

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the First 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 January-March 2013, there was a dynamic change in the inflation indicators: acceleration of the annual inflation rate from 6.6% to 7% in February was replaced by its slowdown to 6.8% in March. In general, according to forecasts, in the first half of 2013 the growth rates of annual inflation will be maintained at a low level, and during the summer months the inflation will be within 6%.

At the end of the 1st quarter of 2013, the inflation was at 1.9% (in the 1st quarter of 2012 – 1.1%). Generally, this represents the continuation of the upward trend in the price of paid services that began in the second half of 2012. So, if during 2012 prices for paid services increased by 9.3%, the growth accounted for 4% during January-March 2013. The most notable increase in prices was demonstrated by utilities and various types of fuel, which could have also contributed to the increase in prices for healthcare and education services.

Given the impact of external factors on the pricing in Kazakhstan, the tightening of the price gap between goods and services in Russia and Kazakhstan should be pointed out. To a larger extent this was caused by the “bringing up” of the domestic prices in Kazakhstan to the average level of prices for similar goods in Russia.

As for macro-economic development, it should be pointed out that fixed capital investments in Kazakhstan increased by 8.5% during the first quarter of 2013 as compared to the respective period of 2012. Dominating sources for investments are still represented by own funds of economic entities, and their volume increased by 16.2% as compared to the respective period of 2012 (in comparable prices). A significant share of fixed capital investments during the period falls on the mining industry and quarry operations (40.9%), transport and warehousing (14.6%) and real estate operations (11%).

On the whole, according to preliminary official data, the real GDP growth of Kazakhstan during the first quarter of 2013 was 4.6%.

During January-March 2013, money supply increased by 5.3% and amounted to KZT 11078.2 bln., and the reserve money expanded by 5.4% amounting to KZT 3045.0 bln. This allows making a conclusion that the monetary component of the inflationary processes is minimal, and the volume of money supply is sufficient to promote economic development.

During January-March 2013 as compared to January-March 2012, the volume of issued short-term securities decreased by 9.5 times and amounted to KZT 36.2 bln. The volume of notes in circulation in March 2013 as compared to December 2012 decreased by 45.2% to KZT 101.9 bln. The average-weighted yield on notes decreased from 1.61% in December 2012 to 1.04% at end-March 2013.

During January-March 2013, the volume of refinancing loans amounted to KZT 1.6 trln. As of end-March 2013, outstanding debt on operations with refinancing loans amounted to KZT 450.4 bln.

The share of credits to individuals grew up as compared to the share of credits to legal entities. Alongside with that, the share of consumer lending in Kazakhstan increased significantly (at March 1, 2013 – 12.9% as compared to the respective period of 2012 – 9.8%).

Evaluation of the Inflation Forecasts for the 1st Quarter of 2013

In the 1st quarter of 2013, actual inflation rate was 1.9%. Actual inflation had been lower than the forecast throughout the quarter.

The major growth in prices in the 1st quarter of 2013 was observed in January and February. The major contribution to such growth in prices was on the part of paid services. In their structure, the increased prices and tariffs for such services as utilities, including cold

water supply, sewage and electricity should be pointed out. Also, the prices for healthcare services, transport and communication services also increased.

The negative impact of seasonal factors was conducive to the increase in prices for certain foodstuffs, including fruit and vegetable production, eggs, and dairy products. The increase in prices for non-food products in January-March 2013 was moderate.

The actual annual inflation at end-March 2013 accounted for 6.8%.

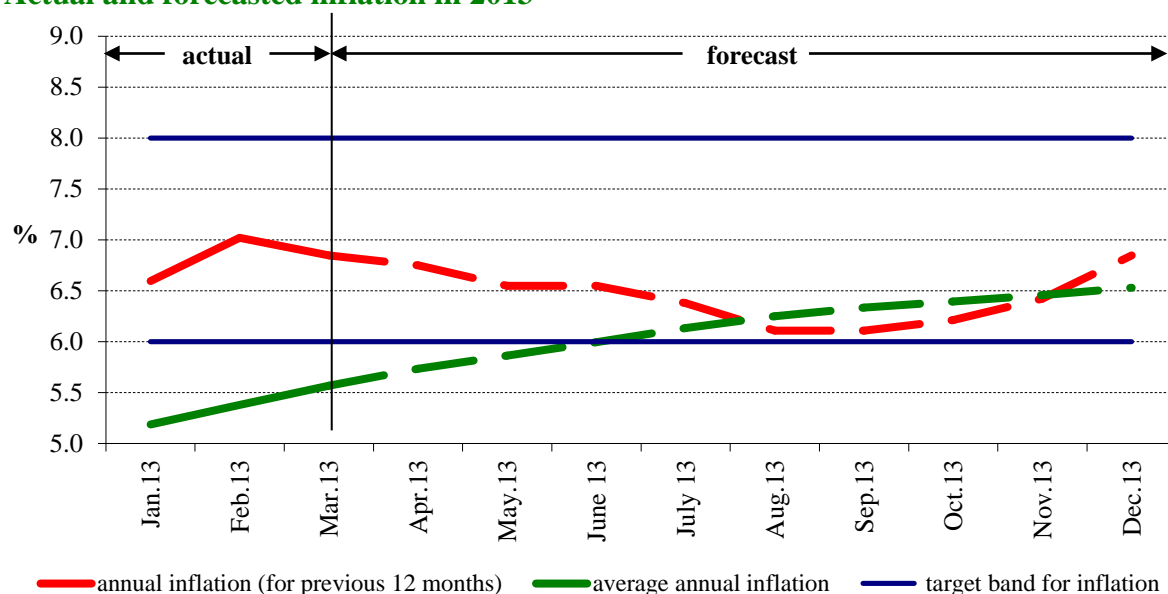
Inflation Forecast for 2013

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).

The inflation dynamics in 2013 is expected to be comparable with that of 2012. At the same time, the risks of acceleration of inflationary processes are associated with the number of inflation factors. The most important factors are represented by the unstable situation in the global commodity markets, high level of world prices for raw materials and foodstuffs, inefficient pricing mechanism within Kazakhstan, and a 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.

Figure 1

Actual and forecasted inflation in 2013



Source: National Bank of the Republic of Kazakhstan

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.

The inflation forecast for the 2nd quarter of 2013 is 1.1-1.3% (in the 2nd quarter of 2012 the actual inflation was at 1.7%). During the period, inflation is expected to be building up primarily under the impact of the seasonality factor. This suggest the seasonal decline or

slowdown in the rates of growth in prices for such products as fruits and vegetables, dairy products, eggs, and meat products.

At end-June 2013, the annual inflation is expected to be at 6.2-6.4%.

The inflation forecast for the 3rd quarter of 2013 is 0.7-0.9% (in the 3rd quarter of 2012 the actual inflation was at 1.1%), which is in line with the annual inflation of 5.9-6.1% at end-September 2013. The decrease in prices for some foodstuffs, such as eggs, dairy products, fruit and vegetable production, and meat products, is anticipated. At the same time, the prices and tariffs for the services of educational establishments are expected to increase due to the beginning of the academic year.

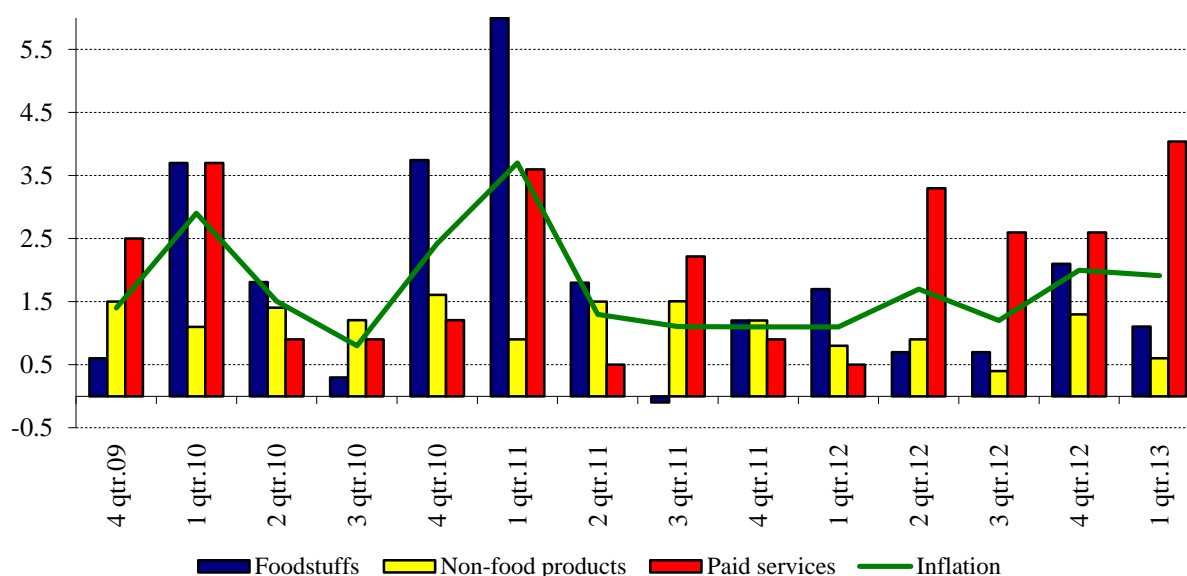
1. Inflationary Processes

1.1. Consumer Prices

In the 1st quarter of 2013, a minor slowdown in the quarterly inflation which accounted for 1.9% was observed (in the 1st quarter of 2012 – 1.1%), whereas in the 4th quarter of 2012 the inflation was at 2.0%. During January-March 2013, the inflation was building up mainly due to the growth in tariffs for paid services by 4.0% (by 0.5%). In the 1st quarter of 2013, prices of foodstuffs increased by 1.1% (by 1.6%), and prices of non-food products increased by 0.6% (by 0.8%) (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 March 2013 as compared to December 2012, the highest increase in prices among foodstuffs was demonstrated for such products as fruits and vegetables – by 4.9%, including beetroot – by 11.4%, potatoes – by 7.3%, carrots – by 6.1%, as well as macaroni products – by 2.8%, flour – by 1.7%, fish and seafood – by 1.4%, dairy products – by 1.3%, eggs – by 1.1%, and oils and fats – by 0.8%. However, the prices of cereals decreased by 0.6%, including buckwheat – by 2.7%, and sugar – by 0.7%.

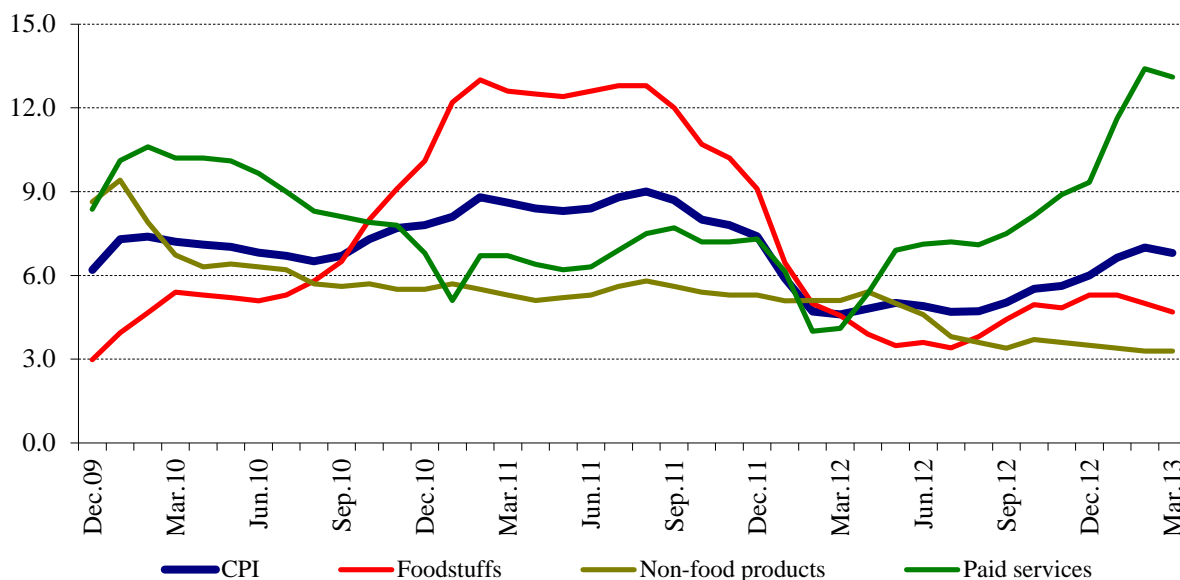
During January-March 2013, in the group of non-food products the prices for clothes and footwear increased by 0.7%, including fabrics – by 1.1%, upper garments – by 0.8%, as well as medications – by 0.9%. The price of gasoline decreased by 0.3%, and the price of diesel fuel increased by 4.6%.

In the 1st quarter of 2013, in the structure of paid services, the utility services increased in price by 4.7%. The fee for cold water increased by 26.6%, for sewage – by 26.3%, solid waste collection – by 8.4%, electricity – by 6.8%, and district heating – by 2.7%. Also, the prices for communication services increased – by 4.0% (because of increased fees for telephony and facsimile services – by 4.3%), for transport services – by 2.5%, including the railway transport – by 6.0%, as well as for financial services – by 2.8%.

In March 2013, the annual inflation accounted for 6.8% (in December 2012 – 6.0%). The price of foodstuffs had increased over the period from April 2012 through March 2013 by 4.7% (by 5.3%), and the price of non-food products – by 3.3% (by 3.5%), and of paid services – by 13.1% (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

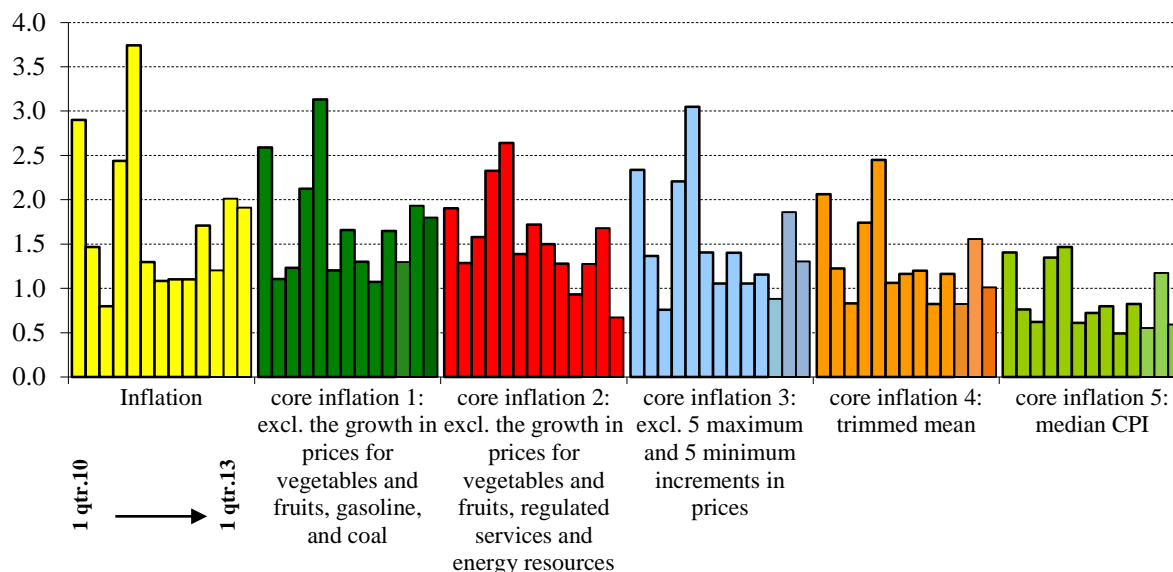
1.2. Core Inflation

In the 1st 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, higher rates were observed in respect of core inflation indicators, except core inflation-2.

At the same time, in the 1st 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, and utilities.

Figure 4

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



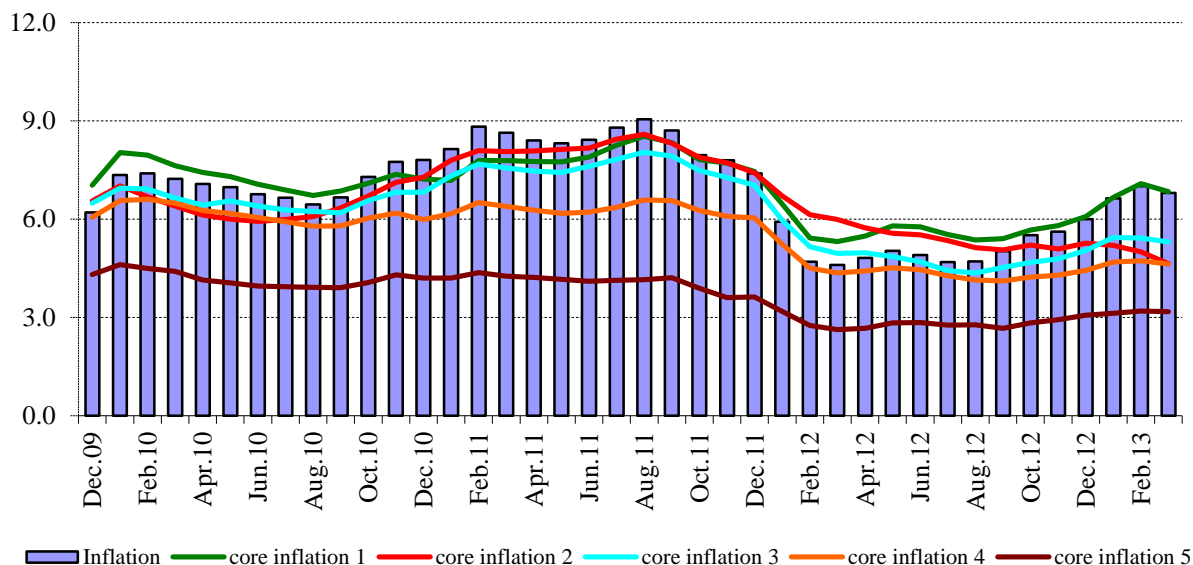
Source: Agency of Statistics of the Republic of Kazakhstan

In January-February 2013, core inflation indicators in annual terms demonstrated the upward dynamics, in March inflation slowed down (Figure 5). Only core inflation-2 had been demonstrating the downward dynamics throughout the 1st quarter of 2013. All core inflation indicators in annual terms were at a lower level at end-March 2013 as compared to the headline inflation. Core inflation-1 was an exception; this is primarily related to moderate rates of growth in prices for gasoline, which is excluded from the calculation of the indicator.

At end-March 2013, all core inflation indicators in annual terms were at a higher level as compared to December 2012, except core inflation-2 (Figure 5).

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 1st quarter of 2013, the producer prices increased by 1.5% (in the 1st quarter of 2012 – the growth by 3.1%). The cost of output increased in price by 1.3%, at the same time the price of interim consumption products increased by 1.2%, the price of production means increased by 1.4%, and the price of consumer goods increased by 2.4%. The prices of production services increased by 4.3%.

In the 1st quarter of 2013, prices in the mining industry increased by 2.1%, being caused by lower oil prices versus the previous year (in the 1st quarter of 2012 – the growth by 4.1%).

The price of energy resources, after its increase in the previous quarter by 0.4%, in the 1st quarter of 2013 increased by 1.6% (in the 1st quarter of 2012 – the growth by 5.6%). In the composition of energy resources, the cost of oil extraction increased, due to its growth in February, by 1.4% (in the 1st quarter of 2012 – the growth by 5.8%), and the cost of gas condensate increased by 3.3% (in the 1st quarter of 2012 – the growth by 8.8%).

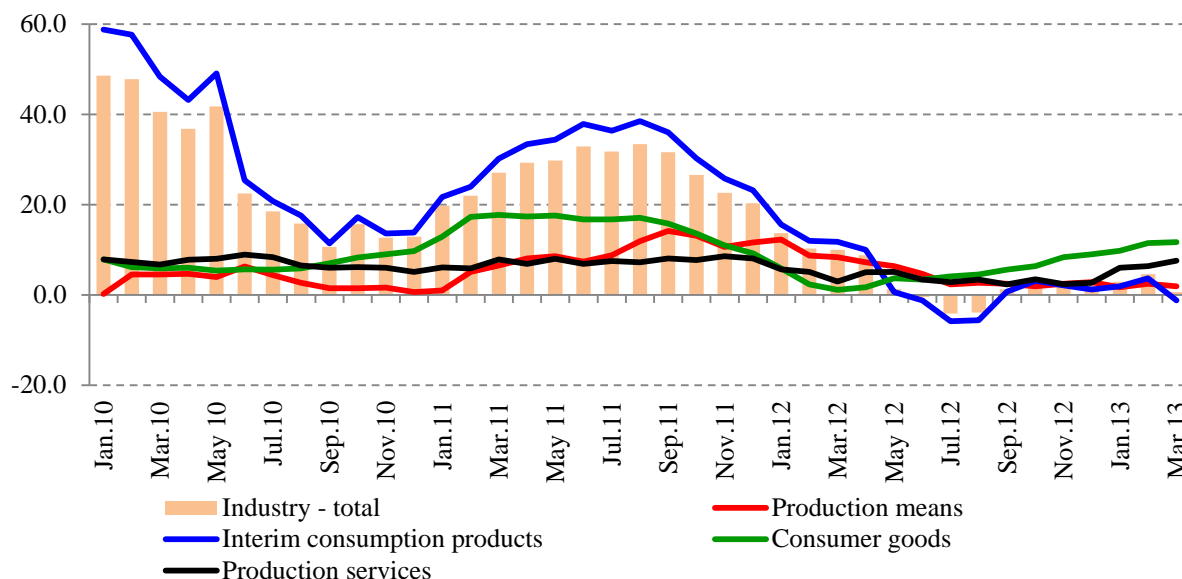
Prices in the manufacturing industry, after their growth in the previous quarter by 2.3%, decreased by 0.8% in the reporting quarter (in the 1st quarter of 2012 – the growth by 1.2%). At the same time, in the 1st quarter of 2013, prices in the metallurgical sector of the industry decreased by 2.9%, the cost of foodstuffs production increased by 2.0%, and the price of refined products decreased by 1.7%.

In the 1st quarter of 2013, prices for electric energy, gas and vapor supply and air conditioning increased by 4.8% (in the 1st quarter of 2012 – the growth by 0.1%).

In March 2013, the growth in prices in the industry in annual terms (March 2012 versus March 2013) accounted for 0.6% (in December 2012, the annual growth in prices accounted for 2.1%) (Figure 6).

Figure 6

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



Source: Agency of Statistics of the Republic of Kazakhstan

The cost of output increased by 0.1% in annual terms, where the cost of interim consumption products decreased by 1.2%, the cost of consumer goods increased by 11.7%, and the cost of production means – by 1.9%. The cost of production services increased by 7.6%.

1.3.2. Prices in Agriculture

In the 1st quarter of 2013, prices for agricultural production realized across all channels increased by 3.1% (in the 1st quarter of 2012 – the growth by 1.1%). The dynamics of prices in agriculture was impacted by a higher rate of growth in the price for plant production, as compared to animal production.

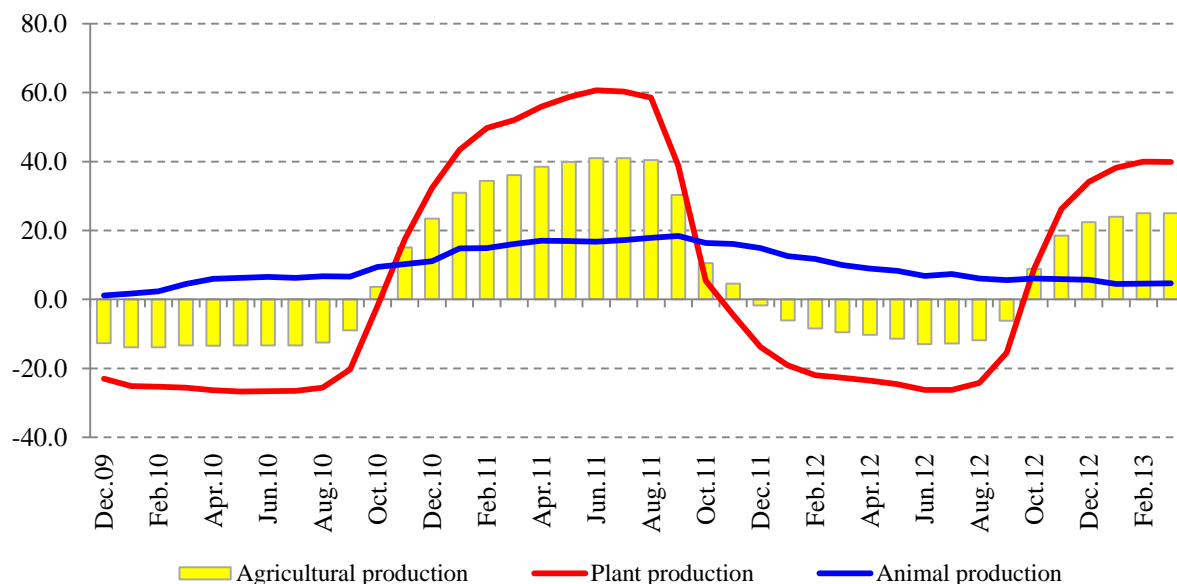
As compared to the increase in prices in the previous quarter by 28.8%, during January-March 2013 the plant production increased in price by 3.9% (in the 1st quarter of 2012 – the decrease by 0.3%). Among the plant production, the prices for grain cultures increased by 4.0%, the price of vegetables increased by 7.7%, and the price of potatoes increased by 2.7%.

The price of animal production, after its growth by 5.1% in the 4th quarter of 2012, in the 1st quarter of 2013 increased by 2.1% (in the 1st quarter of 2012 – the growth by 3.0%). During January-March 2013, prices for meat and poultry increased by 1.1%, the price for unpasteurized milk increased by 2.4%, and the price of eggs increased by 5.8%.

At end-March 2013, prices for agricultural products in annual terms increased by 25.0%. The price of plant production increased by 39.9%, and the price of animal production increased by 4.7% (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 1st quarter of 2013, the demand for final products of enterprises decreased in the real sector of the economy as a whole. This is evidenced by the diffusion index of the change in the demand for final products, which decreased to 46.6 (from 51.8 in the 4th quarter of 2012). The indicator decreased due to a significant decrease in the share of enterprises with increased demand for their products to 17.6% (from 24.6% in the 4th quarter of 2012) and the increased share of enterprises that noted the decrease in the demand for their products to 24.3% (from 21 % in the 4th quarter of 2012).

The decrease in the demand for final products was observed in all sectors, except for “production and distribution of electricity, gas and water”, “agriculture” and the mining industry, where the growth in demand slowed down: the diffusion index in these sectors fell to 58.4, 51.7 and 50.3, respectively. The highest decrease in the demand was observed in the sector of “trade, repair of cars, household appliances and personal care products” (the “trade” - hereinafter) and in the manufacturing industry (diffusion indices fell to 43.9 and 44.3 from 50.4 and 50.1 in the 4th quarter of 2012, respectively). The slowdown in the growth in the demand in the mining industry was observed to a lesser extent.

In the 2nd quarter of 2013 in comparison with the 1st quarter of 2013, a notable growth in the demand for final products is anticipated in the real sector as a whole: the diffusion index of the change in the demand was 59.2, according to expectations of enterprises. Alongside with that, the growth in the demand is anticipated in the majority of sector, with the most notable growth – in the manufacturing industry (the diffusion index – 63), construction (60.1), transport and communications (59.2), and trade (59.1). At the same time, the considerable decrease in the demand is anticipated in the sector of “production and distribution of electricity, gas and water” (to 44.1 from 58.4 in the 1st quarter of 2013).

In the 1st quarter of 2013, prices for final products of enterprises in the real sector of the economy as a whole, despite some slowdown in their growth, continued to grow at a moderate pace: the diffusion index of the change in prices for final products was 57.4 (in the 4th quarter of 2012 – 57.5), with the number of enterprises which noted the price growth

decreasing to 20.7% (from 21.1% in the 4th quarter of 2012); the number of enterprises which noted the decrease in prices remained virtually unchanged (6%).

In the majority of sectors prices for final products slowed their growth; the largest slowdown occurred in the agricultural sector (the diffusion index decreased to 50.3 from 65.6 in the 4th quarter of 2012). The largest growth in prices occurred in the sector of “production and distribution of electricity, gas and water” (the diffusion index increased to 69.8 from 55.9 in the 4th quarter of 2012).

Prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) in the 1st quarter of 2013 had slowed their growth significantly: the diffusion index was 57.6 (in the 4th quarter of 2012 it was 60.6).

In the 2nd quarter of 2013, a continuing moderate growth in prices for final products is anticipated, alongside with some slowdown versus the 1st quarter (the diffusion index was 57.2) caused by the decreased rates of growth in prices in the following sectors: “production and distribution of electricity, gas and water”, “transport and communication”, and trade. The increase in the rates of price growth is anticipated in agriculture, manufacturing and mining industries.

In the 2nd quarter of 2013, the trend of a slow growth in prices for consumer goods and services is expected to continue: the diffusion index fell to 56.7.

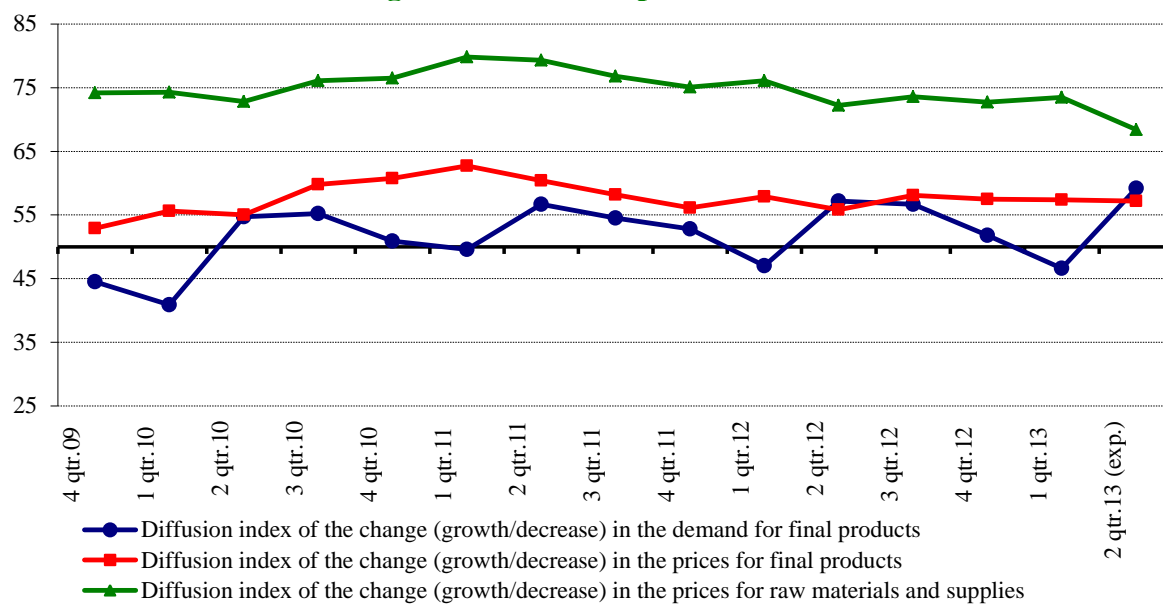
In the 1st quarter of 2013, the rates of growth in prices for raw materials and supplies slightly increased: the diffusion index of the change in prices accounted for 73.5 (in the 4th quarter of 2012 – 72.7). Increased rates of growth in prices were observed in such sectors as trade (the diffusion index increased to 70.2 from 64.3 in the 4th quarter of 2012), mining industry (to 74.7 from 71 in the 4th quarter of 2012), agriculture (to 79.1 from 77.3 in the 4th quarter of 2012) and in the “production and distribution of electricity, gas and water” (to 76.7 from 75.7 in the 4th quarter of 2012). The decrease in the rates of growth in prices occurred in such sectors as “hotels and restaurants”, “transport and communication”, “construction” and “real estate operations, rent and services to enterprises”.

For the 2nd quarter of 2013, the diffusion index of the change in prices for raw materials and supplies fell to 68.4, which means some slowdown in the price growth rates versus the 1st quarter. The indicator decreased at the expense of reduction of a share of the enterprises, which expect the price growth.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about the 2nd quarter of 2013 are associated with notable growth in the demand for final products, slight decrease in the growth rates of prices of them and some 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 4th quarter of 2012, GDP based on the final consumption method as compared to the respective period of 2011 increased in real terms, according to estimate, by 3.9% (the growth in the 4th quarter of 2011, according to estimate, accounted for 8.3%, and the growth in the 3rd quarter of 2012 – 5.1%).

In the 4th quarter of 2012 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, gross formation and decreased net exports.

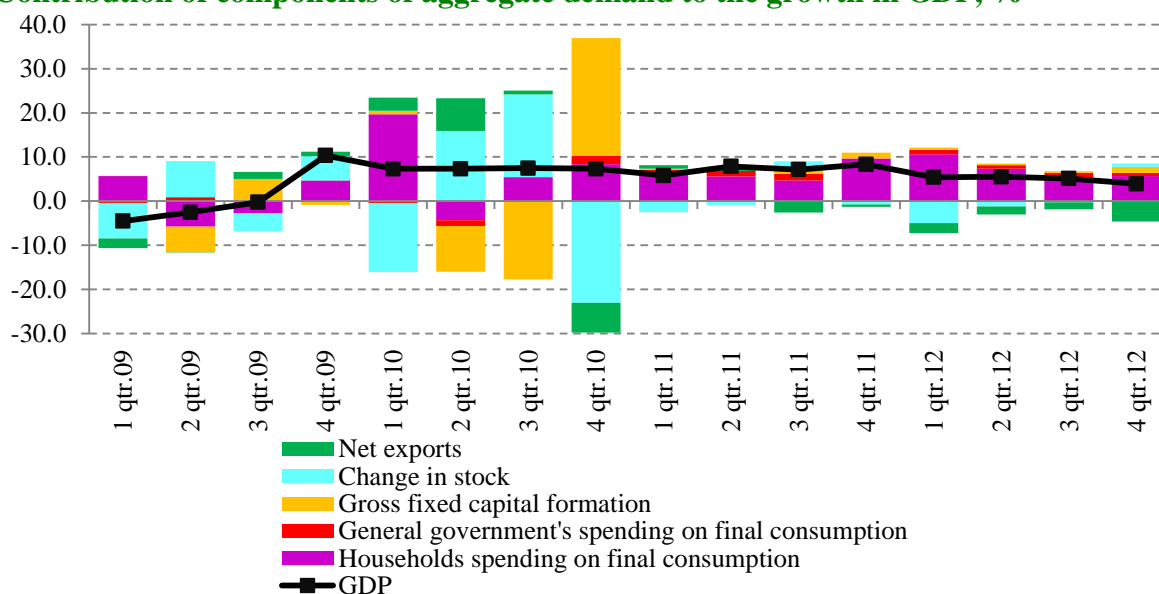
On the whole, according to estimates and as compared to the respective quarter of 2011, spending on final consumption increased in the 4th quarter of 2012 by 8.5% (3rd quarter of 2012 – the growth by 11.5%), gross formation increased by 8.0% (the growth by 0.2%), and the negative value of net exports increased by 3.7 times (the decrease by 59.0%).

As a result, household spending on consumption and general government spending on consumption respectively made positive contribution to the formation of the GDP growth of (+)5.7% and (+)0.7%, and the gross formation increased GDP by (+)2.1%.

Within the gross formation, fixed capital formation accounted for (+)1.4%, and the change in stock accounted for (+)0.7%. In their turn, net exports made negative contribution to the GDP growth of (-)4.6% (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 4th quarter of 2012, household spending on final consumption increased by 8.3% versus the respective period of 2011 (in the 3rd quarter of 2012 – the growth by 11.4%).

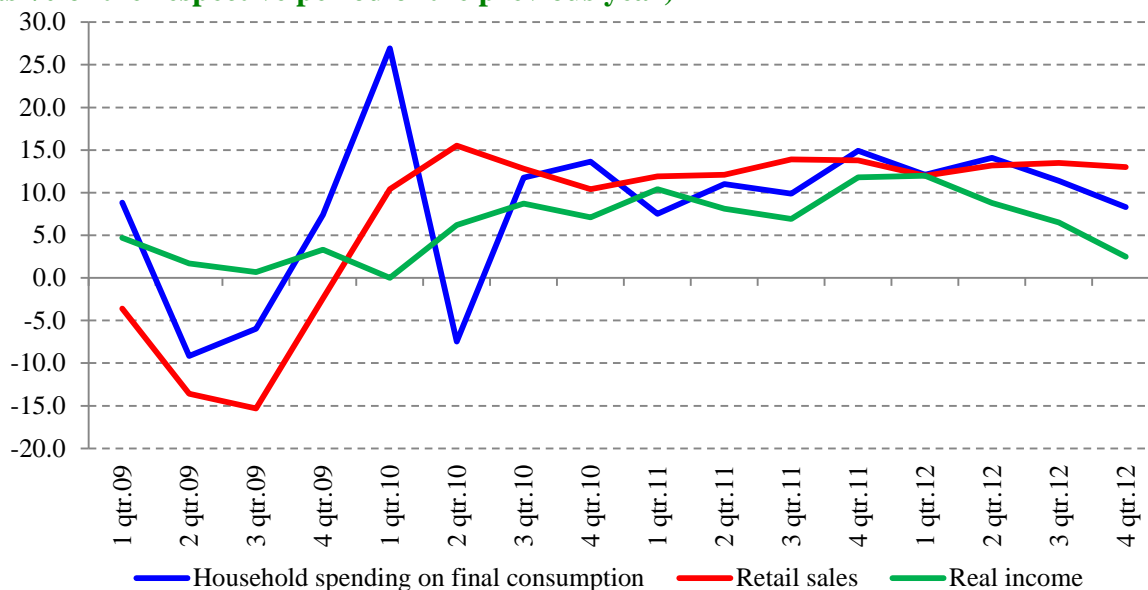
In the 4th quarter of 2012, the growth rate of per capita income in nominal terms slowed down to 8.3% (in the 3rd quarter of 2012 – the growth by 11.6%), and in real terms it slowed down to 2.5% (the growth by 6.5%). At the same time, the slowdown in the growth

rates of household income didn't significantly affect retail sales whose rate slightly slowed, as compared to the third quarter of 2012, accounting for 13.0% (in the 3rd quarter of 2012 – the growth by 13.5%).

The slowdown in the growth rates of retail sales was minor, nonetheless, one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption decreased more significantly growing by 8.3% only, whereas a quarter before the growth reached 11.4% (Figure 10).

Figure 10

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



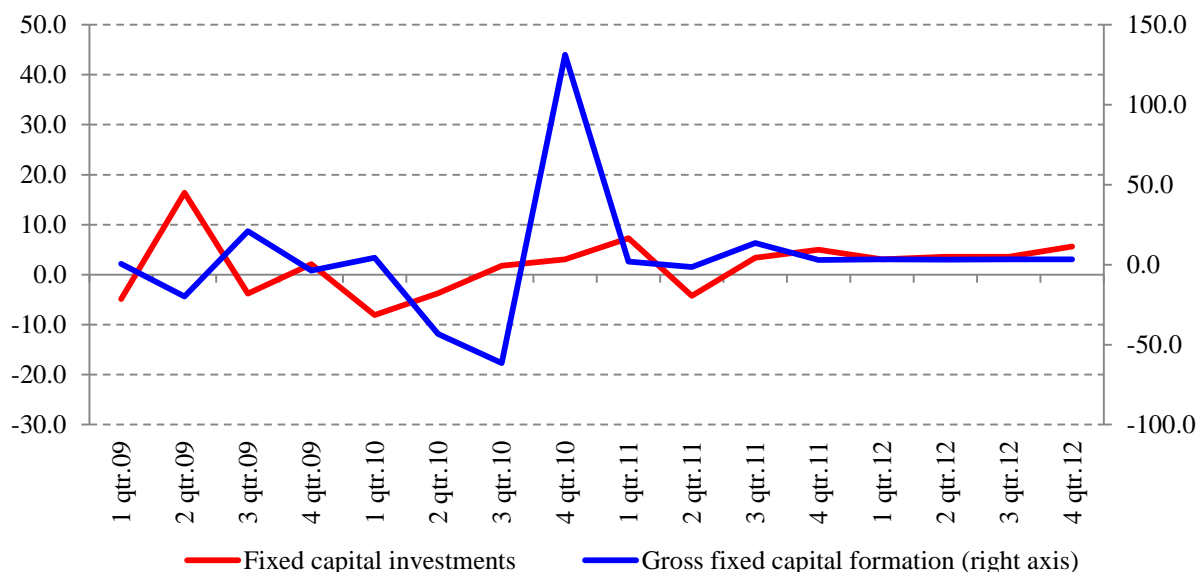
Source: Information of the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The slowdown in the household income was to a certain extent offset by the growing lending activity. In the 4th quarter of 2012, credits to the population increased by 5.9% in total, while consumer lending increased by 9.1%.

Despite the increased investment activity of enterprises, which resulted in the increase in the volume of fixed capital investments in the 4th quarter of 2012 by 5.6% (in the 3rd quarter of 2012 the growth accounted for 3.6%), the increase in gross formation was more moderate, and the growth rate remained unchanged 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 4th quarter of 2012 as compared to the respective period of 2011, increased by 9.0% (in the 3rd quarter of 2012 – the growth by 12.3%).

In general, during the 4th quarter of 2012, the state budget spending was financed in the amount of KZT 1 901.2 bln. or 19.6% of GDP (it increased by 0.3% only as compared to the 4th quarter of 2011).

Current state budget expenditures totaled KZT 1.4 trln. or exceeded expenditures in the 4th quarter of 2011 by 14.6%. Within the current expenditures the following items demonstrated significant increase as compared to the respective quarter of 2011: costs related to the payments of interest on the domestic loans (57.0%), current transfers to legal entities (38.0%), purchases of goods (31.9%), payments of interest on foreign loans (24.1%), and costs related purchase of services (20.4%). Costs related to current expenditures abroad decreased by (47.3)%.

In the 4th quarter of 2012, capital expenditures in the state budget increased by 39.6% as compared to the respective period of 2011, mainly due to increased expenditures for major overhaul and for the fixed capital formation.

In the 4th quarter of 2012, credits from the budget decreased significantly by 49.0%, as compared to the 4th quarter of 2011, mainly because of the local budget credits, and expenditures for the acquisition of financial assets also decreased by 86.3%.

During the fourth quarter of 2012, state budget revenues amounted to KZT 1352.7 bln. or 14.0% of GDP, which is by 7.1% less than in the 4th quarter of 2011. In the structure of the state budget revenues one item, tax revenues, is still prevailing – 94.1% (in the fourth quarter of 2011 – 79.9%). A small 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 5.0 bln.

As a whole, in the 4th quarter of 2012, tax revenues increased by 6.1% as compared to the 4th quarter of 2011. The increase was secured by revenues from the use of natural and other resources and the value-added tax.

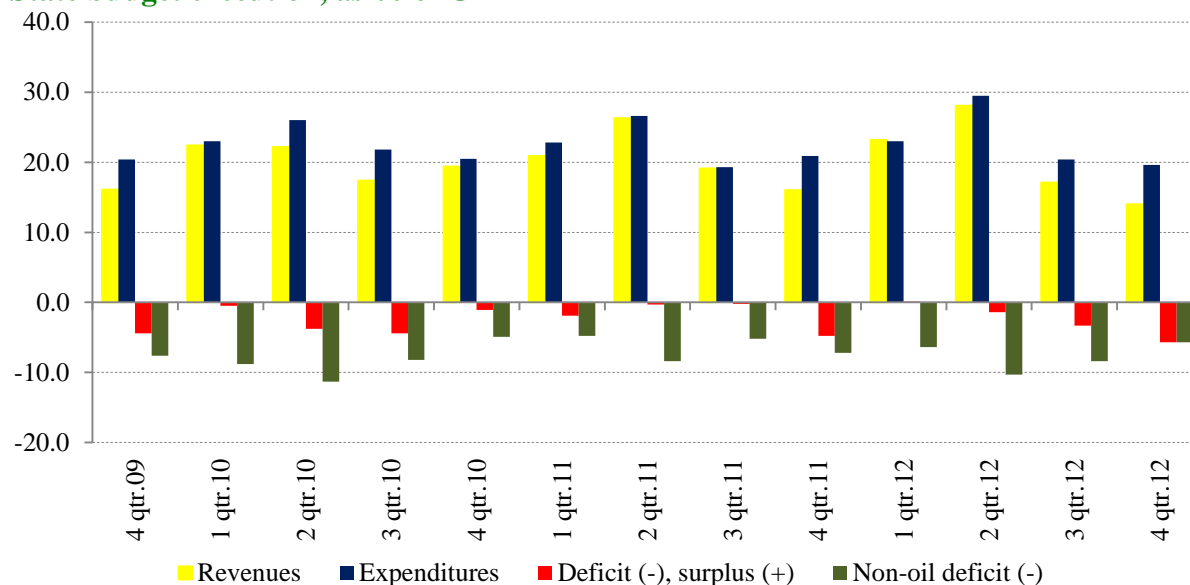
In the 4th quarter of 2012 as compared to the 4th quarter of 2011, non-tax revenues decreased by 18.0%, mainly due to the decreased revenues from the public property.

The receipts of transfers in the 4th quarter decreased as compared to the 4th quarter of 2011 by 43.0 times and the receipts from fixed capital sales increased significantly by 69.7%.

Since expenditures were in excess of revenues in the 4th quarter of 2012, the state budget showed up a deficit of KZT 548.5 bln. (5.7% of GDP), whereas in the fourth quarter of 2011 the deficit amounted to KZT 439.8 bln. (4.8% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 5.0 bln. to the republican budget from the National Fund, in the 4th quarter of 2012 the republican budget would have ended with the non-oil deficit of KZT 553.5 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

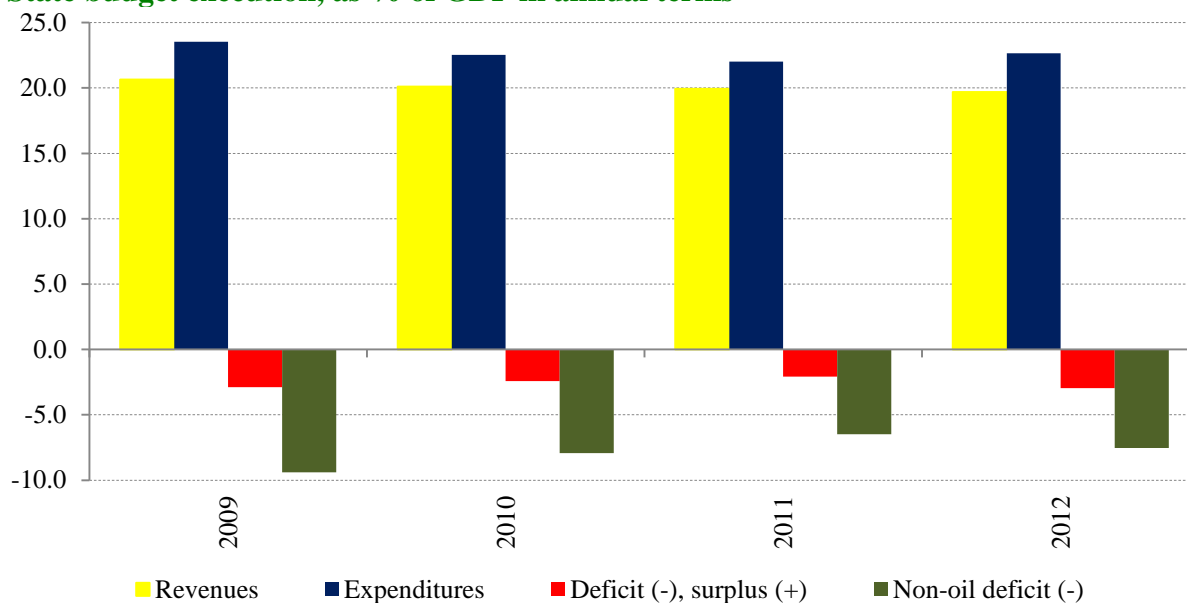
During the 4th quarter of 2012, the Ministry of Finance borrowed KZT 474.3 bln., mainly by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT 55.1 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 129.2 bln.

Government domestic debt during the fourth quarter of 2012 increased to KZT 2897.0 bln. (29.9% of GDP), i.e. by 39.2% as compared to the 4th quarter of 2011 (22.9% 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).

The Government's external debt in the 4th quarter of 2012 increased by 10.4% as compared to the 4th quarter of 2011 (7.5% of GDP) and amounted to KZT 729.7 bln. (7.3% of GDP).

In the 4th quarter of 2012, the annual deficit accounted for 3.0% of GDP (in 2011 – 2.1% of GDP) (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

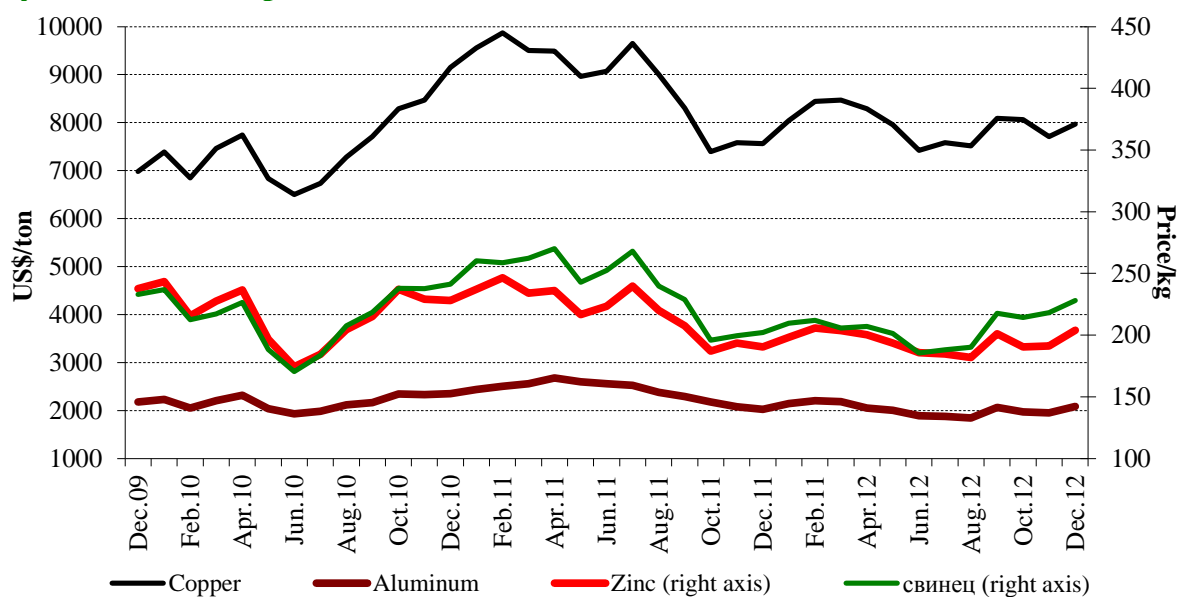
2.1.3. External Sector**– World Prices**

In the 4th quarter of 2012, the situation in the global commodity markets was characterized by multi-directional trends: there was a growth in prices in one group of commodity items, whereas in other commodity items decreasing prices were observed.

At the beginning of the 4th quarter of 2012, prices for certain metals were decreasing followed by their subsequent increase. In general, in the 4th quarter of 2012 copper prices increased by 2.4% and were at US\$ 7913 per ton on average during the period. During the fourth quarter of 2012, prices for aluminum increased by 3.9% and amounted to US\$ 2003 per ton. In October-December 2012, world prices for lead increased by 10.8%, amounting to US 220.1 cents per kilogram on average during the period. Prices for zinc increased by 3.2%, with the average price for the period being US 195.2 cents per kilogram (Figure 14).

Figure 14

Dynamics of world prices for metals

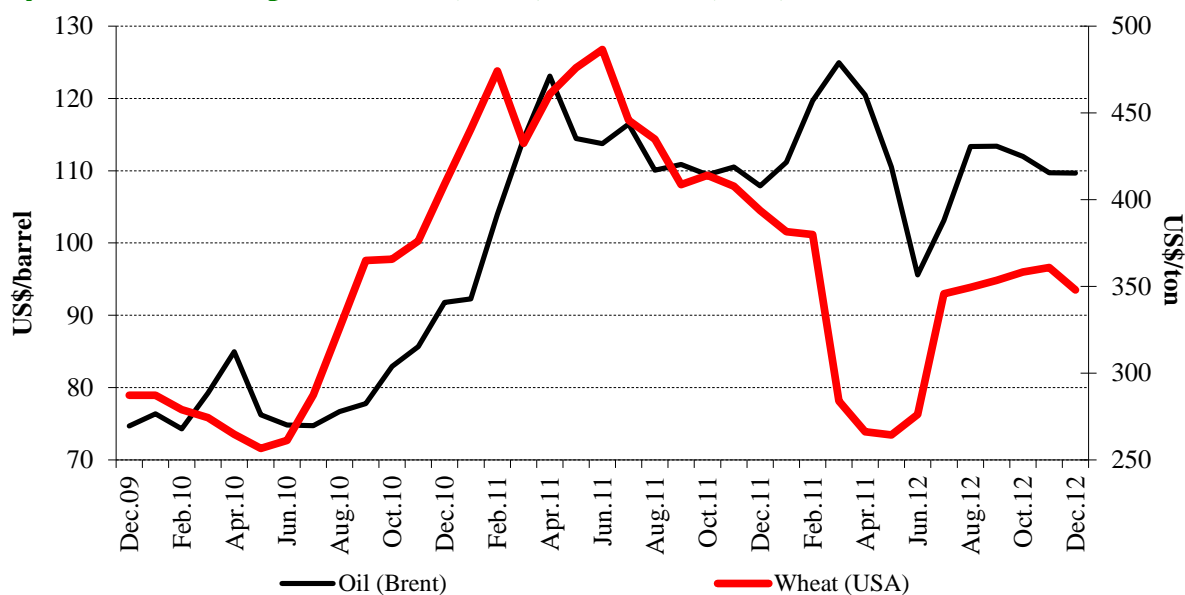


Source: World Bank

In the 4th quarter of 2012, world prices for oil (Brent) had undergone minor changes, having increased by 0.5% as compared to the third quarter of 2012, and amounted to US\$ 110.45 per barrel on average during the period (Figure 15).

In October-November 2012, world prices for wheat were gradually increasing, having slightly decreased in December 2012. During the fourth quarter of 2012 as a whole as compared to the prior period, the world price for wheat (USA) increased by 1.8%, being on average at US\$ 355.7 per ton (Figure 15).

Figure 15

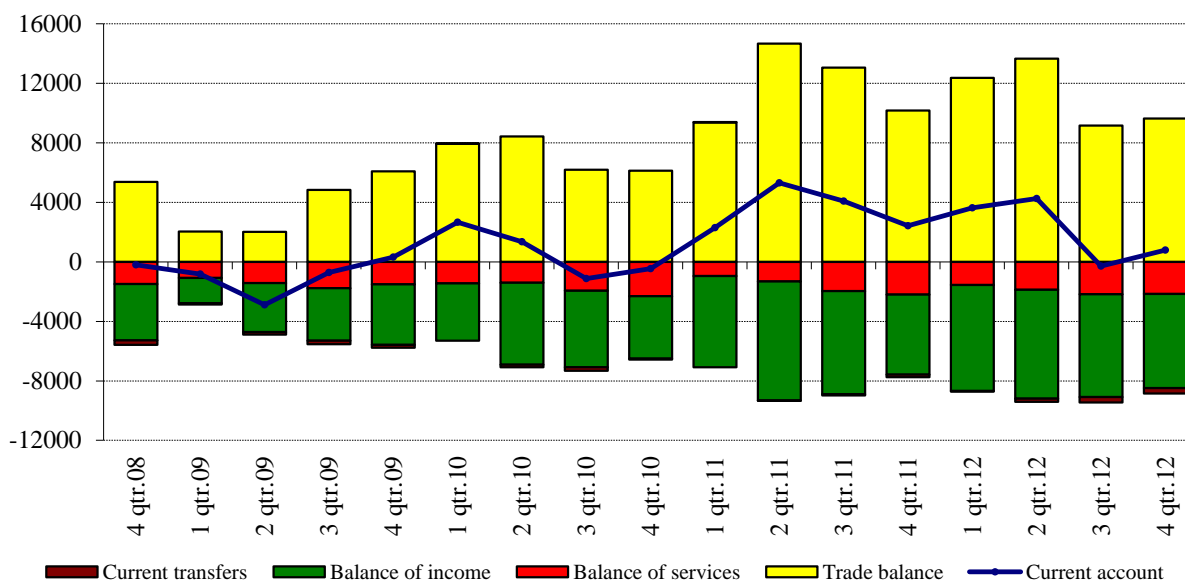
Dynamics of world prices for oil (Brent) and wheat (USA)

Source: World Bank

– Balance of Payments

At the end of the 4th quarter of 2012, the current account balance was in surplus of US\$ 796.9 mln. or 1.2% to GDP in the respective period of 2011 (Figure 16).

Figure 16

Current account balance, US\$ mln.

Source: National Bank of the Republic of Kazakhstan

In the 4th quarter of 2012, proceeds from the exports of goods increased by 2.7% to US\$ 22.7 bln., and expenditures on commodity imports increased by 11.1% as compared to the 4th quarter of 2011, amounting to US\$ 13.0 bln. The trade surplus decreased by 6.8% and amounted to US\$ 9.6 bln. In the 4th quarter of 2012, the deficit in the balance of services

decreased by 5.1% to US\$ 2.2 bln. as compared to the 4th quarter of 2011, and the deficit in the income balance increased by 2.4% and amounted to US\$ 6.3 bln. Net payouts to non-residents on current transfers amounted to US\$ 369.3 mln.

Net outflow of resources on financial account operations in the 4th quarter of 2012 amounted to US\$ 581.4 mln. (during the 4th quarter of 2011 – a net outflow of US\$ 2.4 bln.). Foreign assets of residents (except for reserve assets) increased by US\$ 4.3 bln., as compared to the growth of US\$ 4.5 bln. in the respective period of 2011. Foreign liabilities of residents also increased – by US\$ 3.7 bln. (the increase by US\$ 2.1 bln. in the fourth quarter of 2011).

As a result, at the end of the 4th quarter of 2012, negative balance of payments amounted to US\$ 1.7 bln. (in the fourth quarter of 2011 – a negative balance of US\$ 3.3 bln.).

– Terms of Trade and the Real Effective Exchange Rate

In the 4th quarter of 2012, the aggregate terms of trade index was by 1% lower than the respective indicator for 4th quarter of 2011. Alongside with that, the terms of trade with the Euro zone countries decreased by 2%, and with Russia – decreased by 21% (Table 1).

Table 1

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

	4 qtr.11	1qtr.12	2 qtr.12	3 qtr.12	4 qtr.12
Export prices	34	12	1	-9	-2
Import prices	8	5	-13	1	-1
Terms of trade	24	8	17	-9	-1
including:					
Euro Zone countries					
Export prices	36	18	4	-10	-1
Import prices	12	14	-7	-10	1
Terms of trade	20	5	13	0	-2
Russia					
Export prices	45	16	5	-17	-19
Import prices	3	2	-18	1	3
Terms of trade	43	16	26	-24	-21

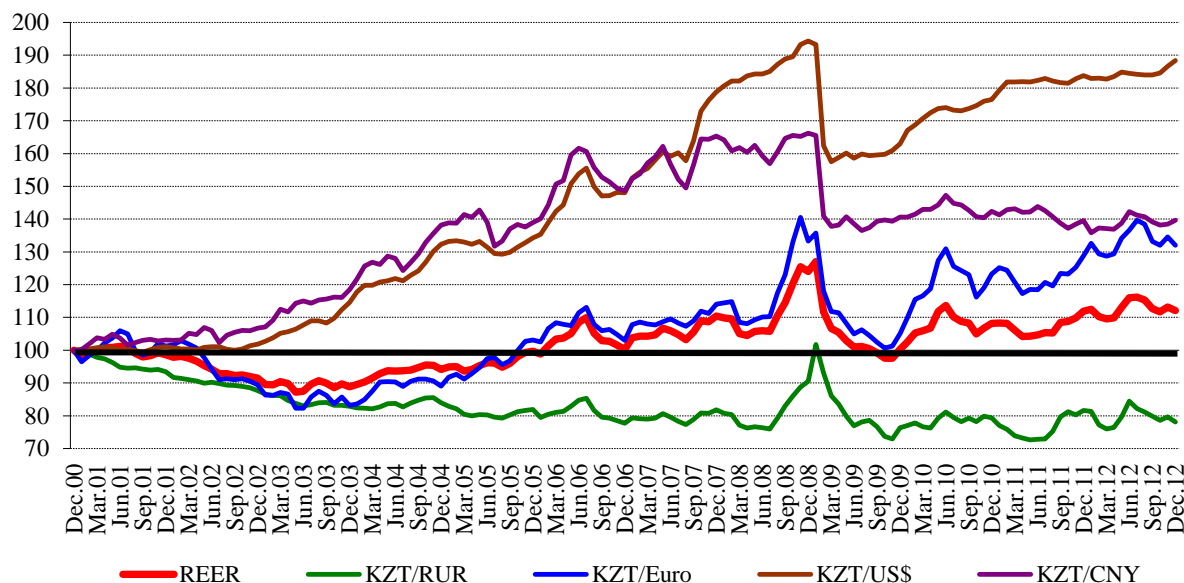
Source: National Bank of the Republic of Kazakhstan

At the end of the 4th quarter of 2012, the index of the real effective exchange rate of the Tenge depreciated by 2.1% versus the prior period. The Tenge has depreciated versus the CIS currencies basket by 2.1% and versus the basket of other currencies – also by 2.1%.

During the fourth quarter of 2012 as compared to the prior period, the Tenge appreciated in real terms against the US Dollar by 1.3%, it depreciated against the Euro – by 3.1% and depreciated against the Russian ruble by 2.8% (Figure 17).

Figure 17

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



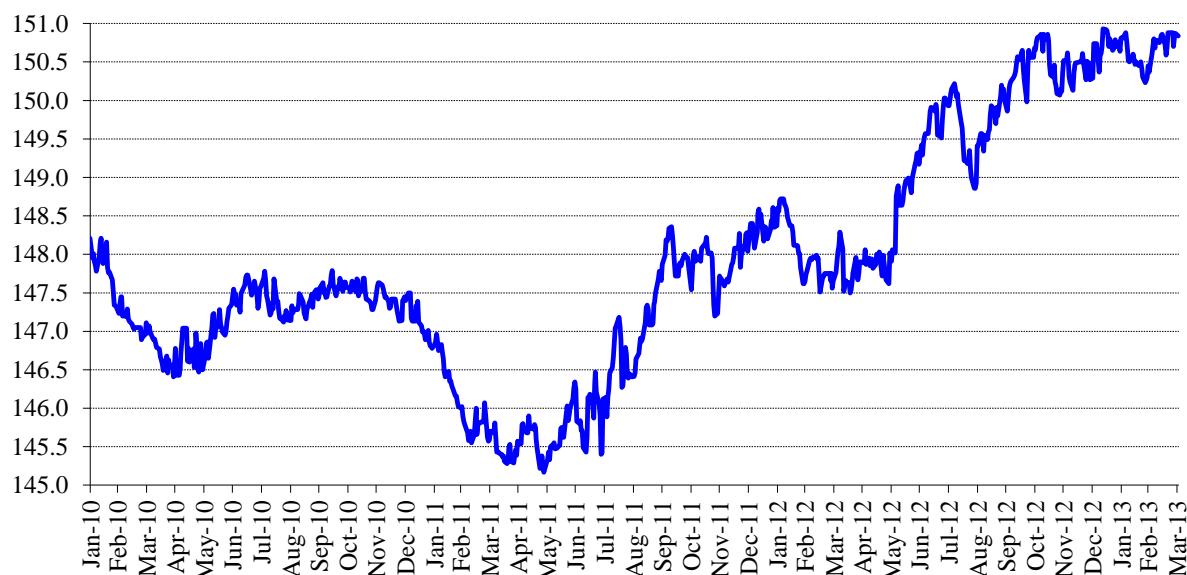
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the first quarter of 2013 was KZT 150.64 per 1 US\$. The stock exchange rate at end-period was KZT 150.84 per 1 US Dollar. Since the beginning of the year the Tenge has depreciated versus the US Dollar in nominal terms by 0.1% (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 January and March the exchange rate of the Tenge depreciated versus the US Dollar by 0.1% and 0.3%, respectively, and in February it appreciated by 0.3%.

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.

During the first quarter of 2013 as a whole, the official exchange rate of the Tenge versus the Euro appreciated by 3.1%, and versus the Russian ruble – by 1.6% (Figure 19).

Figure 19

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



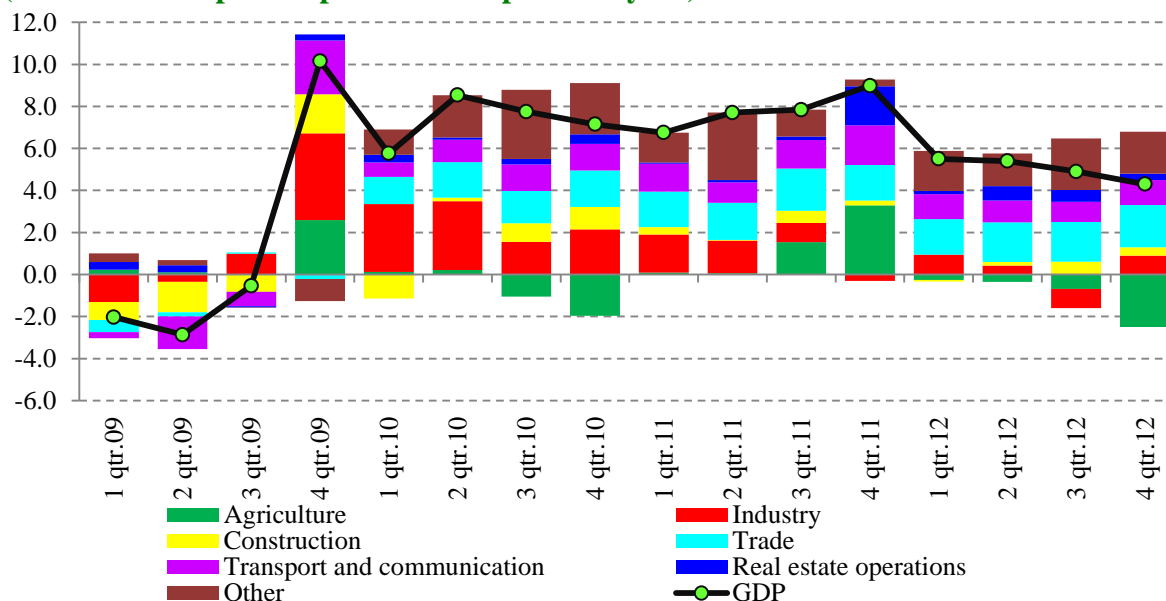
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the 4th quarter of 2012, the volume of GDP output amounted to KZT 9840.3 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except agriculture, the GDP in real terms (in prices of the year 2005) increased versus the 4th quarter of 2011, according to estimate, by 4.3% (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, the construction sector and the industry showed the growth, whereas the agricultural sector demonstrated the decline. According to estimates, in the 4th quarter of 2012 the volume of industrial output increased by 3.4% (in the 3rd quarter of 2012 – the decrease by 3.8%), the volume of construction increased by 4.7% (the growth by 5.6%), and the agricultural sector demonstrated the decrease by 35.9% (the decrease by 12.2%). As a result, the segment of the production of goods made negative contribution to the GDP formation of (-)1.2%.

Production of services. In the production of services, virtually all sectors of the economy comprising this component demonstrated growth. The exceptions were the sectors of “professional, scientific and technical activity” and “provision of other services”, which decreased by 11.4% and 7.1%, respectively, however, due to an insignificant weight of these sectors their contribution to the GDP growth was insignificant. As a result, the sectors that comprise the production of services on aggregate were conducive to positive contribution to the GDP growth of (+)5.0%.

Net taxes on foodstuffs and imports. The increase in net taxes on products and imports by 12.3% has positively influenced the GDP growth formation of (+)0.5% (in the 3rd quarter of 2012 such contribution accounted for (+)0.8%).

Therefore, the main driver for the GDP growth in the 4th quarter of 2012 (just like in the 3rd quarter of 2012) was the sector of the production of services.

2.3. Labor Market

2.3.1. Employment and Unemployment

In the 1st quarter of 2013, the number of people employed in the economy, according to tentative estimates, was 8.5 mln., having decreased by 0.5% versus the 4th quarter of 2012 (the growth versus the 1st quarter of 2012 accounted for 1.0%). At the same time, the number

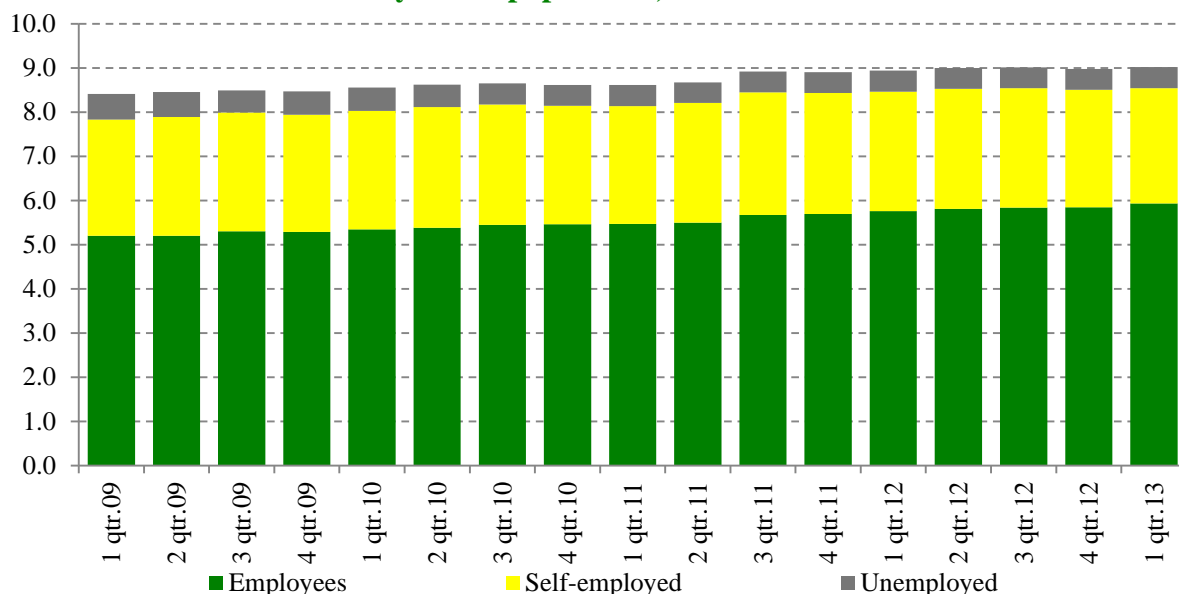
of employees reached 5.9 mln., having increased by 1.4% versus the 4th quarter of 2012, and the number of self-employed – 2.6 mln. people (the decrease by 1.6%).

In the structure of employees, 4.8 mln. individuals (81.6% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.4%), and at farms – 0.4 mln. individuals (6.0%).

In the 1st quarter of 2013, the number of the unemployed amounted to 475 000 individuals, which is by 0.1% less than in versus the previous period and by 0.8% less than in the 1st quarter of 2012 (Figure 21).

Figure 21

The structure of economically active population, mln. individuals



Source: Agency of Statistics of the Republic of Kazakhstan

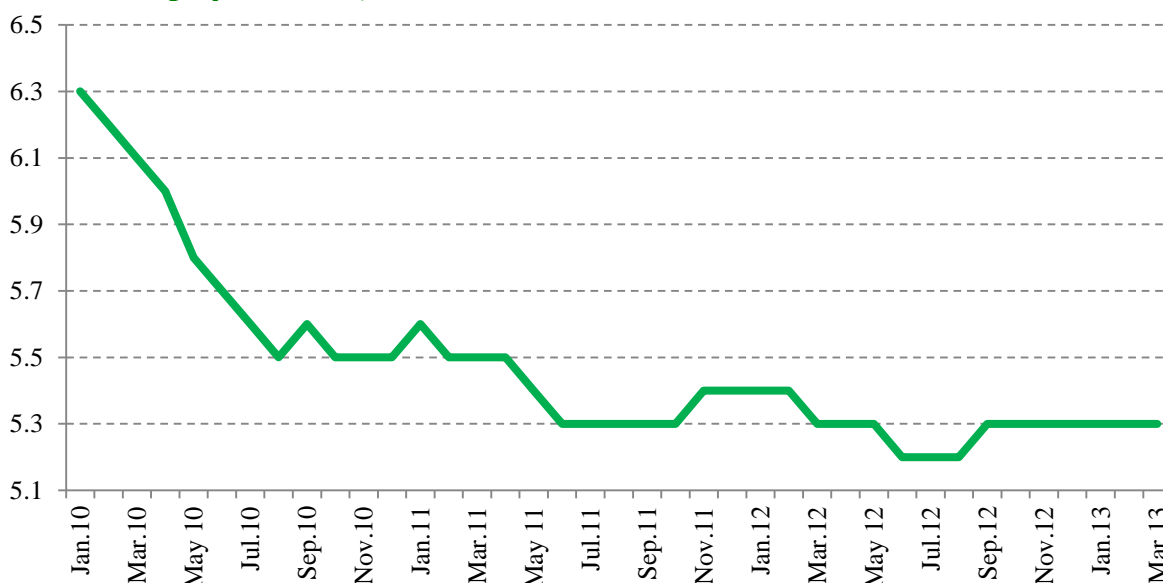
In the 1st quarter of 2013, the following sectoral changes in the structural composition of employees working at medium- and large enterprises were observed.

During January-March 2013, the growth in actual number of employees versus the respective period of 2012 accounted for 3.0%, and was noted in virtually all lines of economic activity to a greater or lesser extent.

The decrease in the number of the employed was only noted in the following four sectors: agriculture, forestry and fishery; transport and warehousing; information and communication; and real estate operations.

At the same time, the decrease in the number of employed in some sectors was fully compensated by their growth in other sectors. As a result, the unemployment rate in the 1st quarter of 2013 remained unchanged versus the prior period (5.3%), and decreased by 0.1 percentage point versus the 1st 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 4th quarter of 2012, as compared to the respective quarter of the previous year, the average monthly wages increased in nominal terms by 8.2% (in the 3rd quarter of 2012 – the growth by 10.7%), and in real terms – by 2.4% (the growth – by 5.6%).

As compared to the previous quarter, nominal wages increased by 5.8%, and real wages increased by 3.8%.

In December 2012, as compared to December 2011, the highest increase in nominal wages was observed in the following sectors: “activity in the area of administrative and ancillary service” – by 14.9%; “financial and insurance activity” – by 12.1%; “wholesale and retail trade; repair of cars and motorcycles” – by 11.5%; and “real estate operation” – by 11.1%.

There was a decrease in wages in the activity of “arts, entertainment and leisure” – by 1.5%.

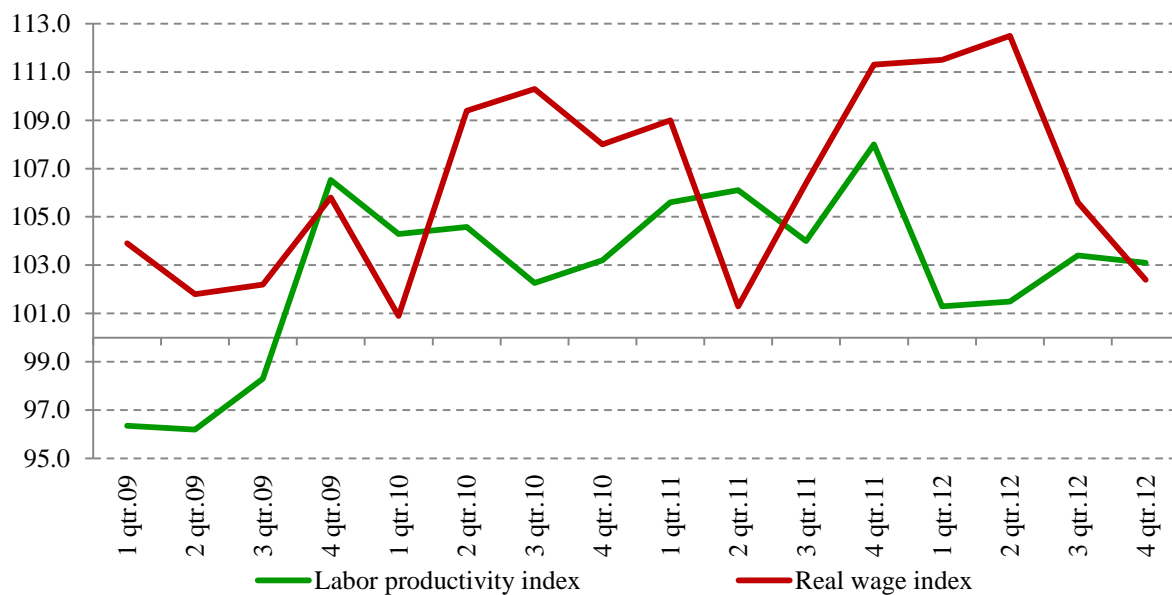
In December 2012, the highest wages in money terms were observed in the activity of “extraterritorial institutions and bodies” (KZT 405 400), as well as in the “financial and insurance activity” (KZT 267 700), and the lowest – in “agriculture, forestry and fishery” (KZT 55 700).

In the 4th quarter of 2012, the growth in real wages of employees increased by 2.4%, which is below the growth rates of the three prior quarters (in the 1st quarter of 2012 – the growth by 11.5%, in the 2nd quarter of 2012 – the growth by 12.5%, and in the 3rd quarter of 2012 – the growth by 5.6%).

A slowdown in the rates of growth in wages and the number of individuals employed in the economy in the 4th quarter of 2012 had influenced the labor productivity index which decreased to 3.1% (according to the National Bank's estimate), whereas a quarter before the growth in the index accounted for 3.4% (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

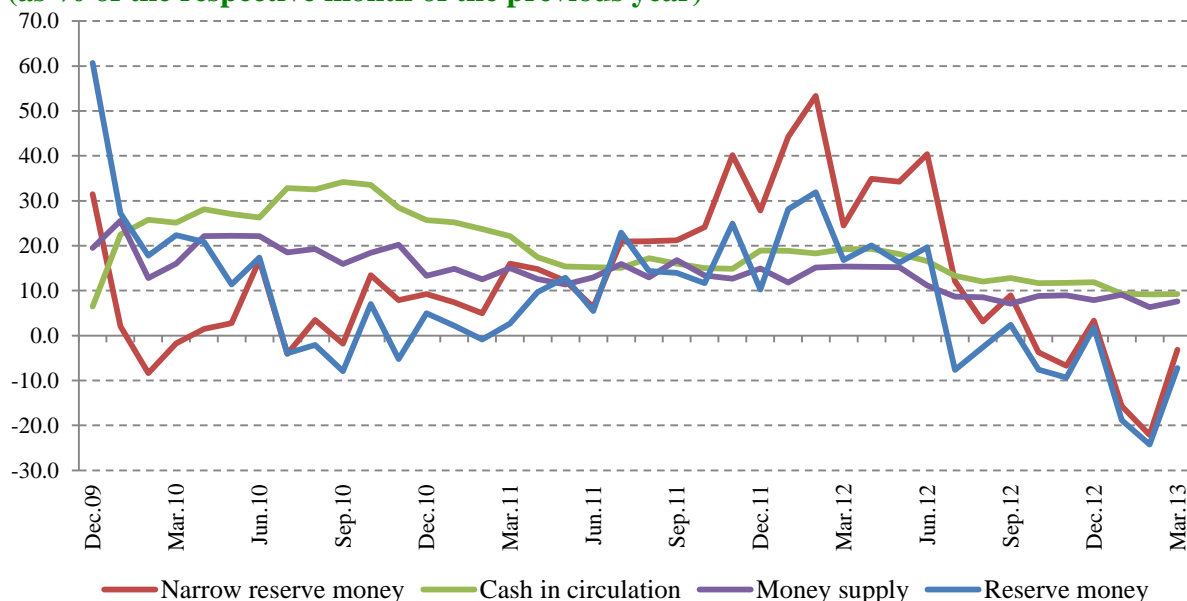
3. Money Supply

3.1. Monetary Aggregates

In the 1st 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 1st quarter of 2013, the reserve money expanded by 5.4 % and amounted to KZT 3045.0 bln. at end-March 2013. Narrow reserve money expanded by 0.2% to KZT 2835.8 bln.

In March 2013 as compared to March 2012, the reserve money contracted by 7.2%.

Net international reserves of the National Bank in March 2013 as compared to the respective period of 2012 decreased by 13.1% to US\$ 27.6 bln. Foreign currency proceeds to the Government's accounts with the National Bank were neutralized by 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 20.1%. Assets denominated in gold increased by 23.3% as a result of performed transactions, despite the decrease in its price in the global markets.

In March 2013 as compared to March 2012, net domestic assets of the National Bank less the National Fund's assets increased (Table 2), mainly due to the decreased liabilities 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)

	2 qtr.12	3 qtr.12	4 qtr.12	1 qtr.13
Net international reserves	-6.6	-7.4	-3.6	-13.1
Net domestic assets	51.2	25.0	73.5	95.7
Net claims on the Government	-42.7	11.3	26.8	9.0
Claims on the economy	129.8	256.2	596.5	262.7
Other net domestic assets	0.1	-19.5	-18.3	-1.9
Reserve money	19.6	2.4	1.9	-7.2
Narrow reserve money	40.4	9.0	3.3	-3.1

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the 1st quarter of 2013, money supply increased by 5.3% to KZT 11078.2 bln.

In March 2013 as compared to March 2012, its growth accounted for 7.6% as a result of increase in both net foreign assets and the 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)

	2 qtr.12	3 qtr.12	4 qtr.12	1 qtr.13
Net foreign assets	-10.7	-15.6	11.6	5.7
Domestic assets	31.9	25.7	2.1	14.6
Claims on the Government	-51.5	200.4	58.9	209.9
Claims on the economy	14.0	11.2	11.9	11.1
Other net domestic assets	4.9	2.0	-18.5	-13.6
Money supply	11.2	7.1	7.9	7.6
Cash in circulation	16.6	12.8	11.9	9.2
Deposits of residents	10.4	6.2	7.2	7.4

Source: National Bank of the Republic of Kazakhstan

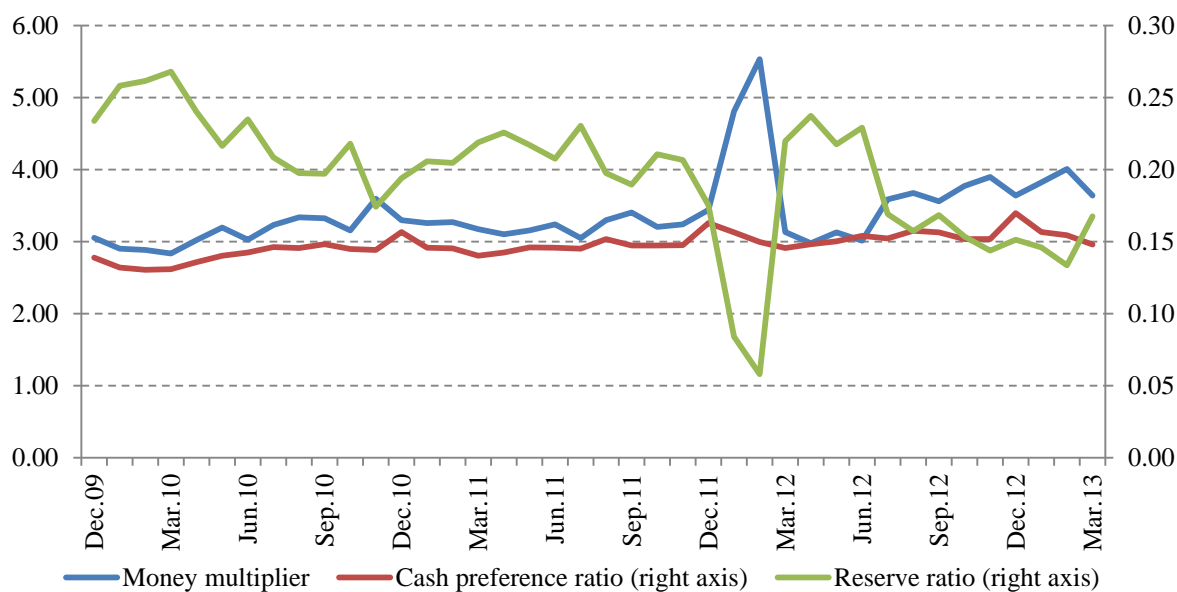
In the structure of net foreign assets of the banking system in March 2013 as compared to the respective period of 2012, net foreign assets of banks increased, whereas net foreign assets of the National Bank, excluding assets of the National Fund, decreased. The growth in net foreign assets of banks was mainly due to the decreased liabilities of banks to non-residents.

During the reviewed period, in the structure of the main components of money supply the outstripping growth rates of cash in circulation were noted as compared to the growth rates of residents' deposits in the banking system. As a result, the share of deposits of residents in the structure of the money supply decreased from 87.3% in March 2012 to 87.1% at end-March 2013.

The money multiplier grew from 3.14 in March 2012 to 3.64 in March 2013 as a result of the outstripping growth in money supply versus the contraction in the reserve money. The decrease in reserve ratio alongside with the unchanged 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 1st quarter of 2013, the volume of cash in circulation decreased by 6.5% to KZT 1428.4 bln.

In March 2013 as compared to March 2012, cash in circulation increased by 9.2%. Cash payouts from bank cashier's departments increased by 26.3% to KZT 1.6 trln., and receipts to bank cashier's departments – by 24.6% to KZT 1.5 trln.

The growth in cash in March 2013 as compared to the respective period of 2012 was associated with decreased proceeds from the sales of foreign exchange by exchange offices, decreased receipts from accounts of individuals, increased payouts to support ATMs and decreased loan receipts. At the same time, the impact of these factors was not neutralized by the decreased payouts associated with the remuneration of labor, retirement benefits and allowances, increased receipts from delivered services and works, increased receipts from one-time money transfers within Kazakhstan and from abroad by using the systems of money transfers without opening an account, noted during the reviewed period.

3.2. Financial Market

3.2.1. Deposits of Residents

Deposits of residents at end-March 2013 amounted to KZT 9649.9 bln., having increased by 7.3% during the first quarter of 2013. Deposits of legal entities increased by 9.5%, and deposits of individuals increased by 3.7%.

Within deposits, the volume of term deposits (under the IMF classification – "other deposits"¹) during the first quarter of 2013 increased by 3.9% and amounted to KZT 6167.5 bln. at end-March 2013. Term deposits in the domestic currency increased by 4.7% to KZT 4144.5 bln., and foreign currency deposits – increased by 2.4% to KZT 2022.9 bln. The

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

percentage of term deposits in the total deposit base decreased from 66.0% to 63.9% during the quarter.

In the 1st 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 by 27.2%. As a result, in the 1st quarter of 2013, the volume of foreign currency deposits increased by 15.2%, amounting to KZT 3089.6 bln., whereas deposits in the domestic currency increased by 3.9% only, to KZT 6560.3 bln.

The growth in the volume of foreign currency holdings of legal entities (during January and March 2013, by 7.6% and by 23.6%, respectively) resulted in the increased degree of dollarization in the deposit market and the decrease in the percentage of deposits in the domestic currency from 70.2% in December 2012 to 68.0% in March 2013.

Thus, the inflow of foreign currency to accounts of legal entities and individuals served as a main source for the overall bank deposit base growth in the 1st quarter of 2013. Alongside with that, the growth in the Tenge deposits of legal entities also demonstrated the positive dynamics, which was observed in February and March 2013 (the growth by 1.2% and by 3.9%, respectively) (Table 4).

Table 4

Dynamics of changes in residents' deposits
(as % to December of the previous year)

	March 2010	March 2011	March 2012	March 2013
Deposits of residents	4.4	6.7	7.1	7.3
<i>of individuals</i>	<i>2.1</i>	<i>3.7</i>	<i>4.3</i>	<i>3.7</i>
<i>of non-bank legal entities</i>	<i>5.3</i>	<i>8.0</i>	<i>8.5</i>	<i>9.5</i>
Deposits in the Tenge	13.3	12.4	3.5	3.9
Deposits in foreign currency	-7.2	-3.8	15.0	15.2

Source: National Bank of the Republic of Kazakhstan

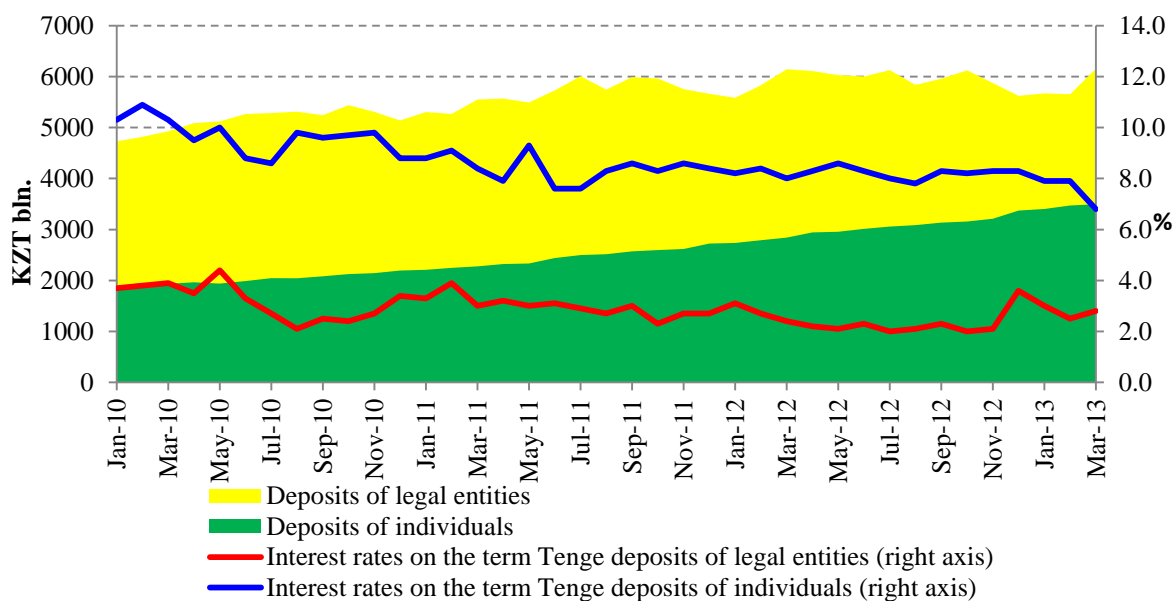
As compared to the previous quarter, in the 1st quarter of 2013 interest rates on deposits slightly increased, due to the growth in interest rates on deposits in the domestic currency in March and the growth in interest rates on foreign currency deposits in February.

As a result, the average rate on the Tenge deposits in the 1st quarter of 2013 increased to 4.4% (the fourth quarter of 2012 – 3.7%), and on deposits in freely convertible currencies – to 3.6% (3.2%).

The average weighted interest rate on the Tenge time deposits of non-bank legal entities in March 2013 was 2.8% (in December 2012 – 3.6%), and on deposits of individuals – 6.8% (8.3%) (Figure 26).

Figure 26

Dynamics of deposits and their interest rates

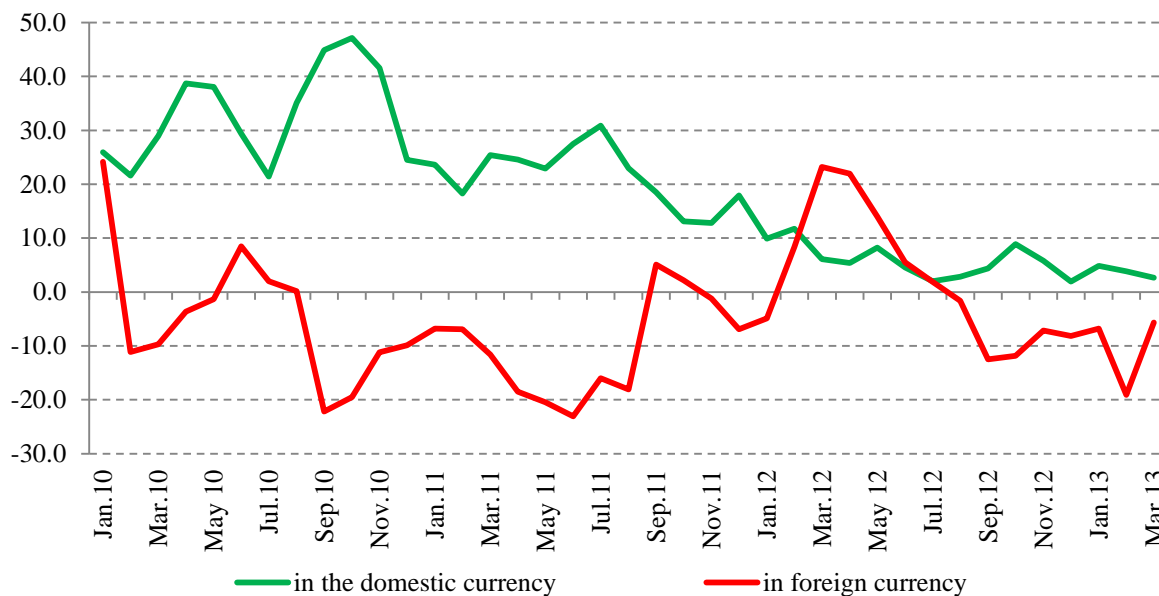


Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2013, the volume of deposits of legal entities increased by 9.5% to KZT 6154.2 bln., where the annual growth (March 2012 to March 2013) accounted for 0.2%. Deposits of legal entities in the domestic currency increased by 2.7% in annual terms, and foreign currency deposits decreased by 5.7% (Figure 27).

Figure 27

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



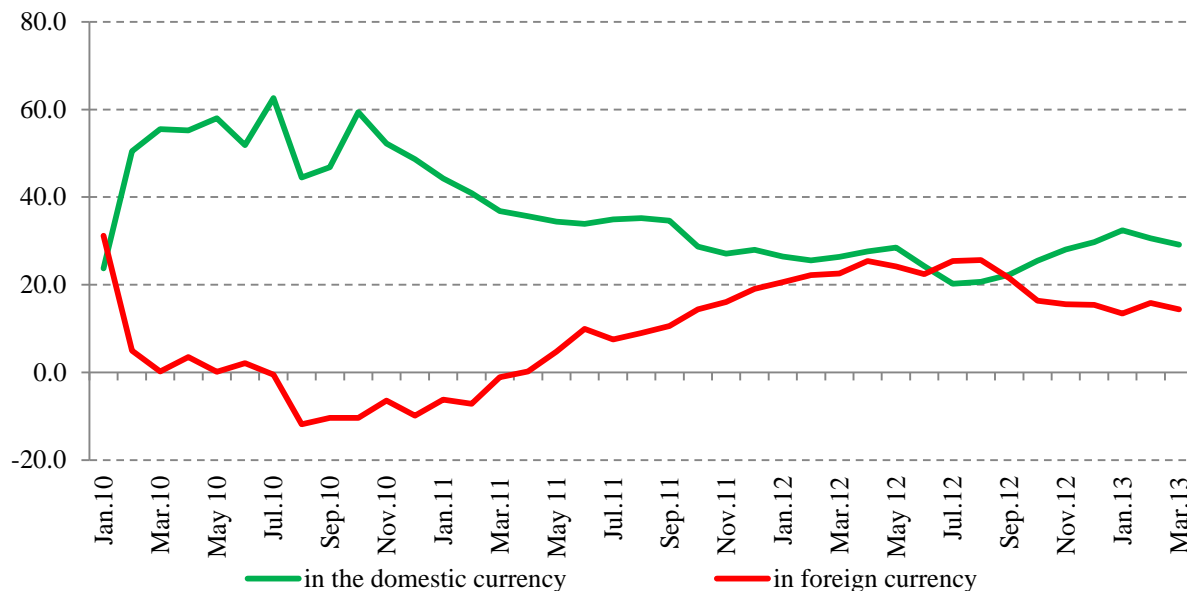
Source: National Bank of the Republic of Kazakhstan

During the first quarter of 2013, the volume of deposits of individuals increased by 3.7% to KZT 3495.7 bln., where the annual growth accounted for 23.1%. Deposits of

individuals in the domestic currency increased in annual terms by 29.2%, and foreign currency deposits increased by 14.4% (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 first quarter of 2013, bank credits to the economy increased by 1.6% to KZT 10118.2 bln. During January-March 2013, credits to legal entities increased by 0.7%, amounting to KZT 7152.4 bln., and credits to individuals increased by 3.9% to KZT 2965.8 bln.

The volume of credits in the domestic currency increased by 3.1%, to KZT 7262.6 bln., and the volume of credits in foreign currency decreased by 2.1%, to KZT 2855.6 bln.

During January-March 2013, long-term lending increased by 2.1% to KZT 8172.1 bln., and short-term lending decreased by 0.5%, amounting to KZT 1946.2 bln. As a result, the percentage of long-term credits in March 2013 as compared to December 2012 increased from 80.4% to 80.8%.

In March 2013, the average weighted interest rate on credits to non-bank legal entities provided in the Tenge increased to 10.6% (in December 2012 – 10.3%), and on credits to individuals made in the Tenge it accounted for 21.6% (in December 2012 – 21.2%). In the 1st quarter of 2013 as a whole, the cost of borrowing remained virtually unchanged versus the previous period (Figure 29).

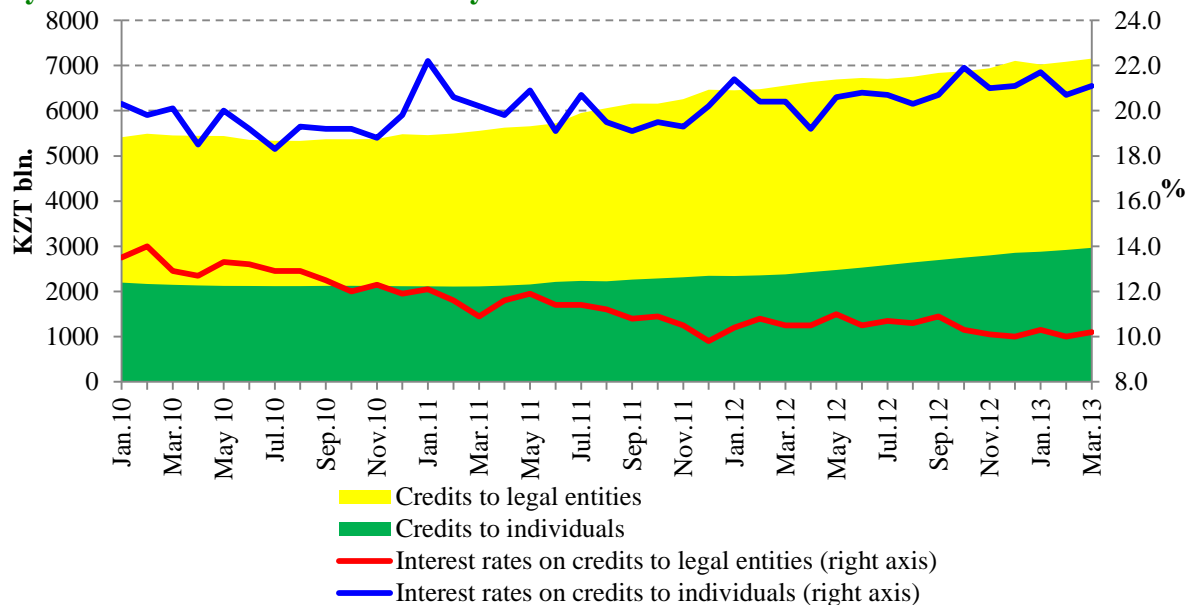
In the structure of credits by objects of financing, the major volume of debt fell on credits provided for the purchase of working capital (26.9%), other purposes (22.6%), new construction and reconstruction (14.0%), as well as for consumer purposes of individuals (15.8%).

In a sectoral breakdown, the highest debt on bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 46.0%, trade – 20.2%, construction – 13.5%, and industry – 12.0%.

During the first quarter of 2013, credits to the industry increased by 1.3%, to the transport sector – by 0.3%, trade – by 2.3%, and agriculture – by 7.8%. Credits to the construction sector decreased by 2.5% and to the sector of communication – by 5.4%.

Figure 29

Dynamics of credits to the economy and their interest rates



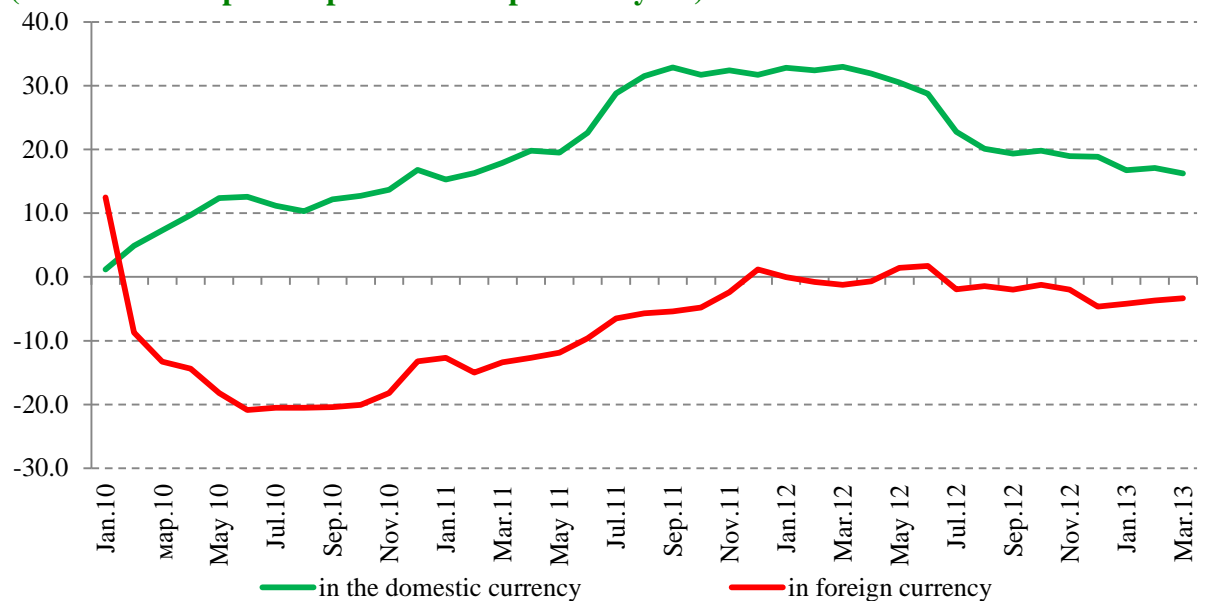
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in annual terms (March 2012 to March 2013) increased by 13.2%. There were changes in the structure of credits in terms of their tenors. The share of medium- and long-term credits in total credits to legal entities at end-March 2013 accounted for 74.6%, whereas in December 2012 it reached 74.2%.

On the annual basis, credits to legal entities in the domestic currency increased by 16.3%, and foreign currency credits decreased by 3.4% (Figure 30).

Figure 30

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



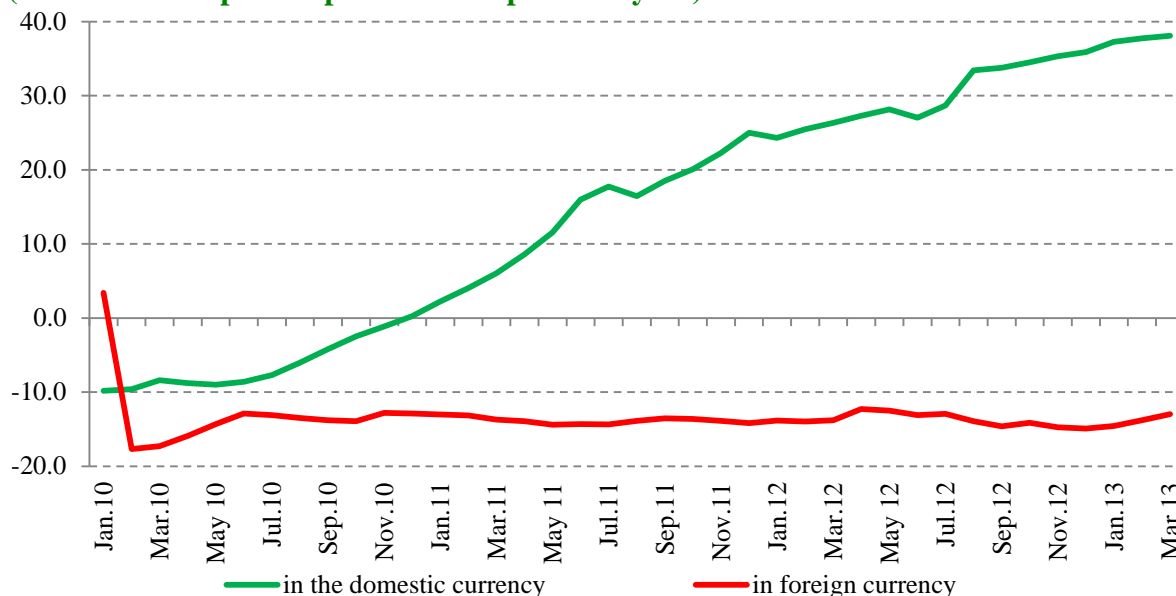
Source: National Bank of the Republic of Kazakhstan

The volume of credits to individuals, provided in March 2013 as compared to the respective period of 2012, increased by 24.7%. At end-March 2013, the share of medium- and long-term credits in total credits to individuals slightly increased and accounted for 95.7%, versus 95.6% in December 2012.

In annual terms, credits to the population provided in the domestic currency demonstrated the increase by 38.1%, and foreign currency credits – the decrease by 13.0% (Figure 31).

Figure 31

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



Source: National Bank of the Republic of Kazakhstan

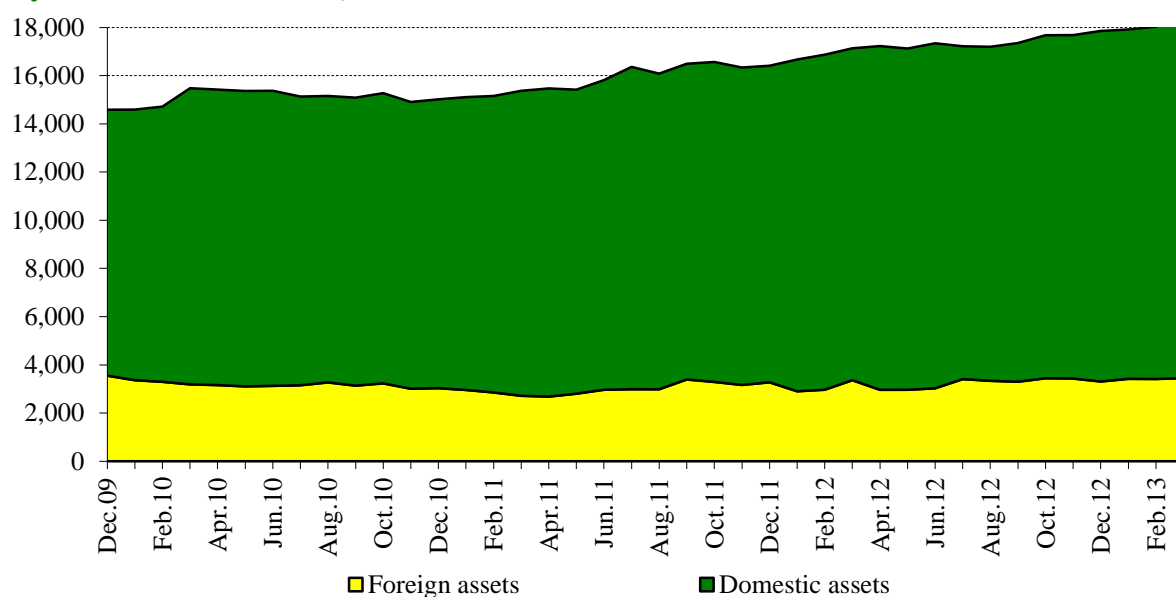
3.2.3. Bank Assets and Liabilities

– Assets

In the 1st quarter of 2013, the amount of bank assets calculated under the Monetary Survey increased by 4.0% to KZT 18.6 trln. In annual terms (March 2012 to March 2013) bank assets increased by 8.4% (Figure 32).

Figure 32

Dynamics of bank assets, KZT bln.



Source; National Bank of the Republic of Kazakhstan

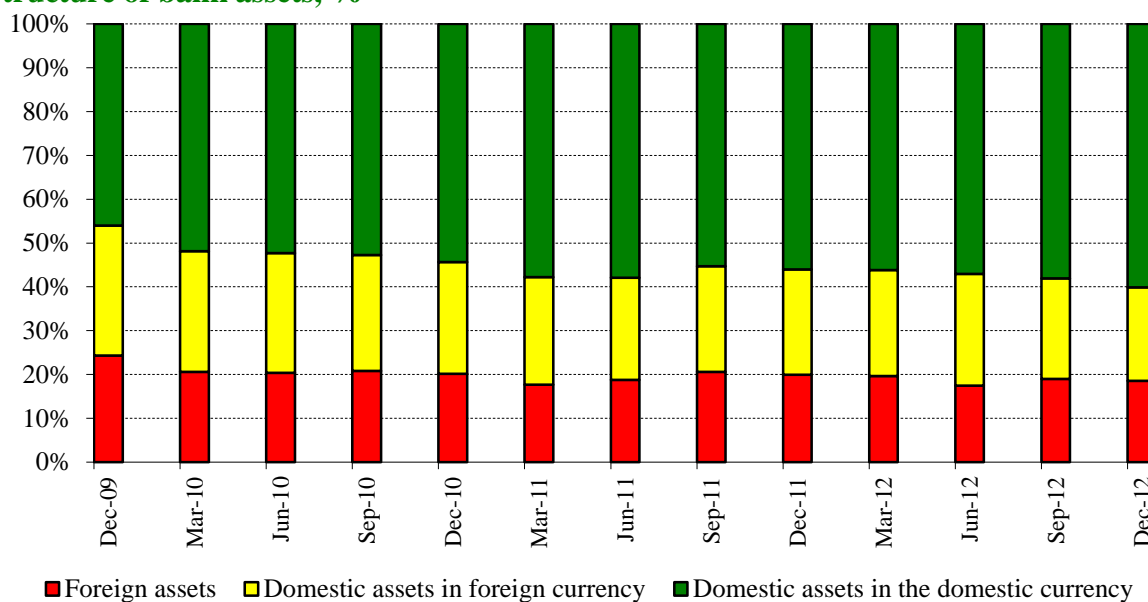
In March 2013, foreign assets of banks accounted for 18.5% of the total volume of assets or US\$ 22.8 bln. as compared to March 2012, they increased by 0.3%.

In the structure of foreign assets in March 2013, credits to non-residents accounted for 47.9% (in December 2012 – 50.9%), deposits placed with non-residents – 32.1% (in December 2012 – 27.7%), securities of non-residents – 6.1% (in December 2012 – 4.7%), and other accounts receivable – 13.9% (in December 2012 – 16.7%).

In March 2013, domestic assets accounted for 81.5% or KZT 15.1 trln., where domestic assets in the domestic currency accounted for 74.2% or KZT 11.2 trln., and domestic assets in foreign currency – 25.8% or KZT 3.9 trln. During the first quarter of 2013, domestic assets increased by 4.0%, where assets in the domestic currency increased by 4.7%, and assets in foreign currency increased by 2.1% (Figure 33).

Figure 33

Structure of bank assets, %



Source: National Bank of the Republic of Kazakhstan

In the 1st quarter of 2013, certain changes in the quality of bank assets may be noted. So, the share of standard assets increased from 46.7% to 48.5%, the share of doubtful assets decreased from 31.2% to 30.9%, and the share of bad assets decreased from 22.1% to 20.7%.

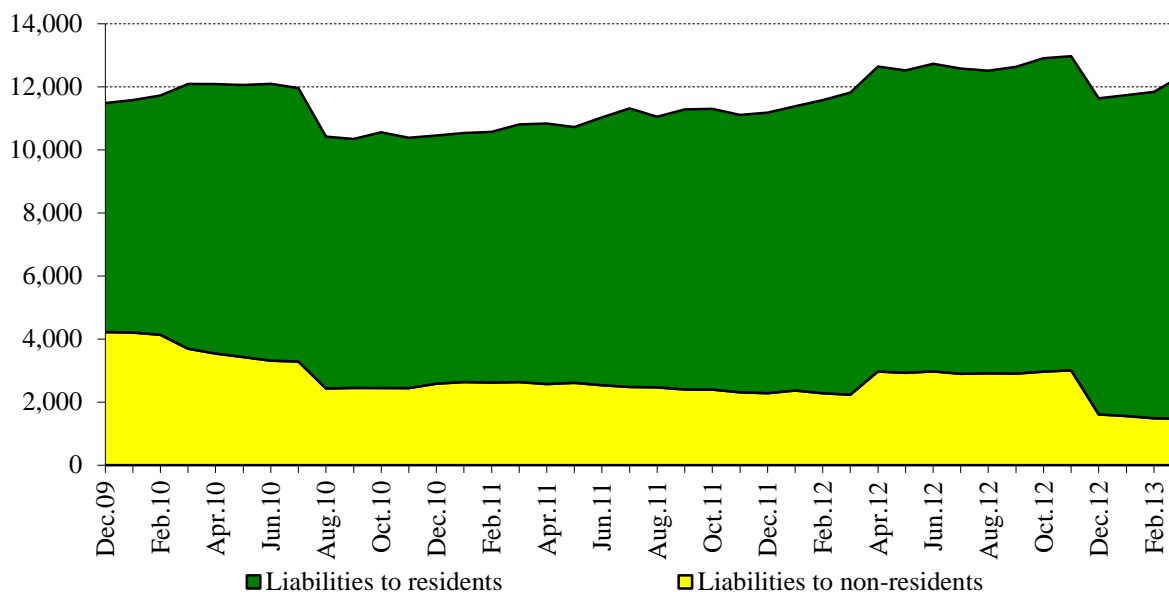
In the structure of doubtful assets, the decrease in assets of Categories 1 and 5 is observed and the increase in assets of Categories 2, 3 and 4 is observed. Within doubtful assets, the share of assets of Category 1 decreased from 32.2% to 29.5%, the share of assets of Category 2 increased from 14.3% to 17.9%, the share of assets of Category 3 increased from 26.8% to 26.9%, the share of assets of Category 4 increased from 9.6% to 11.7%, and the share of assets of Category 5 – decreased from 17.0% to 14.1%.

As a whole, under the Monetary Survey, during the first quarter of 2013, bank assets demonstrated a minor increase. Alongside with that, some increase in the share of standard assets and decrease in the share of doubtful assets is observed.

– Liabilities

In the 1st quarter of 2013, total bank liabilities calculated under the Monetary Survey decreased by 6.1% and amounted to KZT 12.3 trln. at end-March. (Figure 34).

Figure 34

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

In March 2013 as compared to December 2012, bank liabilities to non-residents decreased by 8.6% to KZT 1.5 trln. (US\$ 9.7 bln.), and they decreased by 34.2% versus the respective month of 2012. At end-March 2013, bank liabilities to non-residents accounted for 11.9% of total bank liabilities.

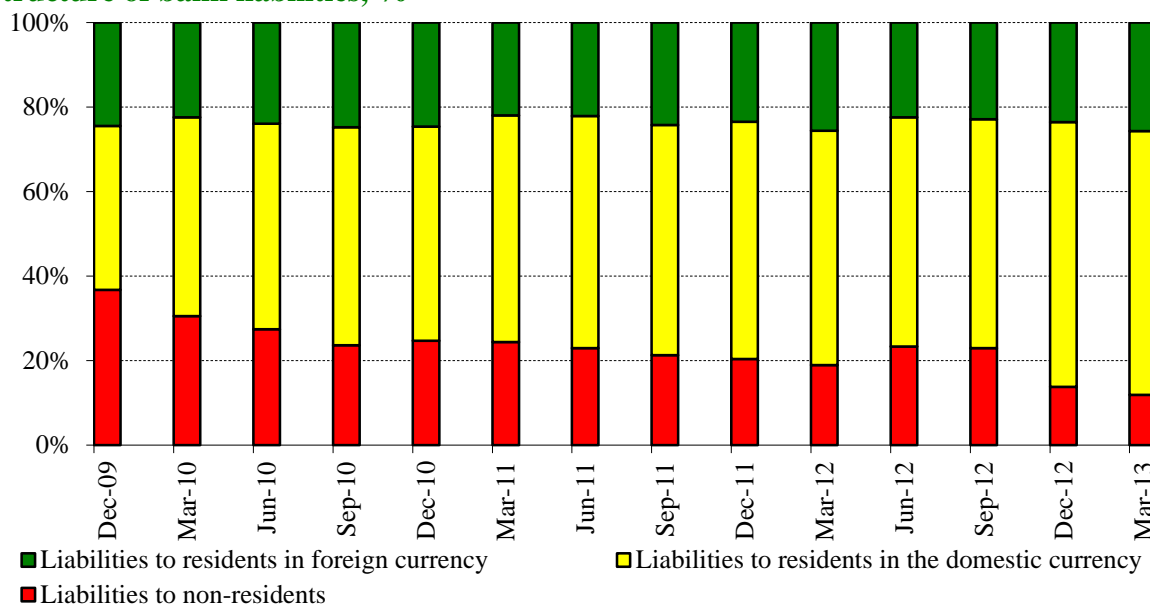
In the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents in March 2013 remained at 15.4% as compared to December 2012, the share of liabilities on securities increased from 63.5% to 66.0%, and credits from non-residents decreased from 19.5% to 17.0%, respectively.

During the first quarter of 2013, liabilities to residents increased by 8.5% to KZT 10.9 trln., where liabilities in the domestic currency increased by 5.8% to KZT 7.7 trln., and foreign currency liabilities increased by 15.7% to KZT 3.2 trln. (Figure 35).

Thus, in the 1st quarter of 2013, there 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

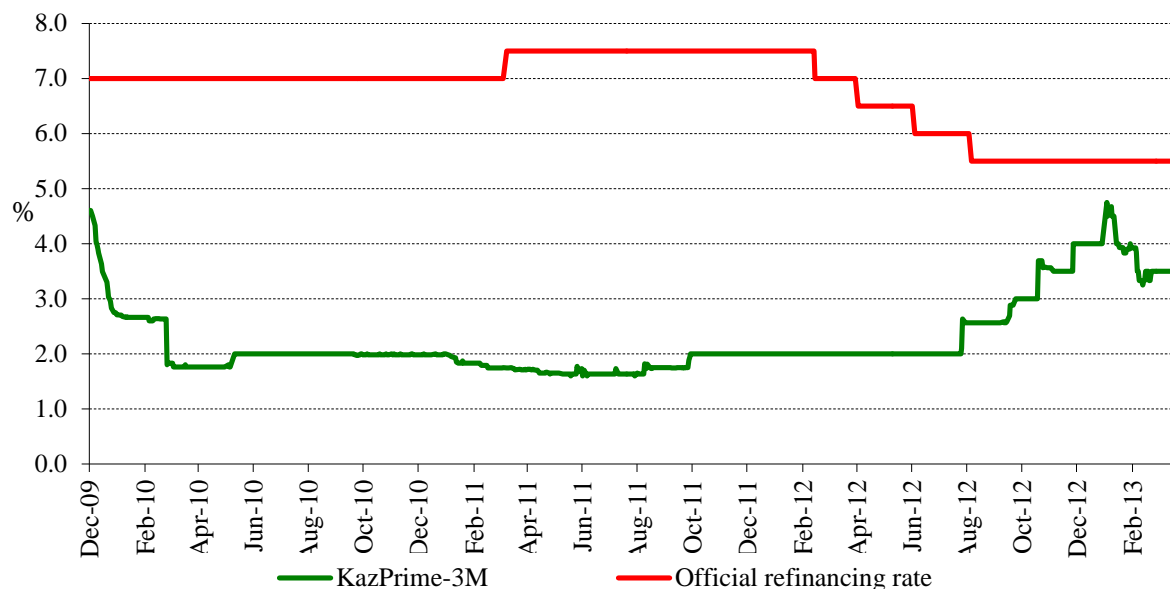
3.2.4. Financial Market Rates

In the 1st quarter of 2013, the pattern of interbank market rates was multi-directional.

The KazPrime index increased from 3.58% on average during the fourth quarter of 2012 to 3.71% on average during the first quarter of 2013. At the same time, at end-December 2012 this indicator accounted for 4.00%, and at end-March 2013 – for 3.50% (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 decreased level of rates was also observed.

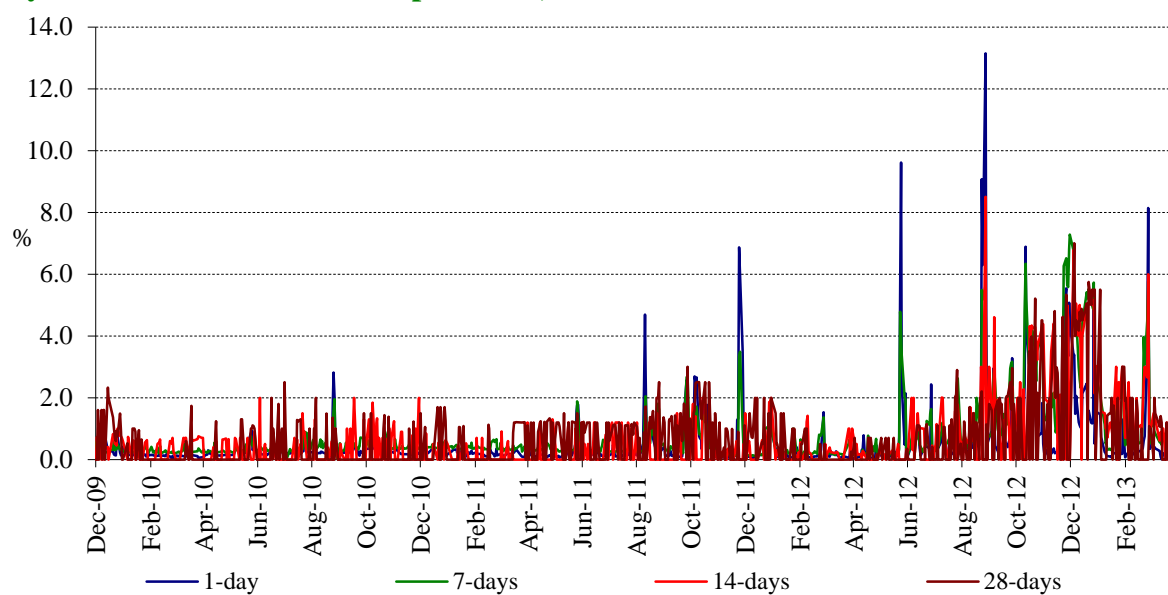
In the 1st quarter of 2013, the average weighted rate on 1-day operations in the sector of automatic REPO decreased and accounted for 0.69% (in the 4th quarter of 2012 – 1.83%). Its maximum level was 8.14% and minimum – 0.01%.

In the 1st quarter of 2013, rate fluctuations on 7-day REPO operations were within the range from 0.31% to 5.77% (the average-weighted rate was 1.38%), on 14-day REPO operations – from 0.53% to 6.00% (the average-weighted rate was 1.28%), and on 28-day REPO operations – from 0.50% to 5.50% (the average-weighted rate was 1.36%) (Figure 37).

In the 1st quarter of 2013, the transaction volumes in the sector of automatic REPO decreased by 46.1% as compared to the previous quarter.

Figure 37

Dynamics of rates on REPO operations, %



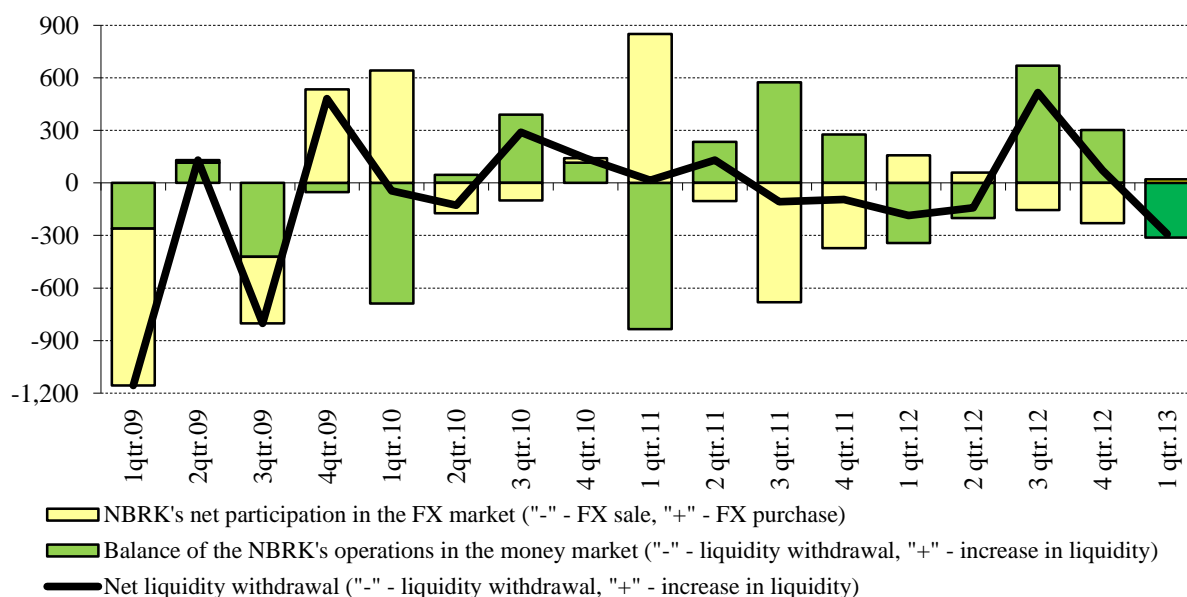
Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

In the 1st quarter of 2013, the situation in the money market remained generally stable and there were no significant fluctuations. During the first 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.

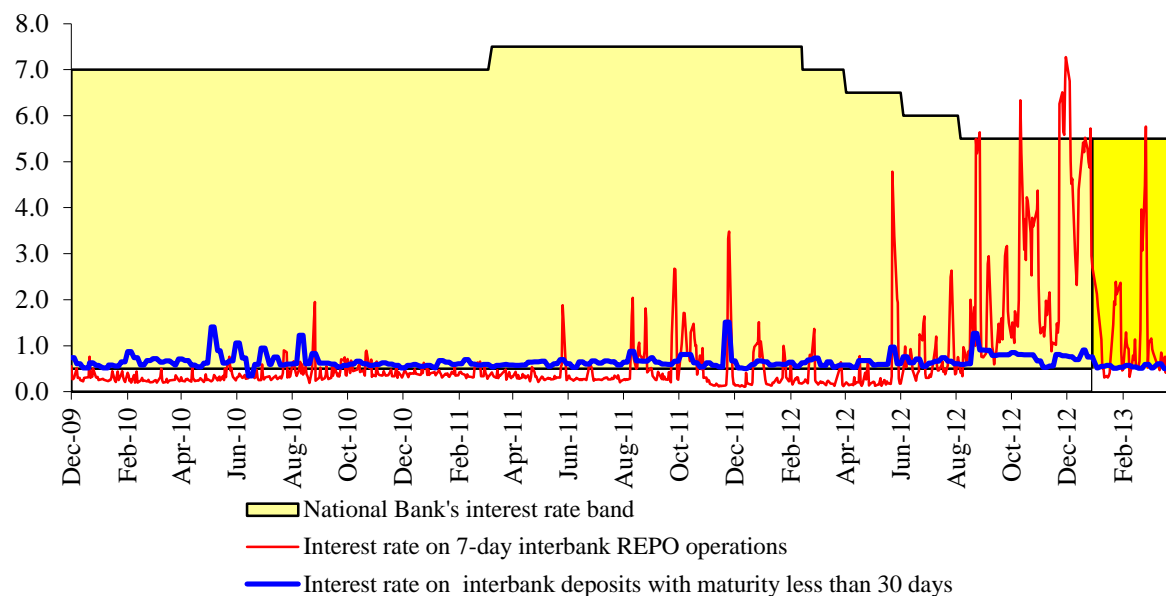


Source: National Bank of the Republic of Kazakhstan

In the 1st 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 1st quarter of 2013, the situation in the money market was characterized by the interest rate volatility, with the downward trend. In the 1st quarter of 2013 on average, 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 decreased from 0.72% in the 4th quarter of 2012 to 0.55% in the 1st quarter of 2013. The average-weighted rate on interbank 7-day REPO operations decreased from 3.75% in the 4th quarter of 2012 to 1.38% in the 1st quarter of 2013 (Figure 39).

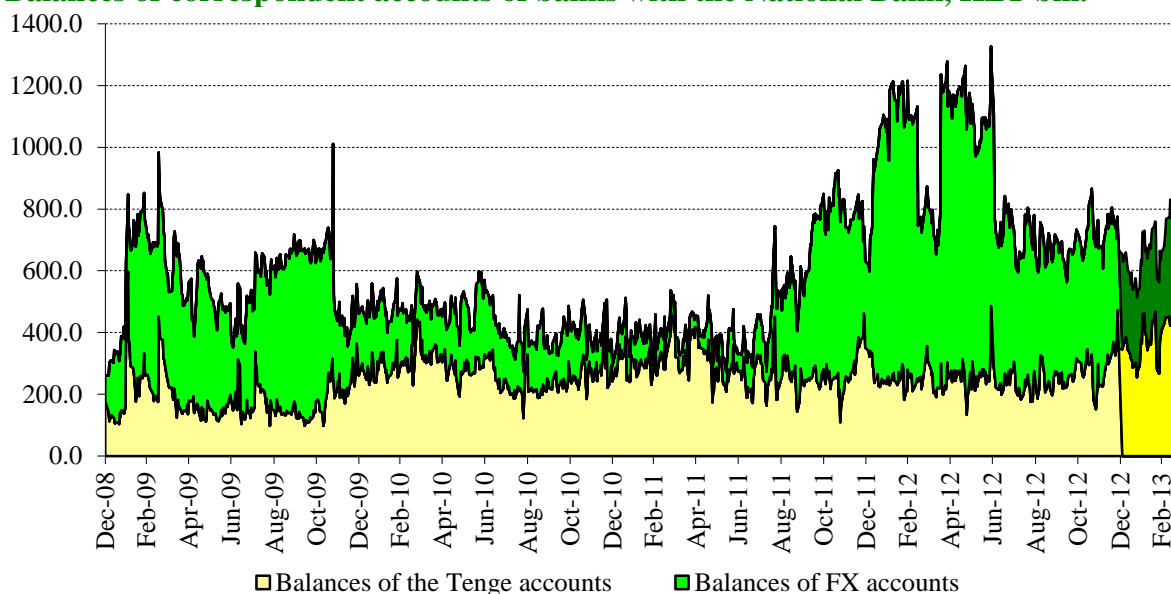
Figure 39

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

Source: National Bank of the Republic of Kazakhstan

In the 1st quarter of 2013, the dynamics in correspondent accounts of banks with the National Bank was multi-directional. Correspondent accounts of banks in the domestic currency were gradually increasing throughout the period, whereas correspondent accounts of banks in foreign currency were decreasing in January-February 2013 and increased in March 2013. As a whole, the volume of correspondent accounts in the domestic currency at end-March 2013 as compared to December 2012 increased by 24.6%, and correspondent accounts in foreign currency increased by 48.4% (Figure 40).

Figure 40

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

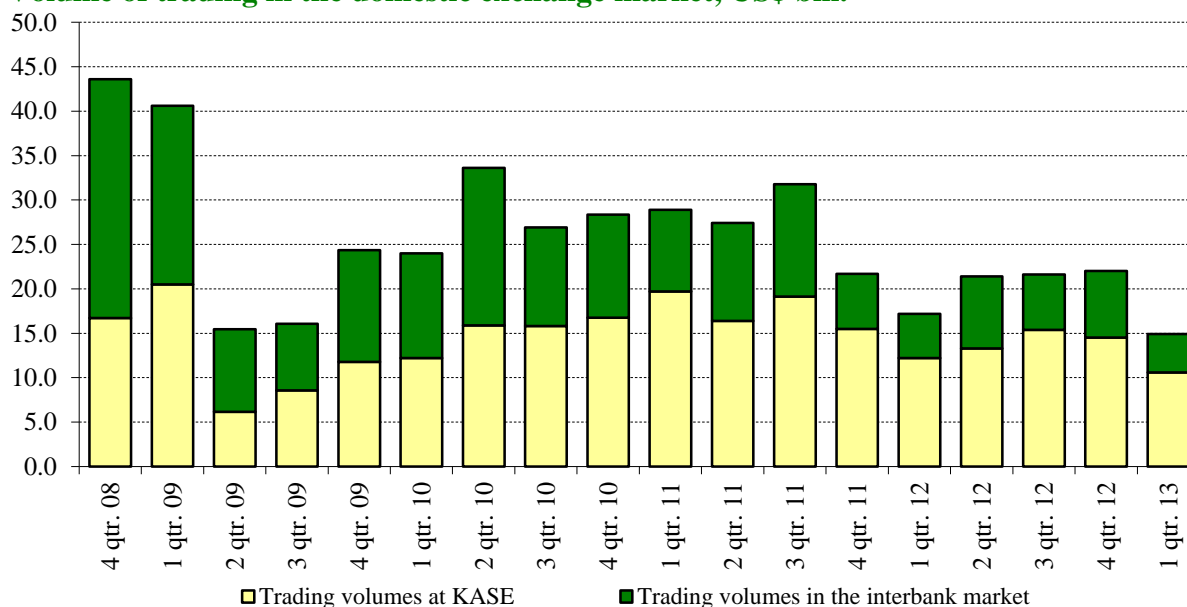
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the 1st 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\$ 14.9 bln., having decreased by 32.3% as compared to the 4th quarter of 2012.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange decreased by 26.6% as compared to the 4th quarter of 2012 and amounted to US\$ 10.6 bln. (net trades at the Kazakhstan Stock Exchange made up 81% of gross trades). During the first quarter of 2013, the volume of transactions in the off-exchange foreign currency market decreased as compared to the previous quarter by 15.0% and amounted to US\$ 4.3 bln. (Figure 41).

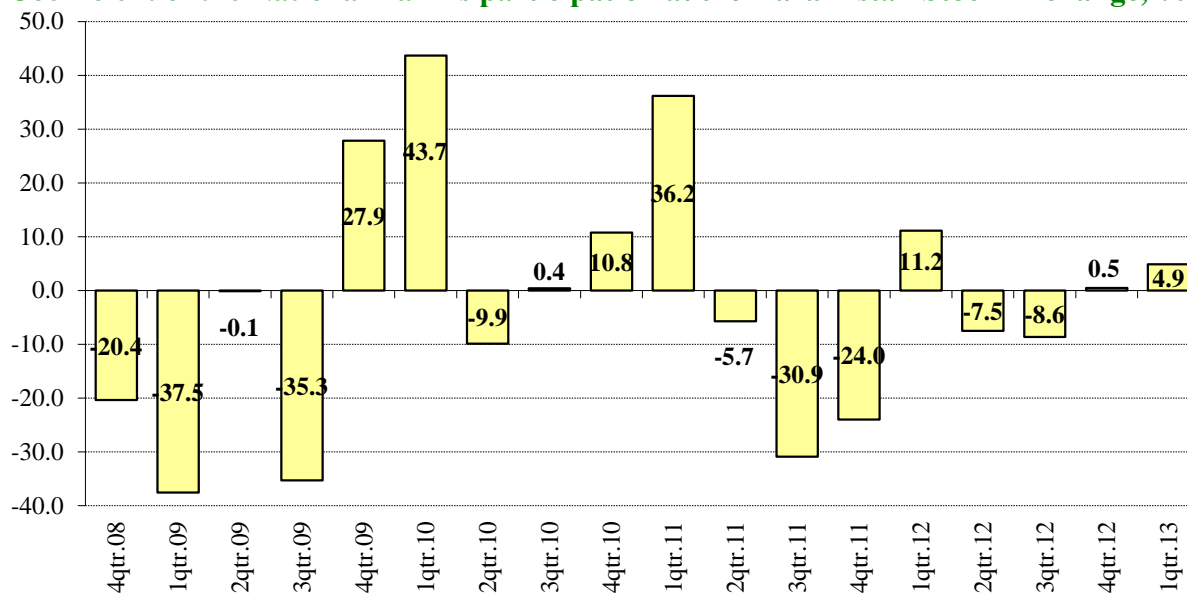
Figure 41

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

Source: National Bank of the Republic of Kazakhstan

At the end of the 1st quarter of 2013, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up 4.9% (in the 4th quarter of 2012 it was 0.5%) (Figure 42). Thus, in the 1st quarter of 2013, the National Bank was primarily a buyer of foreign exchange in the domestic foreign exchange market.

Figure 42

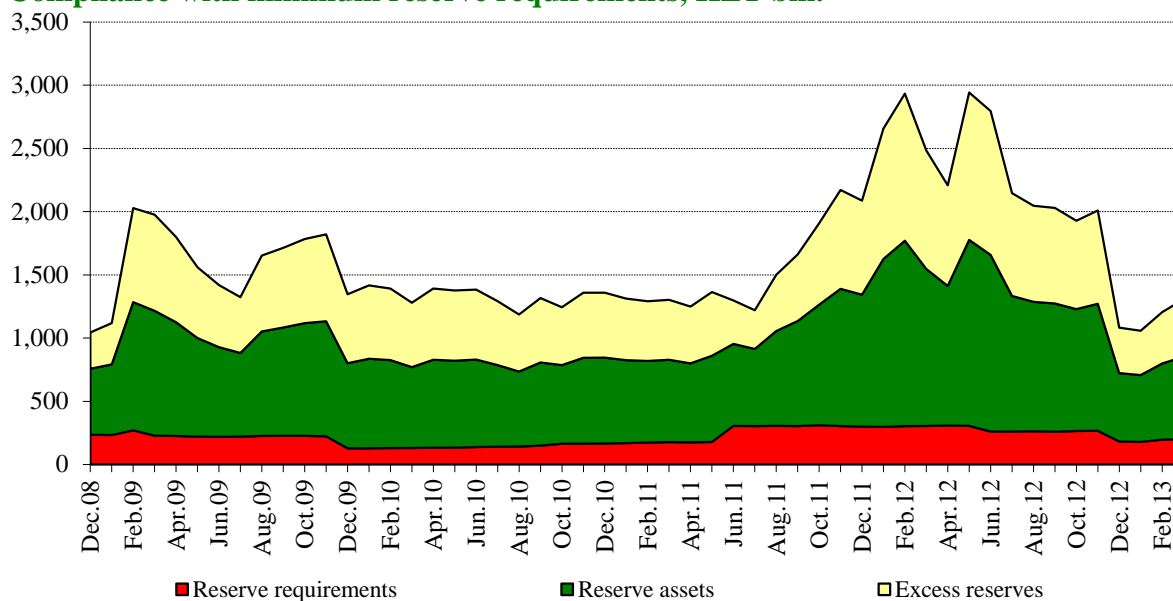
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %

Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During January-March 2013, reserve assets exceeded the required reserving volume by 3.1 times (in the 4th quarter of 2012 – by 3.3 times on average, and in the 1st quarter of 2012 – by 4.3 times) (Figure 43).

Figure 43

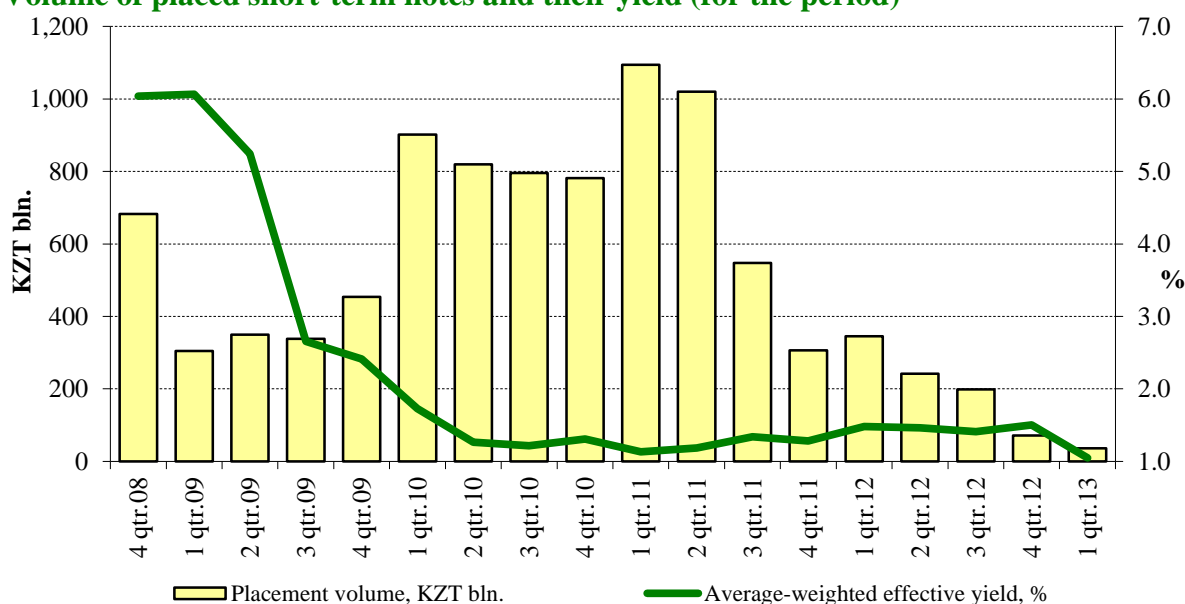
Compliance with minimum reserve requirements, KZT bln.

Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the 1st quarter of 2013, the demand of banks for short-term notes of the National Bank remained low. Only 3-month short-term notes were issued during the period. The volume of short-term notes issued in the 1st quarter of 2013 as compared to the 4th quarter of 2012 decreased by 2.0 times and amounted to KZT 36.2 bln. The highest emission volume of short-term notes was in February (over 50% of the total emission volume during the first quarter of 2013). The average weighted yield on issued notes decreased from 1.50% in the 4th quarter of 2012 to 1.05% in the 1st quarter of 2013 (Figure 44).

Figure 44

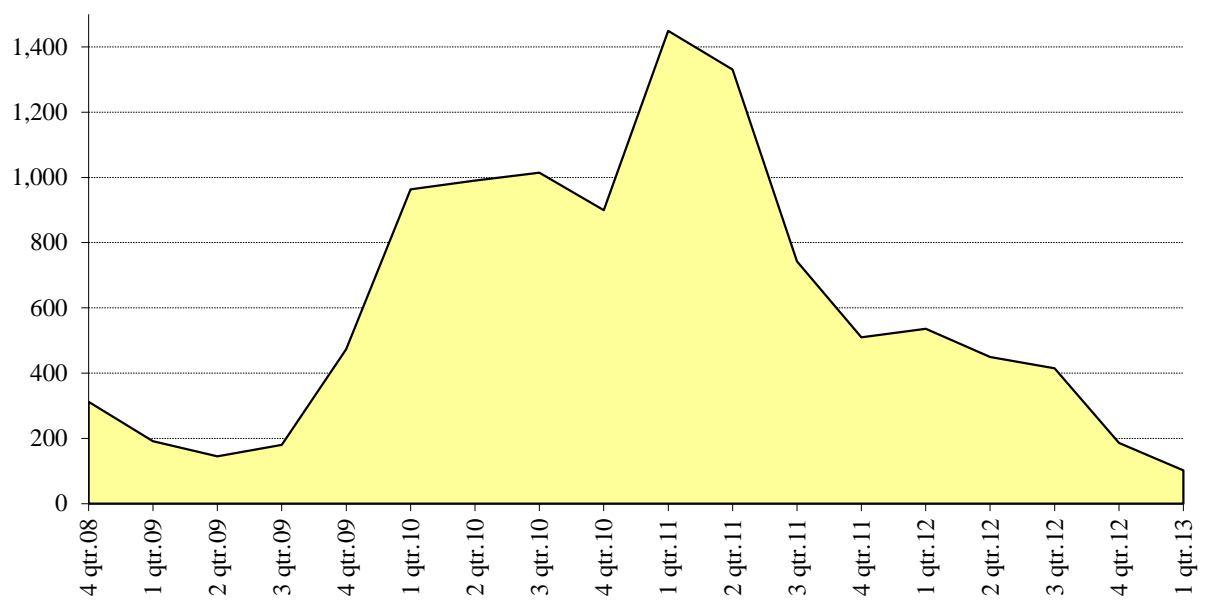
Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

At end-March 2013, the volume of short-term notes in circulation amounted to KZT 101.9 bln., which is by 45.2% less than their volume at end-December 2012 (Figure 45).

Figure 45

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



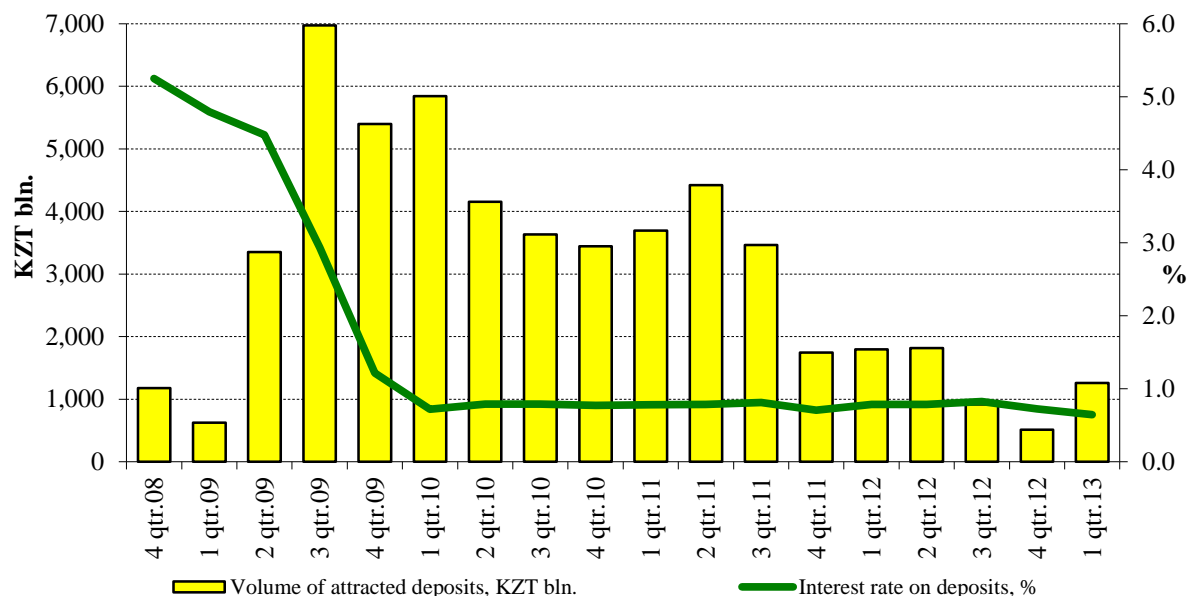
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the 1st quarter of 2013, the volume of deposits attracted from banks increased as compared to the previous quarter. The maximum volume of attraction of bank deposits was recorded in February and March 2013. During the first quarter of 2013 as a whole, deposits worth KZT 1260.1 bln. were attracted, which exceeds the volume attracted in the 4th quarter of 2012 by 2.5 times and is by 29.9% less than in the 1st quarter of 2012.

The average interest rate on deposits decreased from 0.72% in the 4th quarter of 2012 to 0.64% in the 1st quarter of 2013 (Figure 46).

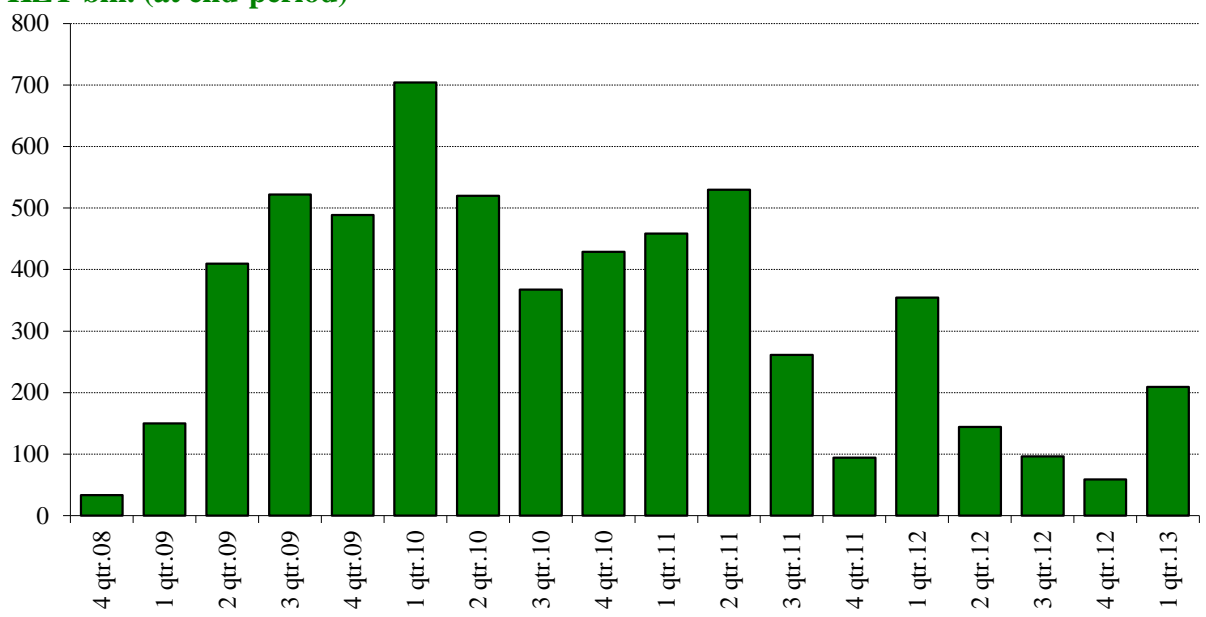
Figure 46

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

Source: National Bank of the Republic of Kazakhstan

As a result of the growth in the attracted volumes, in the 1st quarter of 2013 the volume of outstanding liabilities of the National Bank on bank deposits also increased. At end-March 2013, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 209.2 bln., which exceeds the volume at end-December 2012 by 3.6 times (Figure 47).

Figure 47

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

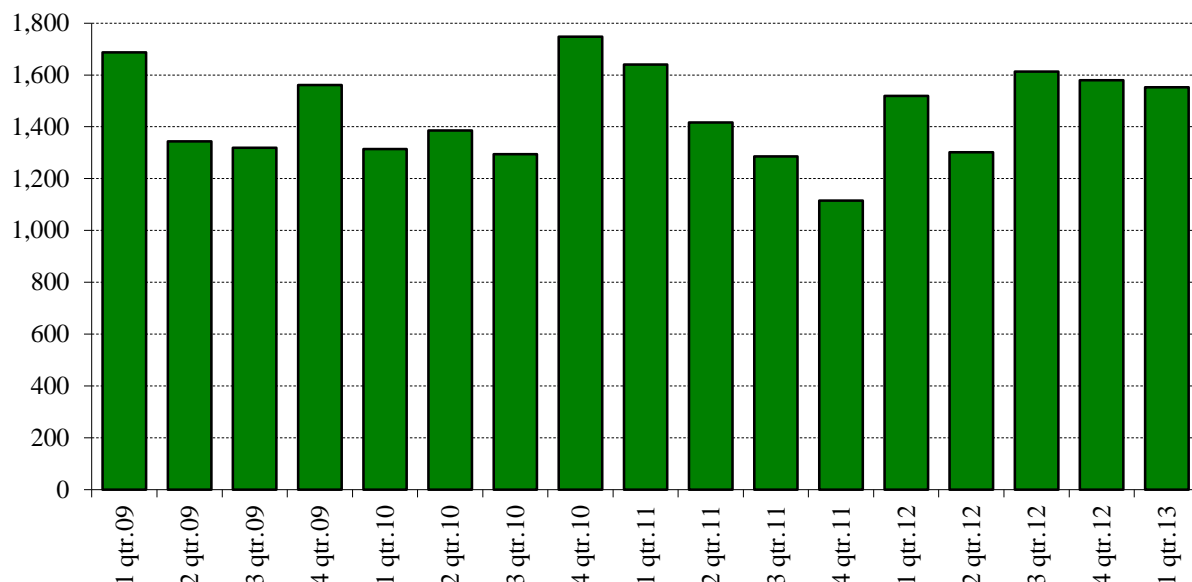
Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in the 1st 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 1st quarter of 2013 amounted to KZT 1553.0 bln. The volumes of such operations decreased by 2.7%, as compared to the previous quarter (Figure 48).

Figure 48

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

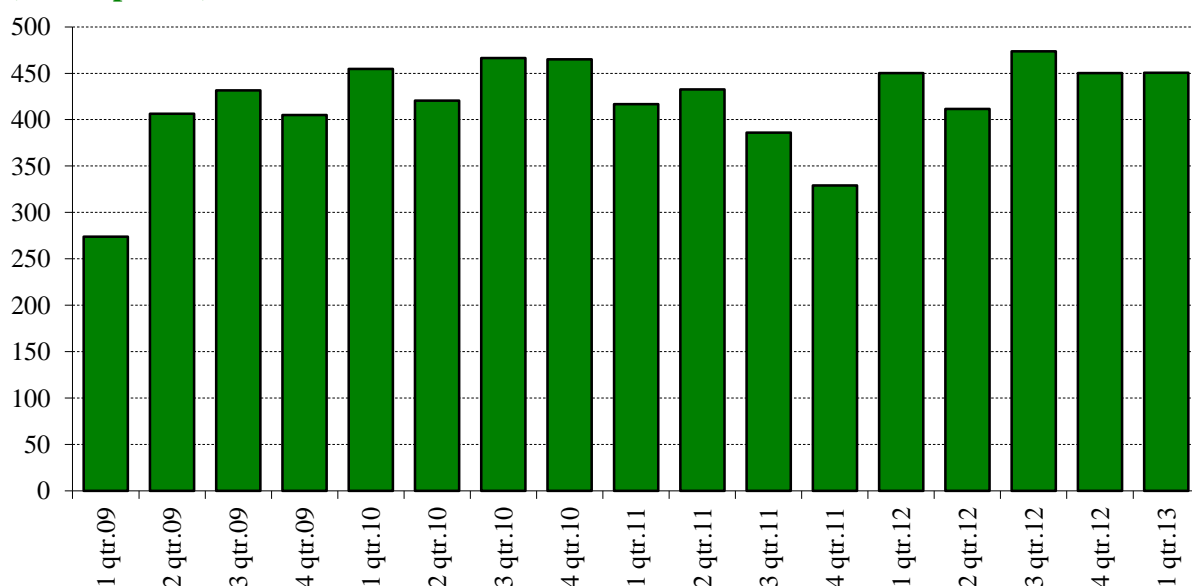


Source: National Bank of the Republic of Kazakhstan

At end-March 2013, the outstanding debt on refinancing loans amounted to KZT 450.4 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