

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

Inflation Report  
for the 2nd 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 April-June 2013, the annual inflation rates slowed down accounting for 5.9% at end-June 2013. During the period the inflation was mainly building up under the impact of seasonal factors. No acceleration in inflationary processes is anticipated in the nearest term and, thus, the annual inflation will remain within the target band of 6-8%.

During the 2<sup>nd</sup> quarter of 2013 the inflation was at 0.8% (in the 1<sup>st</sup> quarter of 2013 – 1.9%), this is the lowest quarterly inflation rate since 2004 (in the 2<sup>nd</sup> quarter of 2004 – 0.8%). In the 2<sup>nd</sup> quarter of 2013, there was an increase in prices for fruit and vegetable production typical for the spring time. Apart from that, the increased tariffs for paid services made the highest contribution to the quarterly inflation. In general, this represents a continuation of the upward trend in the price of paid services that outlined in the second half of 2012. Thus, if during 2012 the prices of paid services grew by 9.3%, during January-June 2013 the growth in tariffs accounted for 5.4% (the inflation accounted for 2.7%).

In the 2<sup>nd</sup> quarter of 2013, the inflation was building up against the minimal impact of monetary factors. During April-June 2013, the money supply as the main indicator of the supply of money to the economy increased by 4.5% and amounted to KZT 11578.9 bln., and the reserve money expanded by 1.6% to KZT 3094.7 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 the 1<sup>st</sup> half of 2013, according to preliminary official data prepared by the Agency of Statistics of the Republic of Kazakhstan, accounted for 5.1%.

The real sector of the economy is developing steadily. During the 1<sup>st</sup> half of 2013, the industrial output grew by 1.8%, including the growth in the mining industry and quarry operations by 2.2%. During the same period, the growth in agriculture accounted for 1.4%, in construction – for 0.7%, and cargo turnover – for 0.9%.

The official refinancing rate in the 2<sup>nd</sup> quarter of 2013 remained unchanged 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 2<sup>nd</sup> quarter of 2013 continued conducting monetary policy operations. So, during April-June 2013, the volume of issued short-term notes amounted to KZT 26.9 bln., which is by 9 times less than in the respective period of 2012. The volume of deposits attracted from banks during the same period decreased by 46.4% to KZT 972.8 bln. Refinancing loans in the amount of KZT 1618.3 bln. were provided to banks during the reviewed period; their amount exceeds that of April-June 2012 by 24.3%.

Steady growing confidence of the economic entities in the banking system is being observed. In June 2013, total deposits with commercial banks amounted to KZT 10055.4 trln., having increased by 4.2% versus March 2013 (and versus June 2012 – by 11.5%). At the same time, the growth in the volume of deposits of individuals during the year accounted for 19.7%.

In June 2013 as compared to March 2013, credits to the economy increased by 4.2% to KZT 10545.0 bln. The growth in the volume of credits to the population in the reviewed period accounted for 8.6%.

### **Evaluation of the Inflation Forecasts for the 2<sup>nd</sup> Quarter of 2013**

In the 2<sup>nd</sup> quarter of 2013 the actual inflation rate (0.8%) had been lower than the forecast (1.1-1.3%) published in the previous issue of the Inflation Report. In April and May the actual inflation was lower than the forecast and in June it was in full compliance with the forecast.

In the 2<sup>nd</sup> quarter of 2013, the highest price growth was observed in April and May. The major price growth was in the sector of paid services. Within their structure, prices and tariffs for utilities should be mentioned including fees for cold water supply and sewage. The price of healthcare services, transport services, and cultural services also increased.

The increase in prices for foodstuffs and non-food products was moderate in the 2<sup>nd</sup> quarter of 2013. The increase in prices for fruit and vegetable production is worth mentioning, which was primarily associated with the manifestation of seasonal factors; prices for other goods remained relatively stable.

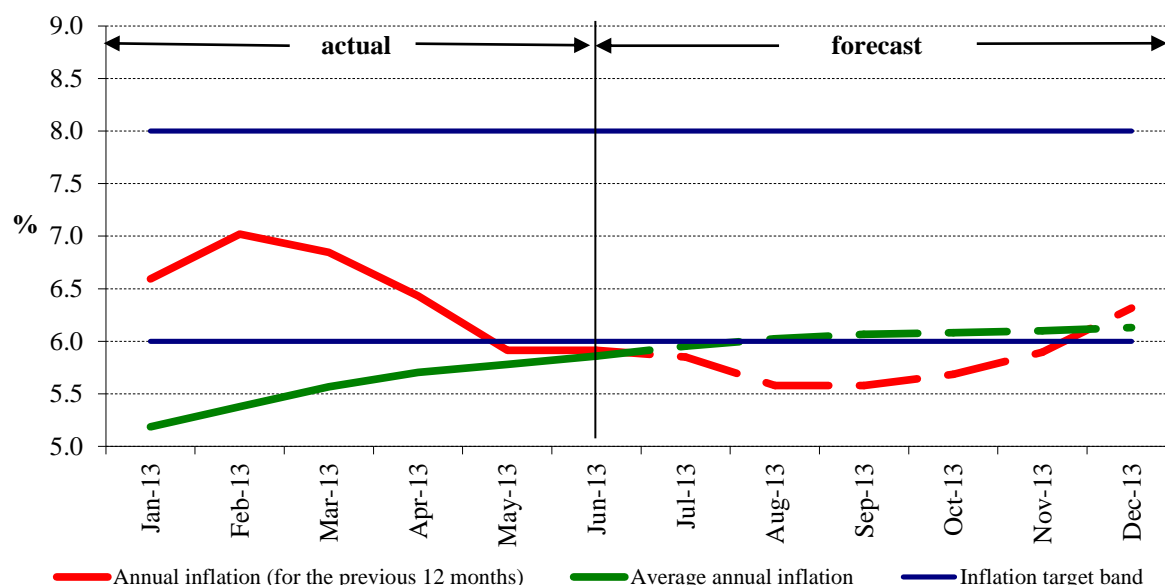
The actual annual inflation at end-June 2013 accounted for 5.9%, being also lower than the forecast published in the previous issue of the Inflation Report.

### Inflation Forecast for 2013

According to the Monetary Policy Guidelines of the Republic of Kazakhstan for the year 2013, the main objective of the National Bank is to ensure the price stability and to keep the annual inflation within 6-8% at end-2013 (Figure 1).

Figure 1

#### Actual and forecasted inflation in 2013



Source: National Bank of the Republic of Kazakhstan

The annual inflation is expected to somewhat slowdown in the 3<sup>rd</sup> quarter of 2013; however, its rate will be within the target band of the National Bank again by the end of the year. As a whole, the inflation dynamics will be comparable to that of 2012. The risks of acceleration of inflationary processes are associated with the existence of such inflationary factors as unstable situation in the global commodity markets, high level of world prices for raw materials and foodstuffs, inefficient pricing mechanism within Kazakhstan, and low competition in certain markets of goods and services. In addition, a steady growth in households' income, the growth in lending volumes, and the growth in business activity will be conducive to the persistence of inflationary background in the economy.

To ensure the price stability, in 2013 the National Bank jointly with the Government will continue implementing an anti-inflationary policy aimed to supply necessary goods to the market, increase competition, develop the trade infrastructure, and preclude the facts of price



collusion. The National Bank will continue taking measures for flexible regulation of the money supply by maintaining it at the level adequate to the country's economic development.

**Inflation Forecast for the 3<sup>rd</sup> Quarter of 2013** is 0.7-0.9% (in the 3<sup>rd</sup> quarter of 2012 the actual inflation was at 1.1%). During the period the inflation is expected to be building up primarily under the impact of the seasonality factor. Prices for certain products are expected to decrease (eggs, dairy products, and fruit and vegetable production). In view of the beginning of a new academic year, prices for clothes and footwear, stationery and books, and education services may go up.

At end-September 2013, the annual inflation is expected to be at 5.6-5.8%.

**Inflation Forecast for the 4<sup>th</sup> Quarter of 2013** is 2.6-2.8% (in the 4<sup>th</sup> quarter of 2012 the actual inflation was at 2.0%), which is in line with the annual inflation of 6.3-6.5% at end-December 2013.

Some increase in prices in the consumer market is anticipated, which is typical for the period. This is associated with the seasonality factor and revival in the consumer demand in view of holidays. During the period, there may be the growth in prices for such goods and services as fruits and vegetables, eggs, dairy and meat products, clothes and footwear, and certain utilities.

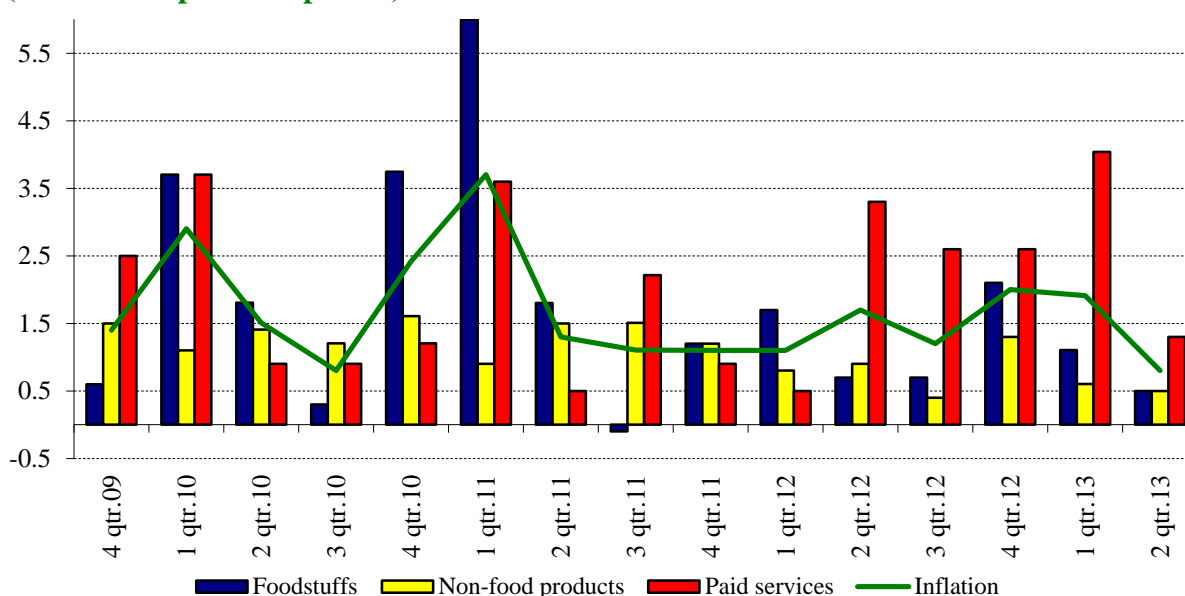
## 1. Inflationary Processes

### 1.1. Consumer Prices

In the 2<sup>nd</sup> quarter of 2013, there was significant slowdown in the quarterly inflation, which had been at 0.8% (in the 2<sup>nd</sup> quarter of 2012 – 1.7%), whereas in the 1<sup>st</sup> quarter of 2013 it was at 1.9%. During April-June 2013 the inflation was building up mainly due to the growth in tariffs for paid services by 1.3% (by 3.3%). In the 2<sup>nd</sup> quarter of 2013, prices of foodstuffs increased by 0.5% (by 0.7%), and prices of non-food products – by 0.5% (by 0.9%) (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 June 2013 as compared to March 2013, the highest increase in prices among foodstuffs occurred in the prices for fruits and vegetables by 3.3%, including onions – by 13.5%, potatoes – by 13.4%, carrots – by 11.8%, as well as macaroni products – by 0.8%, flour, meat and meat products – by 0.5% each, fish and seafood – by 0.6%, and sugar – by 0.4%. During the reviewed period the prices for following products decreased: eggs – by 9.4%, cereals – by 2.7%, including buckwheat – by 5.6%, sunflower oil – by 1.7%, and rice and fresh milk – by 0.4% each.

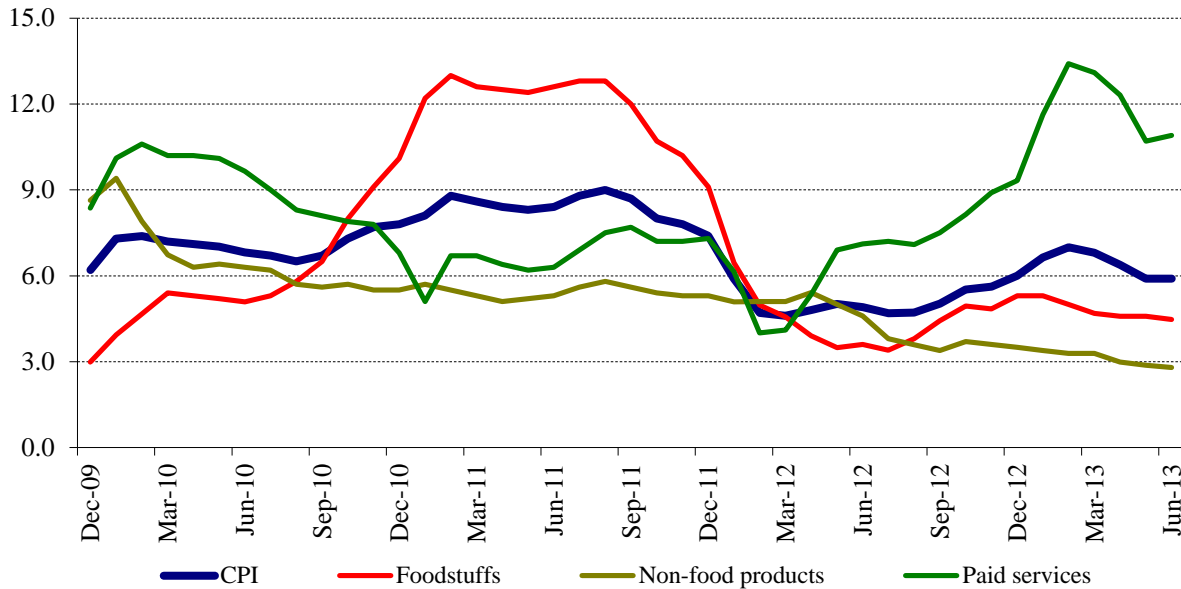
During April-June 2013, in the group of non-food products the prices for clothes and footwear increased by 0.8%, including for fabrics – by 0.8%, upper garments – by 0.6%, as well as for medications – by 0.5%. The price of gasoline and diesel fuel decreased by 0.2%.

During the 2<sup>nd</sup> quarter of 2013, in the structure of paid services, the utility services increased in price by 1.3%. The fee for cold water increased by 5.2%, for sewage – by 4.2%, solid waste collection – by 2.3%, and district heating – by 1.4%. Also, there was an increase in prices for transport services – by 1.5% (because of increased prices for the railroad services – by 3.2%), for education services – by 0.5%, healthcare services – by 2.1%, as well as for the services of restaurants and hotels – by 1.8%.

In June 2013, the annual inflation accounted for 5.9% (in December 2012 – 6.0%). In June 2013 as compared to June 2012, the price of foodstuffs increased by 4.5% (by 5.3%), of non-food products – by 2.8% (by 3.5%), and of paid services – by 10.9% (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 2<sup>nd</sup> quarter of 2013, core inflation indicators were at a lower level as compared to the previous quarter. As compared to the respective period of 2012, lower rates were observed in respect of all core inflation indicators.

In the 2<sup>nd</sup> quarter of 2013, all core inflation indicators didn't exceed those of the headline inflation (Figure 4). This was due to high rates of growth in prices for some goods and services that are excluded from the calculation of the core inflation. Inter alia, they may include fruit and vegetable production, utilities, and transport services.

Figure 4

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

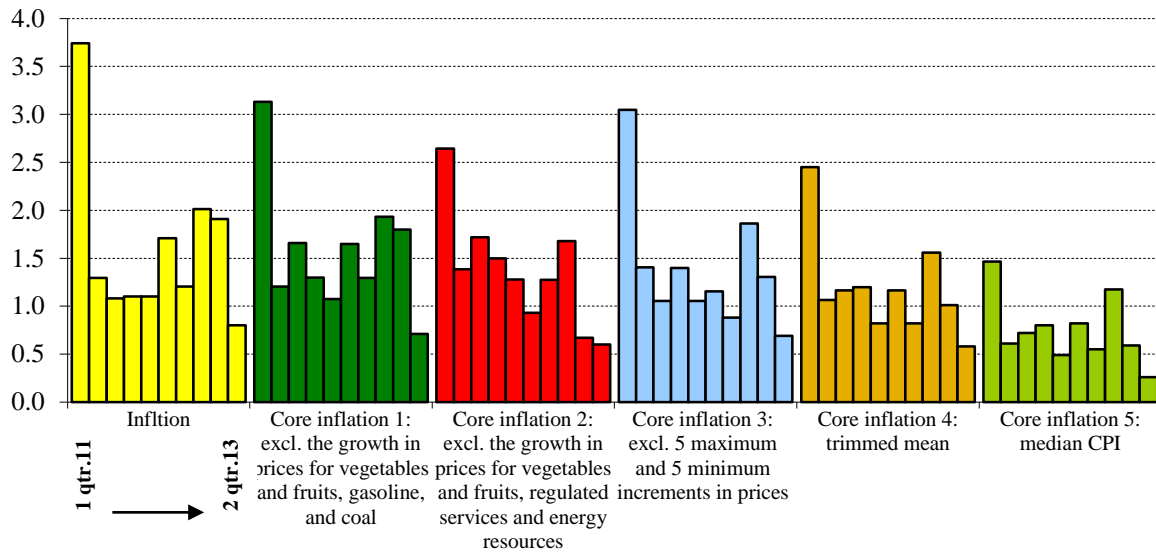
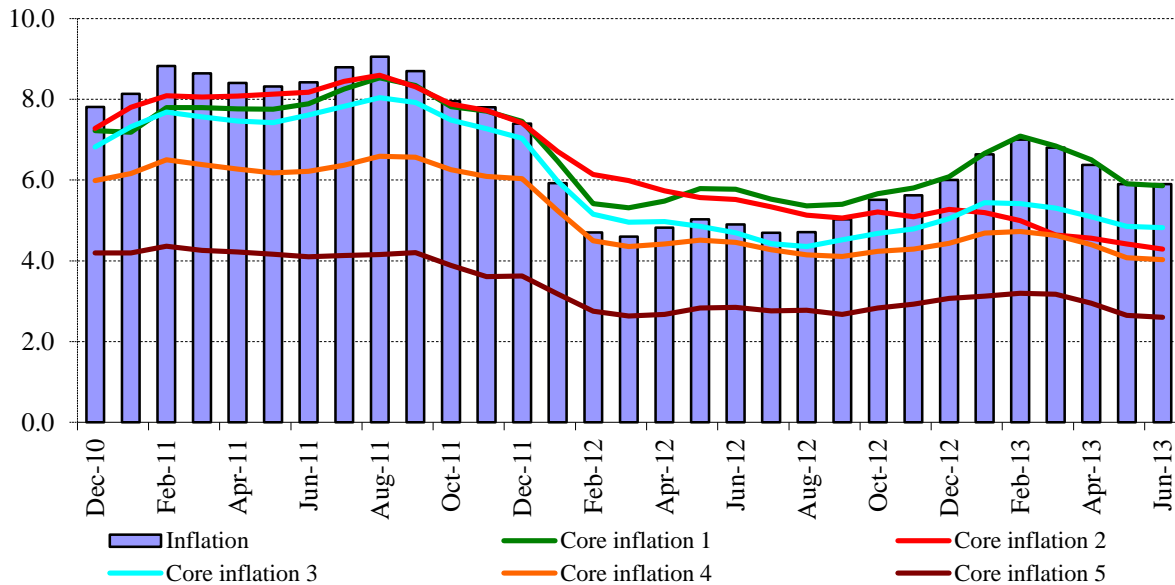


Figure 5

**Dynamics of annual inflation and core inflation  
(as % of the respective 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 2<sup>nd</sup> quarter of 2013, the producer prices decreased by 7.1% (in the 2<sup>nd</sup> quarter of 2012 – 3.0% decrease). The cost of output decreased in terms of price by 7.7%, at the same time the price of interim consumption products decreased by 9.0%, the means of production increased by 1.6% in terms of price, and the price of consumer goods increased by 1.8%. The prices of production services increased by 0.7%.

In the 2<sup>nd</sup> quarter of 2013, prices in the mining industry decreased by 10.0%, being caused by lower oil prices as compared to the respective period of 2012 (in the 2<sup>nd</sup> quarter of 2012 – 5.1% decrease).

The price of energy resources, after its increase in the previous quarter by 1.6%, in the 2<sup>nd</sup> quarter of 2013 decreased by 10.0% (in the 2<sup>nd</sup> quarter of 2012 – 3.9% decrease). Within the composition of energy resources, the price of oil extraction decreased, due to its decline in May, by 9.3% (in the 2<sup>nd</sup> quarter of 2012 – 6.1% decrease), and the cost of gas condensate decreased by 22.1% (in the 2<sup>nd</sup> quarter of 2012 – 0.2% growth).

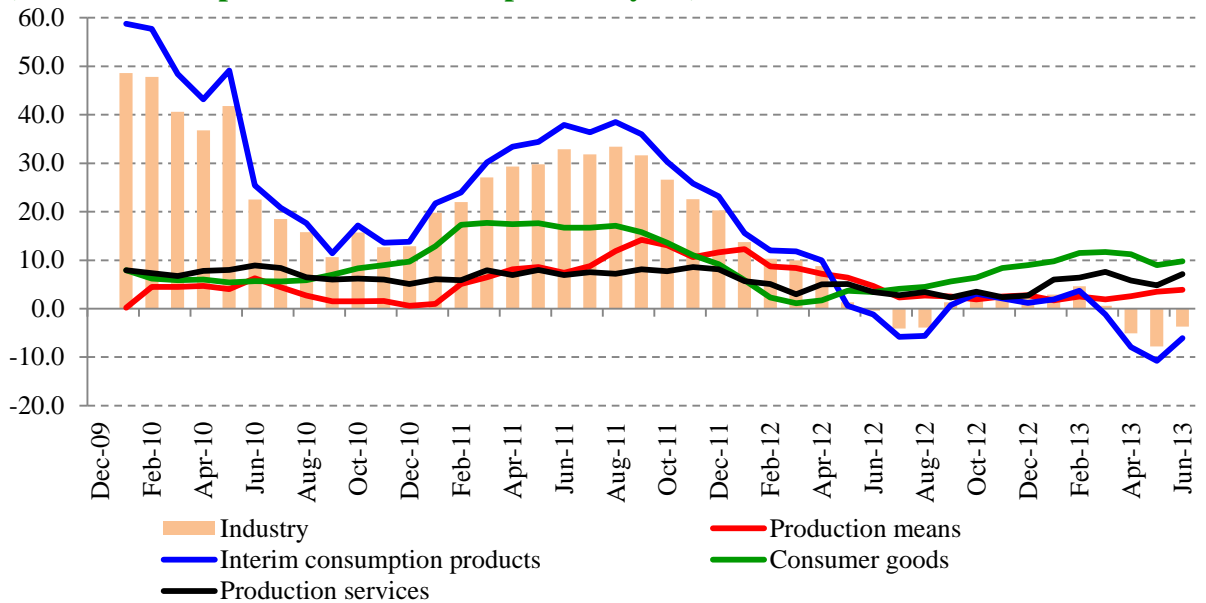
Prices in manufacturing industry, after their decline in the previous quarter by 0.8%, decreased by 1.6% (in the 2<sup>nd</sup> quarter of 2012 – 0.2% decrease) in the reporting period. Alongside with that, in the 2<sup>nd</sup> quarter of 2013 prices in the metallurgical industry decreased by 5.7%, the cost of foodstuffs production decreased by 1.5% and that of refined products – by 5.5%.

In the 2<sup>nd</sup> quarter of 2013, prices for electric energy, gas and vapor supply and air conditioning increased by 1.0% (in the 2<sup>nd</sup> quarter of 2012 – 8.8% growth).

In June 2013, the year-to-year decrease in prices in industrial production in annual terms (June 2013 versus June 2012) accounted for 3.7% (in March 2013, the annual price growth accounted for 0.6%) (Figure 6).

Figure 6

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



Source: Agency of Statistics of the Republic of Kazakhstan

The cost of output decreased by 4.4% in annual terms, where the price of interim consumption products decreased by 6.1%, the price of consumer goods increased by 9.8%, and the price of production means – by 3.9%. The price of production services increased by 7.1%.

**1.3.2. Prices in Agriculture**

In the 2<sup>nd</sup> quarter of 2013, prices for agricultural production realized across all channels decreased by 3.1% (in the 2<sup>nd</sup> quarter of 2012 – 2.5% decrease). The dynamics of prices in agriculture was impacted by a higher growth rate of animal production prices, as compared to that of plant production.

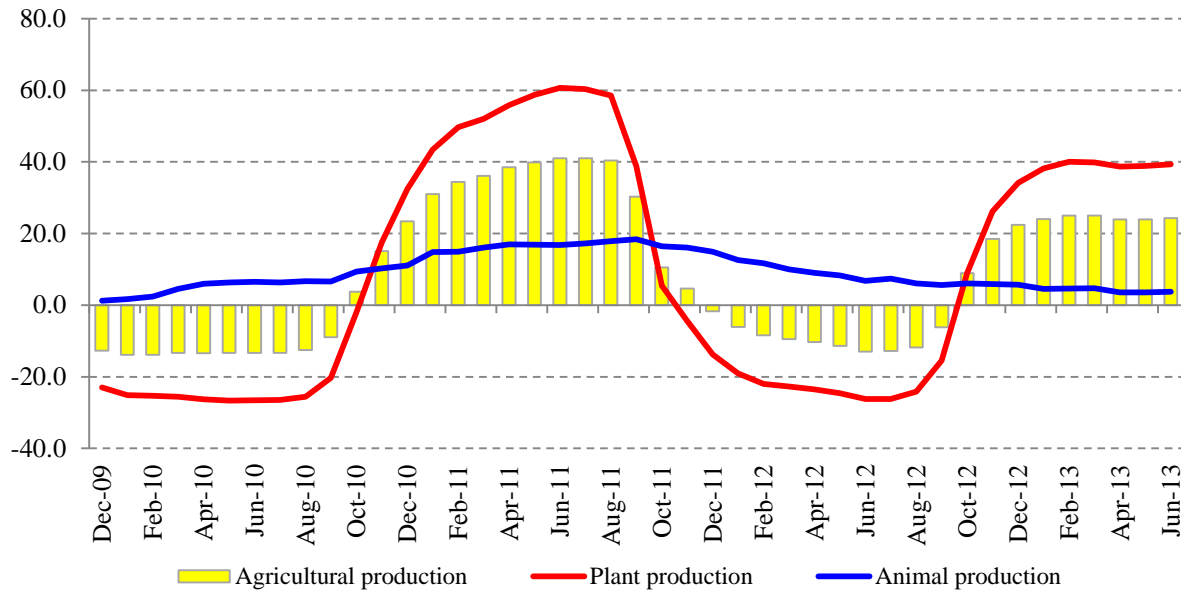
As compared to the increase in prices in the previous quarter by 3.9%, during April-June 2013 the price of plant production decreased by 1.9% (in the 2<sup>nd</sup> quarter of 2012 – 1.6% decrease). Within the plant production structure, prices for grain cultures decreased by 2.5%, for vegetables – by 1.4%, and the price of potatoes increased by 3.1%.

The price of animal production, after its growth by 2.1% in the 1<sup>st</sup> quarter of 2013, in the 2<sup>nd</sup> quarter of 2013 decreased by 4.7% (in the 2<sup>nd</sup> quarter of 2012 – 3.7% decrease). During April-June 2013, the prices of meat and poultry decreased by 1.2%, for unpasteurized milk – by 6.0%, for eggs – by 17.9%.

At end-June 2013, prices for agricultural products in annual terms increased by 24.3%. The price of plant production increased by 39.3%, and the price of animal production increased by 3.7% (Figure 7).

Figure 7

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



Source: Agency of Statistics of the Republic of Kazakhstan

**1.3.3. Monitoring of the Enterprises**

In the 2<sup>nd</sup> quarter of 2013, the demand for final products of enterprises in the real sector of the economy as a whole started to grow; this is evidenced by the diffusion index of the change in the demand, which has risen to 53.1 (from 46.7 in the 1<sup>st</sup> quarter of 2013). The indicator increased due to a significant increase in the share of enterprises with increased demand for their products (to 24.6 %, from 17.6% in the 1<sup>st</sup> quarter of 2013) and a notable increase in the share of enterprises that noted the decrease in the demand for their products (to 18,3% from 24.3 % in the 1<sup>st</sup> quarter of 2013).

The growth in the demand for final products was observed in all sectors, except for “production and distribution of electricity, gas and water”, where the demand for products decreased: the diffusion index in the sector fell to 41.2 (from 58.9 in the 1<sup>st</sup> quarter of 2013). The highest growth in the demand occurred in such sectors as “hotels and restaurants”, in the mining industry and in the sector of “trade, repair of cars, household appliances and personal care products” (the “trade” - hereinafter): the diffusion index in these sectors has risen, respectively, to 62.1, 54 and 52.3 from 46.4, 44.2 and 43.9 in the 1<sup>st</sup> quarter of 2013. In the mining industry the demand for final products remained at the level of the previous quarter.

In the 3<sup>rd</sup> quarter of 2013 versus the 2<sup>nd</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 57, 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 – 50.5), in the mining industry (57.7) and in agriculture (59.1). At the same time, significant decrease in the demand is anticipated in the sector of “hotels and restaurants” (to 49 from 62.1 in the 2<sup>nd</sup> quarter of 2013).

In the 2<sup>nd</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, with a notable slowdown in the rates of growth: the diffusion index of the change in prices for final products was 53.1 (in the 1<sup>st</sup> quarter of 2013 – 57.4), with the number of enterprises noting the price growth

decreasing to 14.1% (from 20.7% in the 1<sup>st</sup> quarter of 2013), while the number of enterprises noting the decrease in prices increased to 7.8% from 6% in the 1<sup>st</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 56.4 from 69.8 in the 1<sup>st</sup> quarter of 2013), and trade (the diffusion index has fallen to 54.2 from 59.2 in the 1<sup>st</sup> quarter of 2013). The decrease in prices for final products occurred in the agricultural sector (the diffusion index has fallen to 46.5 from 50.7 in the 1<sup>st</sup> quarter of 2013) and in the mining industry (the diffusion index has fallen to 47 from 55.7 in the 1<sup>st</sup> quarter of 2013).

Prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) in the 2<sup>nd</sup> quarter of 2013 also slowed down their growth significantly: the diffusion index was 53.1 (in the 1<sup>st</sup> quarter of 2013 it was 57.4).

In the 3<sup>rd</sup> quarter of 2013, a continuing moderate growth in prices for final products is anticipated in the real sector of the economy as a whole, with some slowdown versus the 2<sup>nd</sup> quarter (the diffusion index was 55) caused by the decrease in the rates of the price growth in the following sectors: “production and distribution of electricity, gas and water”, construction and “hotels and restaurants”. The highest increase in the rates of the price growth is expected to occur in the agricultural sector and mining industry.

In the 3<sup>rd</sup> quarter of 2013, the trend in prices for consumer goods and services similar to that of the real sector as a whole is expected to continue. The diffusion index of the change in prices will rise to 54.9 from 53.1 in the 2<sup>nd</sup> quarter of 2013.

In the 2<sup>nd</sup> quarter of 2013, the rates of growth in prices for raw materials and supplies notably decreased: the diffusion index of the change in prices was 68.3 (in the 1<sup>st</sup> quarter of 2013 – 73.6). The decrease in the rates of the price growth was observed in the mining industry (the diffusion index has fallen to 65 from 74.7 in the 1<sup>st</sup> quarter of 2013), trade (to 64.3 from 70.2), agriculture (to 74.2 from 78.9), manufacturing industry (to 66.3 from 72.9) and in the sector of “production and distribution of electricity, gas and water” (to 70.3 from 76.7).

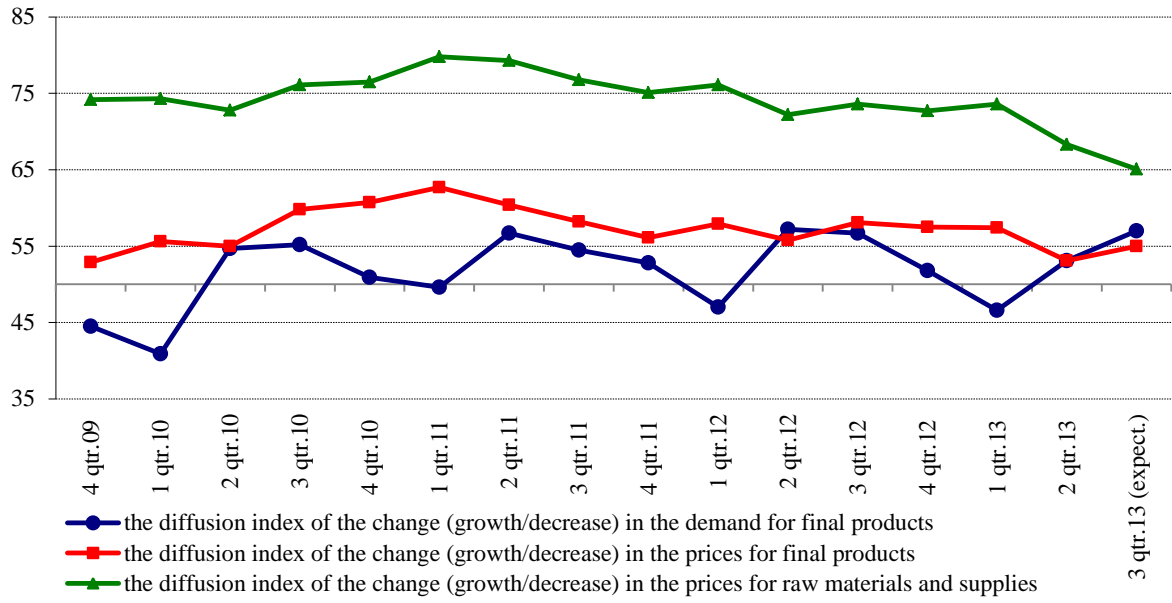
For the 3<sup>rd</sup> quarter of 2013, the diffusion index of the change in prices for raw materials and supplies as anticipated by the enterprises fell to 65.1, which means some slowdown in the price growth rates versus the 2<sup>nd</sup> quarter. The indicator fell because of the decrease in the percentage of enterprises which anticipate the price growth to 1.1% from 3% in the 2<sup>nd</sup> quarter of 2013.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about the 3<sup>rd</sup> quarter of 2013 are associated with notable growth in the demand for final products, slight increase in the growth rates of prices for final products and the decrease 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 1<sup>st</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 estimate, by 4.7% (the growth in the 1<sup>st</sup> quarter of 2012, according to estimate, accounted for 5.4%, with the growth in the 4<sup>th</sup> quarter of 2012 – 3.9%).

In the 1<sup>st</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 decreased gross formation and net exports.

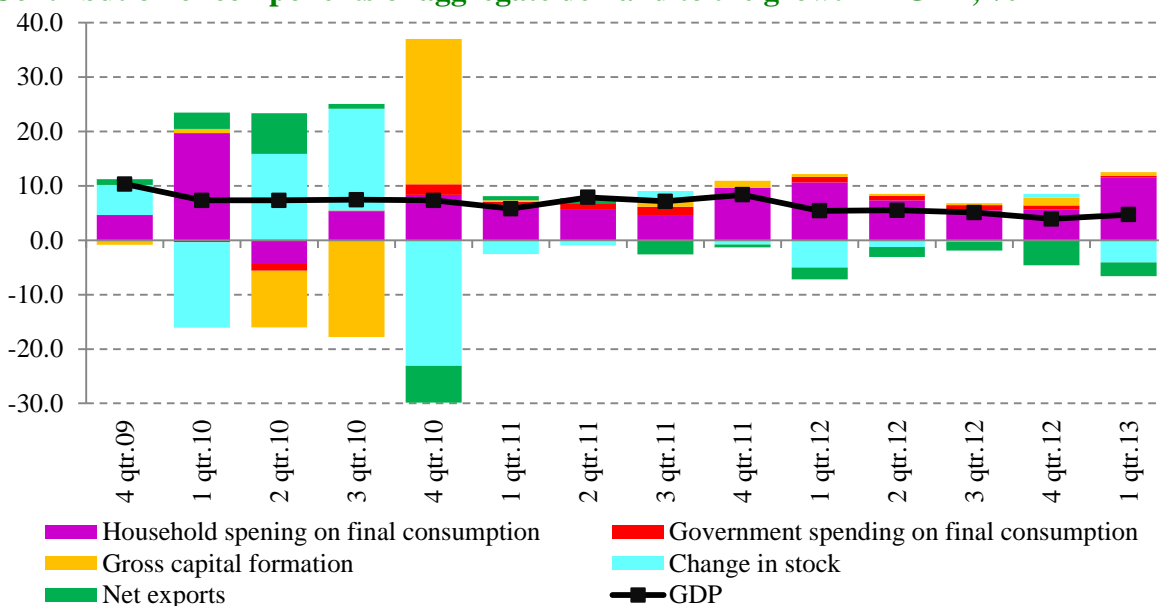
In the 1<sup>st</sup> quarter of 2013, according to estimate, spending on final consumption generally increased versus the respective period of 2012 by 10.4% (the 4<sup>th</sup> quarter of 2012 – the growth by 8.5%), gross formation increased by 25.2% (the growth by 8.0%), and net exports decreased by 22.9% (the increase in the negative value by 3.8 times).

As a result, household spending on consumption and general government spending on consumption made positive contribution to the formation of the GDP growth of (+)11.5% and (+)0.3%, respectively, and gross formation decreased GDP by (-)3.4%.

Within the gross formation, fixed capital formation accounted for (+)0.7%, and the change in stock accounted for (-)4.1%. In their turn, net exports made negative contribution to the GDP growth of (-)2.5% (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 1<sup>st</sup> quarter of 2013, household spending on final consumption increased by 12.3% versus the respective period of 2012 (in the 4<sup>th</sup> quarter of 2012 – the growth by 8.3%).

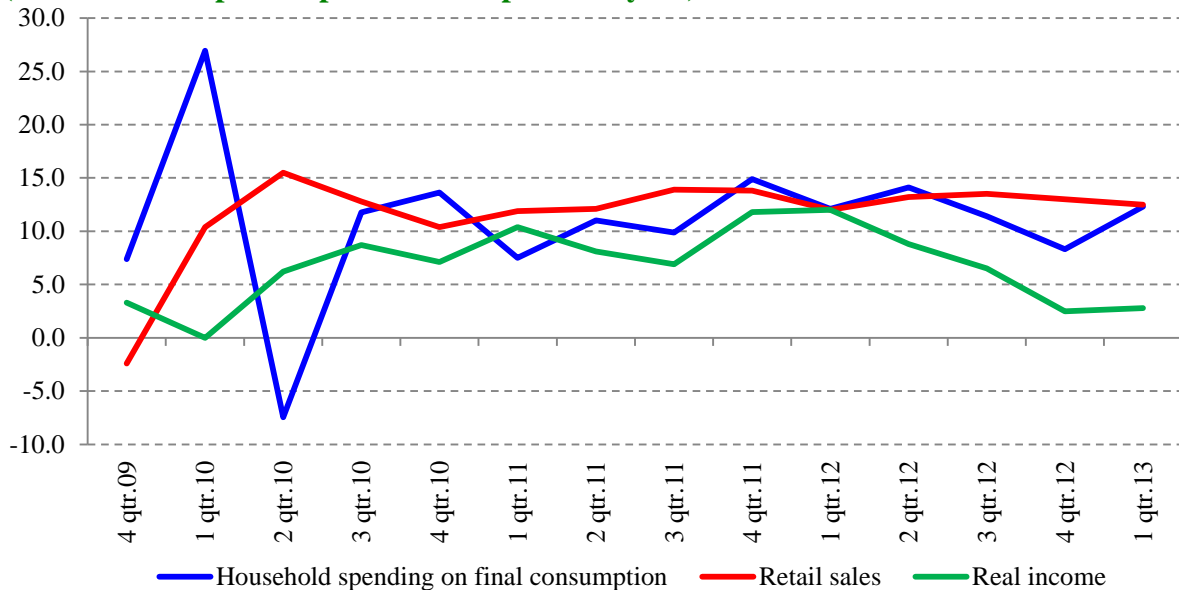
In the 1<sup>st</sup> quarter of 2013, the growth rate of per capita income in nominal terms accelerated to 9.8% (in the 4<sup>th</sup> quarter of 2012 – the growth by 8.3%), and in real terms it accelerated to 2.8% (the growth by 2.5%). At the same time, the slowdown in the growth rates

of household income didn't significantly affect retail sales whose growth rate slightly slowed, as compared to the 4<sup>th</sup> quarter of 2012 and accounted for 12.5% (in the 4<sup>th</sup> quarter of 2012 – the growth by 13.0%).

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 12.3%, whereas a quarter before the growth accounted for 8.3% (Figure 10).

Figure 10

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



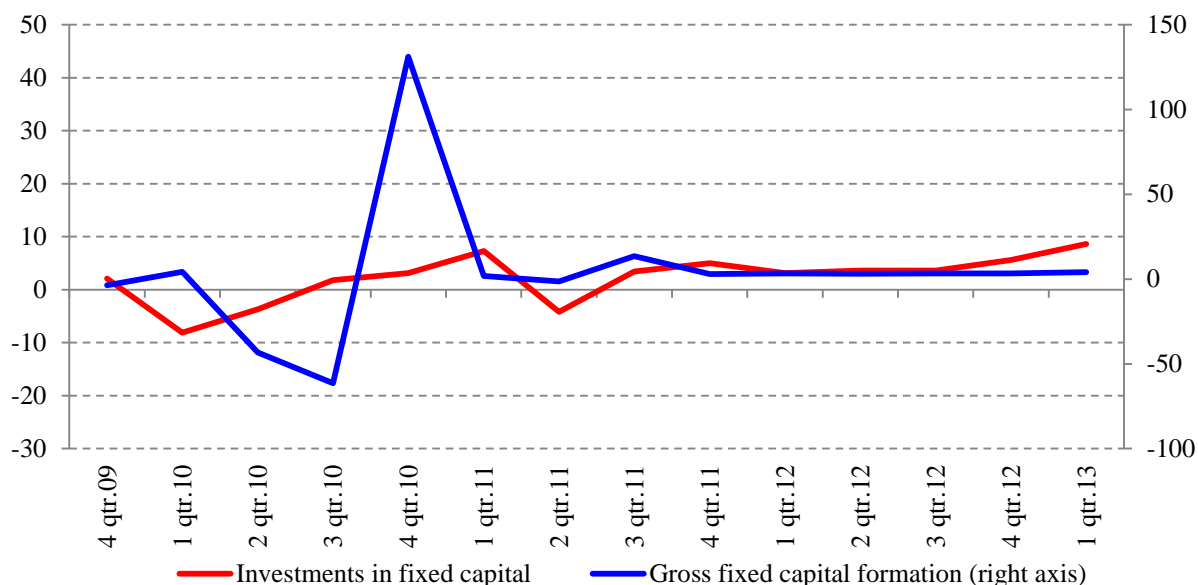
Source: Information of the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The slowdown in the household income was to a certain extent offset by the growing lending activity. In the 1<sup>st</sup> quarter of 2013, credits to the population increased by 3.9% in total, while consumer lending increased by 6.3%.

Despite the increased investment activity of enterprises, which resulted in the increase in the volume of fixed capital investments in the 1<sup>st</sup> quarter of 2013 by 8.6% (in the 4<sup>th</sup> quarter of 2012 the growth accounted for 5.6%), the increase in gross formation was more moderate, and the growth rate increased to 4.1% only versus the previous quarter (the growth by 3.3%) (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

Spending on final consumption by the general government in the 1<sup>st</sup> quarter of 2013 as compared to the respective period of 2012 increased by 4.1% (in the 4<sup>th</sup> quarter of 2012 – the growth by 9.0%).

During the 1<sup>st</sup> quarter of 2013 as a whole, the state budget spending was financed in the amount of KZT 1421.6 bln. or 21.5% of GDP (as compared to the 1<sup>st</sup> quarter of 2012 – the growth by 3.2%).

Current state budget expenditures totaled KZT 1.2 trln. or exceeded expenditures in the 1<sup>st</sup> quarter of 2012 by 10.9%. Within the current expenditures the following items demonstrated significant increase as compared to the respective quarter of 2012: expenditures related to current transfers abroad (by 35.2 times), other current expenditures (by 6.3 times), interest payments on domestic loans (32.5%) and salaries and wages (5.0%). Alongside with that, expenditures related to purchases of services (86.9%), purchase of goods (77.6%), and current transfers to legal entities (22.5%) decreased.

In the 1<sup>st</sup> quarter of 2013, capital expenditures in the state budget decreased by 15.3% as compared to the respective period of 2012, mainly due to decreased expenditures for the fixed capital formation.

In the 1<sup>st</sup> quarter of 2013, credits from the budget decreased as compared to the 1<sup>st</sup> quarter of 2012 by 49.2%, and expenditures for the acquisition of financial assets decreased by 20.1%.

During January-March 2013, state budget revenues amounted to KZT 1506.7 bln. or 22.8% of GDP, exceeding the revenues of January-March 2012 by 8.8%. In the structure of the state budget revenues two items are still prevailing: tax revenues – 72.4% (in the 1<sup>st</sup> quarter of 2012 – 69.8%), and official transfers – 25.3% (28.2%). 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 380.0 bln.

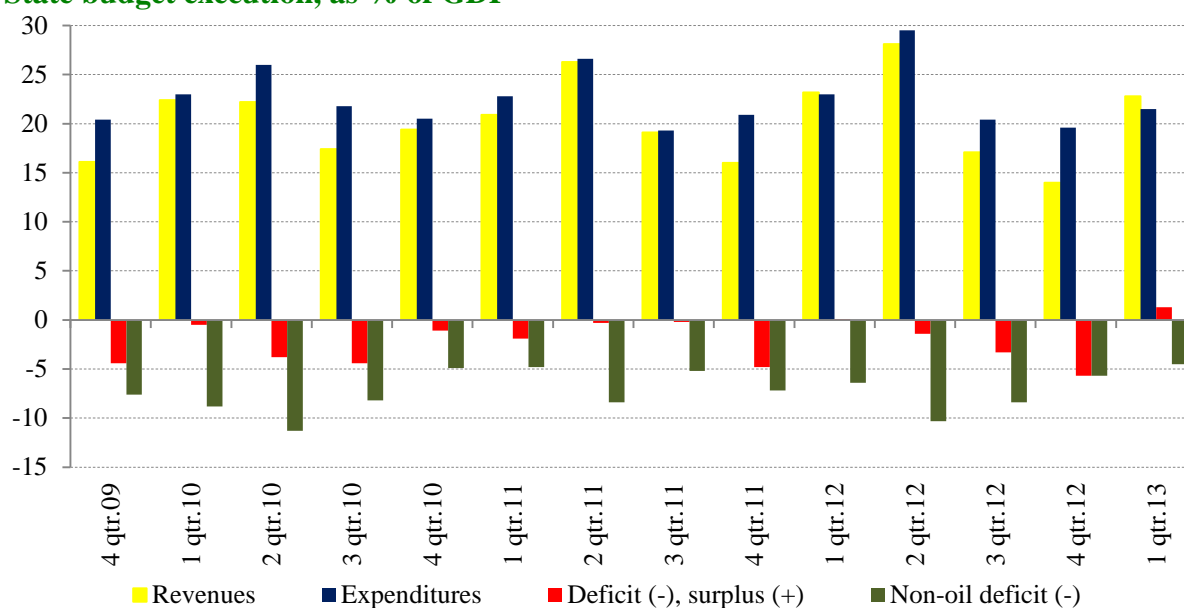
In the 1<sup>st</sup> quarter of 2013 in general, tax revenues increased by 12.8% as compared to the 1<sup>st</sup> quarter of 2012. The growth was secured by the growth in the receipts on the value-added tax, excise taxes, corporate income tax, and social tax.

In the 1<sup>st</sup> quarter of 2013 as compared to the 1<sup>st</sup> quarter of 2012, non-tax revenues decreased by 25.2%, proceeds from the sale of fixed capital also increased by 45.7%, whereas the revenues from transfers decreased by 2.6%.

Since revenues were in excess of expenditures in the 1<sup>st</sup> quarter of 2013, the state budget showed up a surplus of KZT 85.1 bln. or 1.3% of GDP (in the 1<sup>st</sup> quarter of 2012 – the surplus of KZT 8.1 bln. or 0.1% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 380.0 bln. to the republican budget from the National Fund, the 1<sup>st</sup> quarter of 2013 would have ended with the non-oil deficit of KZT 294.9 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

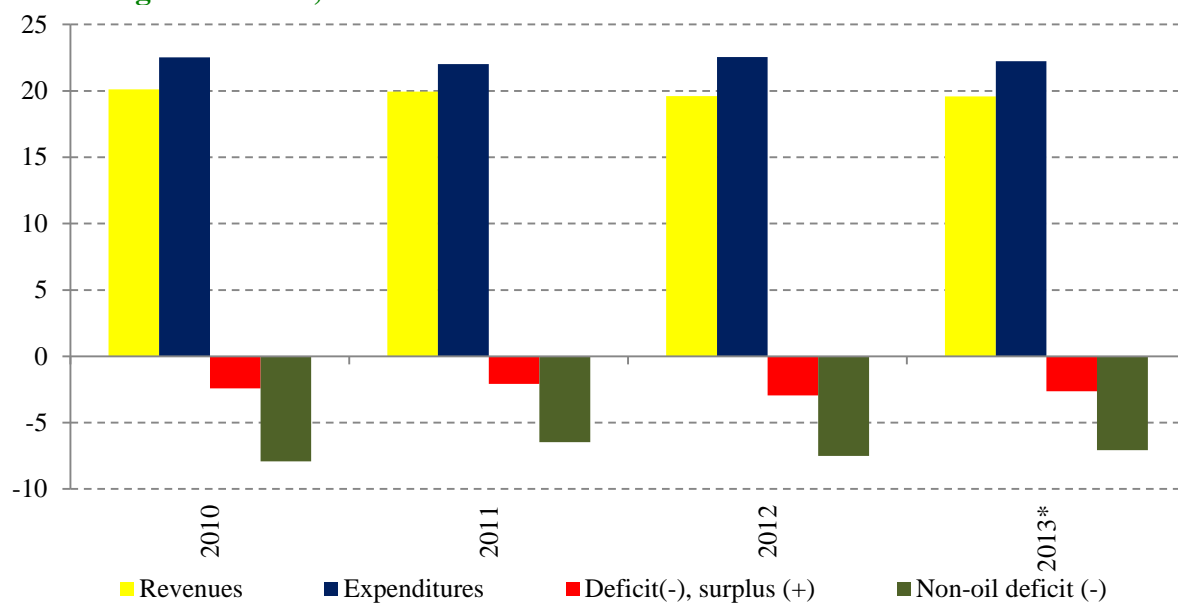
During the 1<sup>st</sup> quarter of 2013, the Ministry of Finance borrowed KZT 160.1 bln., mainly by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT 50.1 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 195.1 bln.

Government domestic debt during the 1<sup>st</sup> quarter of 2013 increased to KZT 3025.7 bln. (45.8% of GDP), i.e. by 36.5% as compared to the 1<sup>st</sup> quarter of 2012 (37.1% of GDP). The growth was secured by the issue of government long-term treasury obligations (MEUKAM), government long-term savings treasury obligations (MEUZHKAM) and government medium-term treasury obligations (MEOKAM).

In the 1<sup>st</sup> quarter of 2013, the Government's external debt increased by 8.2% as compared to the 1<sup>st</sup> quarter of 2012 (10.8% of GDP) and amounted to KZT 700.2 bln. (10.6% of GDP).

There is an upward trend in the state budget deficit in annual terms. In the 1<sup>st</sup> quarter of 2013 the deficit accounted for 2.6% of GDP (in the 1<sup>st</sup> quarter of 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 2<sup>nd</sup> quarter of 2012 through the 1<sup>st</sup> quarter of 2013

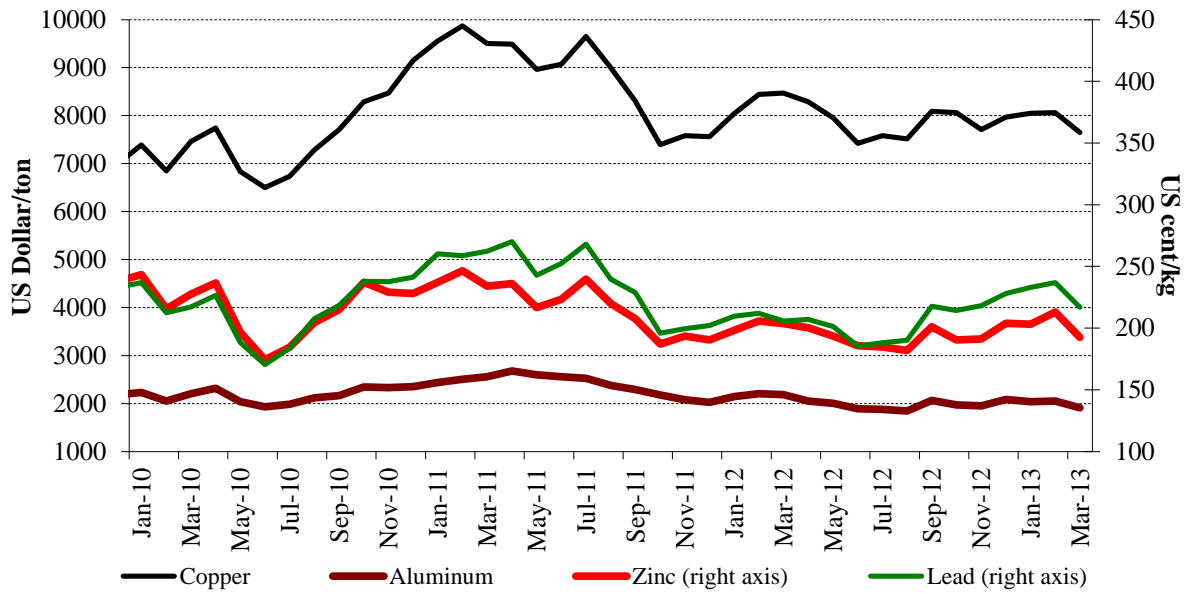
**2.1.3. External Sector****– World Prices**

In the 1<sup>st</sup> quarter of 2013, the situation in the global commodity markets was generally characterized by the decrease in prices.

In the 1<sup>st</sup> quarter of 2013, copper prices on average virtually didn't change having slightly decreased by 0.06% and amounting to US\$ 7918.0 per ton on average. During the 1<sup>st</sup> quarter of 2013, aluminum prices decreased by 0.15% and amounted to US\$ 2000.0 per ton. In January-March 2013 world prices for lead grew by 4.0%, amounting to 229.0 US cents per kilo on average during the period. Prices for zinc increased by 3.9% with the average price for the period of 202.9 US cents per kilo (Figure 14).

Figure 14

Dynamics of world prices for metals



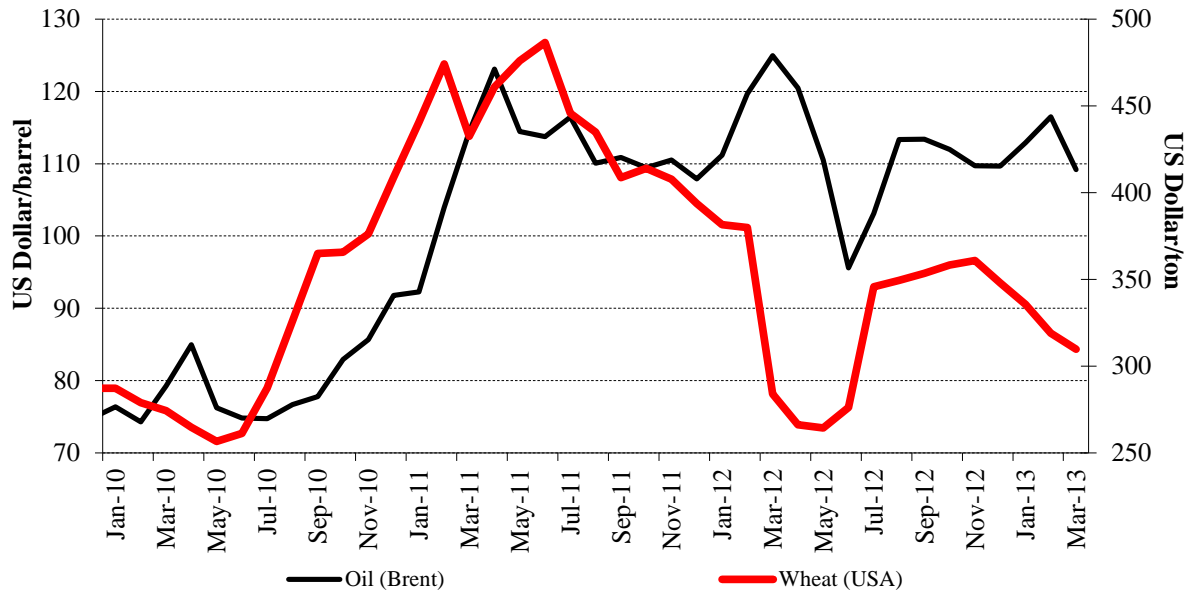
Source: World Bank

World prices for oil (Brent) in January-February 2013 slightly increased, having decreased in March 2013. During the 1<sup>st</sup> quarter of 2013 in general, they increased by 2.2% and were at US\$ 112.9 per barrel on average during the period (Figure 15).

In January-March 2013, world prices for wheat were gradually decreasing. In general, during the 1<sup>st</sup> quarter of 2013 as compared to the prior period, the world price for wheat (USA) decreased by 9.6%, being at US\$ 321.4 per ton on average (Figure 15).

Figure 15

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



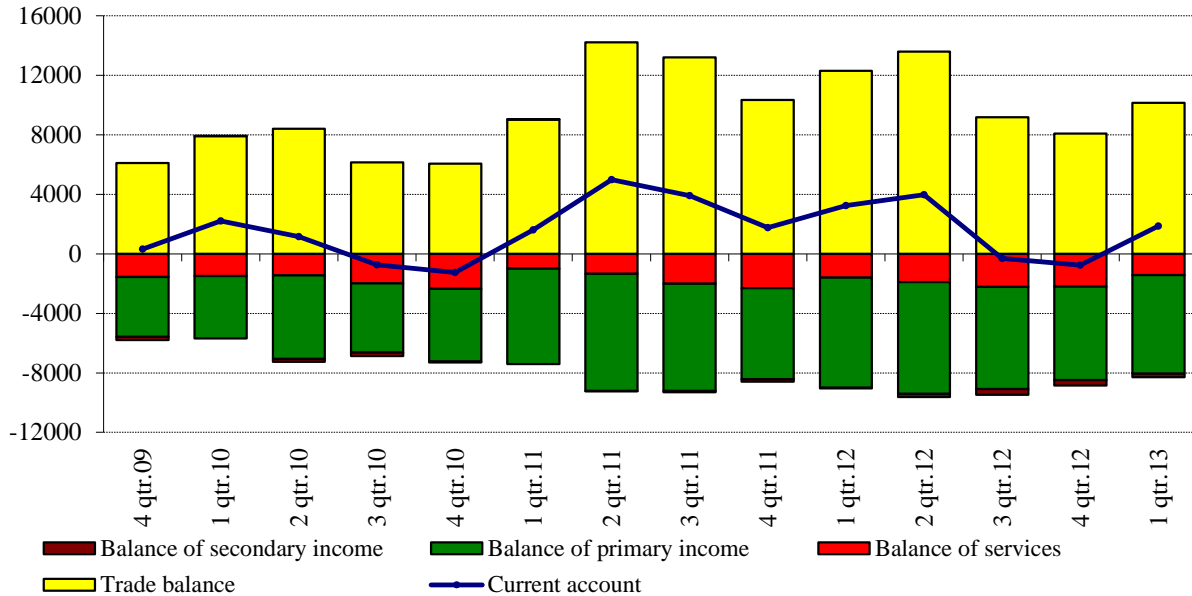
Source: World Bank

– Balance of Payments

At the end of the 1<sup>st</sup> quarter of 2013, the current account balance was in surplus of US\$ 1857.4 mln. or 4.1% of GDP of the respective period (Figure 16).

Figure 16

Current account balance, US\$ mln.



Source: National Bank of the Republic of Kazakhstan

In the 1<sup>st</sup> quarter of 2013, proceeds from the exports of goods decreased versus the respective indicator for the 1<sup>st</sup> quarter of 2012 by 6.7% to US\$ 20.4 bln., and expenditures on commodity imports increased by 7.3% as compared to the 1<sup>st</sup> quarter of 2012 and amounted to US\$ 10.2 bln. The trade surplus decreased by 17.5% and amounted to US\$ 10.1 bln. In the 1<sup>st</sup>



quarter of 2013, the deficit in the balance of services as compared to the 1<sup>st</sup> quarter of 2012 decreased by 10.7% to US\$ 1.4 bln., and the deficit in the balance of primary income (labor remuneration, investment return and other primary income) decreased by 10.6% and amounted to US\$ 6.6 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to US\$ 236.8 mln.

The balance of the financial account (excluding reserve assets) in the 1<sup>st</sup> quarter of 2013 was positive and amounted to US\$ 677.1 mln. (a negative balance of US\$ 549.5 mln. in the 1<sup>st</sup> quarter of 2012). Net growth in foreign assets of residents (except reserve assets) amounted to US\$ 5.4 bln. versus US\$ 5.2 bln. in the respective period of 2012. The growth in foreign liabilities (net) amounted to US\$ 4.7 bln. (US\$ 5.8 bln. in the 1<sup>st</sup> quarter of 2012).

As a result, at the end of the 1<sup>st</sup> quarter of 2013, negative balance of payments amounted to US\$ 289.6 mln. (in the 1<sup>st</sup> quarter of 2012 – a negative balance of US\$ 2.1 bln.).

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

In the 1<sup>st</sup> quarter of 2013, the aggregate terms of trade index was by 3% lower than the respective indicator for the 1<sup>st</sup> quarter of 2012. Alongside with that, the terms of trade with the Euro zone countries decreased by 15%, and with Russia – decreased by 8% (Table 1).

Table 1

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

	1 qtr. 12	2 qtr. 12	3 qtr. 12	4 qtr. 12	1 qtr. 13
Export prices	12	1	-9	-2	-1
Import prices	5	-13	1	-1	2
<b>Terms of trade</b>	8	17	-9	-1	-3
including:					
<b>Euro Zone Countries</b>					
Export prices	18	4	-10	-1	0
Import prices	14	-7	-10	1	15
<b>Terms of trade</b>	5	13	0	-2	-15
<b>Russia</b>					
Export prices	16	5	-17	-19	-14
Import prices	2	-18	1	3	-5
<b>Terms of trade</b>	16	26	-24	-21	-8

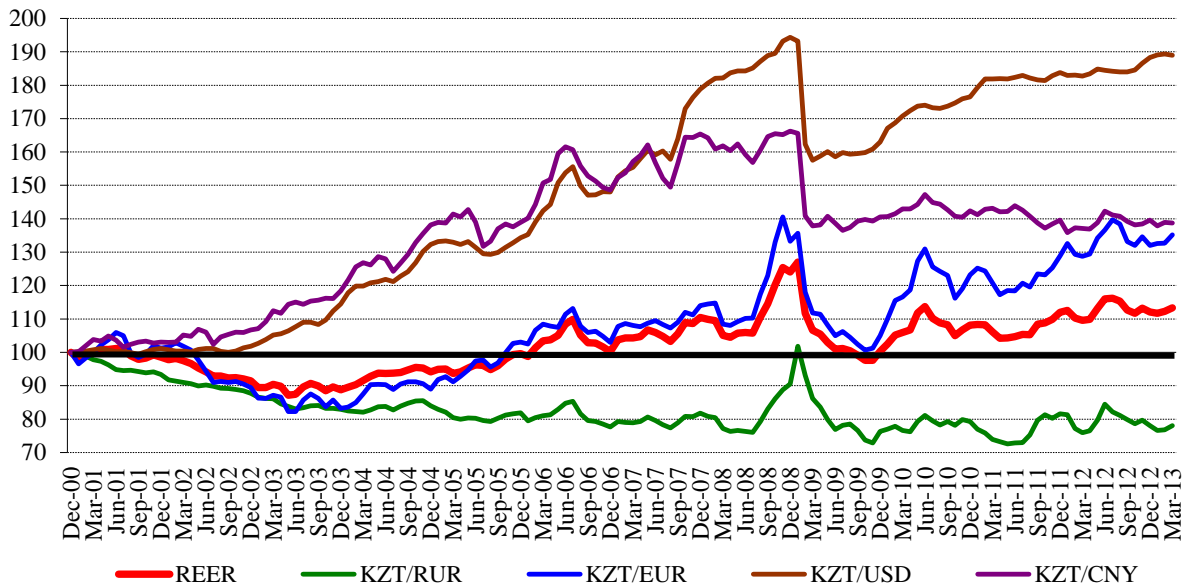
Source: National Bank of the Republic of Kazakhstan

At the end of the 1<sup>st</sup> quarter of 2013 as compared to the prior period, the index of the real effective exchange rate of the Tenge appreciated by 0.1%. The Tenge has depreciated versus the CIS currencies basket by 1.5% and it appreciated by 0.6% versus the basket of other currencies.

During the 1<sup>st</sup> quarter of 2013 as compared to the prior period, the Tenge appreciated in real terms against the US Dollar by 1.4%, versus the Euro – by 0.5%, and it depreciated by 2.1% versus the Russian ruble (Figure 17).

Figure 17

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



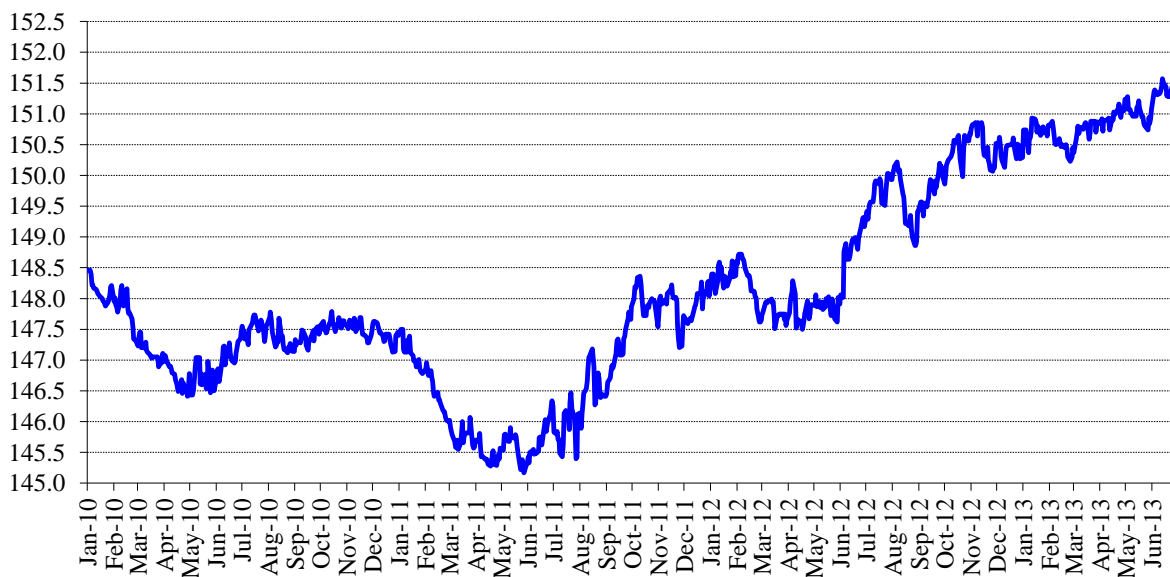
Source: National Bank of the Republic of Kazakhstan

**– Nominal Exchange Rate of the Tenge**

The average weighted exchange rate of the Tenge in the second quarter of 2013 was KZT 151.13 per 1 US Dollar. The stock exchange rate at end-period was KZT 151.65 per 1 US Dollar. Since the beginning of the year the Tenge has depreciated versus the US Dollar in nominal terms by 0.6% (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

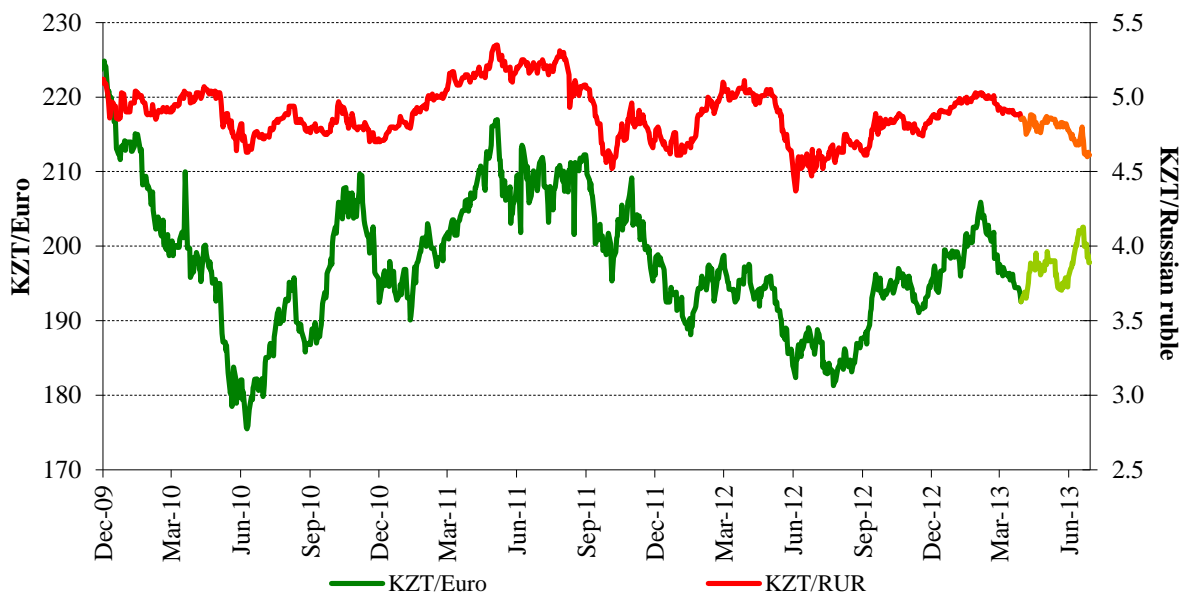
In April, May and June the Tenge was depreciating versus the US Dollar by 0.3%, 0.1% and 0.2%, respectively.

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 2<sup>nd</sup> quarter of 2013, the official exchange rate of the Tenge versus the Euro depreciated by 2.7%, and it appreciated versus the Russian ruble by 4.9% (Figure 19).

Figure 19

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



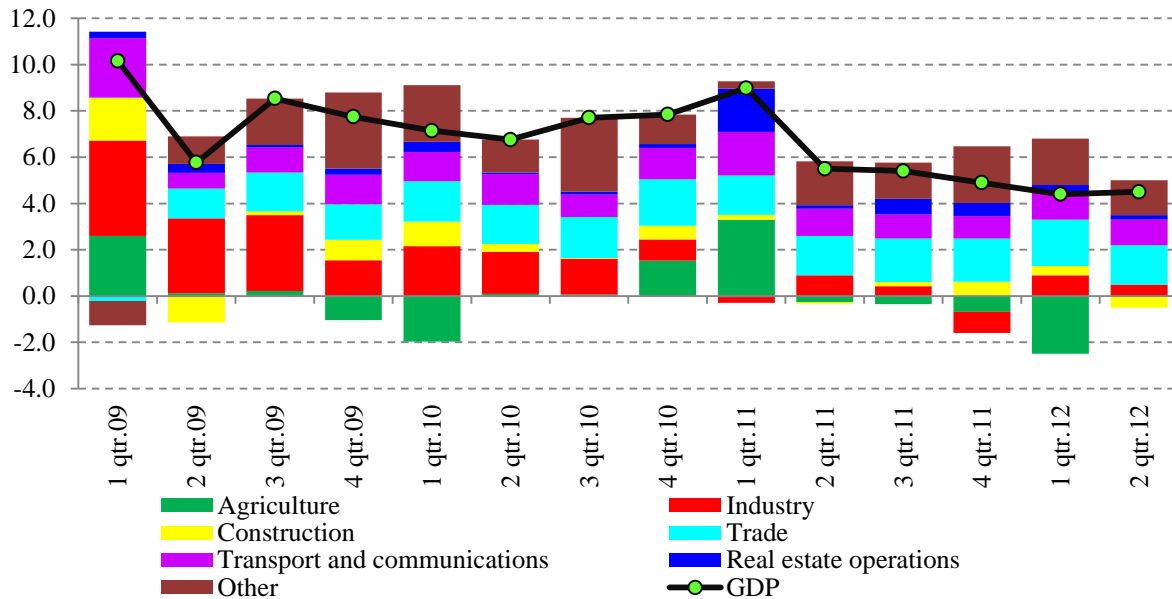
Source: National Bank of the Republic of Kazakhstan

**2.2. Production**

In the 1<sup>st</sup> quarter of 2013, the volume of GDP output amounted to KZT 6817.2 bln. in current prices. Being positively influenced by the growth of production in virtually all sectors of the economy, except the construction sector, the GDP in real terms (in prices of the year 2005) increased versus the 1<sup>st</sup> quarter of 2012, according to estimate, by 4.5% (Figure 20).

Figure 20

**Contribution of key sectors of the economy to growth in real GDP  
(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

**Production of goods.** In the segment of the production of goods, indicators of agricultural and industrial sectors showed growth, whereas those of construction sector demonstrated the decline. According to the estimates, in the 1<sup>st</sup> quarter of 2013 industrial output volume increased by 2.0% (in the 4<sup>th</sup> quarter of 2012 – 3.6% growth), the output volume of the agricultural sector increased by 0.4% (35.9% decrease), and the construction sector demonstrated the decrease by 4.9% (4.7% growth). As a result, the segment of the production of goods made positive contribution to the GDP formation of (+)0.1%.

**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 (+)4.3%.

**Net taxes on foodstuffs and imports.** The increase in the volume of net taxes on foodstuffs and imports by 3.8% has positively influenced the GDP growth formation of (+)0.2% (in the 4<sup>th</sup> quarter of 2012 – the contribution of (+)0.5%).

Therefore, the main driver for the GDP growth in the 1<sup>st</sup> quarter of 2013 (similarly to that in the 4<sup>th</sup> quarter of 2012) remained the sector of the production of services.

## 2.3. Labor Market

### 2.3.1. Employment and Unemployment

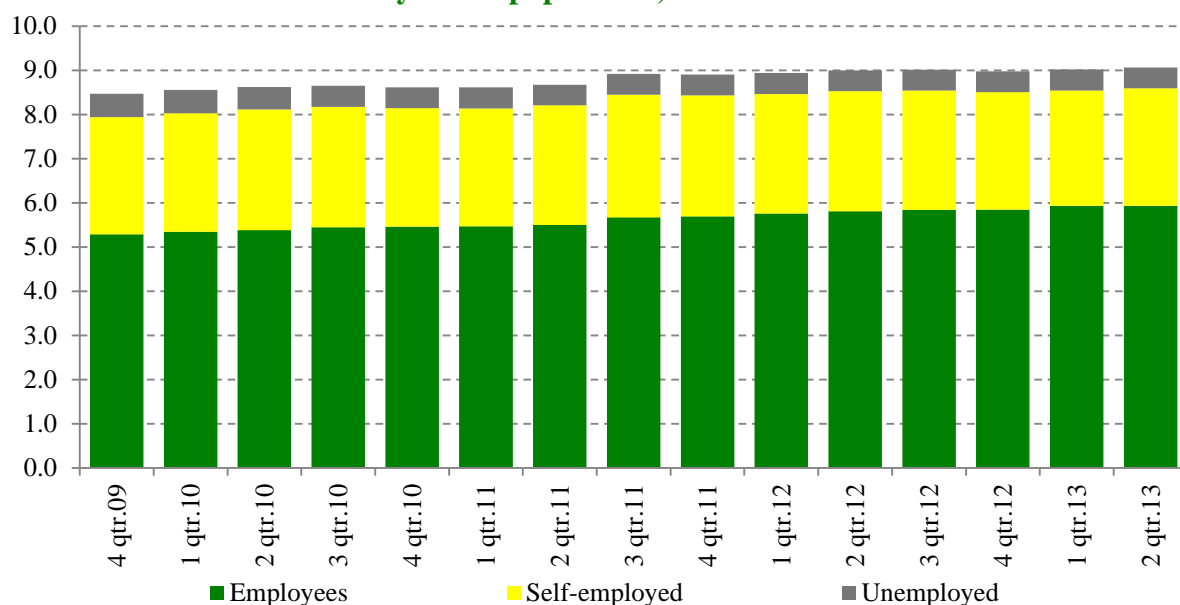
According to the preliminary estimates, the number of people employed in the economy in the 2<sup>nd</sup> quarter of 2013 was 8.6 mln., having increased by 0.5% versus the 1<sup>st</sup> quarter of 2013 (the growth versus the 2<sup>nd</sup> quarter of 2012 accounted for 0.8%). At the same time, the number of employees reached 5.9 mln., having increased by 0.4% versus the 1<sup>st</sup> quarter of 2013, and the number of self-employed – 2.7 mln. individuals (0.9% growth).

Within the employees structure, 4.9 mln. persons (82.7% of all employees) were working in public and non-public institutions, for individuals – 0.7 mln. persons (11.7%), and at farms – 0.3 mln. persons (5.6%).

In the 2<sup>nd</sup> quarter of 2013, the number of unemployed stood at 469,200 persons, which is 1.1% less than in the prior period and is 0.8% less than in the 2<sup>nd</sup> quarter of 2012 (Figure 21).

Figure 21

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



Source: Agency of Statistics of the Republic of Kazakhstan

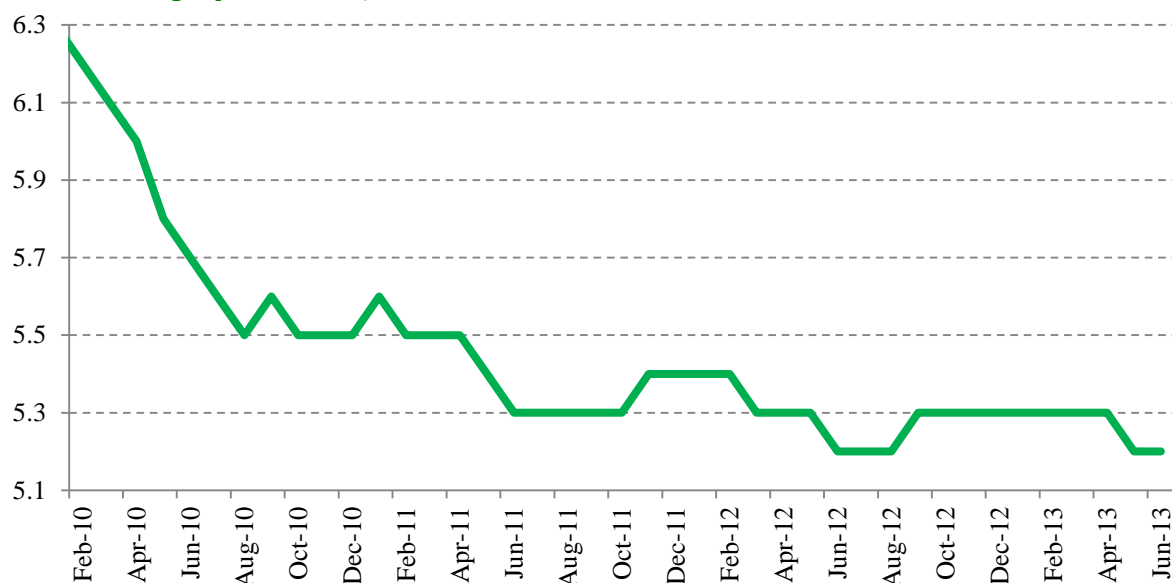
In April, May and June 2013, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

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

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

At the same time, the decrease in the number of employed in some sectors was fully compensated by its growth in other sectors. As a result, the unemployment rate in the 2<sup>nd</sup> quarter of 2013 decreased to 5.2% or by 0.1 basis point versus the 2<sup>nd</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 1<sup>st</sup> quarter of 2013 as compared to the respective quarter of the previous year, average nominal monthly wages increased by 7.8% (in the 4<sup>th</sup> quarter of 2012 – 8.2% growth), and in real terms – by 0.9% (2.4% growth).

Compared to the previous quarter, nominal wages decreased by 7.2%, and real wages decreased by 9.3%.

In March 2013 compared to March 2012, nominal wages increased in all key economic activities. The highest increase in nominal wages was observed in the following sectors: trade – 16.2%; agriculture, forestry and fishery – by 14.2%; information and communications – by 13.3%; industry – by 13.0%; public administration and defense – by 12.4%; and real estate operations – by 11.7%.

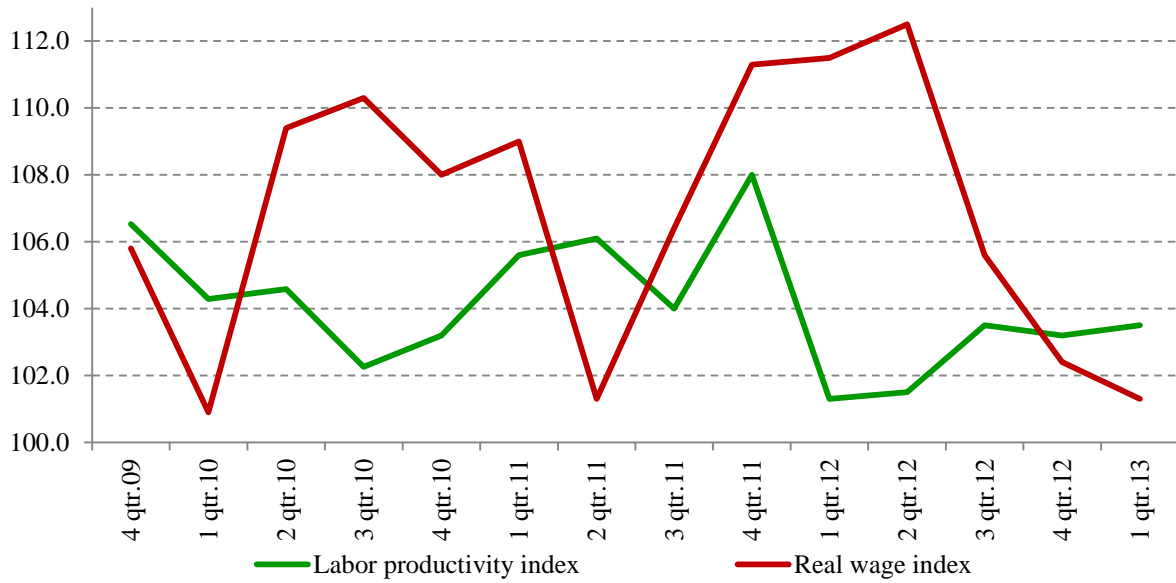
In March 2013, the highest wages in money terms were observed in the “professional, scientific and technical activity” (KZT 205,900), as well as in the “financial and insurance activity” (KZT 188,400), and the lowest wages – in “agriculture, forestry and fishery” (KZT 48,600).

In the 1<sup>st</sup> quarter of 2013, real wages of employees in real terms increased by 0.9% versus the respective period of the previous year, which is lower than the rates of growth during the three prior periods (in the 2<sup>nd</sup> quarter of 2012 – 12.5% growth, in the 3<sup>rd</sup> quarter of 2012 – 5.6% growth, in the 4<sup>th</sup> quarter of 2012 – 2.4% growth).

In the 1<sup>st</sup> quarter of 2013, the slowdown in the rates of wage growth, with a minor acceleration of the growth in the number of individuals employed in the economy had influenced the growth in the labor productivity index which accelerated to 3.5% (according to the National Bank’s estimate), whereas a quarter before its growth accounted for 3.2% (Figure 23).

Figure 23

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



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

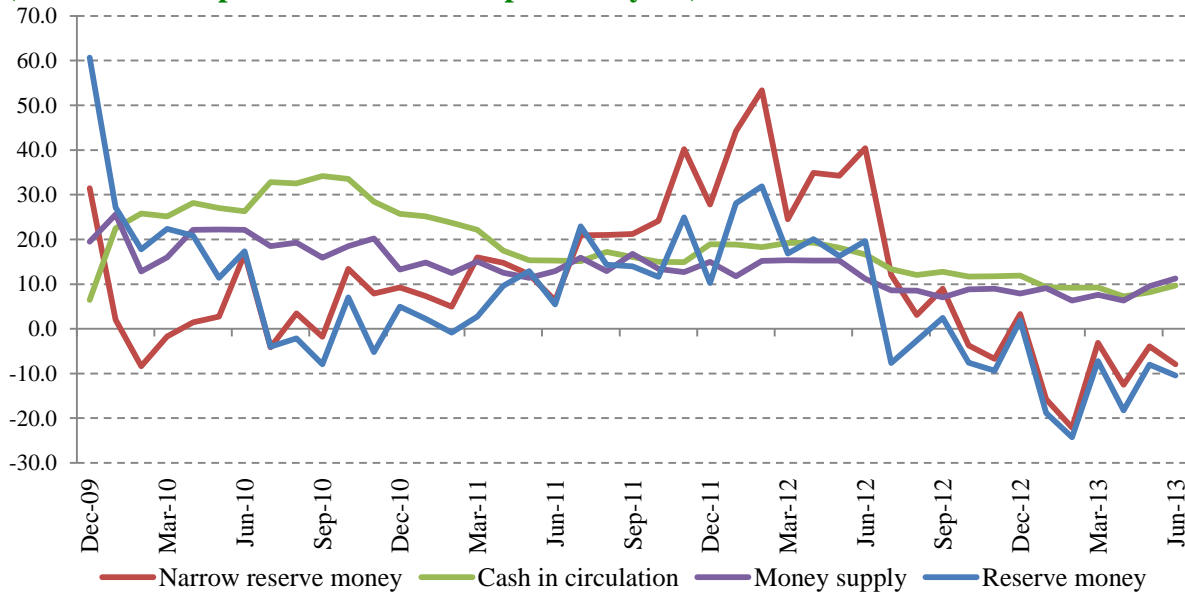
### 3. Money Supply

#### 3.1. Monetary Aggregates

In the 2<sup>nd</sup> quarter of 2013, the annual growth rates of cash in circulation and the money supply were moderate, whereas the reserve money and narrow reserve money contracted in annual terms (Figure 24).

Figure 24

**Dynamics of monetary aggregates**  
(as % of the respective month of the previous year)



Source: National Bank of the Republic of Kazakhstan

#### 3.1.1. Reserve Money

During the 2<sup>nd</sup> quarter of 2013, the reserve money expanded by 1.6% and amounted to KZT 3094.7 bln. at end-June 2013. The narrow reserve money expanded by 7.5% to KZT 3048.5 bln.

In June 2013 versus June 2012, the reserve money contracted by 10.4%.

In June 2013 as compared to the respective period of 2012, net international reserves of the National Bank decreased by 19.5% to US\$ 25.6 bln. Foreign currency proceeds to the Government's accounts with the National Bank were neutralized by the decreased foreign currency balances of bank correspondent accounts with the National Bank, 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 23.1%, and assets denominated in gold increased by 1.2% as a result of the decrease in its price in the global markets.

In June 2013 as compared to June 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)**

	3 qtr. 12	4 qtr. 12	1 qtr. 13	2 qtr. 13
<b>Net international reserves</b>	<b>-7.4</b>	<b>-3.6</b>	<b>-13.1</b>	<b>-19.5</b>
<b>Net domestic assets</b>	<b>25.0</b>	<b>73.5</b>	<b>95.7</b>	<b>153.0</b>
Net claims on the Government	11.3	26.8	9.0	32.8
Claims on the economy	256.2	596.5	262.7	221.2
Other net domestic assets	-19.5	-18.3	-1.9	19.8
<b>Reserve money</b>	<b>2.4</b>	<b>1.9</b>	<b>-7.2</b>	<b>-10.4</b>
<b>Narrow reserve money</b>	<b>9.0</b>	<b>3.3</b>	<b>-3.1</b>	<b>-7.9</b>

Source: National Bank of the Republic of Kazakhstan

**3.1.2. Money Supply**

During the 2<sup>nd</sup> quarter of 2013, the money supply increased by 4.5% to KZT 11578.9 bln.

In June 2013 versus June 2012, its growth accounted for 11.3% as a result of the increase in both net foreign assets and net domestic assets of the banking system (Table 3).

Table 3

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

	3 qtr. 12	4 qtr. 12	1 qtr. 13	2 qtr. 13
<b>Net foreign assets</b>	<b>-15.6</b>	<b>11.6</b>	<b>5.7</b>	<b>29.0</b>
<b>Domestic assets</b>	<b>25.7</b>	<b>2.1</b>	<b>14.6</b>	<b>4.6</b>
Claims on the Government	200.4	58.9	209.9	394.6
Claims on the economy	11.2	11.9	11.1	12.0
Other net domestic assets	2.0	-18.5	-13.6	-26.2
<b>Money supply</b>	<b>7.1</b>	<b>7.9</b>	<b>7.6</b>	<b>11.3</b>
Cash in circulation	12.8	11.9	9.2	9.7
Deposits of residents	6.2	7.2	7.4	11.5

Source: National Bank of the Republic of Kazakhstan

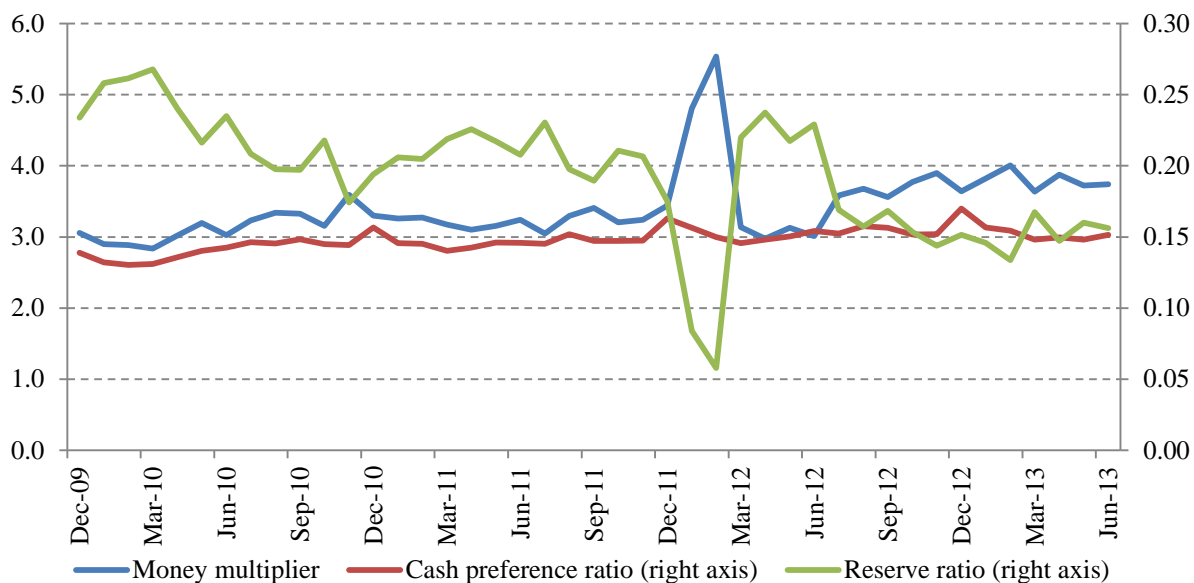
In the structure of net foreign assets of the banking system in June 2013 as compared to the respective period of 2012, net foreign assets of banks increased whereas net foreign assets of the National Bank (excluding the National Fund) decreased. The growth in net foreign assets of banks was mainly secured 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 86.6% in June 2012 to 86.8% at end-June 2013.

The money multiplier grew from 3.01 in June 2012 to 3.74 in June 2013 as a result of the growth in money supply against the contraction in the reserve money. Significant decrease in the reserve ratio versus 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 2<sup>nd</sup> quarter of 2013, the volume of cash in circulation increased by 6.7% to KZT 1523.5 bln.

In June 2013 as compared to June 2012, cash in circulation increased by 9.7%. Cash payouts from bank cashier's departments increased by 39.3% to KZT 2.0 trln., and receipts to bank cashier's departments – by 36.1% to KZT 1.9 trln.

The growth in cash in circulation in January-June 2013 as compared to the respective period of 2012 was associated with the increased net payouts from accounts of individuals, the growth in payouts to support ATMs, decreased net proceeds from foreign exchange sales by banks and decreased net receipts from loan repayments and other items<sup>1</sup>. At the same time, the impact of these factors was not neutralized by the growth in net proceeds from payments for goods, services and delivered works, decreased net payouts associated with the remuneration of labor, retirement benefits and allowances, as well as the outstripping decrease in payouts over proceeds under the “one-time money transfers within Kazakhstan and from abroad by using the systems of money transfers (without opening an account)”.

**3.2. Financial Market**

**3.2.1. Deposits of Residents**

As of the end of June 2013, deposits of residents amounted to KZT 10055.4 bln., having increased by 4.2% during the 2<sup>nd</sup> quarter of 2013. Deposits of legal entities increased by 4.8%, and deposits of individuals increased by 3.2%.

<sup>1</sup> 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.

Within the structure of deposits, the volume of term deposits (under the IMF classification – "other deposits"<sup>1</sup>) increased by 6.8% during the 2<sup>nd</sup> quarter of 2013 and amounted to KZT 6588.1 bln. at the end of June 2013. Term deposits in the domestic currency increased by 0.2% to KZT 4151.6 bln., and foreign currency term deposits increased by 20.4% to KZT 2436.4 bln. During the quarter, the percentage of term deposits in the total deposit base increased from 63.9% to 65.5%.

In the 2<sup>nd</sup> quarter of 2013 the situation in the deposit market was characterized by significant growth in foreign currency deposits caused by the increase in foreign currency holdings of legal entities by 17.7%. As a result, in the 2<sup>nd</sup> quarter of 2013 the volume of foreign currency deposits increased by 11.8% and amounted to KZT 3453.2 bln., whereas deposits in the domestic currency only increased by 0.6%, to KZT 6602.1 bln.

The growth in the volume of foreign currency holdings of legal entities in May 2013 by 22.4%, despite a minor decrease by 0.1% in June 2013, resulted in the increased degree of dollarization in the deposit market and the decrease in the percentage of deposits in the domestic currency from 68.0% in March 2013 to 65.7% in June 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 2<sup>nd</sup> quarter of 2013. Alongside with that, the growth in the Tenge deposits of legal entities also demonstrated positive dynamics observed in June 2013 – by 3.4%, despite the decrease by 3.9% in May (Table 4).

Table 4

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

	June 2010	June 2011	June 2012	June 2013
<b>Deposits of residents</b>	<b>5.7</b>	<b>4.4</b>	<b>0.3</b>	<b>4.2</b>
<i>of individuals</i>	<i>2.8</i>	<i>7.2</i>	<i>6.1</i>	<i>3.2</i>
<i>of non-bank legal entities</i>	<i>6.9</i>	<i>3.2</i>	<i>-2.3</i>	<i>4.8</i>
<b>Deposits in the Tenge</b>	<b>4.4</b>	<b>5.2</b>	<b>3.8</b>	<b>0.6</b>
<b>Deposits in foreign currency</b>	<b>7.9</b>	<b>2.5</b>	<b>-6.4</b>	<b>11.8</b>

Source: National Bank of the Republic of Kazakhstan

Compared to the previous quarter, the 2<sup>nd</sup> quarter of 2013 interest rates on deposits slightly increased, due to the growth in interest rates on deposits in the domestic currency in June, despite the decrease in interest rates on foreign currency deposits.

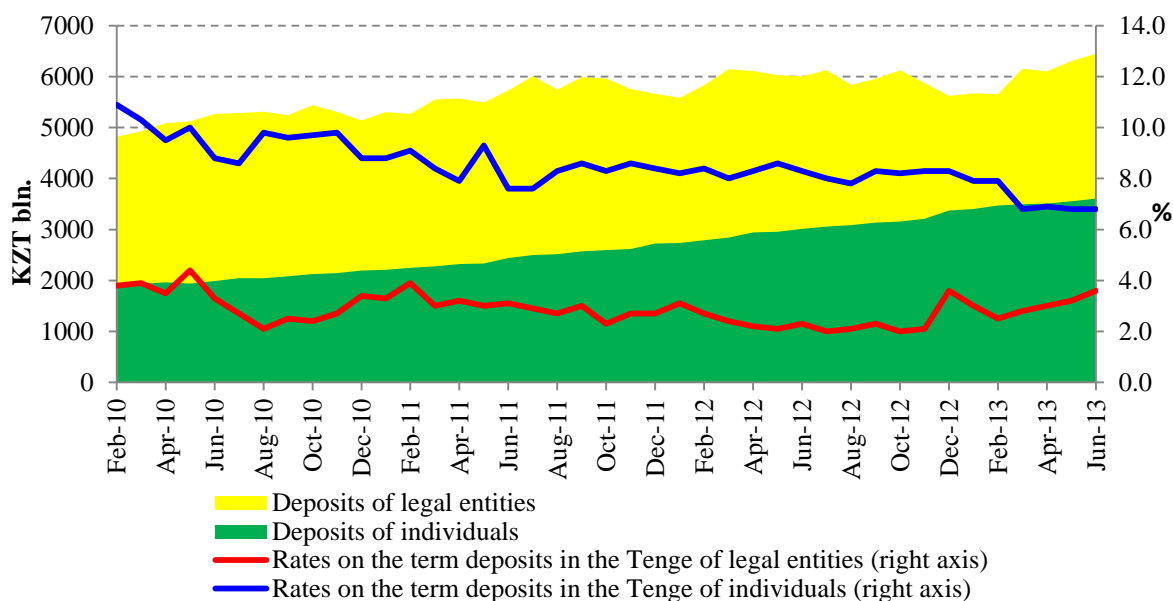
As a result, the average rate on the Tenge deposits in the 2<sup>nd</sup> quarter of 2013 increased to 4.9% (during the 1<sup>st</sup> quarter of 2013 – 4.4%), and on deposits in freely convertible currencies – to 3.1% (3.6%).

The weighted average interest rate on Tenge time deposits of non-bank legal entities in June 2013 accounted for 3.6% (in March 2013 – 2.8%), and on deposits of individuals – 6.8% (6.8%) (Figure 26).

<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.

Figure 26

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

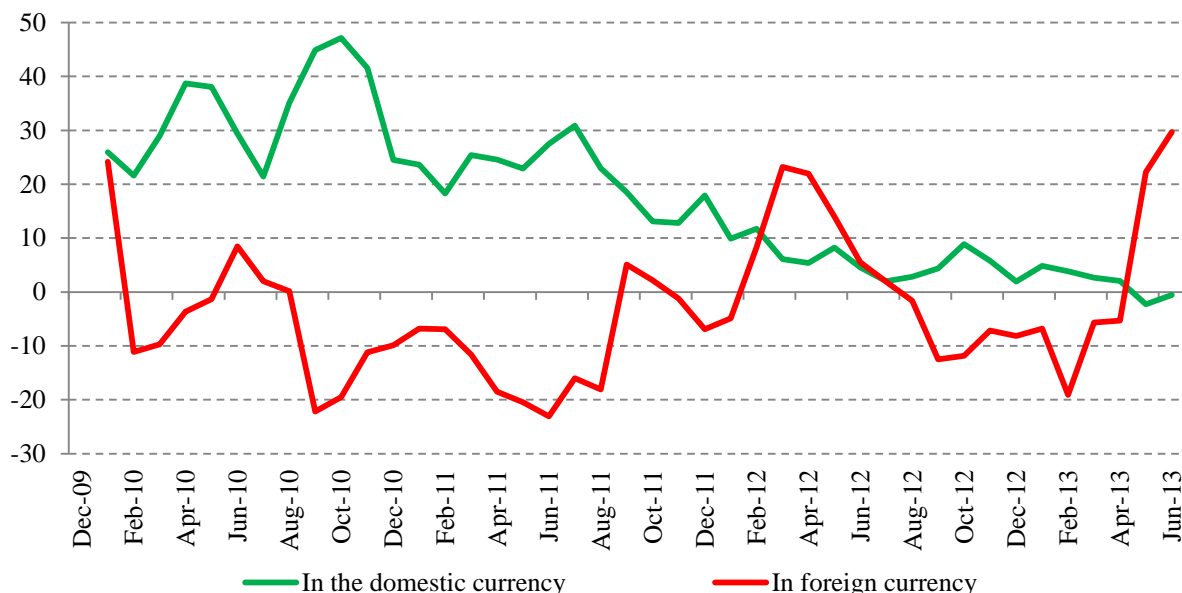


Source: National Bank of the Republic of Kazakhstan

During the 2<sup>nd</sup> quarter of 2013, the volume of deposits of legal entities increased by 4.8% to KZT 6449.4 bln., with its annual growth (June 2013 to June 2012) accounting for 7.4%. During the year, deposits of legal entities in the domestic currency decreased by 0.5%, and foreign currency deposits increased by 29.7% (Figure 27).

Figure 27

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



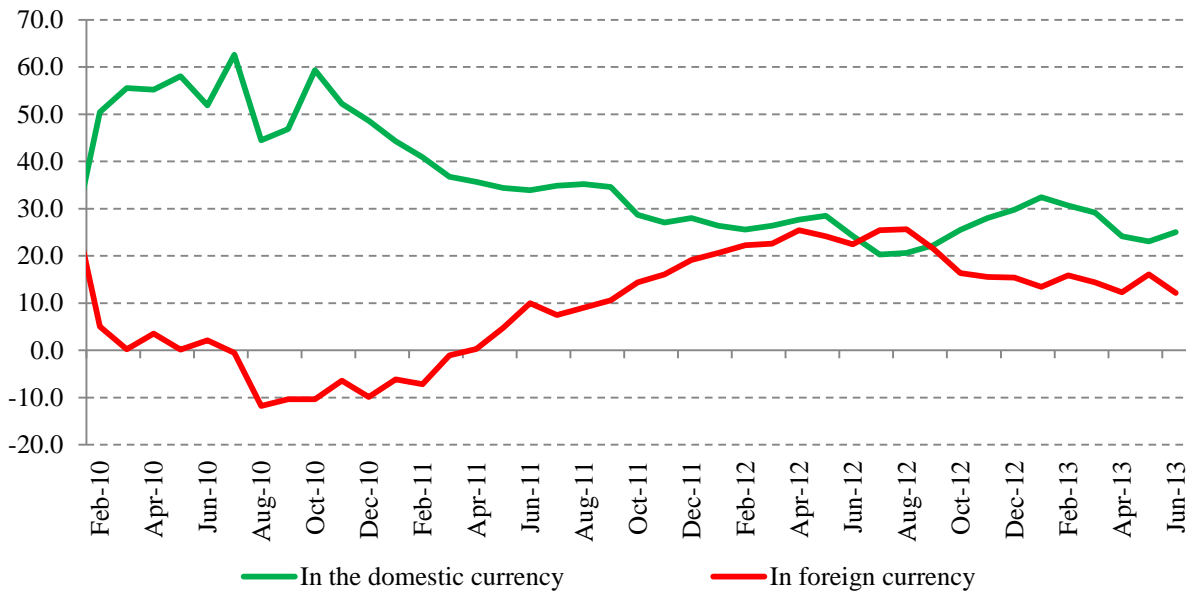
Source: National Bank of the Republic of Kazakhstan

During the 2<sup>nd</sup> quarter of 2013, the volume of deposits of individuals increased by 3.2% to KZT 3606.0 bln., with its annual growth accounting for 19.7%. Deposits of

individuals in the domestic currency increased in annual terms by 25.1%, and foreign currency deposits increased by 12.1% (Figure 28).

Figure 28

**Dynamics of the change in 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 2<sup>nd</sup> quarter of 2013, bank credits to the economy increased by 4.2% to KZT 10545.0 bln. During April-June of 2013, credits to legal entities increased by 2.4%, amounting to KZT 7324.0 bln., and credits to individuals increased by 8.6% to KZT 3221.0 bln.

The volume of credits in the domestic currency increased by 4.0% to KZT 7550.1 bln., and the volume of foreign currency credits increased by 4.9% to KZT 2994.9 bln.

During April-June 2013, long-term lending increased by 4.9% to KZT 8569.9 bln., and short-term lending increased by 1.5%, amounting to KZT 1975.1 bln. As a result, the percentage of long-term credits in June 2013, compared to March 2013, increased from 80.8% to 81.3%.

In June 2013, the weighted average interest rate on credits to non-bank legal entities provided in the Tenge decreased to 10.3% (in March 2013 – 10.6%), and the rate on the credits in the Tenge to individuals amounted to 19.5% (in March 2013 – 21.6%). Generally, in the 2<sup>nd</sup> quarter of 2013, the cost of borrowing decreased compared to the prior period (Figure 29).

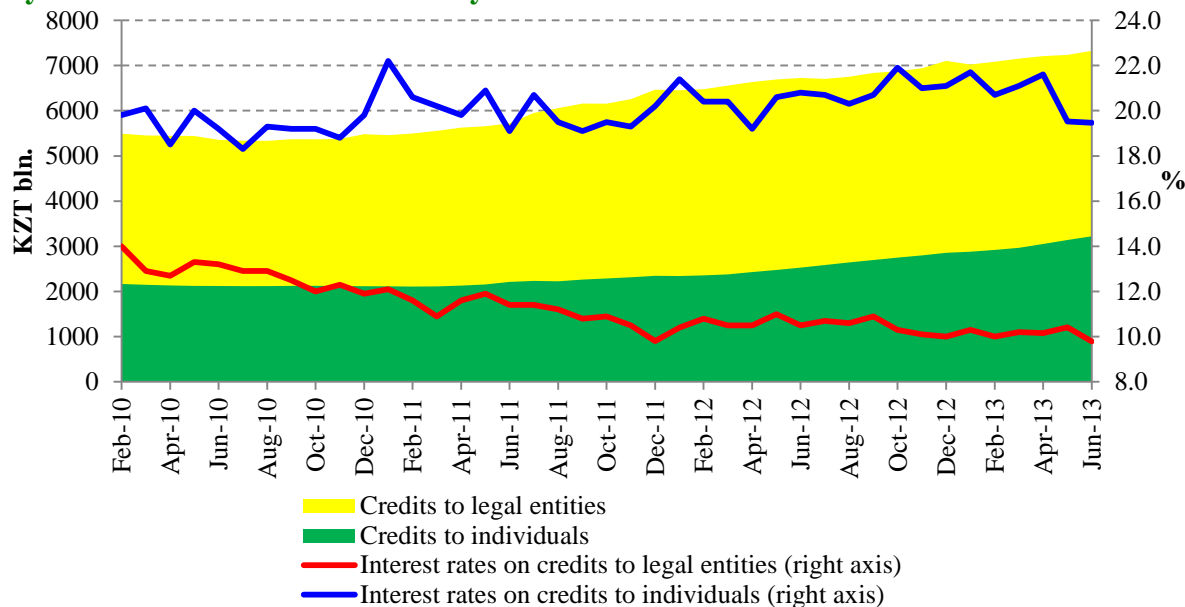
In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.9%), other purposes (22.5%), new construction and reconstruction (13.7%), as well as for consumer needs of individuals (17.3%).

As per the breakdown by sector, the highest debt on bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 47.8%, trade – 19.7%, construction – 13.2%, and industry – 11.9%.

During the 2<sup>nd</sup> quarter of 2013, credits to the industry increased by 3.4%, to trade – by 1.6%, to the construction sector – by 1.8% and to the sector of communications – by 7.9%. Credits to agriculture decreased by 9.3%, and to the transport sector – by 5.8%.

Figure 29

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



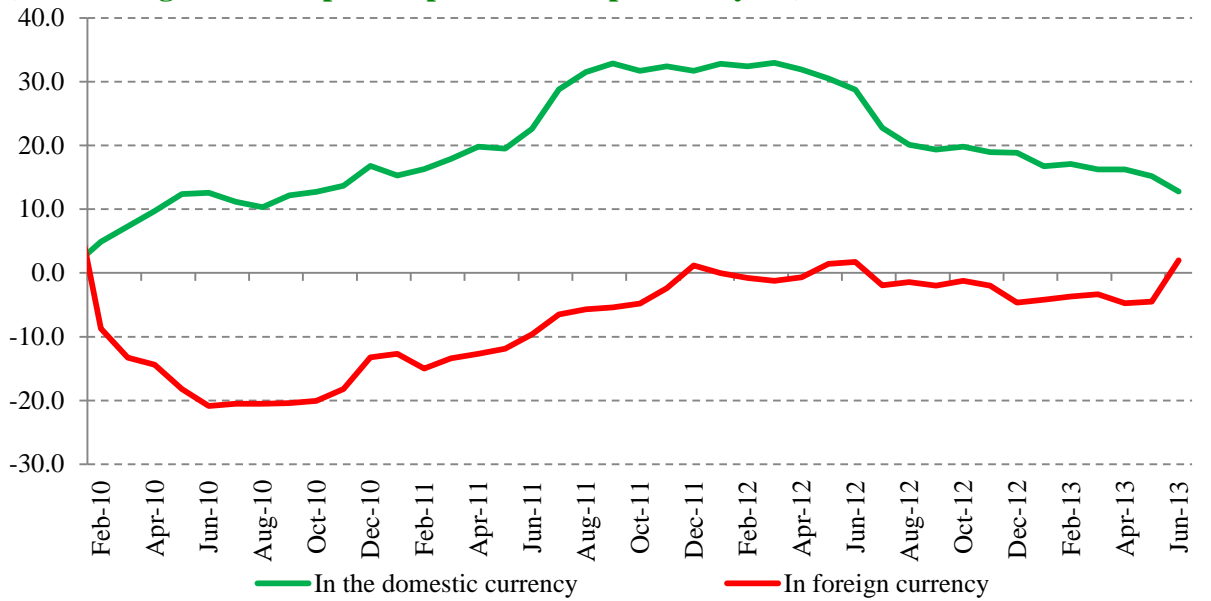
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in annual terms (June 2013 to June 2012) increased by 8.9%. There were changes in the structure of credits based on their maturities. The share of medium- and long-term credits in total credits to legal entities at end-June 2013 reached 75.1%, whereas in March 2013 it accounted for 74.6%.

On the annual basis, credits to legal entities in the domestic currency increased by 12.8%, and foreign currency credits increased by 2.0% (Figure 30).

Figure 30

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



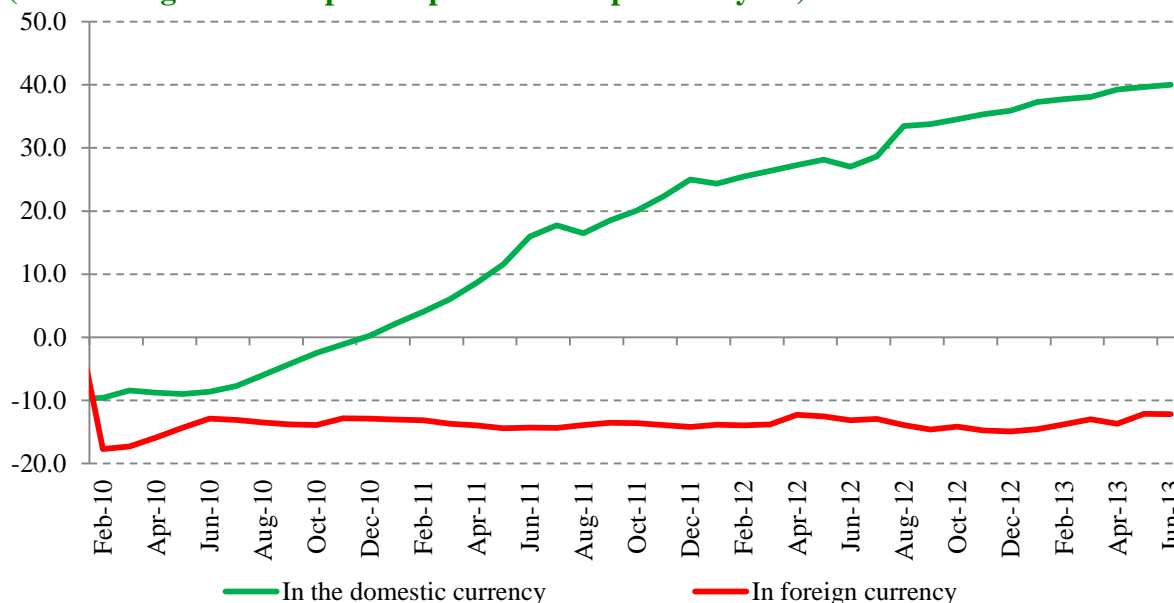
Source: National Bank of the Republic of Kazakhstan

The volume of credits distributed to individuals in June 2013, compared to the respective month of 2012, increased by 27.4%. At the end of June 2013, the share of medium- and long-term credits in total credits to individuals slightly decreased and accounted for 95.4% versus 95.7% in March 2013.

In annual terms, credits distributed to the population in the domestic currency demonstrated the increase of 40.0%, and in foreign currency – 12.2% decrease (Figure 31).

Figure 31

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



Source: National Bank of the Republic of Kazakhstan

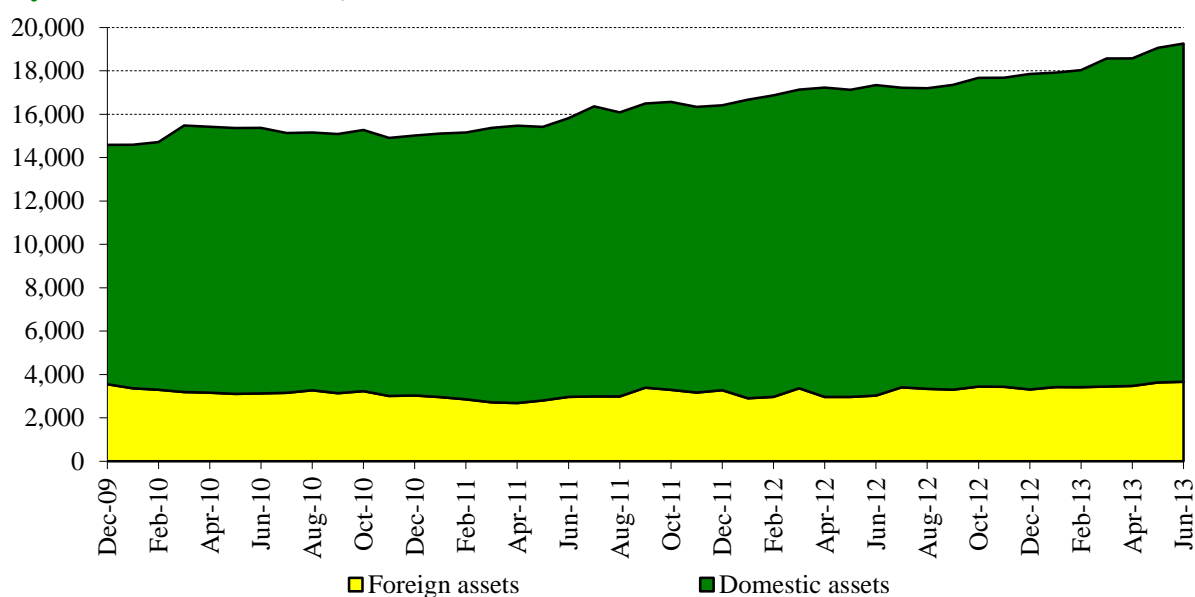
**3.2.3. Bank Assets and Liabilities**

– **Assets**

In the 2<sup>nd</sup> quarter of 2013, the amount of bank assets, calculated on the basis of the Monetary Survey, increased by 3.7% to KZT 19.3 trln. In annual terms (June 2013 to June 2012) bank assets increased by 11.0% (Figure 32).

Figure 32

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



Source: National Bank of the Republic of Kazakhstan

In June 2013, external assets of banks accounted for 19.0% of the total volume of assets or KZT 3.7 trln. They increased by 21.0% versus June 2012.

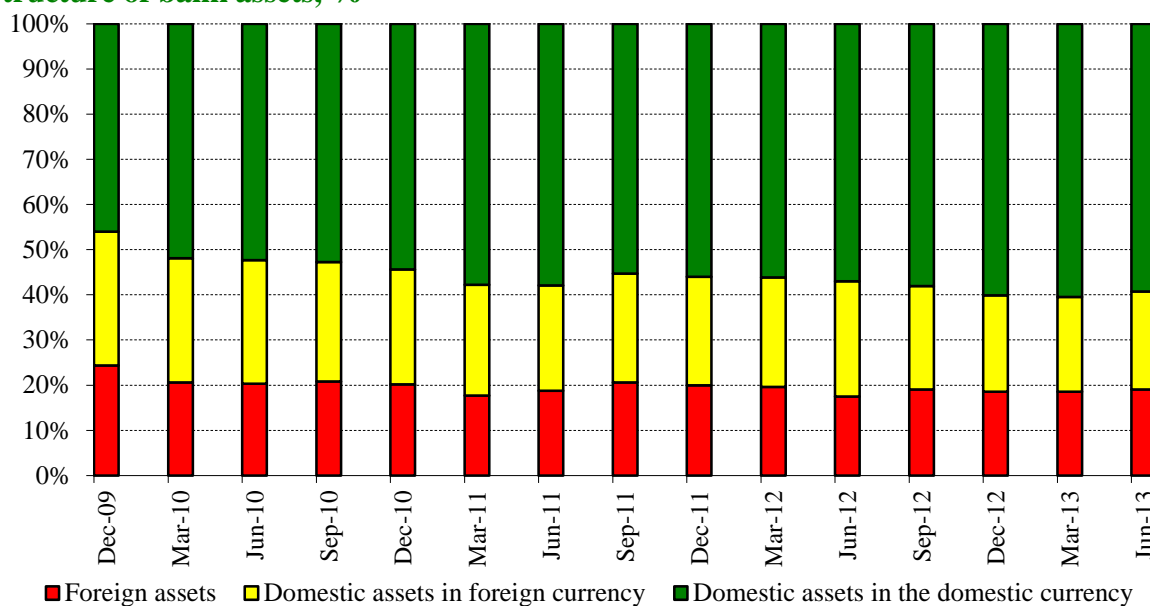


Within the external assets structure, credits to non-residents accounted for 45.9% in June 2013 (in March 2013 – 47.9%), deposits placed with non-residents – 33.1% (in March 2013 – 32.1%), securities of non-residents – 6.0% (in March 2013 – 6.1%), and other accounts receivable – 15.0% (in March 2013 – 13.9%).

In June 2013, domestic assets accounted for 81.0% or KZT 15.6 trln., with internal assets in the domestic currency accounted for 73.2% or KZT 11.4 trln., and internal assets in foreign currency – 26.8% or KZT 4.2 trln. During the 2<sup>nd</sup> quarter of 2013, domestic assets increased by 3.1%, with assets in the domestic currency increased by 1.6%, and assets in foreign currency increased by 7.3% (Figure 33).

Figure 33

**Structure of bank assets, %**



Source: National Bank of the Republic of Kazakhstan

In the 2<sup>nd</sup> quarter of 2013, the following changes in the quality of bank assets were observed. The share of standard assets increased from 48.5% to 49.8%, the share of doubtful assets decreased from 30.9% to 30.3%, and the share of bad assets decreased from 20.7% to 20.0%.

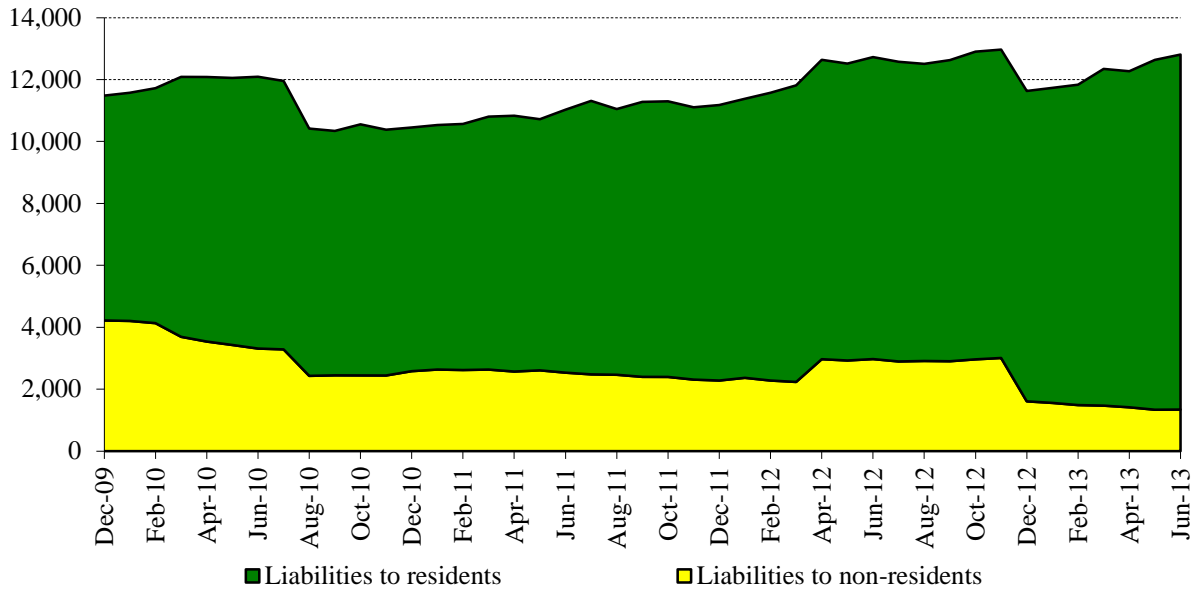
In the structure of doubtful assets, the decrease in assets of Categories 2, 3, 4 and 5 and the increase in assets of Category 1 were observed. Within the doubtful assets structure, the share of assets of Category 1 increased from 29.5% to 36.6%, the share of assets of Category 2 decreased from 17.9% to 14.6%, the share of assets of Category 3 decreased from 26.9% to 23.6%, the share of assets of Category 4 decreased from 11.7% to 11.2%, and the share of assets of Category 5 decreased from 14.1% to 14.0%.

Generally, according to the Monetary Survey, during the second quarter of 2013, bank assets demonstrated a slight increase. Alongside with that, minor increase in the share of standard assets and decrease in the share of doubtful and bad assets were observed.

**– Liabilities**

In the 2<sup>nd</sup> quarter of 2013, total bank liabilities, calculated on the basis of the Monetary Survey, increased by 3.8% and reached KZT 12.8 trln. at end-June 2013 (Figure 34).

Figure 34

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

Source: National Bank of the Republic of Kazakhstan

In June 2013, compared to March 2013, bank liabilities to non-residents decreased by 8.6% to KZT 1.3 trln. (US\$ 8.9 bln.), and decreased by 54.8%, compared to the respective month of 2012. At the end of June 2013, bank liabilities to non-residents accounted for 10.5% of total bank liabilities.

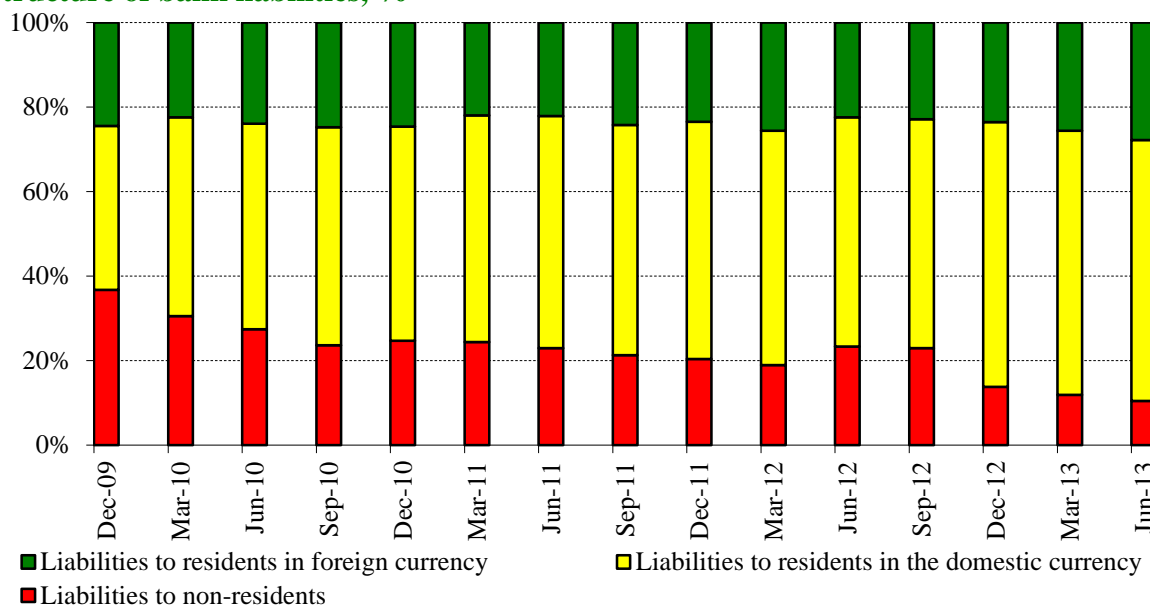
Within the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in June 2013 grew from 15.4% to 18.2%, compared to March 2013, the share of liabilities on securities decreased from 66.0% to 64.7 and credits received from non-residents decreased from 17.0% to 15.7%, respectively.

During the 2<sup>nd</sup> quarter of 2013 liabilities to residents increased by 5.4% to KZT 11.5 trln., where liabilities in the domestic currency increased by 2.5% to KZT 7.9 trln., and foreign currency liabilities increased by 12.6% to KZT 3.6 trln. (Figure 35).

Thus, in the 2<sup>nd</sup> quarter of 2013, bank liabilities to residents increased and bank liabilities to non-residents decreased.

Figure 35

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

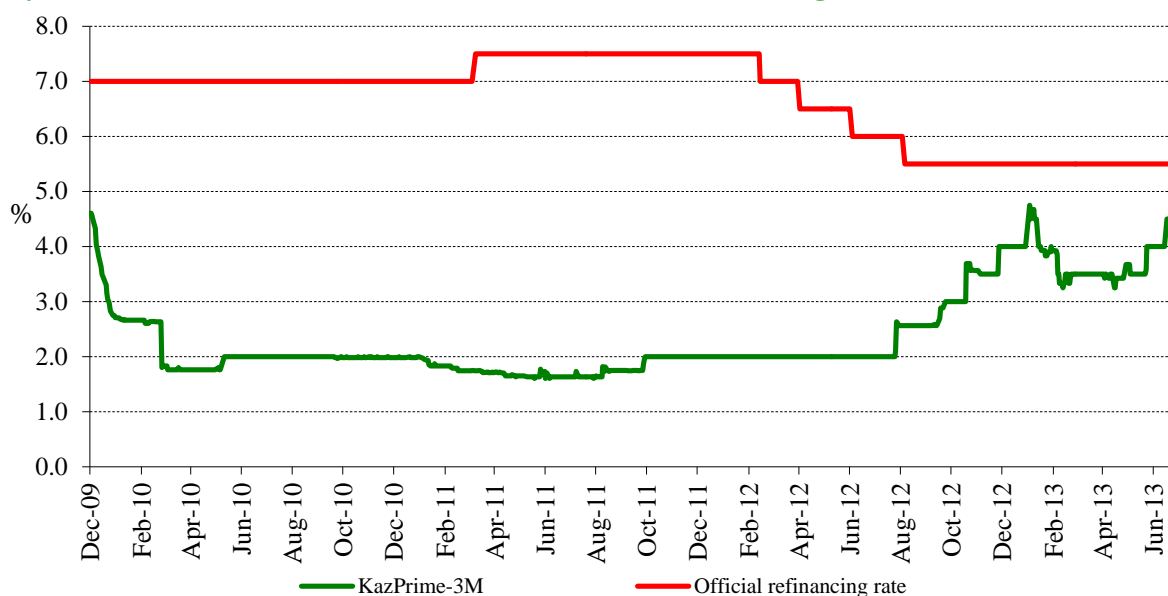
3.2.4. Financial Market Rates

In the 2<sup>nd</sup> quarter of 2013, there was an increase in the level of interest rates in the interbank market.

The KazPrime index increased from 3.71% on average during the 1<sup>st</sup> quarter of 2013 to 3.78% on average during the 2<sup>nd</sup> quarter. At end-March 2013 the index was 3.50%, and at end-June – 4.50% (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.

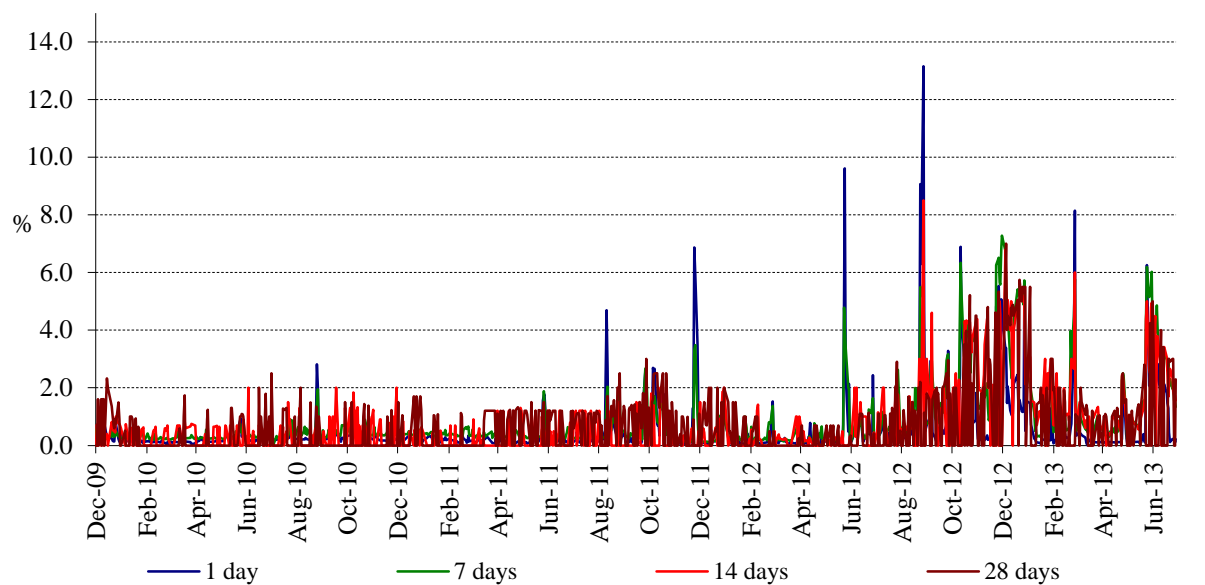
In the 2<sup>nd</sup> quarter of 2013, the average weighted rate on 1-day operations in the sector of automatic REPO increased and accounted for 1.18% (in the 1<sup>st</sup> quarter – 0.69%). Its maximum level was 6.25%, and minimum – 0.10%.

In the 2<sup>nd</sup> quarter of 2013, rate fluctuations on 7-day REPO operations were within the range from 0.22% to 6.19% (the average-weighted rate was 2.74%), on 14-day REPO operations – from 0.37% to 5.00% (the average-weighted rate was 1.68%), and on 28-day REPO operations – from 1.00% to 5.00% (the average-weighted rate was 2.02%) (Figure 37).

In the 2<sup>nd</sup> quarter of 2013, the transaction volumes in the sector of automatic REPO increased by 94.9% as compared to the previous quarter.

Figure 37

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



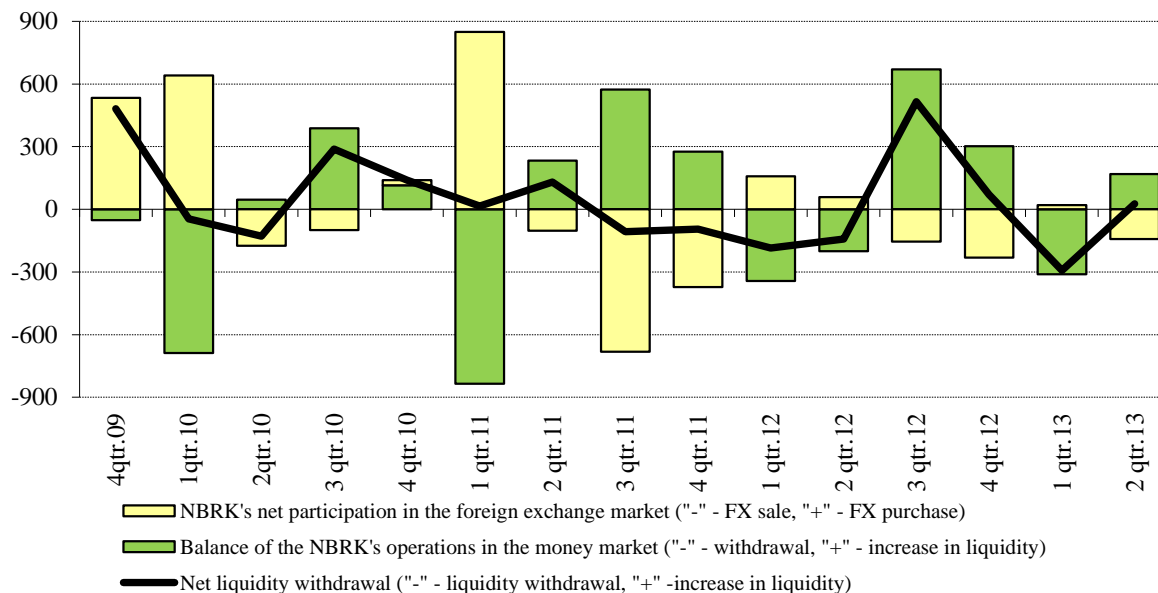
Source: Kazakhstan Stock Exchange

## 4. Monetary Policy Instruments and Operations

In the 2<sup>nd</sup> quarter of 2013, the situation in the money market remained generally stable and there were no significant fluctuations. In the 2<sup>nd</sup> quarter of 2013 the National Bank's operations in the financial market resulted in the provision of the Tenge liquidity (Figure 38).

Figure 38

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



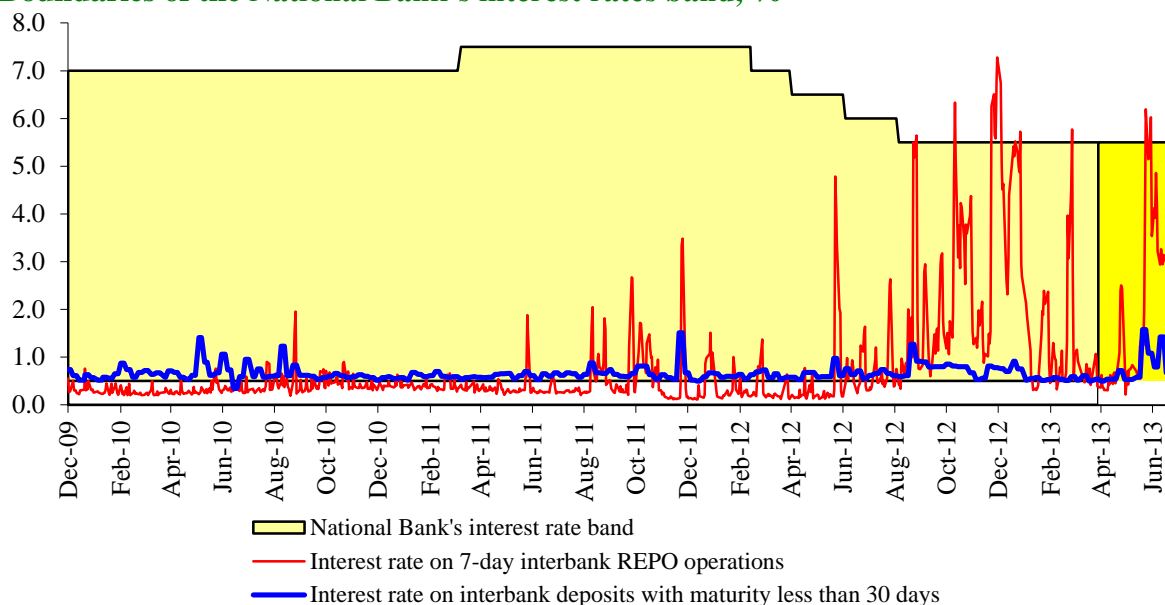
Source: National Bank of the Republic of Kazakhstan

In the 2<sup>nd</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 2<sup>nd</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. On average, in the 2<sup>nd</sup> quarter of 2013, the level of interest rates was within the National Bank's interest rate band, closer to its lower boundary. The average-weighted rate on interbank deposits with maturity less than 30 days increased versus the previous quarter from 0.55% in the 1<sup>st</sup> quarter of 2013 to 0.74% in the 2<sup>nd</sup> quarter of 2013. The average-weighted rate on interbank 7-day REPO operations increased from 1.38% in the 1<sup>st</sup> quarter of 2013 to 2.74% in the 2<sup>nd</sup> quarter of 2013 (Figure 39).

Figure 39

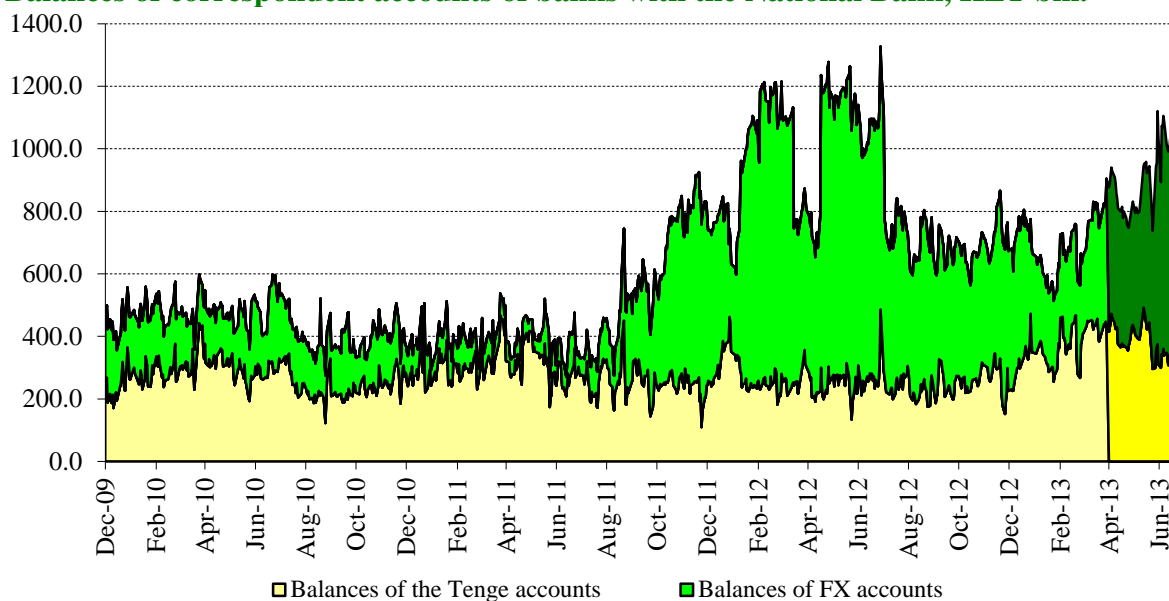
**Boundaries of the National Bank's interest rates band, %**



Source: National Bank of the Republic of Kazakhstan

In the 2<sup>nd</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 throughout the period, whereas correspondent account balances of banks in foreign currencies were demonstrating the upward trend throughout the period. As a whole, the volume of correspondent account balances in the domestic currency at end-June 2013 as compared to March 2013 increased by 7.2%, and correspondent account balances in foreign currency increased by 21.3% (Figure 40).

Figure 40

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


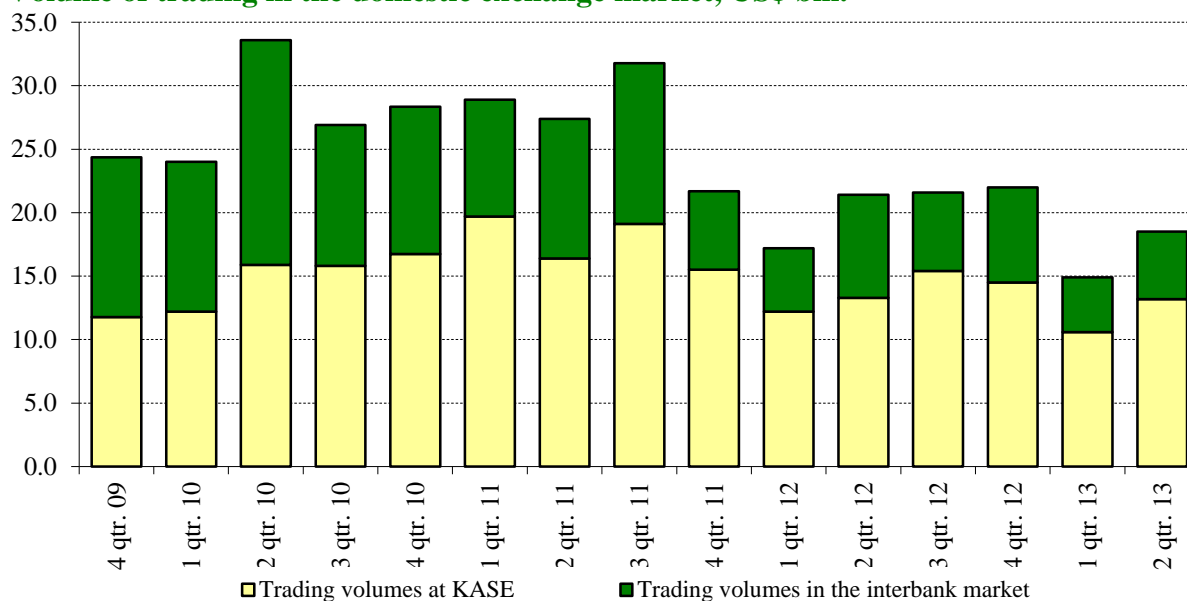
Source: National Bank of the Republic of Kazakhstan

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

In the 2<sup>nd</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\$ 18.5 bln., having increased by 23.9% as compared to the 1<sup>st</sup> quarter of 2013.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 24.1% as compared to the 1<sup>st</sup> quarter of 2013 and amounted to US\$ 13.2 bln. (net trades at the Kazakhstan Stock Exchange made up 87% of gross trades). During the second quarter of 2013, the volume of transactions in the off-exchange foreign currency market increased as compared to the previous quarter by 23.2% and amounted to US\$ 5.3 bln. (Figure 41).

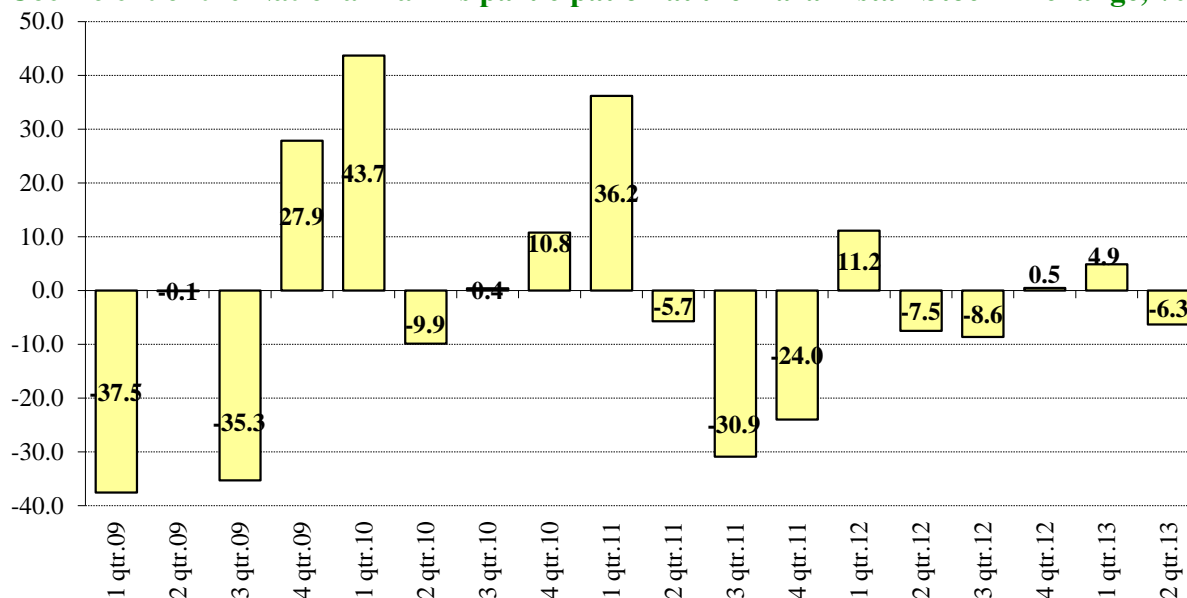
Figure 41

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


Source: National Bank of the Republic of Kazakhstan

At the end of the 2<sup>nd</sup> quarter of 2013, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -6.3% (in the 1<sup>st</sup> quarter of 2013 it was 4.9%) (Figure 42). Thus, in the 2<sup>nd</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, %**


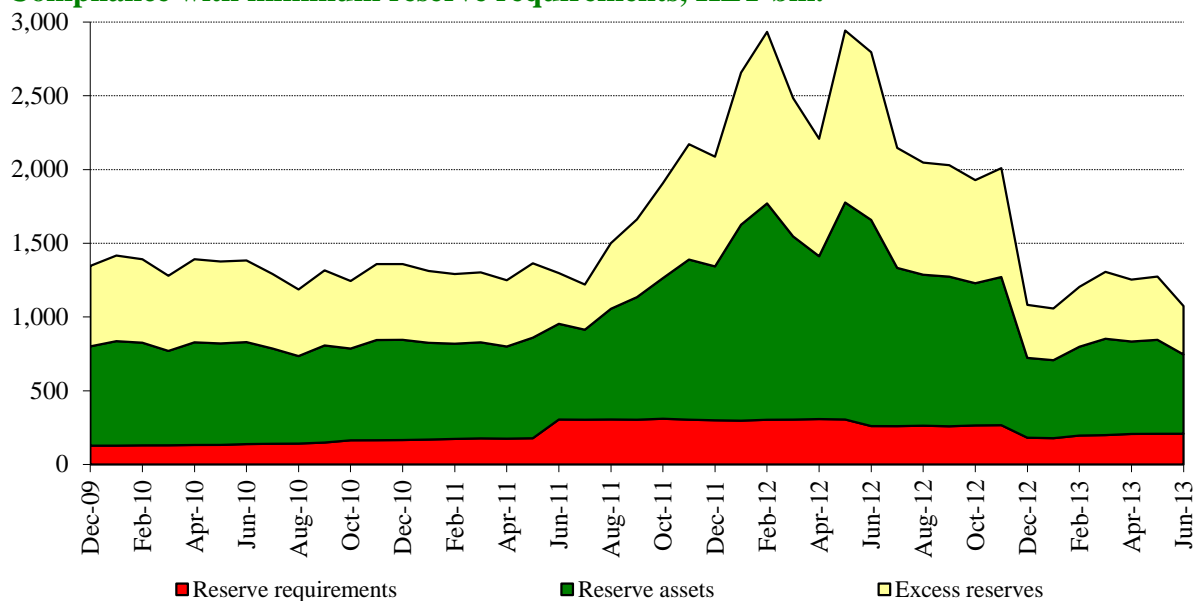
Source: National Bank of the Republic of Kazakhstan

## 4.2. Minimum Reserve Requirements

During April-June 2013, reserve assets exceeded the required reserving volume by 2.9 times on average (in the 1<sup>st</sup> quarter of 2013 – by 3.1 times, and in the 2<sup>nd</sup> quarter of 2012 – by 4.6 times) (Figure 43).



Figure 43

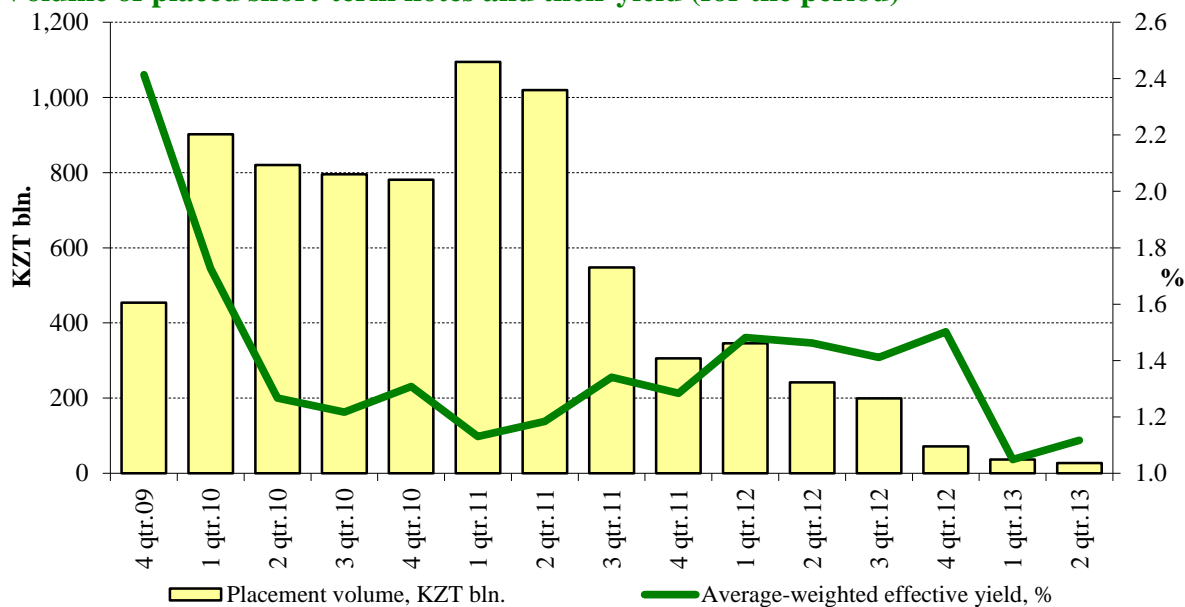
**Compliance with minimum reserve requirements, KZT bln.**


Source: National Bank of the Republic of Kazakhstan

### 4.3. Open Market Operations

In the 2<sup>nd</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 June 2013. In the 2<sup>nd</sup> quarter of 2013 as compared to the 1<sup>st</sup> quarter of 2013, the volume of issued short-term notes decreased by 25.8% and amounted to KZT 26.9 bln. The highest emission volume of short-term notes was in April (over 70% of the total emission volume during the 2<sup>nd</sup> quarter of 2013). The average weighted yield on placed notes increased from 1.05% in the 1<sup>st</sup> quarter of 2013 to 1.12% in the 2<sup>nd</sup> quarter of 2013 (Figure 44).

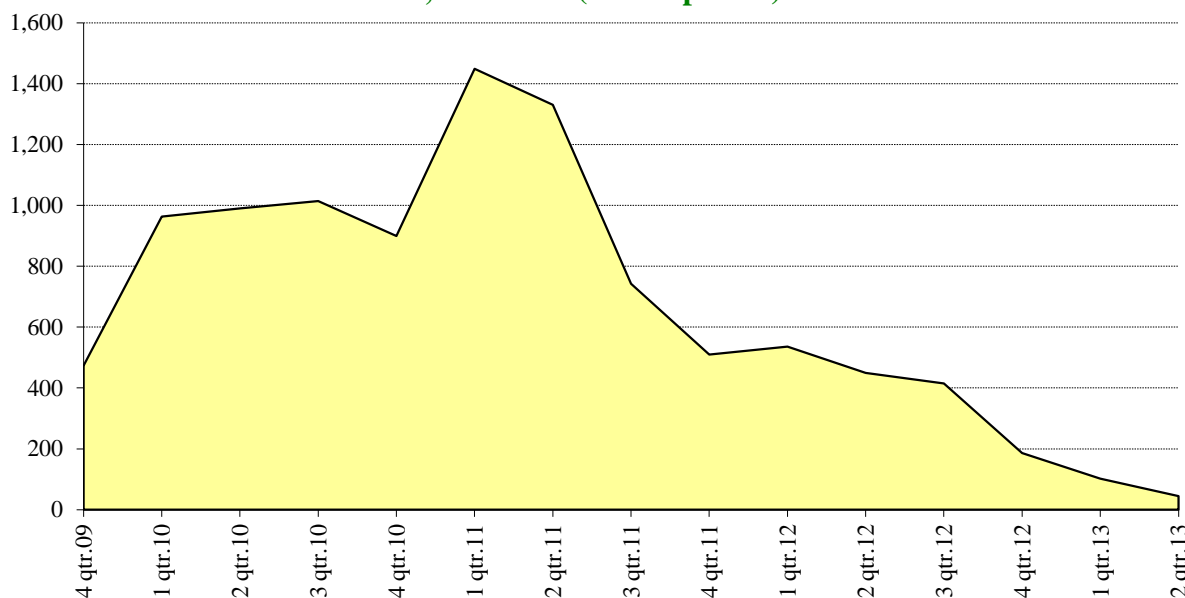
Figure 44

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


Source: National Bank of the Republic of Kazakhstan

At end-June 2013, the volume of short-term notes in circulation amounted to KZT 44.5 bln., which is by 2.3 times less than the volume at end-March 2013 (Figure 45).

Figure 45

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


Source: National Bank of the Republic of Kazakhstan

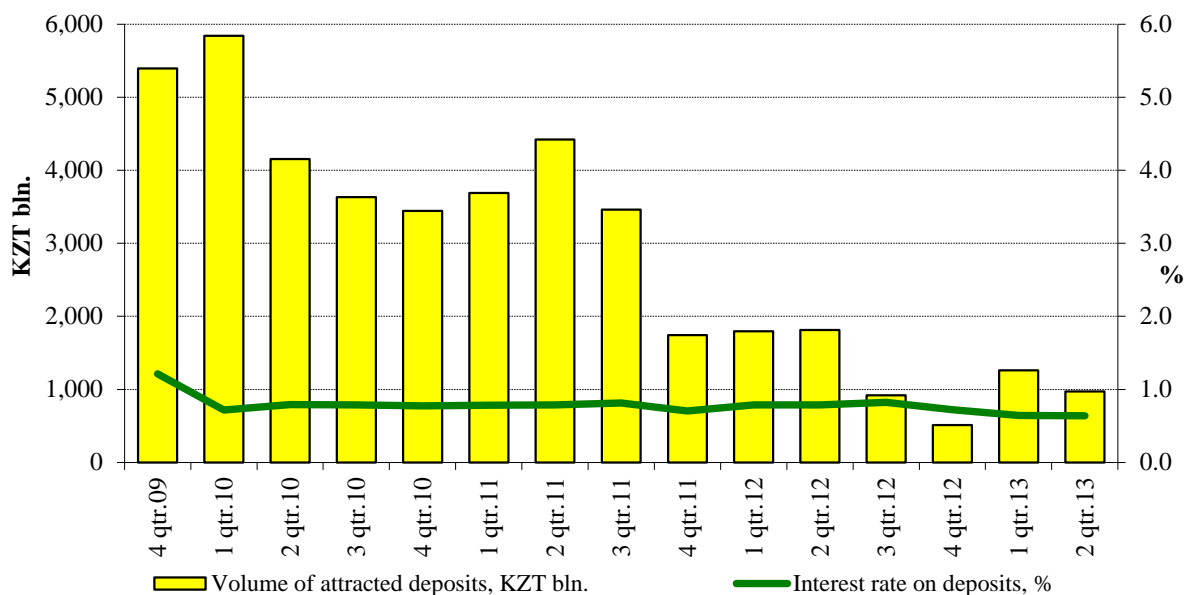
#### 4.4. Standing Facilities

In the 2<sup>nd</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 April and May 2013. During the second quarter of 2013 as a whole, deposits worth KZT 972.8 bln. were attracted, which is by 22.8% less than the volume in the 1<sup>st</sup> quarter of 2013 and by 46.4% less than the volume in the 2<sup>nd</sup> quarter of 2012.

The average interest rate on deposits didn't change and was 0.64% in the 2<sup>nd</sup> quarter of 2013 (Figure 46).

Figure 46

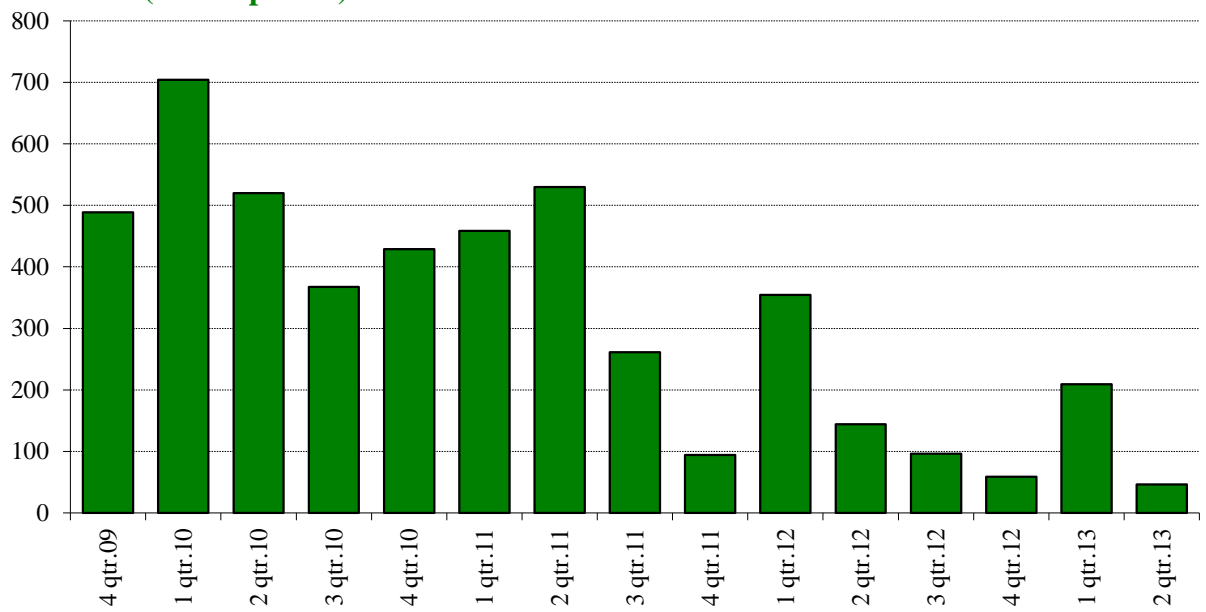
**Volume and interest rates on deposits attracted by the National Bank (for the period)**



Source: National Bank of the Republic of Kazakhstan

In the 2<sup>nd</sup> quarter of 2013, the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-June 2013, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 46.2 bln., which is by 4.5 times less than the volume at end-March 2013 (Figure 47).

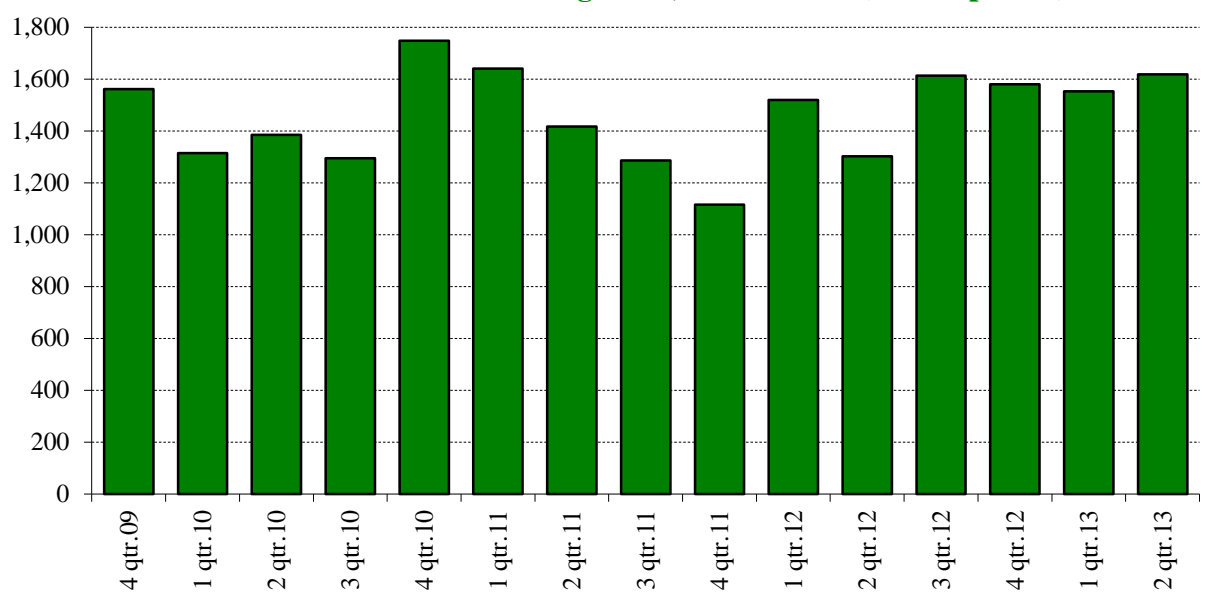
Figure 47

**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 2<sup>nd</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 2<sup>nd</sup> quarter of 2013 amounted to KZT 1618.3 bln. The volume of such operations increased by 4.2% as compared to the previous quarter (Figure 48).

Figure 48

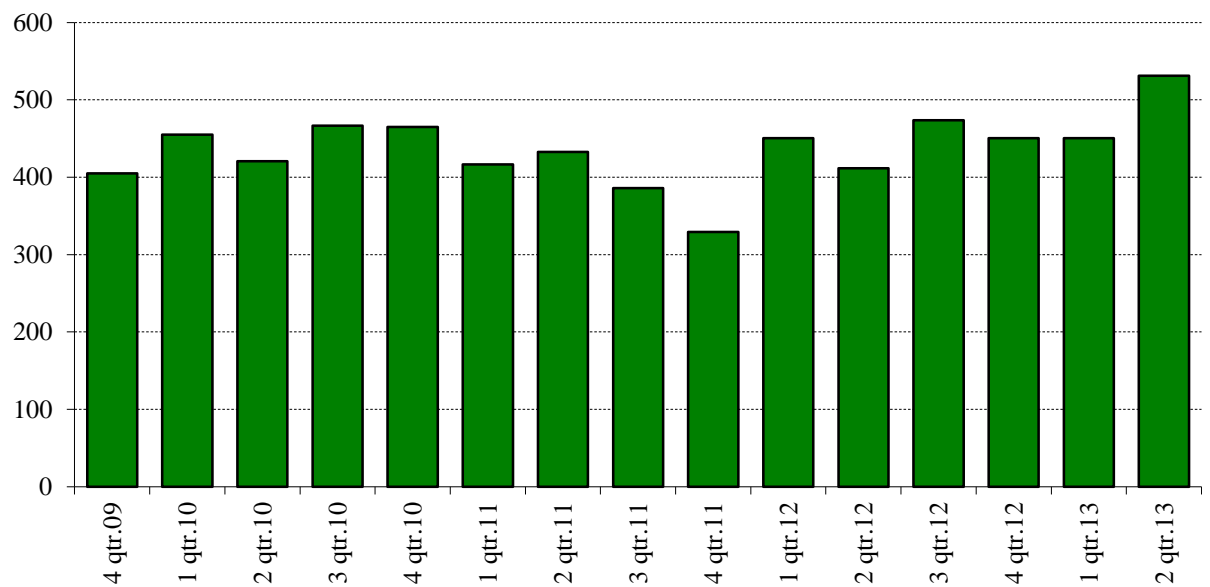
**Volume of the National Bank's refinancing loans, KZT billion (for the period)**


Source: National Bank of the Republic of Kazakhstan

At end-June 2013, the volume of outstanding debt on refinancing loans amounted to KZT 531.0 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