Bank of the Republic of Kazakhstan

**– Nominal exchange Rate of the Tenge**

The average weighted exchange rate of the Tenge in the 3<sup>rd</sup> quarter of 2013 was KZT, 153.03 per 1 US Dollar. The stock exchange rate at end-period was KZT 153.81 per 1 US Dollar. Since the beginning of the year the Tenge has depreciated versus the US Dollar in nominal terms by 2.0% (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 July and September the exchange rate of the Tenge was depreciating against the US Dollar by 1.2% and 0.7%, respectively and in August 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.

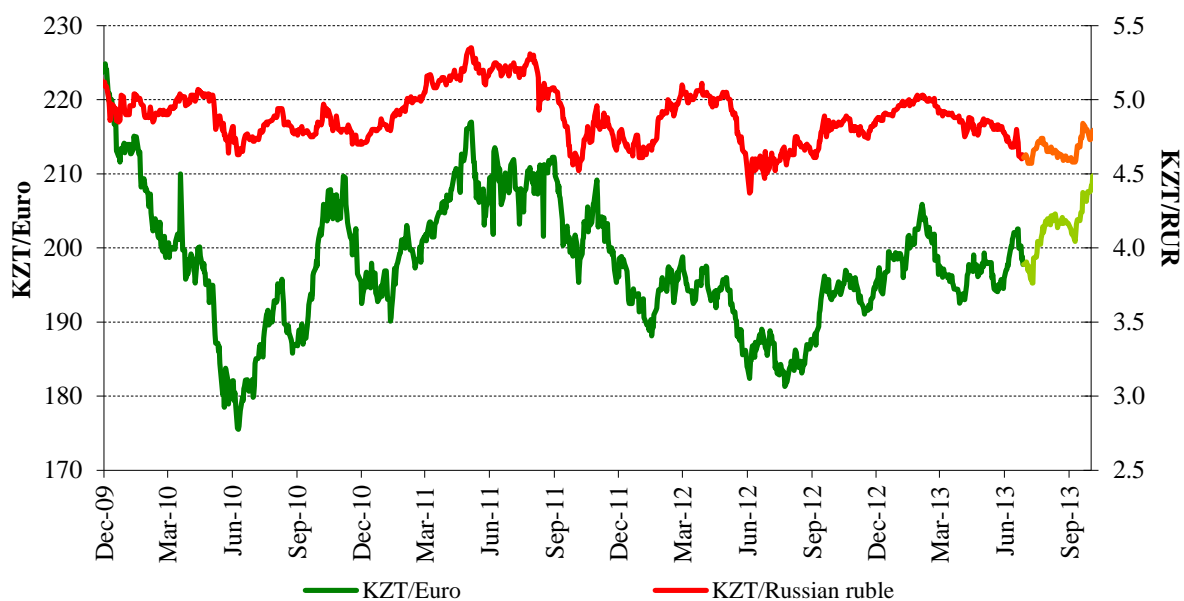
From September 2, 2013, the National Bank started to publish the price (rate) of the multi-currency basket consisting of the US Dollar, Euro and Russian ruble.

In conjunction with the price setting for the currency basket, the National Bank will continue setting official exchange rates of the Tenge versus the US Dollar, Euro and Russian ruble, as before.

On the whole, during the 3<sup>rd</sup> quarter of 2013 the official exchange rate of the Tenge versus the US Dollar depreciated by 1.2%, versus the Euro – by 5.0%, and versus the Russian ruble – by 2.6% (Figure 19).

Figure 19

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



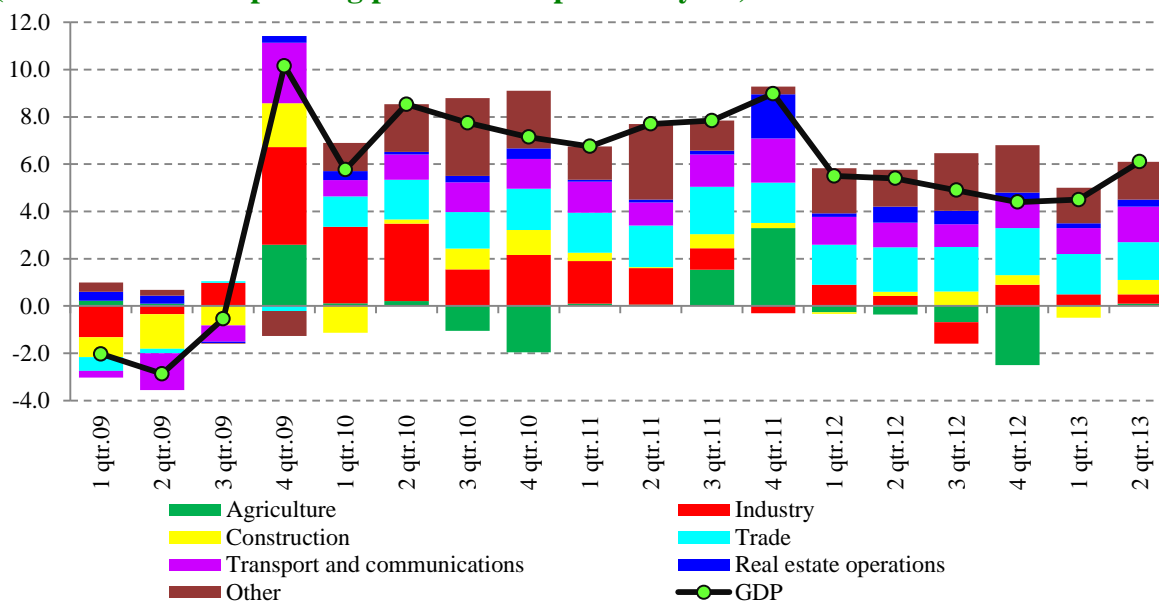
Source: National Bank of the Republic of Kazakhstan

**2.2. Production**

In the 2<sup>nd</sup> quarter of 2013, the volume of GDP output amounted to KZT 7335.5 bln. in current prices. Being positively influenced by the growth of production in virtually all sectors of the economy, the GDP in real terms (in prices of the year 2005) increased versus the 2<sup>nd</sup> quarter of 2012, according to the estimate, by 6.1% (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 the estimates, in the 2<sup>nd</sup> quarter of 2013 the industrial output volume increased by 1.4% (in the 1<sup>st</sup> quarter of 2013 – the growth by 2.0%), the output volume of the agricultural sector increased by 2.2% (the growth by 0.4%), and in the construction sector – the growth by 6.3% (4.9% decrease). As a result, the segment of goods production made positive contribution to the GDP growth of (+)1.1%.

**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, in turn, comprise the production of services on aggregate made a positive contribution to the GDP growth of (+)4.4%.

**Net taxes on foodstuffs and imports.** The increase in the volume of net taxes on foodstuffs and imports by 14.4% has positively influenced the GDP growth by (+)0.7% (in the 1<sup>st</sup> quarter of 2013 – the contribution of (+)0.2%).

Therefore, the main driver for the GDP growth in the 2<sup>nd</sup> quarter of 2013 (similarly to that in the 1<sup>st</sup> quarter of 2013) was the sector of the production of services.

## 2.3. Labor Market

### 2.3.1. Employment and Unemployment

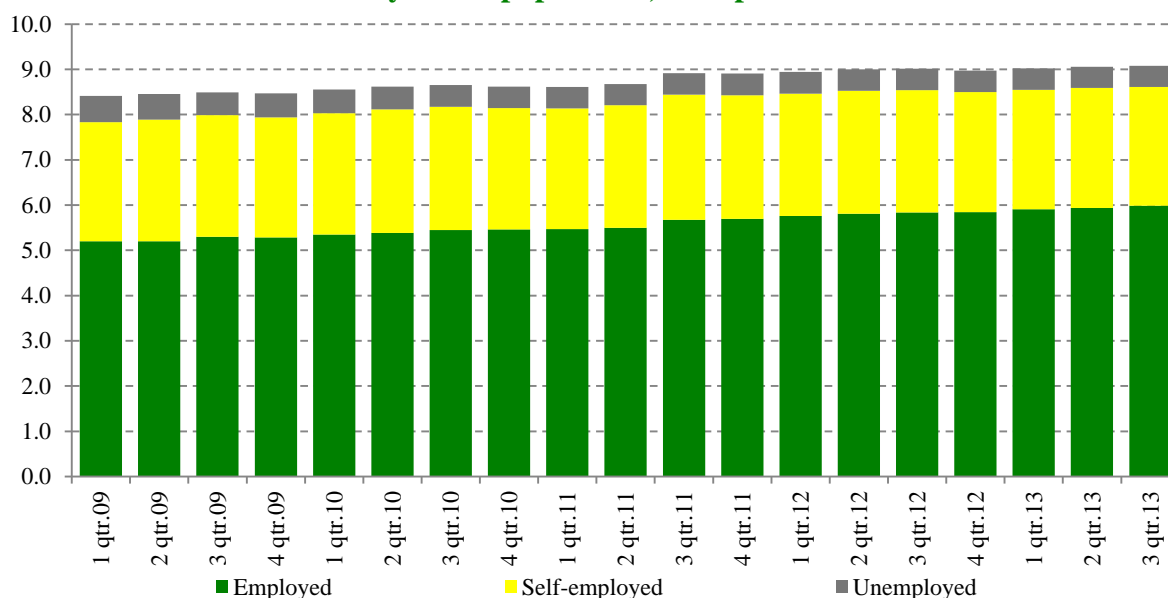
According to the preliminary estimates, the number of people employed in the economy in the 3<sup>rd</sup> quarter of 2013 was 8.6 mln., having increased by 0.2% versus the 2<sup>nd</sup> quarter of 2013 (the growth against the 3<sup>rd</sup> quarter of 2012 accounted for 0.8%). At the same time, the number of employees reached 6.0 mln., having increased by 0.8% against the 2<sup>nd</sup> quarter of 2013, and the number of self-employed – 2.6 mln. individuals (the decrease by 1.2%).

Within the employee structure, 4.9 mln. persons (82.0% of all employees) were working in public and non-public institutions, for individuals – 0.7 mln. persons (12.2%), and at farms – 0.3 mln. persons (5.8%).

In the 3<sup>rd</sup> quarter of 2013, the number of unemployed stood at 468,300 persons, which is by 0.2% less than in the prior period and by 0.9% less than in the 3<sup>rd</sup> 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 July, August and September 2013, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

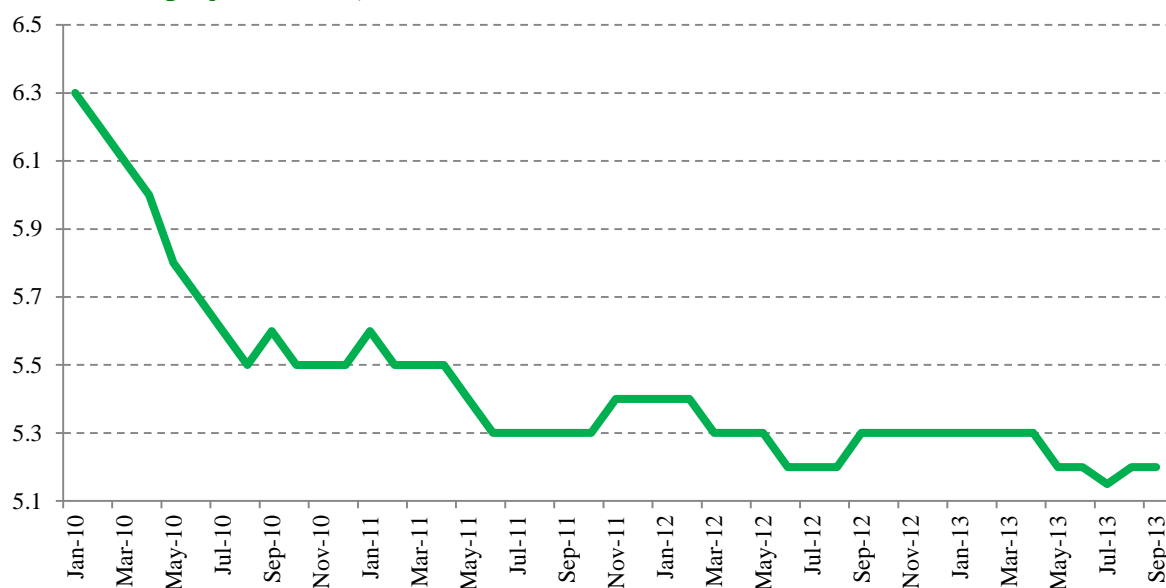
The key sectors that have ensured growth in employment as compared to the corresponding months of 2012 were: mining and quarry operations; trade; activity in the area of administrative and ancillary service; public administration and defense; healthcare and social services; education.

The decrease in the number of the employed was observed in the following sectors: agriculture, forestry and fishery; manufacturing industry; transport and warehousing.

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 3<sup>rd</sup> quarter of 2013 accounted for 5.2% and remained unchanged versus the 3<sup>rd</sup> 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 2<sup>nd</sup> quarter of 2013 as compared to the corresponding quarter of the previous year, average nominal monthly wages increased by 7.0% (in the 1<sup>st</sup> quarter of 2013 – the growth by 7.8%), and in real terms – by 0.9% (the growth by 1.0%).

Compared to the previous quarter, nominal wages increased by 5.9%, and real wages increased by 5.0%.

In June 2013 as compared to June 2012, nominal wages increased in all key economic activities. The highest increase in nominal wages was observed in the following sectors: agriculture, forestry and fishery – by 19.0%; accommodation and catering services – 18.1%; electricity supply, gas and vapor supply and air conditioning – 14.3%; trade, repair of cars and motorcycles – 12.0%; water supply, sewage system, control over solid waste collection and disposal – 10.6%.

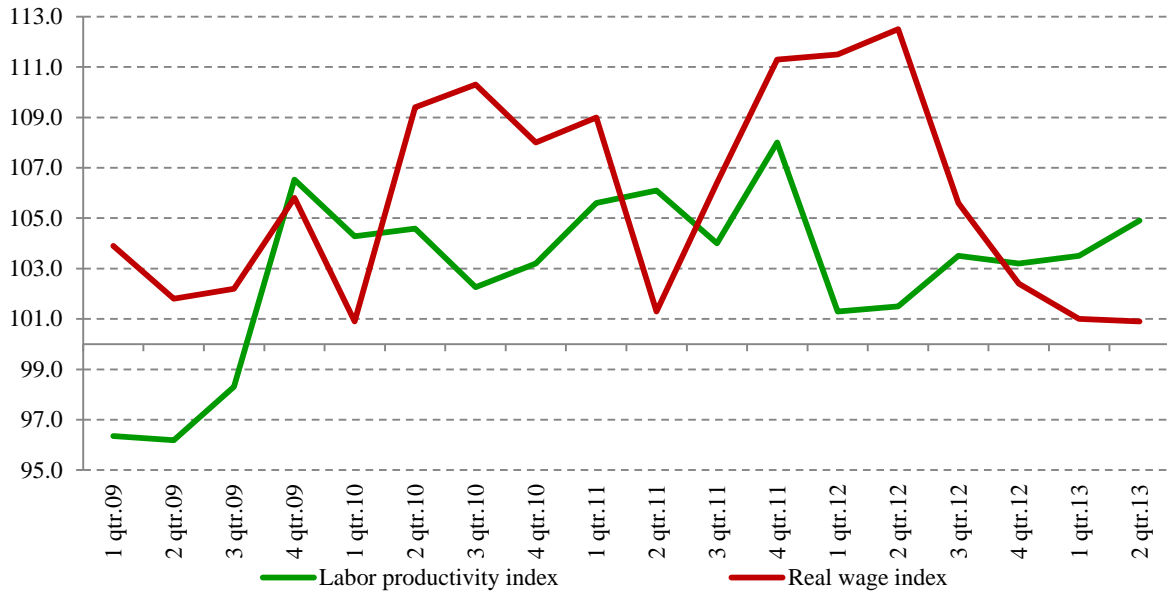
In June 2013, the highest wages in money terms were observed in the “professional, scientific and technical activity” (KZT 199,400), as well as in the “financial and insurance activity” (KZT 185,700), and the lowest wages – in “agriculture, forestry and fishery” (KZT 61,500).

In the 2<sup>nd</sup> quarter of 2013, wages of employees in real terms increased by 0.9% against the corresponding period of the previous year, which is lower than the rates of growth during the three prior periods (in the 3<sup>rd</sup> quarter of 2012 – the growth of 5.6%, in the 4<sup>th</sup> quarter of 2012 – the growth of 2.4%, and in the 1<sup>st</sup> quarter of 2013 – the growth of 1.0%),

In the 2<sup>nd</sup> quarter of 2013, the slowdown in the rates of wage growth, given the steady growth in the number of individuals employed in the economy had influenced the growth in the labor productivity index (according to the National Bank’s estimate), which grew to 4.9% versus the previous quarter (3.5%) (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

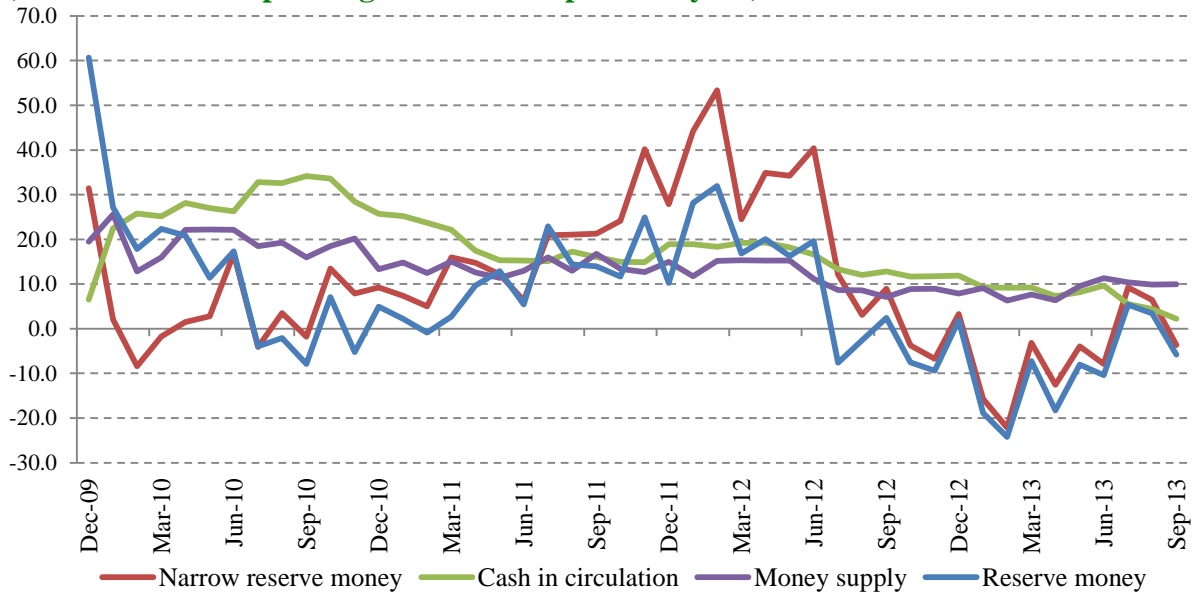
### 3. Money Supply

#### 3.1. Monetary Aggregates

In the 3<sup>rd</sup> quarter of 2013, the annual growth rates of the money supply were moderate; the growth rates of cash in circulation were low, whereas 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 3<sup>rd</sup> quarter of 2013, the reserve money contracted by 10.1% and amounted to KZT 2781.8 bln. at end-September 2013. The narrow reserve money contracted by 9.7% to KZT 2752.3 bln.

In September 2013 as compared to September 2012, the reserve money contracted by 5.8%.

In September 2013 against the corresponding period of 2012, net international reserves of the National Bank decreased by 20.1% to US\$ 23.6 bln. Foreign currency proceeds to the Government's accounts with the National Bank and a minor increase in foreign currency balances of bank correspondent accounts with the National Bank were neutralized by foreign exchange sales in the domestic foreign exchange market, operations on servicing the Government's external debt and replenishment of the National Fund's assets from gold and foreign currency reserves. As a result, net currency reserves (FCC) in the reviewed period decreased by 24.8%, and assets denominated in gold decreased by 1.2% as a result of conducted operations and the decrease in its price in the global markets.

In September 2013 as compared to September 2012, net domestic assets of the National Bank less the National Fund's assets increased (Table 2), mainly due to the decreased liabilities to banks on short-term notes.

Table 2

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

	4 qtr.12	1 qtr.13	2 qtr.13	3 qtr.13
<b>Net international reserves</b>	<b>-3.6</b>	<b>-13.1</b>	<b>-18.3</b>	<b>-18.0</b>
<b>Net domestic assets</b>	<b>73.5</b>	<b>95.7</b>	<b>153.0</b>	<b>75.6</b>
Net claims on the Government	26.8	9.0	32.8	-1.3
Claims on the economy	596.5	262.7	221.2	115.0
Other net domestic assets	-18.3	-1.9	19.8	20.5
<b>Reserve money</b>	<b>1.9</b>	<b>-7.2</b>	<b>-10.4</b>	<b>-5.8</b>
<b>Narrow reserve money</b>	<b>3.3</b>	<b>-3.1</b>	<b>-7.9</b>	<b>-3.7</b>

Source: National Bank of the Republic of Kazakhstan

### 3.1.2. Money Supply

During the 3<sup>rd</sup> quarter of 2013, the money supply decreased by 0.2% to KZT 11558.3 bln.

In September 2013 as compared to September 2012, its growth accounted for 9.9% 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 respective period of the previous year)**

	4 qtr.12	1 qtr.13	2 qtr.13	3 qtr.13
<b>Net foreign assets</b>	<b>11.6</b>	<b>5.7</b>	<b>29.0</b>	<b>25.8</b>
<b>Domestic assets</b>	<b>2.1</b>	<b>14.6</b>	<b>4.6</b>	<b>-2.0</b>
Claims on the Government	58.9	209.9	394.6	77.0
Claims on the economy	11.9	11.1	12.0	12.4
Other net domestic assets	-18.5	-13.6	-26.2	-25.8
<b>Money supply</b>	<b>7.9</b>	<b>7.6</b>	<b>11.3</b>	<b>9.9</b>
Cash in circulation	11.9	9.2	9.7	2.2
Deposits of residents	7.2	7.4	11.5	11.1

Source: National Bank of the Republic of Kazakhstan

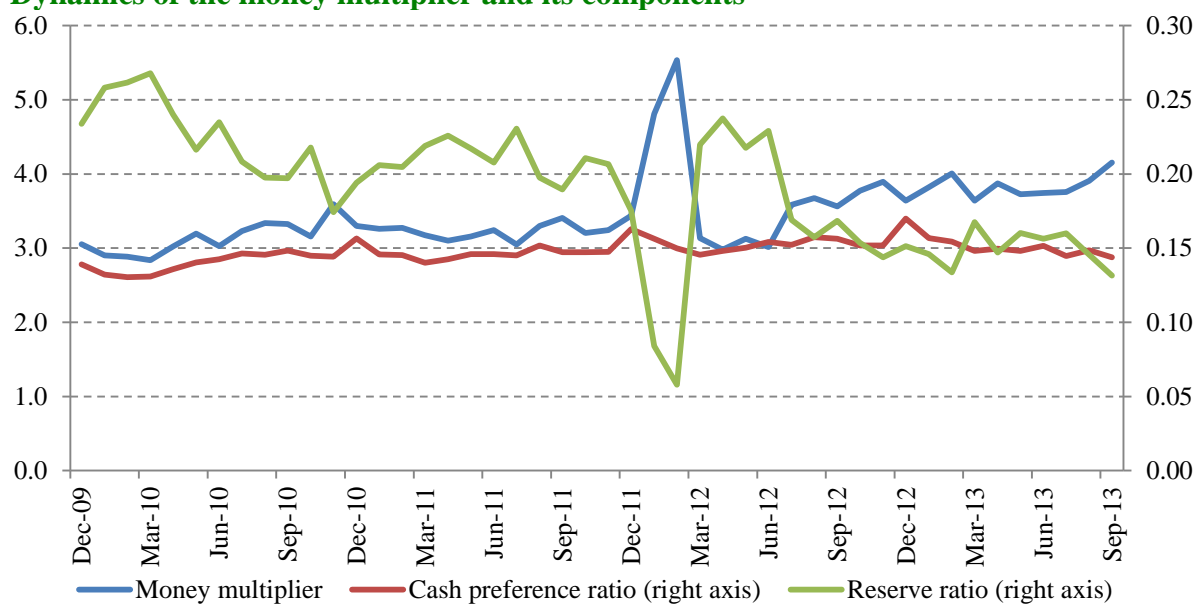
In the structure of net foreign assets of the banking system in September 2013 against the corresponding period of 2012, net foreign assets of banks increased whereas net foreign assets of the National Bank (excluding the National Fund) decreased. The growth in net foreign assets of banks was mainly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

During the reviewed period, the outstripping growth rates of residents' deposits as compared to the growth rates of 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 86.5% in September 2012 to 87.4% at end-September 2013.

The money multiplier grew from 3.56 in September 2012 to 4.15 in September 2013 as a result of the growth in money supply against the contraction in the reserve money. The decrease in the reserve ratio and in the cash preference 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 3<sup>rd</sup> quarter of 2013, the volume of cash in circulation decreased by 4.6% to KZT 1453.6 bln. The main reasons for decreased cash in circulation were the growth in net receipts for the payment of goods, services and works, receipts to accounts of individuals and increased net receipts on other items<sup>1</sup>. At the same time, the impact of these factors was not neutralized by decreased net proceeds from foreign exchange sales by banks recorded at the end of the 3<sup>rd</sup> quarter of 2013. In addition, in the 3<sup>rd</sup> quarter of 2013 versus the previous quarter, payouts associated with the labor compensation, payment of retirement benefits and allowances, decreased.

In September 2013 as compared to September 2012, cash in circulation increased by 2.2%. This shows that the impact of factors ensuring the growth in cash in circulation (increased payouts to support ATMs and decreased net receipts related to loan repayments) was dominating over the impact of factors that ensured its reduction (the growth in the volume of foreign cash sold by exchange offices, growth of deposit balances, and proceeds from the realization of goods, services and works).

In September 2013 as compared to September 2012, cash payouts from the bank cashier’s departments increased by 43.9% to KZT 2005.3 bln., and the receipts to the bank cashier’s departments increased by 48.0% to KZT 2008.8 bln. As a result, net receipts to the bank cashier’s departments increased and amounted to KZT 3.5 bln.

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

## 3.2. Financial Market

### 3.2.1. Deposits of Residents

At end-September 2013, deposits of residents amounted to KZT 10104.7 bln., having increased by 0.5% during the 3<sup>rd</sup> quarter of 2013. Deposits of legal entities decreased by 0.9%, and deposits of individual increased by 3.0%.

Within the structure of deposits, the volume of time deposits (under the IMF classification – "other deposits"<sup>1</sup>) increased during the 3<sup>rd</sup> quarter of 2013 by 5.2% and amounted to KZT 6933.2 bln. at end-September 2013. Time deposits in the domestic currency decreased by 0.2% to KZT 4141.8 bln., and foreign currency term deposits increased by 14.6% to KZT 2791.4 bln. During the quarter, the percentage of term deposits in the total deposit base increased from 65.5% to 68.6%.

In the 3<sup>rd</sup> quarter of 2013, the status of the deposit base was characterized by significant growth in foreign currency deposits caused by the increase in foreign currency holdings of legal entities and individuals by 4.7% and 16.1%, respectively. As a result, in the 3<sup>rd</sup> quarter of 2013 the volume of foreign currency deposits increased by 9.4%, amounting to KZT 3776.5 bln., whereas deposits in the domestic currency decreased by 4.1% to KZT 6238.2 bln.

The 15.6% increase in the volume of foreign currency holdings by legal entities in July 2013, despite its decrease in August and September 2013 (by 8.5% and 1.0%, respectively), resulted in the increased dollarization of the deposit market and the decrease in the percentage of deposits in the domestic currency from 65.7% in June 2013 to 62.6% in September 2013.

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 3<sup>rd</sup> quarter of 2013. Alongside with that, the growth in the Tenge deposits of legal entities also demonstrated positive dynamics of 5.0% observed in September 2013, despite the decrease in July and August of 5.2% and 3.1%, respectively (Table 4).

Table 4

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

	Sept. 2010	Sept. 2011	Sept. 2012	Sept. 2013
<b>Deposits of residents</b>	<b>1.0</b>	<b>4.8</b>	<b>0.9</b>	<b>0.5</b>
<i>of individuals</i>	<i>4.7</i>	<i>5.4</i>	<i>4.1</i>	<i>3.0</i>
<i>of non-bank legal entities</i>	<i>-0.4</i>	<i>4.6</i>	<i>-0.8</i>	<i>-0.9</i>
<b>Deposits in the Tenge</b>	<b>7.3</b>	<b>1.7</b>	<b>1.3</b>	<b>-4.1</b>
<b>Deposits in foreign currency</b>	<b>-8.6</b>	<b>11.7</b>	<b>-0.2</b>	<b>9.4</b>

Source: National Bank of the Republic of Kazakhstan

In the 3<sup>rd</sup> quarter of 2013 as compared to the previous quarter, interest rates on deposits slightly increased, due to the growth in interest rates in the domestic currency in August, despite decreased interest rates on foreign currency deposits.

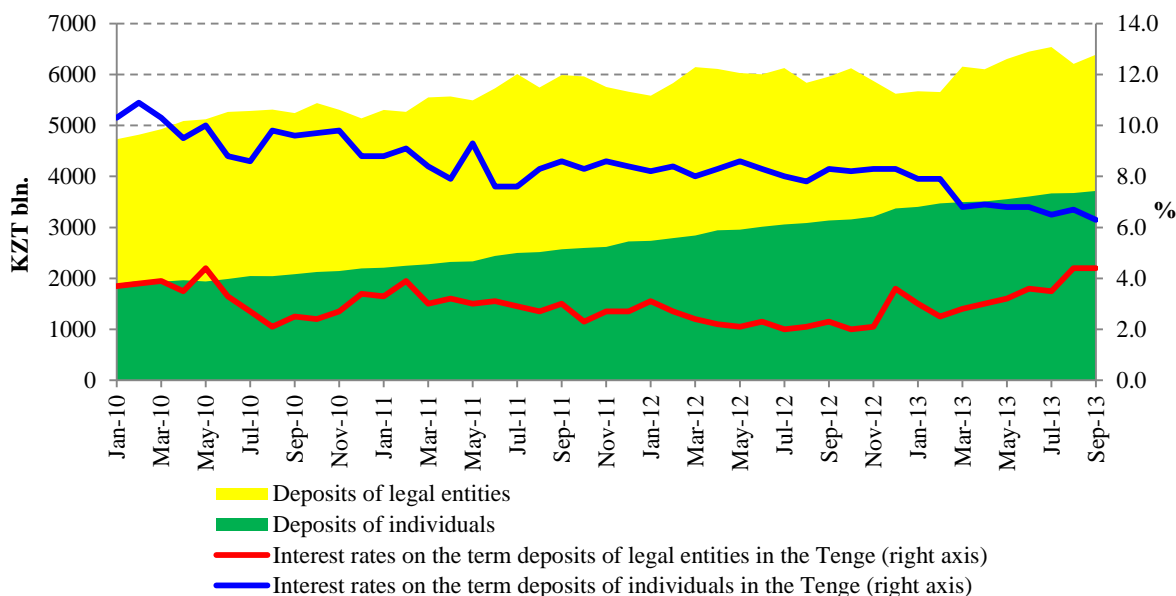
<sup>1</sup> Other deposits - savings and fixed-term deposits which may be withdrawn only upon expiry of a certain time period or may have various restrictions that make them less convenient in terms of their use in the day-to-day commercial operations and which basically comply with the requirements to the savings vehicles.

As a result, the average rate on the Tenge deposits in the 3<sup>rd</sup> quarter of 2013 increased to 5.1% (the 2<sup>nd</sup> quarter of 2013 – 4.9%), and on deposits in freely convertible currencies – to 3.0% (3.1%).

The weighted average interest rate on Tenge time deposits of non-bank legal entities in September 2013 accounted for 4.4% (in June 2013 – 3.6%), and on deposits of individuals – 6.3% (6.8%) (Figure 26).

Figure 26

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

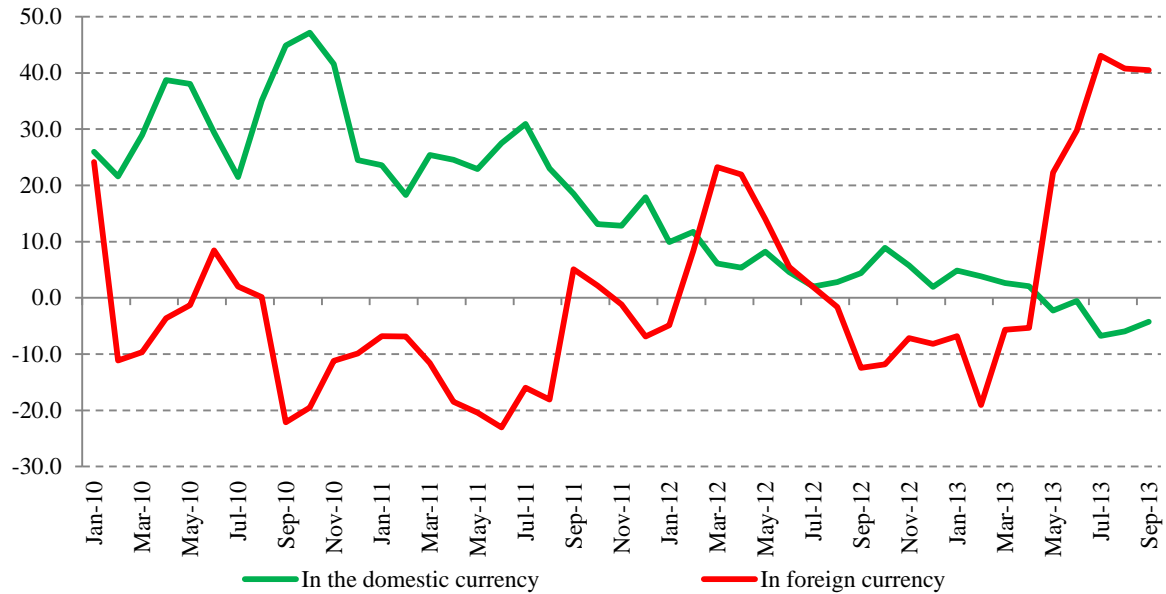


Source: National Bank of the Republic of Kazakhstan

During the 3<sup>rd</sup> quarter of 2013, the volume of deposits of legal entities decreased by 0.9% to KZT 6389.1 bln., with its annual growth (September 2013 compared to September 2012) accounting for 7.2%. In annual terms deposits of legal entities in the domestic currency decreased by 4.3%, and foreign currency deposits increased by 40.5% (Figure 27).

Figure 27

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



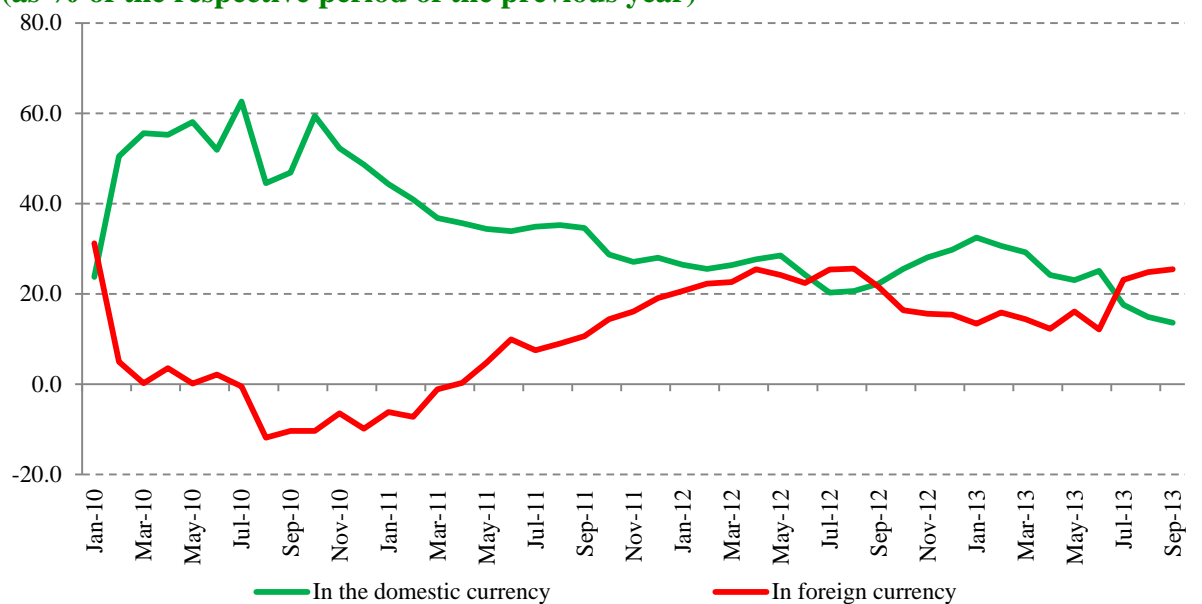
Source: National Bank of the Republic of Kazakhstan

During the 3<sup>rd</sup> quarter of 2013, the volume of deposits of individuals increased by 3.0% to KZT 3715.6 bln., with its annual growth accounting for 18.5%. Deposits of individuals in the domestic currency increased in annual terms by 13.6%, and foreign currency deposits increased by 25.4% (Figure 28).



Figure 28

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



Source: National Bank of the Republic of Kazakhstan

**3.2.2. Credits to the Economy**

During the 3<sup>rd</sup> quarter of 2013, bank credits to the economy grew by 3.7% to KZT 10935.7 bln. During July-September 2013, credits to legal entities increased by 2.2%, amounting to KZT 7487.4 bln., and credits to individuals increased by 7.1% to KZT 3448.3 bln.

The volume of credits in the domestic currency increased by 1.9% to KZT 7694.3 bln., and the volume of foreign currency credits increased by 8.2% to KZT 3241.4 bln.

During July-September 2013, long-term lending increased by 3.9% to KZT 8908.0 bln., and short-term lending increased by 2.7%, amounting to KZT 2027.7 bln. As a result, the percentage of long-term credits in September 2013 as compared to June 2013 increased from 81.3% to 81.5%.

In September 2013, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities increased to 10.5% (in June 2013 – 10.3%), and on credits in the Tenge provided to individuals accounted for 19.6% (in June 2013 – 19.5%). In the 3<sup>rd</sup> quarter of 2013 as a whole, the cost of borrowing increased versus the level of the previous quarter (Figure 29).

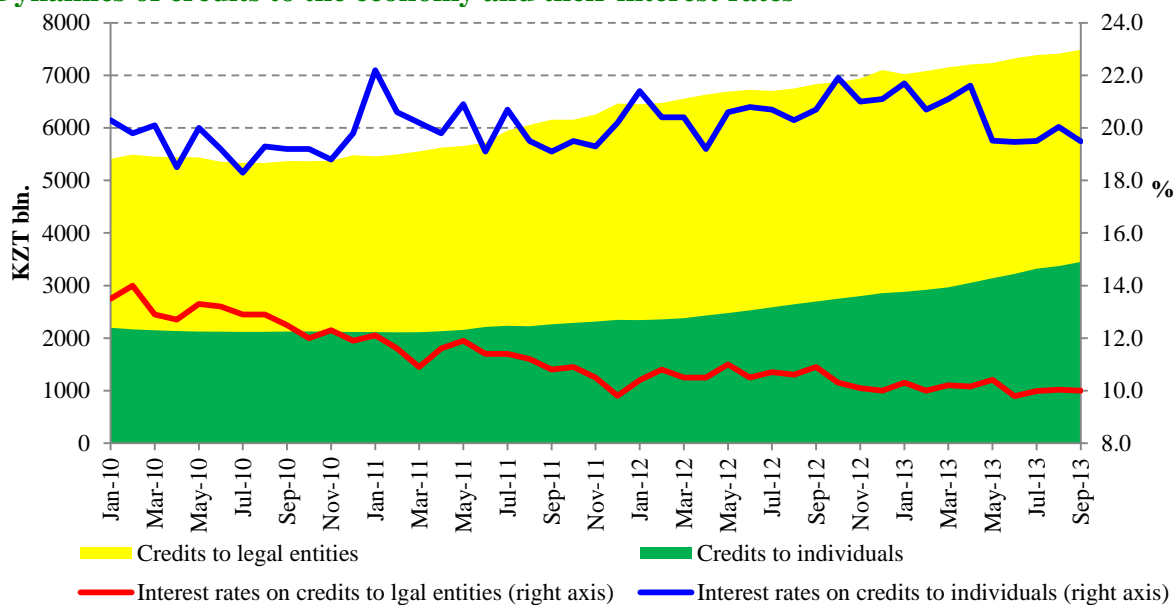
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.2%), other purposes (22.1%), new construction and reconstruction (13.8%), as well as for consumer needs of individuals (18.7%).

As per the breakdown by sector, the highest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 48.6%, trade – 19.7%, construction – 12.8%, and industry – 11.5%.

During the 3<sup>rd</sup> quarter of 2013, credits delivered to the industry increased by 0.6%, to trade – by 3.8%, to the construction sector – by 1.1%, to the sector of communications – by 4.8%, and agriculture – by 10.0%. Credits to the transport sector decreased by 7.7%.

Figure 29

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



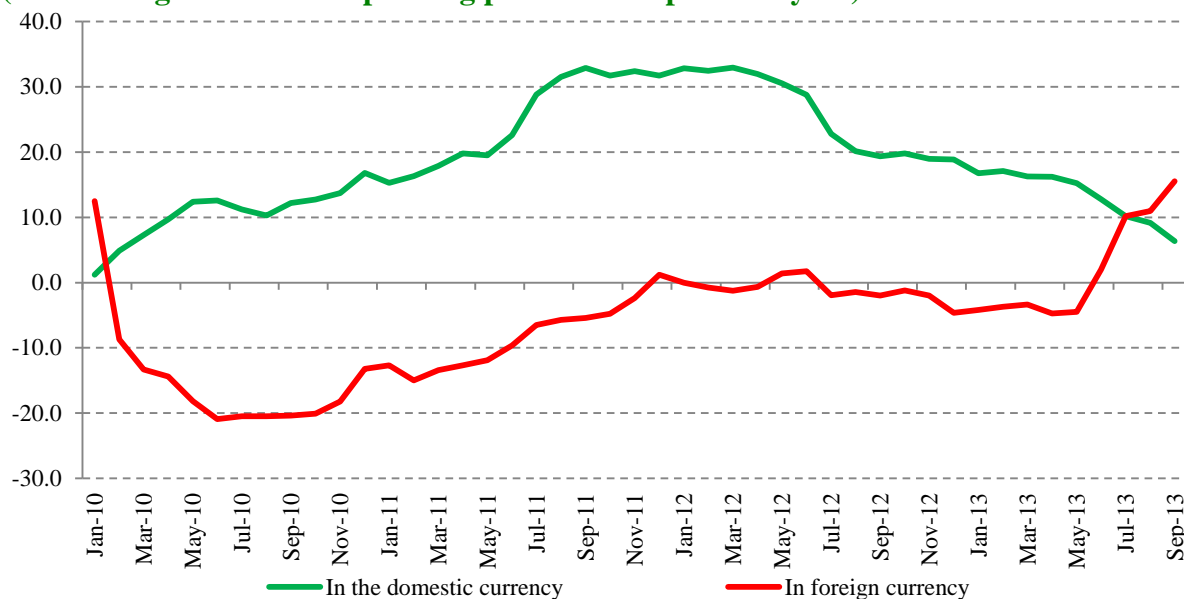
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in annual terms (September 2013 compared to September 2012) increased by 9.5%. At end-September 2013, share of medium- and long-term credits in total credits to legal entities accounted for 75.1%, remaining unchanged compared to that in June 2013.

On a year-to-year basis, credits to legal entities in the domestic currency increased by 6.4%, and foreign currency credits – by 15.5% (Figure 30).

Figure 30

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



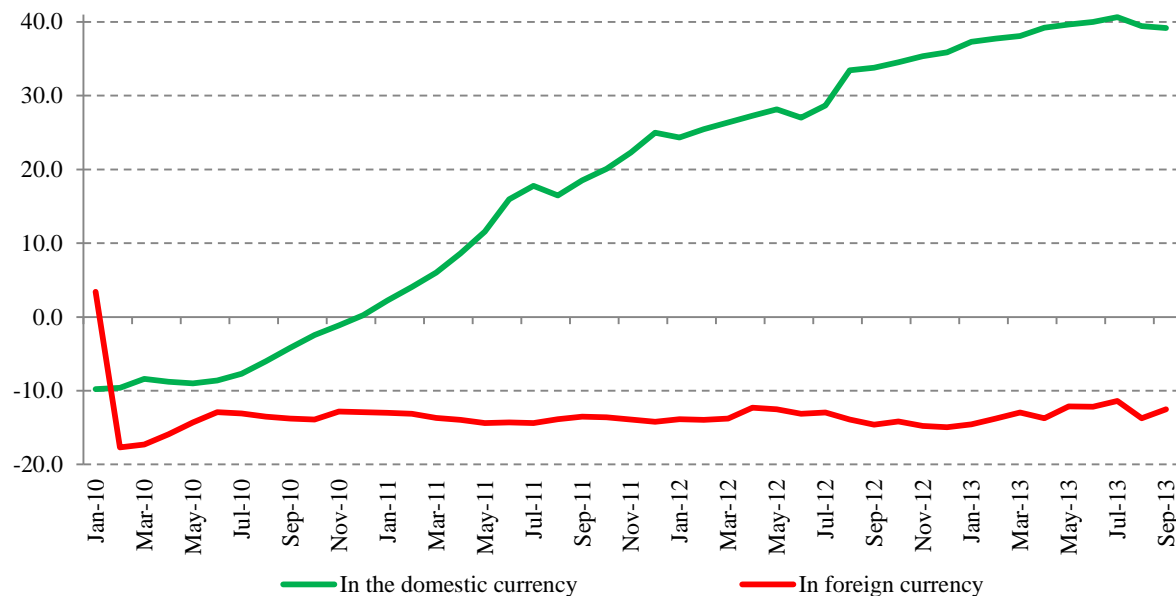
Source: National Bank of the Republic of Kazakhstan

In September 2013 as compared to the corresponding period of 2012, the volume of credits to individuals increased by 27.9%. At end-September 2013, the share of medium- and long-term credits in total credits to individuals slightly decreased and accounted for 95.2% compared to 95.4% in June 2013.

In annual terms, credits distributed to the population in the domestic currency demonstrated the increase by 39.2%, and in foreign currency – 12.5% decrease (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

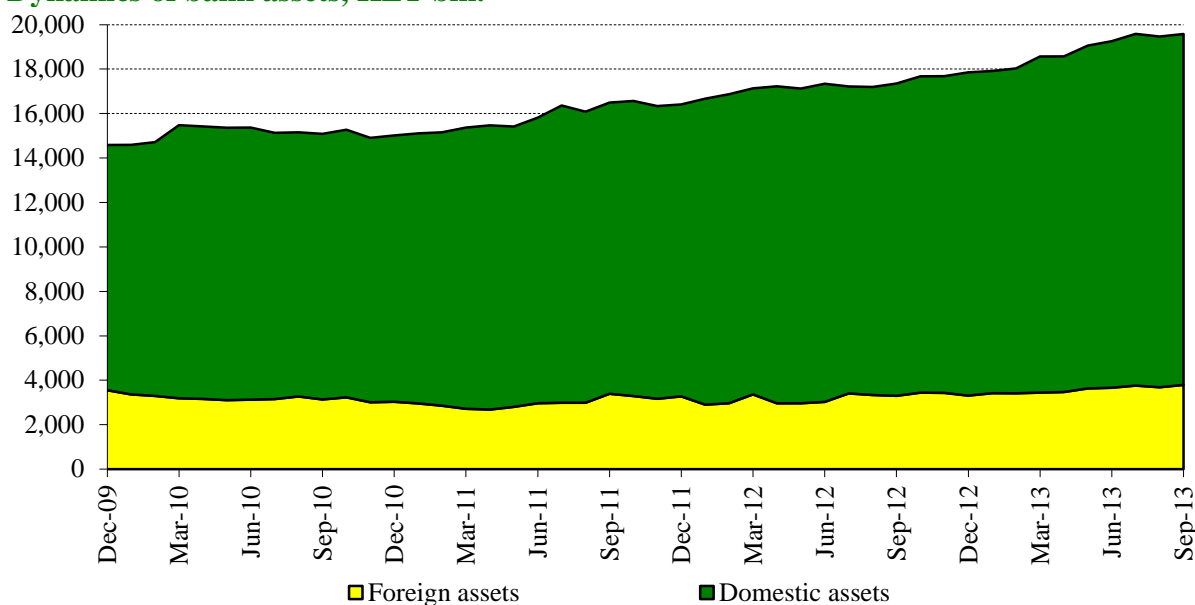
**3.2.3. Bank Assets and Liabilities**

– **Assets**

In the 3<sup>rd</sup> quarter of 2013, the amount of bank assets, calculated on the basis of the Monetary Survey, increased by 1.7% to KZT 19.6 trln. On a year-to-year basis (September 2013 versus September 2012) bank assets increased by 12.8% (Figure 32).

Figure 32

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



Source: National Bank of the Republic of Kazakhstan

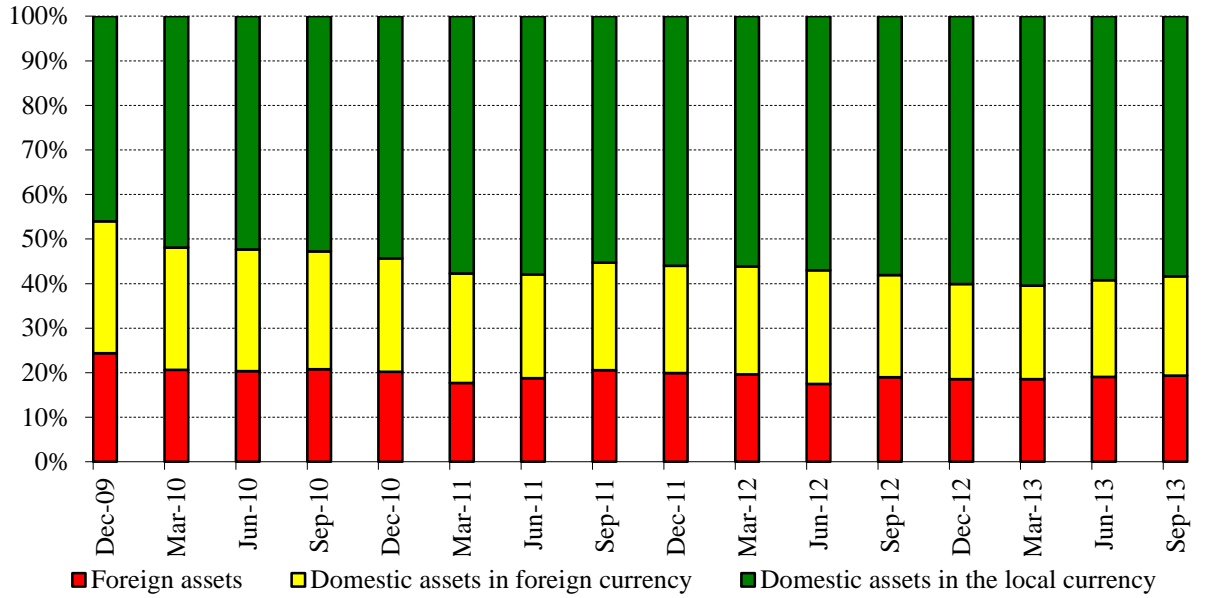
In September 2013, foreign assets of banks accounted for 19.4% of the total volume of assets or KZT 3.8 trln. They increased by 14.9% against September 2012.

Within the structure of foreign assets in September 2013, credits to non-residents accounted for 45.2% (in June 2013 – 45.9%), deposits placed with non-residents – 29.9% (33.1%), securities issued by non-residents – 5.8% (6.0%), and other accounts receivable – 19.1% (15.0%).

In September 2013, domestic assets accounted for 80.6% or KZT 15.8 trln., with domestic assets in the local currency accounting for 72.4% or KZT 11.4 trln., and foreign currency assets – for 27.6% or KZT 4.4 trln. During the 3<sup>rd</sup> quarter of 2013 domestic assets increased by 1.3%, where assets in the local currency increased by 0.2%, and assets in foreign currency increased by 4.2% (Figure 33).

Figure 33

Structure of bank assets, %



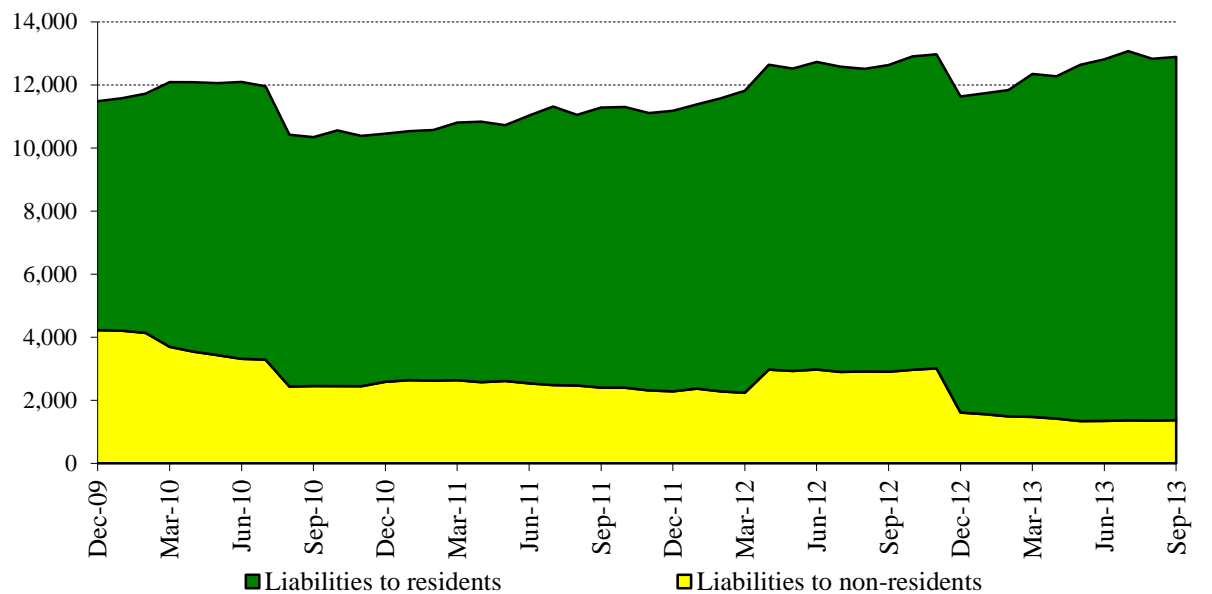
Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the 3<sup>rd</sup> quarter of 2013, total bank liabilities, calculated on the basis of the Monetary Survey, increased by 0.6% and amounted to KZT 12.9 trln. at end-September (Figure 34).

Figure 34

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

In September 2013 as compared to June 2013, liabilities to non-residents increased by 1.7% to KZT 1.4 trln. (US\$ 8.9 bln.), and they decreased by 52.9% versus the corresponding month of 2012. At end-September 2013, bank liabilities to non-residents accounted for 10.6% of the total volume of bank liabilities.

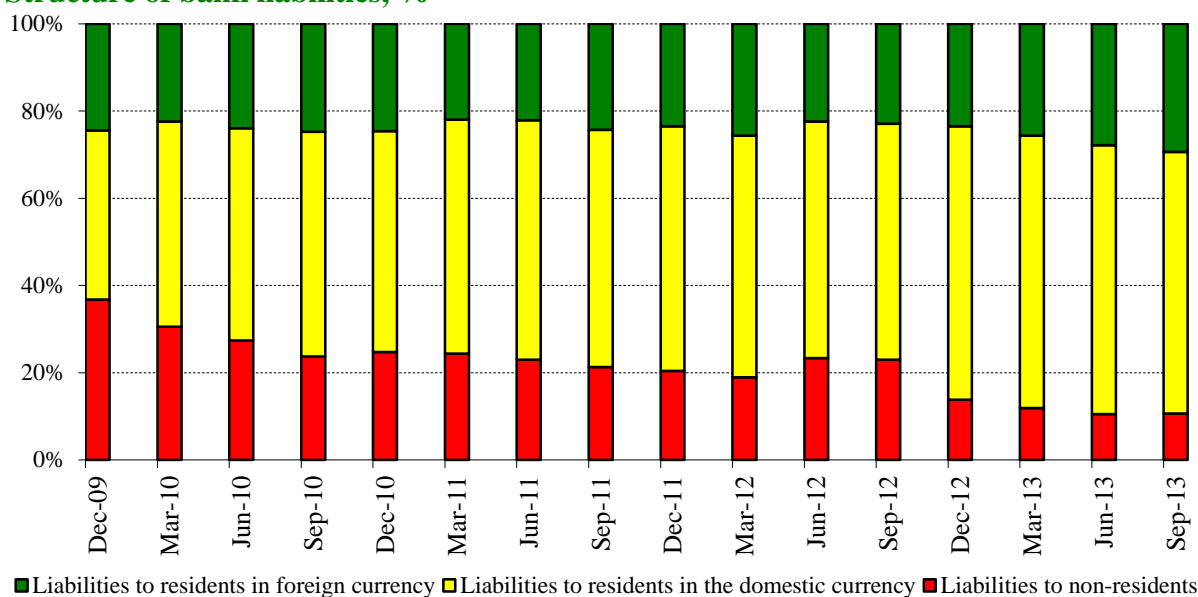
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in September 2013 remained unchanged and accounted for 18.2% versus June 2013, the share of liabilities on securities increased from 64.7 to 65.0% and credits received from non-residents decreased from 15.7% to 15.2%, respectively.

During the 3<sup>rd</sup> quarter of 2013, liabilities to non-residents increased by 0.5% to KZT 11.5 trln., with the 2.2% decrease in liabilities in the domestic currency to KZT 7.7 trln., and 6.3% increase in foreign currency liabilities to KZT 3.8 trln. (Figure 35).

Thus, in the 3<sup>rd</sup> quarter of 2013, there was an increase in liabilities to residents and non-residents.

Figure 35

**Structure of bank liabilities, %**



Source: National Bank of the Republic of Kazakhstan

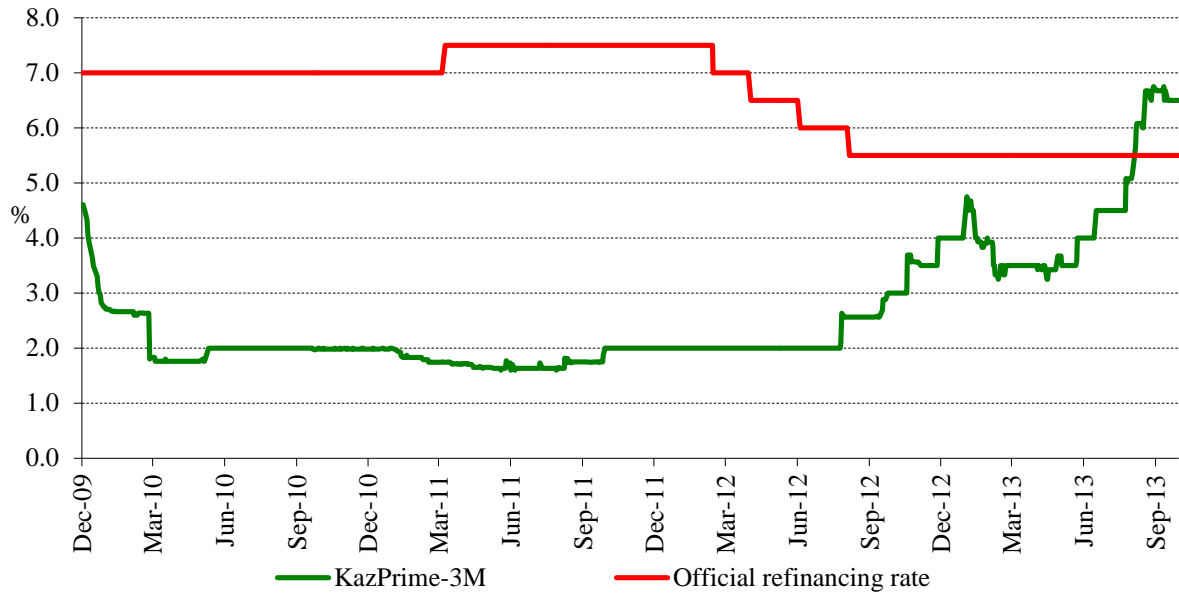
**3.2.4. Financial Market Rates**

In the 3<sup>rd</sup> quarter of 2013, there was an increase in the level of interest rates in the interbank market.

The KazPrime index increased from 3.78% on average during the 2<sup>nd</sup> quarter of 2013 to 5.78% on average during the 3<sup>rd</sup> quarter. At end-June 2013, the index 2013 was 4.50%, and at end-September – 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.

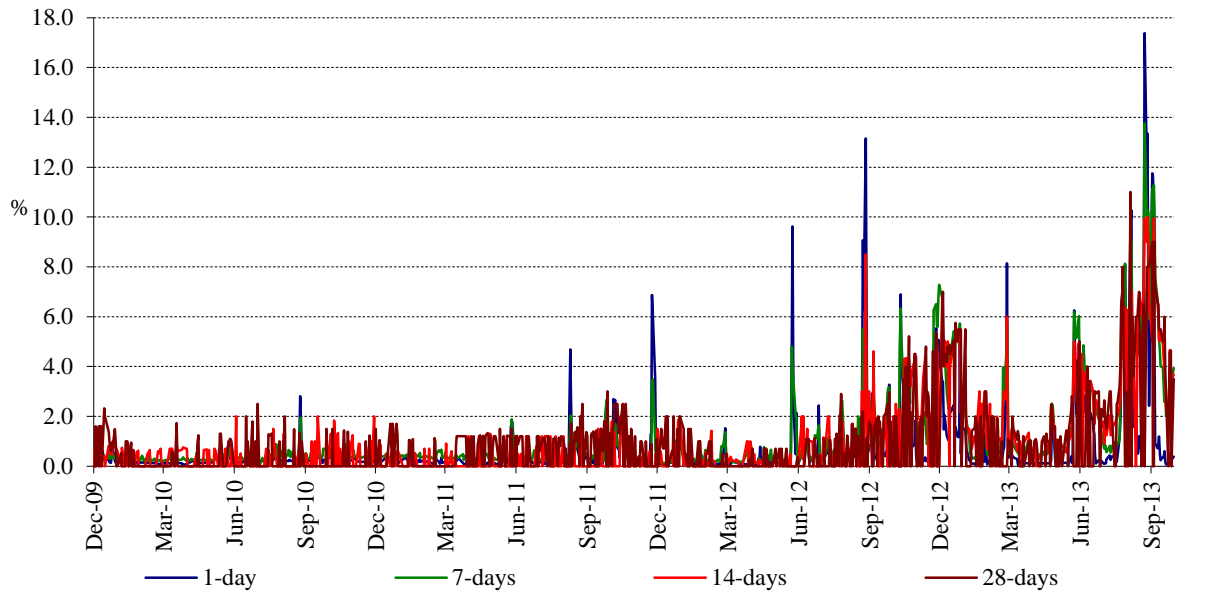
In the 3<sup>rd</sup> quarter of 2013, the average weighted rate on 1-day operations in the sector of automatic REPO increased and accounted for 2.81% (in the 1<sup>st</sup> quarter – 1.18%). Its maximum level was 17.37%, and minimum level – 0.07%.

In the 3<sup>rd</sup> quarter of 2013, rate fluctuations on 7-day REPO operations were within the range from 0.55% to 13.75% (the weighted average rate was 6.29%), on 14- operations were within the range from 0.91% to 10.00% (the weighted average rate was 4.52%), and on 28-operations – within the range from 1.50% to 11.00% (the weighted average rate was 5.11%) (Figure 37).

In the 3<sup>rd</sup> quarter of 2013, the transaction volumes in the sector of automatic REPO increased by 11.6% as compared to the previous quarter.

Figure 37

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



Source: Kazakhstan Stock Exchange

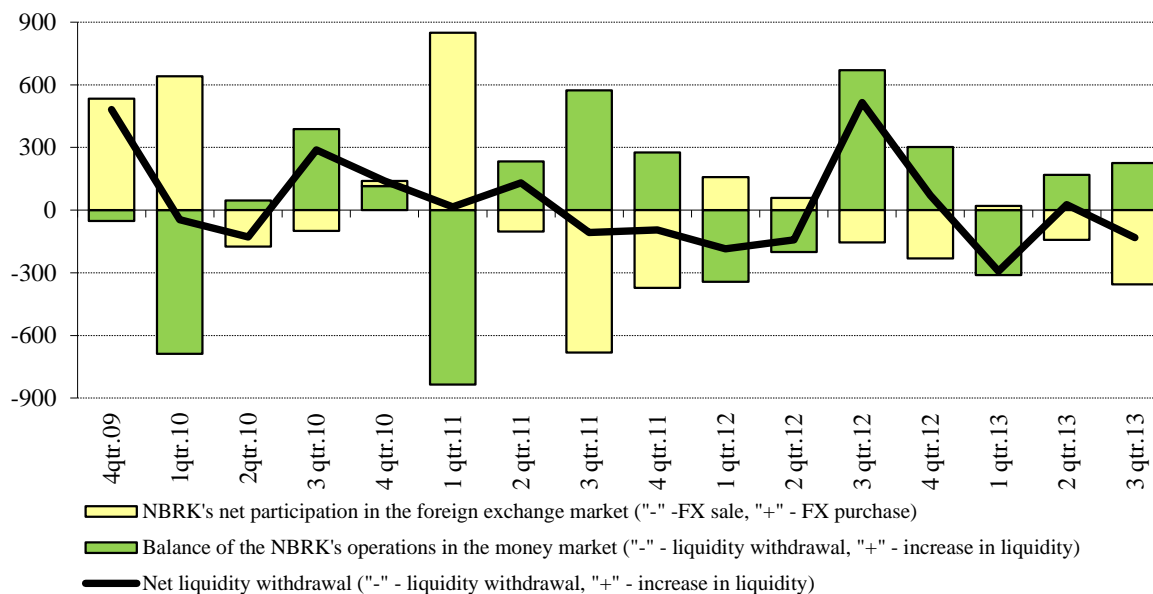


## 4. Monetary Policy Instruments and Operations

In the 3<sup>rd</sup> quarter of 2013, the situation in the money market remained generally stable, without significant fluctuations. During the 3<sup>rd</sup> quarter of 2013, the National Bank's operations in the financial market resulted in the withdrawal of the Tenge liquidity (Figure 38).

Figure 38

### Balance of the National Bank's operations in the domestic market, KZT bln.



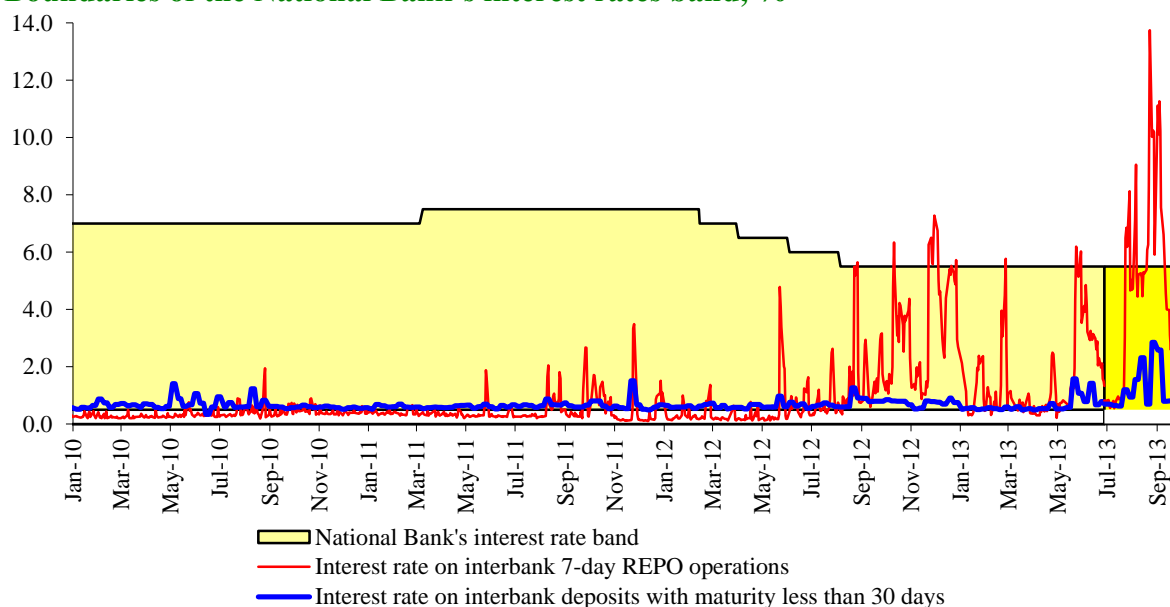
Source: National Bank of the Republic of Kazakhstan

In the 3<sup>rd</sup> quarter of 2013, the National Bank's interest rate band remained unchanged. During the period the official refinancing rate was maintained 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 one month deposits – 1.0%.

In the 3<sup>rd</sup> quarter of 2013, the situation in the money market was characterized by the interest rate volatility, while the overall level of rates slightly increased. The weighted average rate on interbank deposits with maturity less than 30 days increased from 0.74% in the 2<sup>nd</sup> quarter of 2013 to 1.31% in the 3<sup>rd</sup> quarter of 2013. The weighted average rate on interbank 7-day REPO operations increased from 2.74% in the 2<sup>nd</sup> quarter of 2013 to 6.29% in the 3<sup>rd</sup> quarter of 2013 (Figure 39).

Figure 39

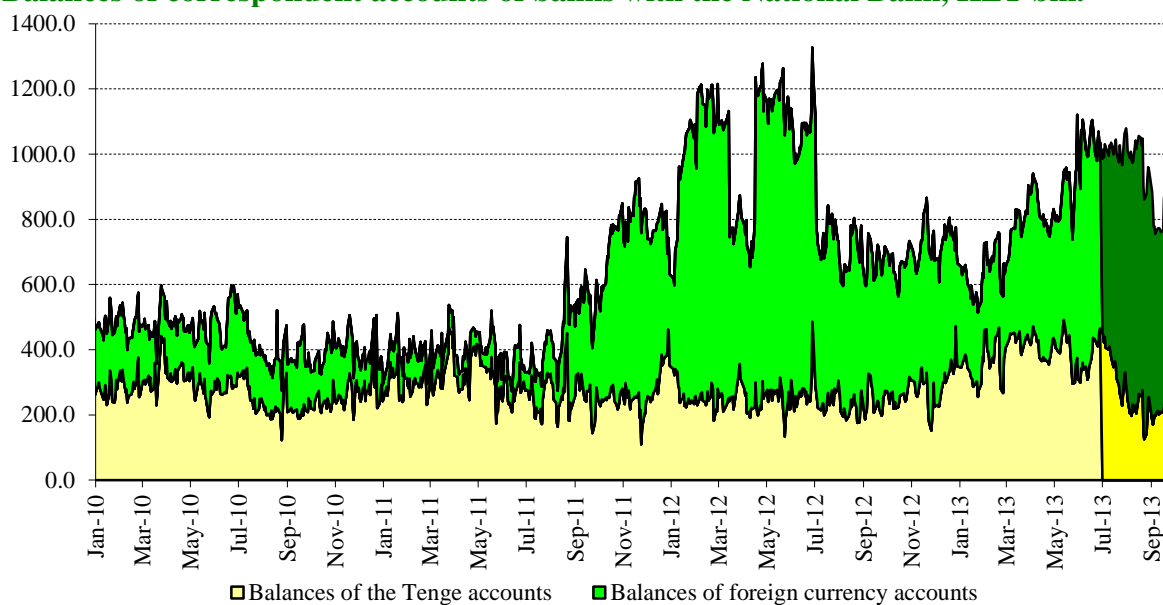
**Boundaries of the National Bank's interest rates band, %**



Source: National Bank of the Republic of Kazakhstan

In the 3<sup>rd</sup> 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 were gradually decreasing in July-August 2013; in September 2013 their volume slightly increased. Correspondent account balances of banks in foreign currencies were demonstrating the upward trend till mid-August 2013, while later their volume decreased. As a whole, the volume of correspondent account balances in the domestic currency at end-September 2013 as compared to June 2013 decreased by 29.6%, and correspondent account balances in foreign currency decreased by 11.1% (Figure 40).

Figure 40

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


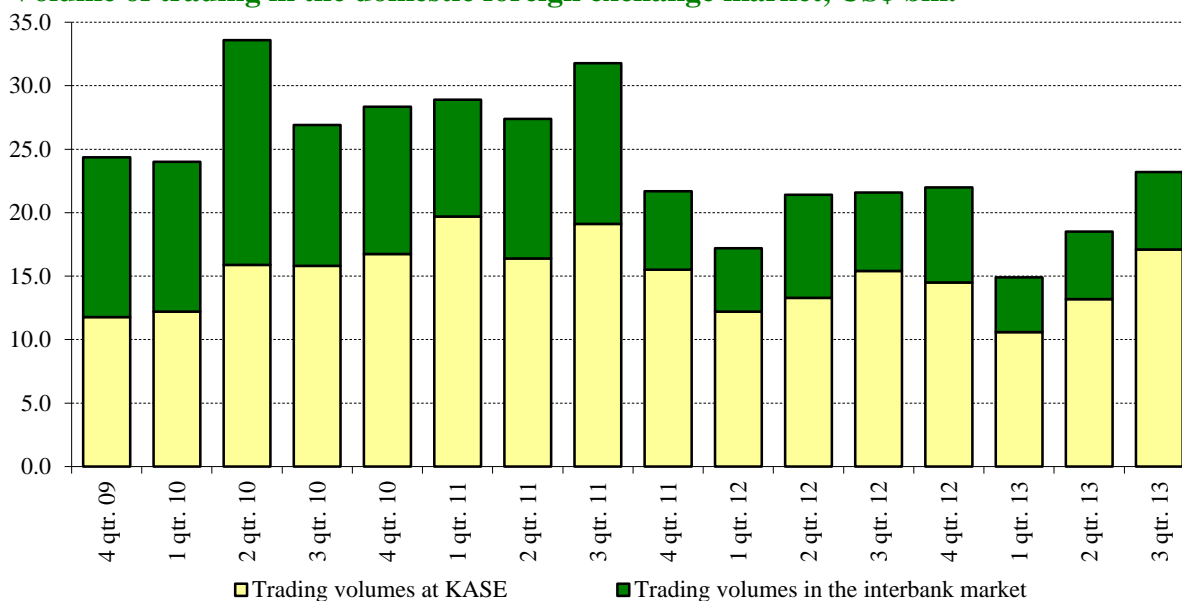
Source: National Bank of the Republic of Kazakhstan

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

In the 3<sup>rd</sup> 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\$ 23.2 bln., having increased by 25.7% versus the 2<sup>nd</sup> quarter of 2013.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 29.5% versus the 2<sup>nd</sup> quarter of 2013 and amounted to US\$ 17.1 bln. (net trades at the Kazakhstan Stock Exchange made up 81% of gross trades). During the 3<sup>rd</sup> quarter of 2013, the volume of transactions in the off-exchange foreign currency market increased as compared to the previous quarter by 16.2% and amounted to US\$ 6.1 bln. (Figure 41).

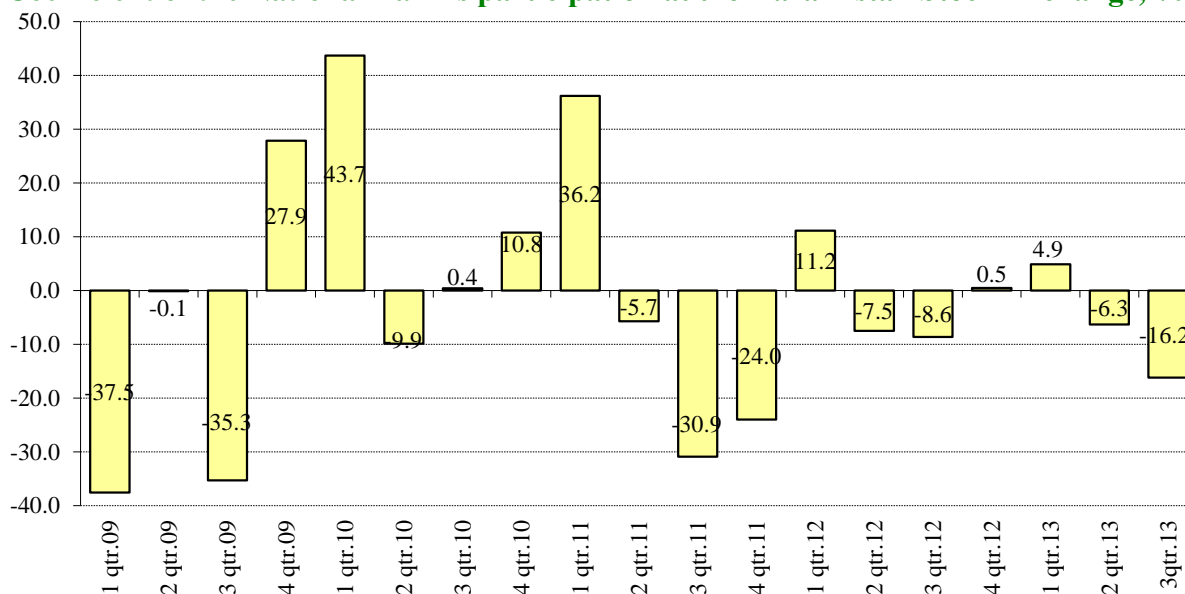
Figure 41

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


Source: National Bank of the Republic of Kazakhstan

At the end of the 3<sup>rd</sup> quarter of 2013, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -16.2% (in the 2<sup>nd</sup> quarter of 2013 it was -6.3%) (Figure 42). Thus, in the 3<sup>rd</sup> quarter of 2013 the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 42

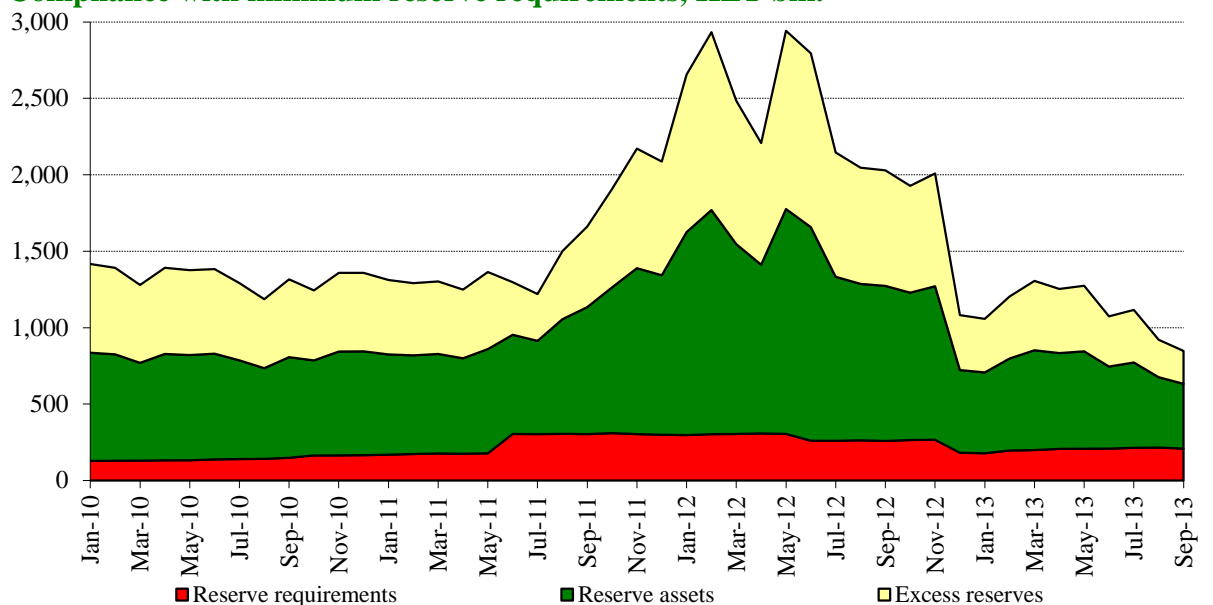
**Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %**


Source: National Bank of the Republic of Kazakhstan

## 4.2. Minimum Reserve Requirements

During July-September 2013, reserve assets exceeded the required reserving volume by 2.4 times on average (in the 2<sup>nd</sup> quarter of 2013 – by 2.9 times, in the 3<sup>rd</sup> quarter of 2012 – by 4.2 times) (Figure 43).

Figure 43

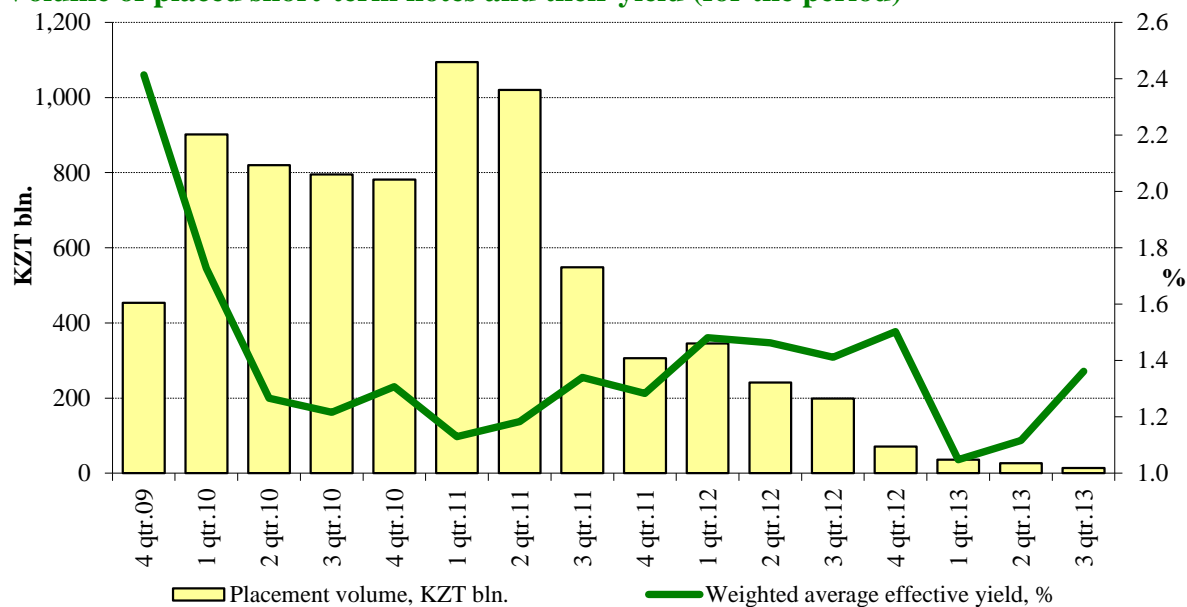
**Compliance with minimum reserve requirements, KZT bln.**


Source: National Bank of the Republic of Kazakhstan

### 4.3. Open Market Operations

In the 3<sup>rd</sup> quarter of 2013, the demand of banks for short-term notes of the National Bank remained low. Only 3-month and 6-month short-term notes were issued during the period. At the same time, no auctions to issue short-term notes were held in September 2013. In the 3<sup>rd</sup> quarter of 2013 versus the 2<sup>nd</sup> quarter of 2013, the volume of issued short-term notes decreased by 1.9 times and amounted to KZT 14.3 bln. The highest emission volume of short-term notes was in July (over 74% of the total emission volume during the 3<sup>rd</sup> quarter of 2013). The weighted average yield on placed notes increased from 1.12% in the 2<sup>nd</sup> quarter of 2013 to 1.36% in the 3<sup>rd</sup> quarter of 2013 (Figure 44).

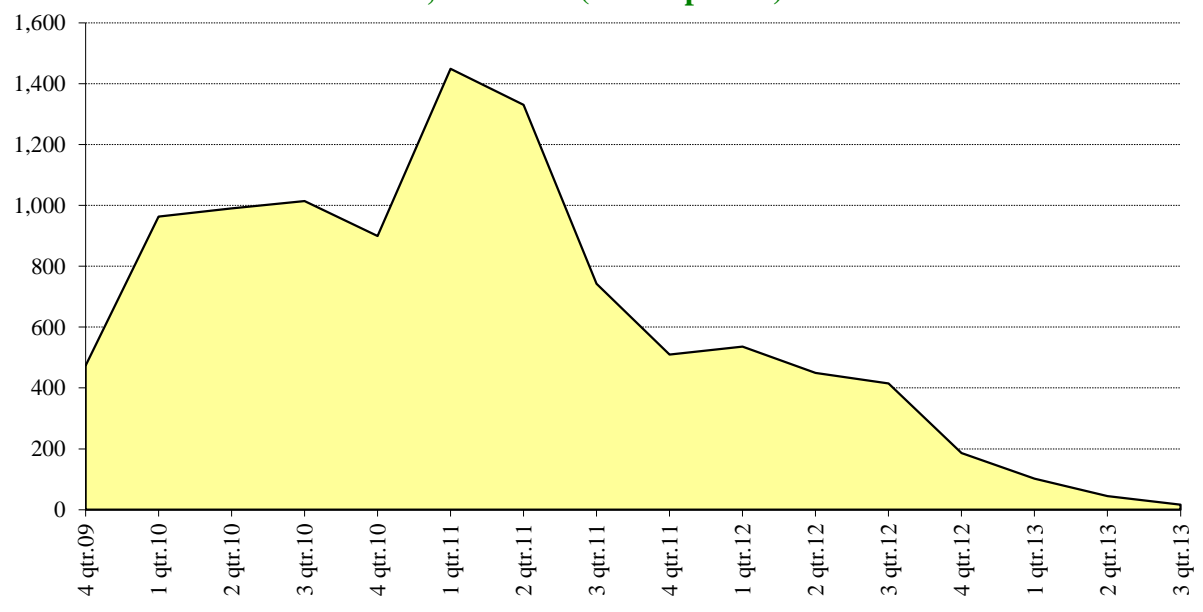
Figure 44

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


Source: National Bank of the Republic of Kazakhstan

At end-September 2013, the volume of short-term notes in circulation amounted to KZT 16.4 bln., which is by 2.7 less than the volume at end-June 2013 (Figure 45).

Figure 45

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


Source: National Bank of the Republic of Kazakhstan

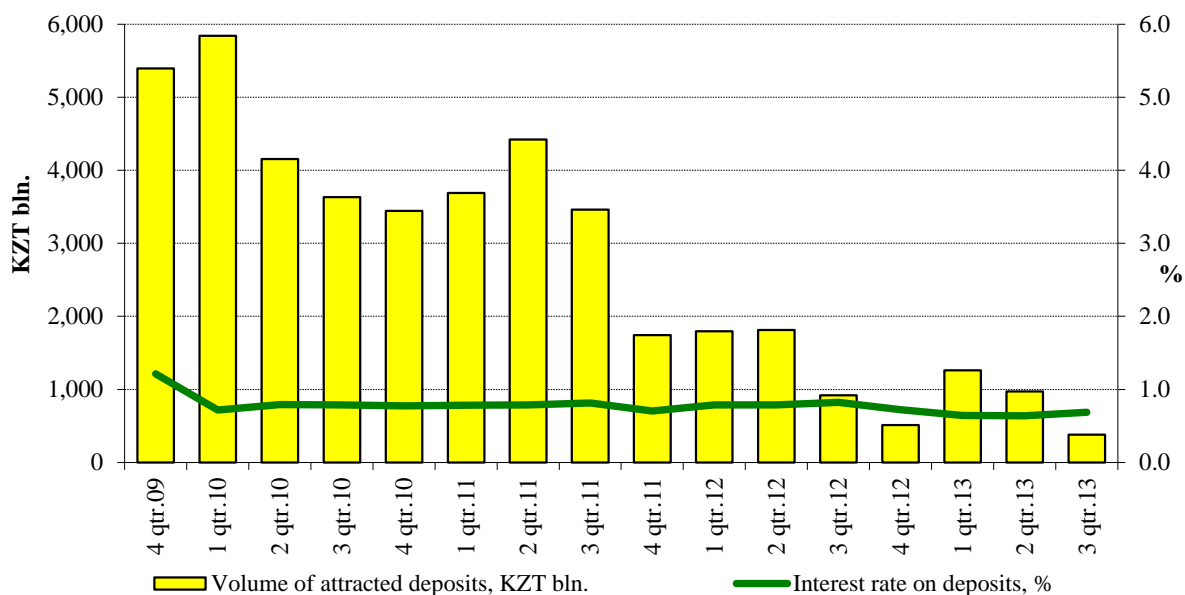
#### 4.4. Standing Facilities

In the 3<sup>rd</sup> quarter of 2013, the volume of deposits attracted from banks decreased as compared to the previous quarter. The maximum volume of attraction of bank deposits was recorded in July 2013. During the 3<sup>rd</sup> quarter of 2013 as a whole, deposits worth KZT 379.7 bln. were attracted, which is 2.6 times less than the volume in the 2<sup>nd</sup> quarter of 2013 and 2.4 times less than in the 3<sup>rd</sup> quarter of 2012.

The average interest rate on deposits increased from 0.64% in the 2<sup>nd</sup> quarter of 2013 to 0.69% in the 3<sup>rd</sup> quarter of 2013 (Figure 46).

Figure 46

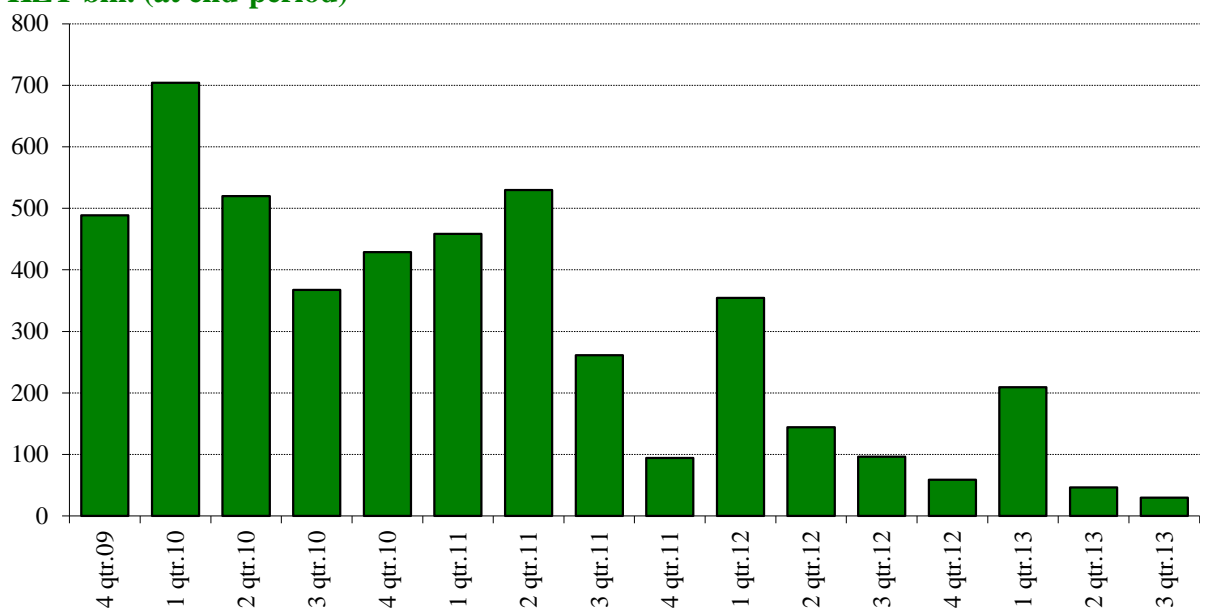
**Volume and interest rates on deposits attracted by the National Bank (for the period)**



Source: National Bank of the Republic of Kazakhstan

In the 3<sup>rd</sup> quarter of 2013, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-September 2013, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 29.5 bln., which is 1.6 times less than their volume at end-June 2013 (Figure 47).

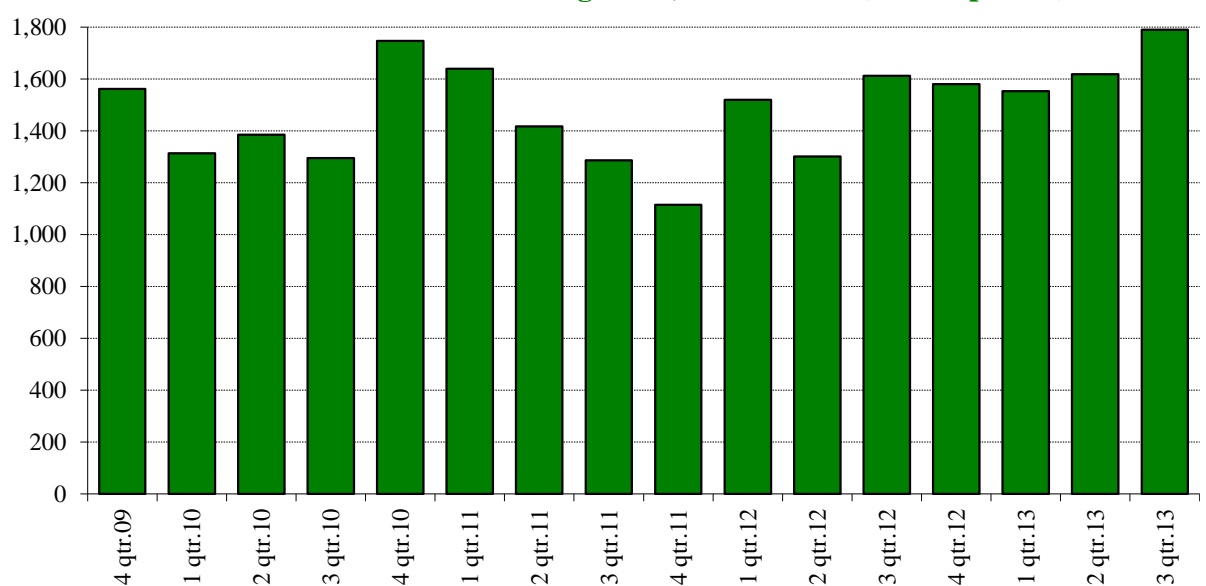
Figure 47

**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 3<sup>rd</sup> 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 3<sup>rd</sup> quarter of 2013 amounted to KZT 1618.3 bln. The volume of such operations increased by 10.7% as compared to the previous quarter (Figure 48).

Figure 48

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


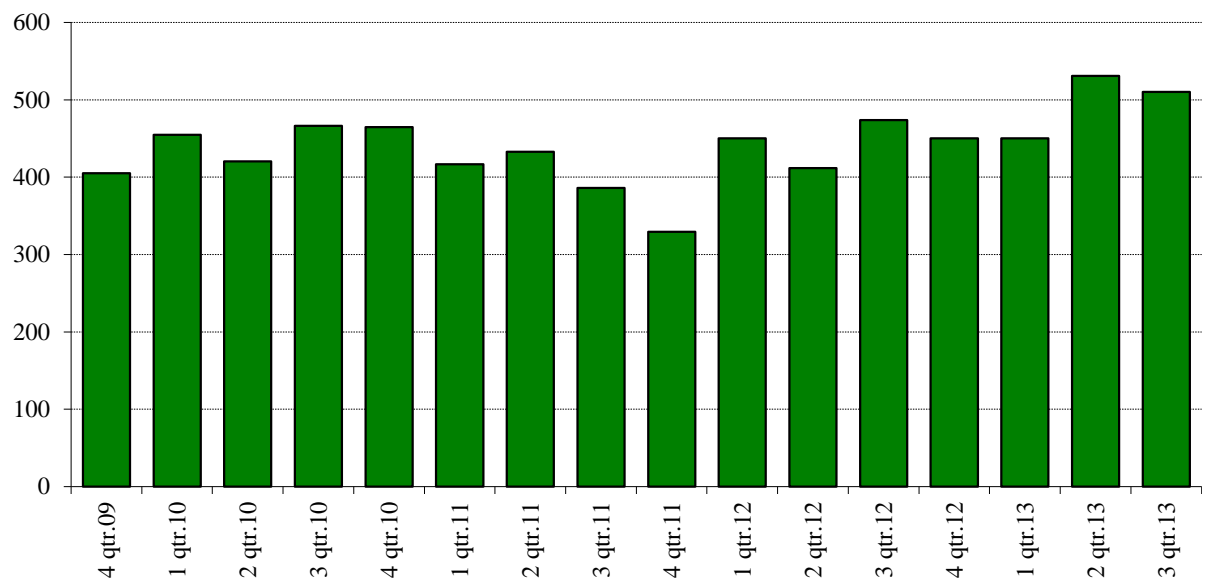
Source: National Bank of the Republic of Kazakhstan

At end-September 2013, the volume of outstanding debt on refinancing loans amounted to KZT 510.2 bln. (Figure 49).



Figure 49

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



Source: National Bank of the Republic of Kazakhstan