

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the 2nd Quarter of 2012

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Basic Terms and Definitions

In Section 1. Inflationary Processes

Inflation in the Republic of Kazakhstan is calculated based on the consumer price index (CPI) that characterizes changes in the overall prices for goods and services purchased by the population for personal consumption in the cities of Astana and Almaty, in all regional centers and in a selected number of towns and district centers. The consumer basket for calculation of inflation reflects the structure of household expenditures and contains 508 goods and services which represent the largest portion in the consumption of population.

Core inflation – is the inflation that excludes short-term uneven price changes under the influence of certain factors of an administrative, circumstantial, and seasonal nature.

Since 2004 the Agency of Statistics of the Republic of Kazakhstan has been calculating core inflation using five different methods:

- core inflation-1: inflation that does not take into account the rise in prices for vegetables, fruit, gasoline, and coal;
- core inflation-2: inflation that does not take into account the rise in prices for vegetables, fruit, regulated services, and energy resources;
- core inflation-3: does not take into account the five largest and five smallest price hikes;
- core inflation-4: trimmed mean – in the calculation of CPI the components with the cumulative weight of less than 8% and more than 92% are excluded, i.e. the goods and services whose prices have changed (increased or decreased) most of all are not taken into account;
- core inflation-5: median CPI – in the calculation of CPI all price changes are intercepted except for the one which is in the middle of the series ranged by the change in prices, i.e. static median. Median CPI will be equal to the change in the price of the first component which cumulative weight is equal to or exceeds 50%.

Inflationary expectations among enterprises in the real sector are surveyed within framework of **Enterprise Monitoring**, which has been performed by the National Bank since 2002. These surveys are characterized by qualitative estimates by the managers of the enterprises surveyed of the enterprises' production activity ("will rise," "will fall," "will remain unchanged"), including demand and prices for finished products and for the raw materials and supplies used in the previous quarter and the coming quarter.

The diffusion index is derived as the sum of "will rise" responses and half of the "remain unchanged" responses. This index is a generalized indicator that characterizes the trends in the change of a reviewed indicator. An index value above 50 means a positive change in the indicator, and the value below 50 means a negative change.

In Section 2. Inflation Factors

Proceeds to the budget include revenues (tax proceeds, non-tax proceeds, proceeds from disposal of capital assets), repayment of budget credits, and proceeds from disposal of the national financial assets.

Budget expenditures are the expenses (both current and capital expenditures), budget credits, and acquisition of financial assets.

In Section 3. Money Supply

Base Money (reserve money) includes cash issued by the National Bank excluding cash in till of the National Bank (currency outside the National Bank), transferable and other bank deposits, transferable deposits of non-bank financial institutions, and current accounts of public and private non-financial institutions in Tenge with the National Bank.

Narrow money refers to base money not including other bank deposits with the National Bank.

The M1 Monetary Aggregate is calculated as the sum of cash in circulation and transferable deposits held by non-bank legal entities and the public in Tenge.

The M2 Monetary Aggregate is equal to the M1 monetary aggregate plus other deposits in Tenge and transferable deposits of non-bank legal entities and the public in foreign currency.

Money supply (M3) is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of legal entities – residents and households – residents in the domestic and foreign currency.

Transferable deposits refer to all deposits which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferable deposits represent a part of the narrow money.

Other deposits primarily include savings and time deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary commercial transactions and, mainly, meet the requirements established for saving mechanisms. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

The **KazPrime Index** represents the average weighted rate of interest on interbank deposits with the banks that are the parties to the Agreement on Formation of the KazPrime Index of Kazakhstan Interbank Deposits with Banks. Each quotation includes the rate for the attraction and placement of funds to the deposit of one of the parties to the Agreement, as well as the volumes of attracted and placed funds. The minimum quotation amount is KZT 150 mln. The maximum spread between quotations is one hundred basis point (1.00% per annum). The standard term for an interbank deposit was three months at the time when the project was launched.

In Section 4. Monetary Policy Instruments and Operations

The National Bank's **participation coefficient** in currency auctions on the Kazakhstan Stock Exchange (KASE) is calculated as the ratio of the National Bank's net participation (purchase minus sale of foreign currency) to the net volume of trading on the KASE.

The balance of the National Bank's operations in the money market is calculated as a sum of the change in the volume of short-term notes in circulation, deposit and correspondent account balances with the National Bank, and net operations on purchase and sale of government securities.

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Summary

In the 2nd quarter of 2012 the inflation was at 1.7% (in the 2nd quarter of 2011 – 1.3%), and at end-June 2012 the annual inflation accounted for 4.9% (in December 2011 – 7.4%).

The National Bank is taking actions pursuant to the Monetary Policy Guidelines for 2012 aimed at ensuring the price stability, stability of the Tenge exchange rate and stability in the country's financial sector.

At the beginning of the 2nd quarter of 2012 there was some acceleration in inflationary processes, in the first instance, due to the increased prices for paid services, primarily for regulated services.

In addition to that, there were high world prices for oil and, respectively, increased pressure on the fuel and lubricants market.

At the same time, in the 2nd quarter of 2012 as a whole the inflation rate was at a level acceptable for the country, given the seasonal price fluctuations.

Stability in the consumer market and retention of the inflation below the established target band of 6-8% at the end of the 2nd quarter and the first half of 2012 as a whole, is a gauge of the efficient anti-inflation policy implemented by the joint efforts of the Government, the National Bank and local executive authorities.

The impact of monetary factors on the inflationary processes remains minimal. So, during the 1st quarter of 2012 the growth in money supply accounted for 1.1% only, the volume of cash in circulation increased by 6.2%, and the reserve money expanded by 5.2%.

In this connection, in the 2nd quarter the National Bank made the decision to lower the official refinancing rate. So, from April 2, 2012 the official refinancing rate was lowered from 7.0% to 6.5%, and from June 4, 2012 – to 6.0% per annum.

With a view to ensure stability of the domestic currency, the National Bank is monitoring the situation with the exchange rate of the Tenge on an ongoing basis. While adhering to the policy of minimal interference in maintaining the exchange rate of the Tenge in the domestic foreign exchange market, the National Bank, depending on the situation, makes foreign exchange purchases and sales to prevent sizable destabilizing fluctuations of the exchange rate. At the end of the 2nd quarter of 2012 the Tenge appreciated in nominal terms versus the US Dollar by 0.8%, and since the beginning of the year – by 0.4%.

Interest rates on bank deposits with the National Bank remained unchanged: 0.5% on 7-day deposits and 1.0% – on 1-month deposits.

In the 2nd quarter of 2012, the mechanism of minimum reserve requirements as well as their ratios also didn't change. Ratios of minimum reserve requirements for banks are 2.5% on the domestic liabilities and 4.5% on other liabilities.

The National Bank regulates short-term money market liquidity by issuing short-term notes and taking deposits from banks. The volumes of these operations in the 2nd quarter of 2012 decreased dramatically as compared to the respective indicators for the 2nd quarter of 2011: the issue of short-term notes decreased by 76.3%, and the volume of deposits attracted from banks – by 2.4 times.

In the 2nd quarter of 2012 the National Bank provided refinancing loans to banks to support their current liquidity, with the demand for such loans remaining limited.

Evaluation of the Inflation Forecasts for the 2nd Quarter of 2012

In the 2nd quarter of 2012, the actual inflation rate (1.7%) slightly exceeded the forecast (1.4-1.6%), which was published in the previous issue of the Inflation Report. In April and June actual inflation was completely in line with the forecast while in May the inflation was above the forecast.

In the 2nd quarter of 2012 the major price growth occurred in the sector of paid services. In their structure, the increased prices and tariffs for such services as utilities, including electricity, gas and cold water supply as well as communications and transportation services should be pointed out.

In the 2nd quarter of 2012 the increase in prices for foodstuffs and non-food products was moderate. The increase in prices for fuels and lubricants should be pointed out, while prices of other items remained relatively stable.

The actual annual inflation in June 2012 accounted for 4.9%, which corresponds to the forecast (4.7-4.9%) published in the previous issue of the Inflation Report.

Inflation Forecast for 2012

Pursuant to the Monetary Policy Guidelines of the Republic of Kazakhstan for 2012, the main goal of the National Bank was to keep inflation within 6-8% (Figure 1).

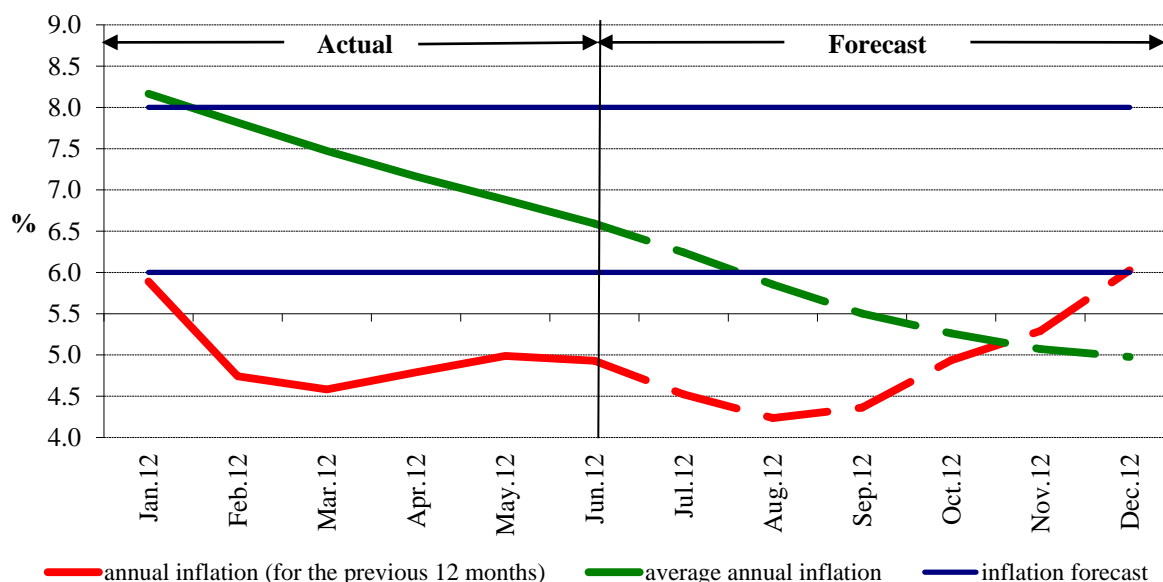
In 2012 the situation in the consumer market remains stable, and the possibility of increased inflationary background is minimal. The impact of monetary factors on the inflation remains insignificant, the growth rates of money supply in the economy do not exceed the rates of economic growth in nominal terms.

The situation in the international commodity markets is characterized by gradual decrease or slowdown in the price growth rates for foodstuffs and energy, which has favorable impact on inflation rate in Kazakhstan. The situation in the consumer market in the countries – major trading partners of Kazakhstan is also stable. A low potential of external inflation factors will help retaining the current inflation trends in the Kazakh economy.

Thus, at present there are no objective reasons for acceleration of inflation in Kazakhstan. The National Bank, jointly with the Government, performs an on-going analysis and monitoring of the situation in the consumer market in order to identify the most critical areas and take preventive measures to ensure the price stability.

Figure 1

Actual and forecasted inflation in 2012



Source: National Bank of the Republic of Kazakhstan

The inflation Forecast for the 3rd Quarter of 2012 is 0.5-0.7% (in the 3rd quarter of 2011 the actual inflation accounted for 1.0%). In general, such inflation rate corresponds to inflation trends of the period. In July-September the inflation will be building up mainly

under the impact of the seasonality factor. The decrease in prices for certain products (such as eggs, dairy products and fruits and vegetables) is anticipated. In view of the new academic year, the increase in prices for such goods as clothes and footwear, stationery and books, and education services is possible.

At end-September 2012 the annual inflation is expected to be at 4.4-4.6%.

The inflation Forecast for the 4th Quarter of 2012 is 2.7-2.9% (in the 4th quarter of 2011 the actual inflation was 1.1%), which corresponds to the annual inflation of 6.2-6.4% at end-December 2012.

When analyzing the situation of the last years, one may note that some increase in prices in the consumer market is as a rule observed during the last months of a year. This is associated with the seasonality factor and revived consumer demand in view of the holidays. During the period there can be an increase in prices for such goods and services as fruits and vegetables, eggs, dairy and meat products, clothes and footwear, and certain utility services.

1. Inflationary Processes

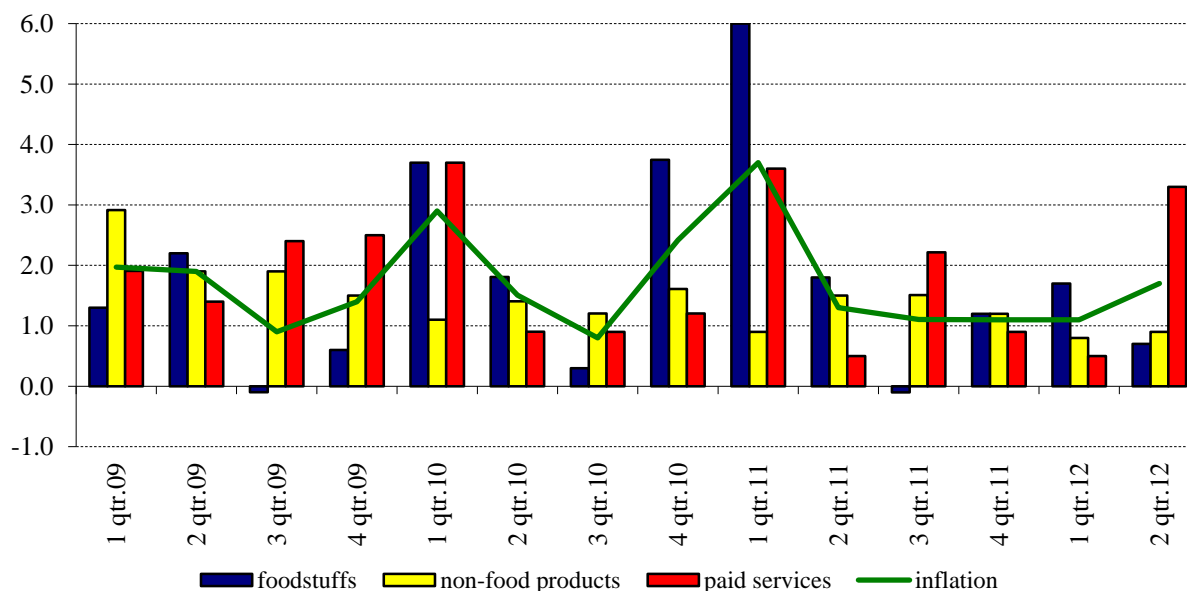
1.1. Consumer Prices

In the 2nd quarter of 2012 there was some acceleration in the quarterly inflation which was at 1.7% (in the 2nd quarter of 2011 – 1.3%), whereas in the 1st quarter of 2012 the inflation was at 1.1%. In April-June 2012 the inflation was building up mainly because of the growth in tariffs for paid services.

So, in the 2nd quarter of 2012 foodstuff prices increased by 0.7% (during the 2nd quarter of 2011 – by 1.8%), and the prices of non-food products – by 0.9% (by 1.5%). During the period paid services increased in price by 3.3% (by 0.5%) (Figure 2). The high growth in tariffs for paid services is explained by the increased prices for a number of utility services.

Figure 2

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



Source: Agency of Statistics of the Republic of Kazakhstan

In June 2012 as compared to March 2012, the highest increase in prices for foodstuffs was for meat and meat products – by 2.5%, including mutton – 3.2%, pork – 3.1%, beef – 2.9%, and horse meat – 2.5%, as well as fish and sea products – by 1.1%, confectionery – by 1.3%, soft drinks – by 2.2%, and tobacco – by 3.9%. During the reviewed period prices for fruits and vegetables generally remained unchanged. Among foodstuffs, the following products became cheaper: cereals – by 11.4%, including buckwheat – by 14.6%, millet – by 5.8%, as well as flour – by 2.2%, eggs – by 10.1%, oils and fats – by 2.5%, and vegetable oil – by 4.5%.

In the reporting period, in the group of non-food products there was an increase in prices for such items as clothes and footwear – by 0.8%, domestic goods – by 0.9%, including housewares and cutlery – by 0.7%, detergents and scouring agents – by 0.9%, and medications – by 0.8%. The price of gasoline increased by 3.2%, and the price of diesel fuel – by 2.9%.

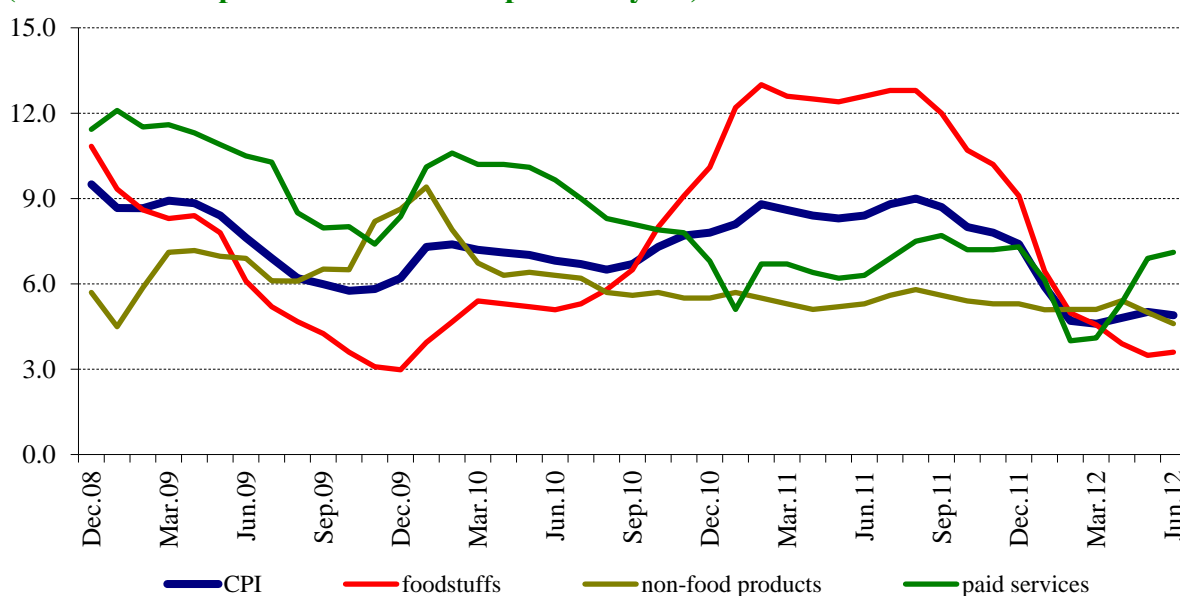
In April-June 2012, in the structure of paid services, the utility services increased in price by 2.9%. The price of electricity increased by 8.9%, for the gas transported by

distribution networks – by 3.2%, for district heating – by 2.3%, for cold water – by 2.2%, for hot water – by 1.2%, and for sewage collection – by 2.1%. The prices for communications services also increased – by 10.3% (because of the increase in price for telephone and facsimile communications – by 12.3%), transport services – by 3.2% (aircraft – by 8.2%, railway – by 7.0%), for the public catering services – by 1.7%, elementary and pre-school education – by 1.6%.

In June 2012 the annual inflation accounted for 4.9% (in December 2011 – 7.4%). Over the last 12 months the price of foodstuffs has increased by 3.6% (by 9.1%), price of non-food products – by 4.6% (by 5.3%), and price of paid services – by 7.1% (by 7.3%) (Figure 3).

Figure 3

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



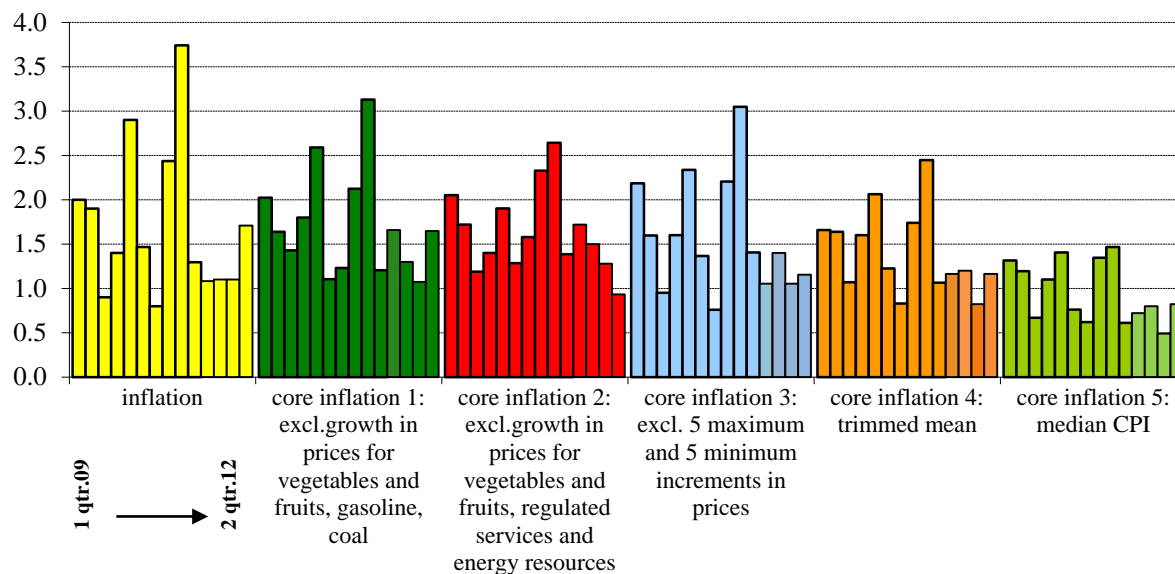
Source: Agency of Statistics of the Republic of Kazakhstan

1.2. Core Inflation

In the 2nd quarter of 2012 core inflation indicators exceeded the level of the 1st quarter, except for core inflation-2; the indicators were also higher as compared to the respective period of 2011, with the exception of core inflation-2 and core inflation-3. In doing so, all core inflation indicators didn't exceed the level of the headline inflation (Figure 4). To a large extent, this was caused by the rise in prices for fuel and lubricants, certain utility services, given their high share in the structure of the consumer basket.

Figure 4

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



Source: Agency of Statistics of the Republic of Kazakhstan

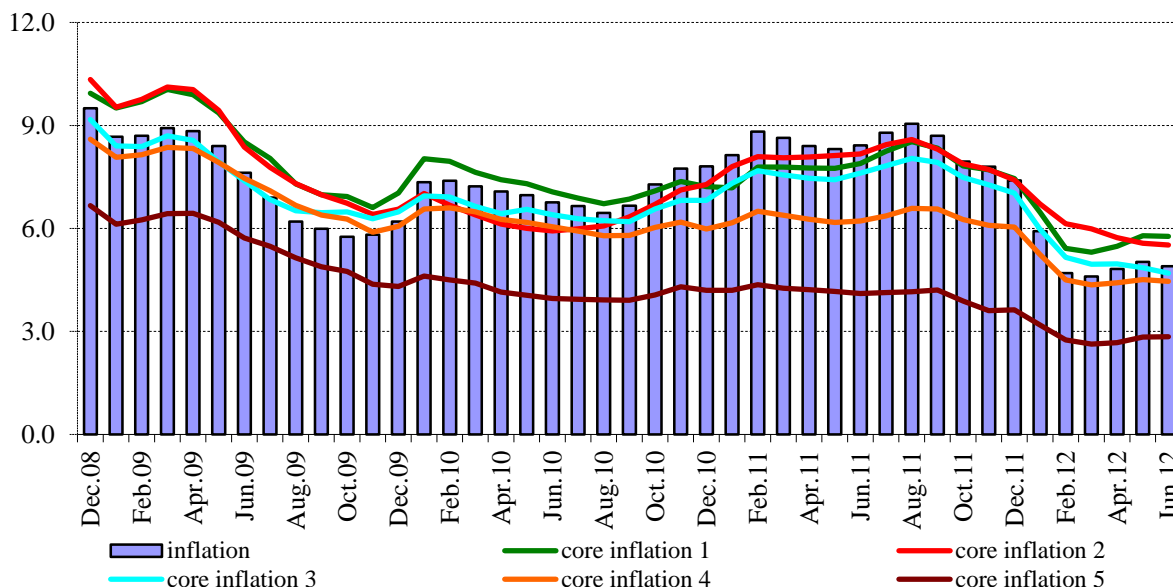
In July-September 2012 core inflation indicators in annual terms demonstrated multi-directional dynamics. Core inflation-1, 4 and 5 had the dynamics similar to the headline inflation, i.e. after its acceleration in April-May it somewhat slowed down in June. Core inflation-2 and core inflation-3 have been slowing down throughout the entire period.

Alongside with that, at end-June 2012 only the indicators of core inflation-1 and core inflation-2 were higher than the headline inflation whereas all the rest of the core inflation indicators demonstrated lower pace.

In June 2012 all core inflation indicators in annual terms were at a lower level as compared to December 2011. This is an evidence of the slowdown in inflationary processes, against the minimal impact by the monetary factors on the inflation (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 2nd quarter of 2012, the producer prices have decreased by 3.0% (in the 2nd quarter of 2011– the growth by 7.0%). The cost of output decreased by 3.4%, at the same time the price of interim consumption products decreased by 4.2%, production means - by 0.4%, and the price of consumer goods increased by 3.5%. The prices for production services increased by 1.2%.

In the 2nd quarter of 2012, because of the decreased world prices for oil in May and June, prices in the mining industry decreased by 5.1%, as compared to their growth by 4.1% in the previous period (in the 2nd quarter of 2011 the growth accounted for 9.6%).

The cost of energy resources, after their growth in the previous quarter by 5.6%, in the 2nd quarter of 2012 decreased by 3.9% (in the 2nd quarter of 2011– the growth by 10.5%). In the composition of energy resources, the cost of oil extraction decreased by 6.1% (in the 2nd quarter of 2011– the growth by 12.3%), and the cost of gas condensate increased by 0.2% (the growth by 8.5%).

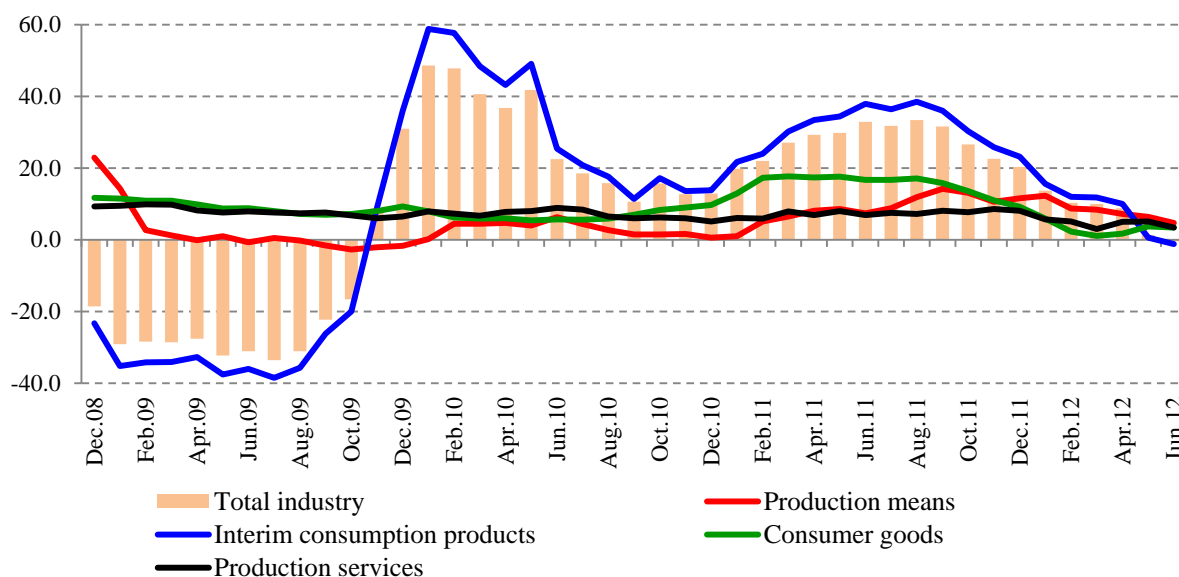
Prices in the manufacturing industry, after their growth in the previous quarter by 1.2%, decreased by 0.2% in the reporting quarter (in the 2nd quarter of 2011– the growth by 2.6%). In the 2nd quarter of 2012 prices in the metallurgical industry decreased by 1.7%, the cost of the foodstuffs production increased by 0.3%, and the price of refined products increased by 1.8%.

In the 2nd quarter of 2012 prices for electric energy, gas and vapor supply and air conditioning increased by 8.8% (in the 2nd quarter of 2011 the growth in prices accounted for 0.4%).

In June 2012 the decrease in prices in the industry in annual terms (June 2012 versus June 2011) accounted for 0.4% (in June 2011 the growth in prices in annual terms accounted for 32.9%) (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 0.7% in annual terms, where the cost of interim consumption products decreased by 1.2%, the cost of consumer goods increased by 3.4%, and of production means – by 4.7%. The cost of production services increased by 3.4%.

1.3.2. Prices in Agriculture

In the 2nd quarter of 2012 prices for agricultural production realized across all channels decreased by 2.5% (in the 2nd quarter of 2011– the growth by 1.5%). The dynamics of prices in agriculture was impacted by the decrease in the price for plant and animal production.

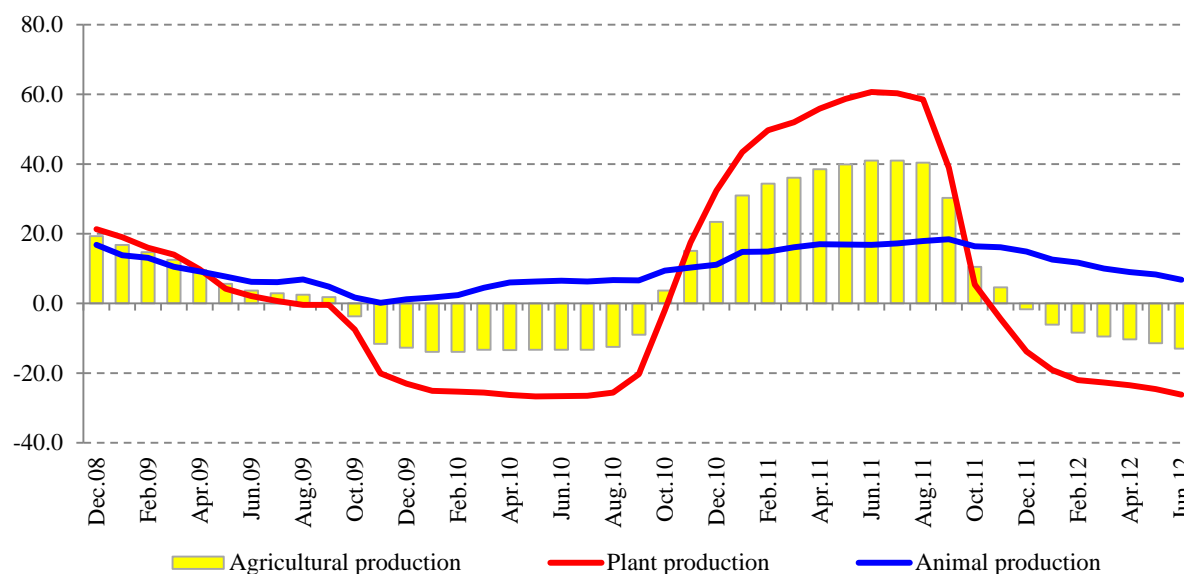
As compared to the fall in prices by 0.3% in the previous quarter, during April-June 2012 the cost of plant production decreased by 1.6% (in the 2nd quarter of 2011– the growth by 3.1%), where the prices for grain cultures decreased by 1.5%, vegetables became cheaper by 2.8%, and the price of potatoes decreased by 5.8%.

The animal production, after its growth by 3.0% in the 1st quarter of 2012, in the 2nd quarter of 2012 became cheaper by 3.7% (in the 2nd quarter of 2011 – the decrease by 0.8%). During April-June 2012, prices for meat and poultry increased by 1.8%, the price for unpasteurized milk decreased by 8.5%, and eggs became cheaper by 21.6%.

At end-June 2012 prices for agricultural products in annual terms decreased by 13.0%. The plant production became cheaper by 26.2%, and the price of animal production increased by 6.8% (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 Enterprises

In the 2nd quarter of 2012 the demand for final products of enterprises increased visibly in the real economy as a whole. This is evidenced by the diffusion index of the demand for final products which increased to 56.2 (from 47 in the 1st quarter of 2012). The indicator increased due to significant decrease in the share of enterprises with decreased demand for their products to 15.9% (from 25.7% in the 1st quarter of 2012) and the increase in the share of enterprises that noted the increase in the demand for their products to 28.2% (from 19.8% in the 1st quarter of 2012).

The growth in the demand for final products was observed in all sectors except "production and distribution of electricity, gas and water" where the diffusion index was 45.4. Significant increase in the demand occurred in the mining and manufacturing industries, construction sector and in the sector of "hotels and restaurants" covering over 50% of enterprises. In the economy as a whole the increase in the demand was noted in the following sectors: in agriculture (the diffusion index – 57.4), in the construction sector (57.1), in such sectors as "transport and communications" (57.1) and "hotels and restaurants" (58.6).

In the 3rd quarter of 2012 as compared to the 2nd quarter, the continuing growth in the demand in the real sector as a whole is anticipated: diffusion index of the change in the demand made up 58.3, according to expectations of the enterprises. The growth in the demand for their products is anticipated by enterprises in all sectors except the sector of "production and distribution of electricity, gas and water". The highest demand is anticipated in the agricultural sector (60.6).

The growth rates of prices for final products of enterprises have slightly slowed down in the 2nd quarter of 2012: diffusion index of the change in prices for final products fell to 55.8 (from 57.9 in the 1st quarter of 2012) due to the decreased number of enterprises which noted the price growth to 18.9% (from 21.9% in the 1st quarter of 2012) and the increased number of enterprises which noted the fall in prices to 7.3% (from 6.2% in the 1st quarter of 2012).

The highest slowdown in the growth rates of prices for final products occurred in the mining industry where the diffusion index fell to 50 (from 59.6 in the 1st quarter of 2012) and in agriculture: the diffusion index fell to 52.2 (from 59.9 in the 1st quarter of 2012). In other sectors of the economy some slowdown in the growth rates of prices is also observed. Only in such sectors as "production and distribution of electricity, gas and water", "construction" and "hotels and restaurants" there was an increase in the growth rates of prices (the diffusion index made up 60.8, 59.5 and 55.2, respectively (in the 1st quarter of 2012 – 55.1, 58.7 and 51.7, respectively). In the manufacturing industry the growth rates of prices remained at the level of the previous quarter.

In the 3rd quarter of 2012, an increase in the price growth rates is anticipated in the real sector of the economy as a whole: the diffusion index of the change in prices for final products made up 57. The increase in the price growth rates for final products is expected by enterprises of all sectors, other than such sectors as "production and distribution of electric energy, gas and water", construction, "trade", "auto-service, repair of household goods and personal articles", "hotels and restaurants" and "real estate operations, rent and services to enterprises". The highest growth in prices for final products is expected in the agricultural sector and mining industry.

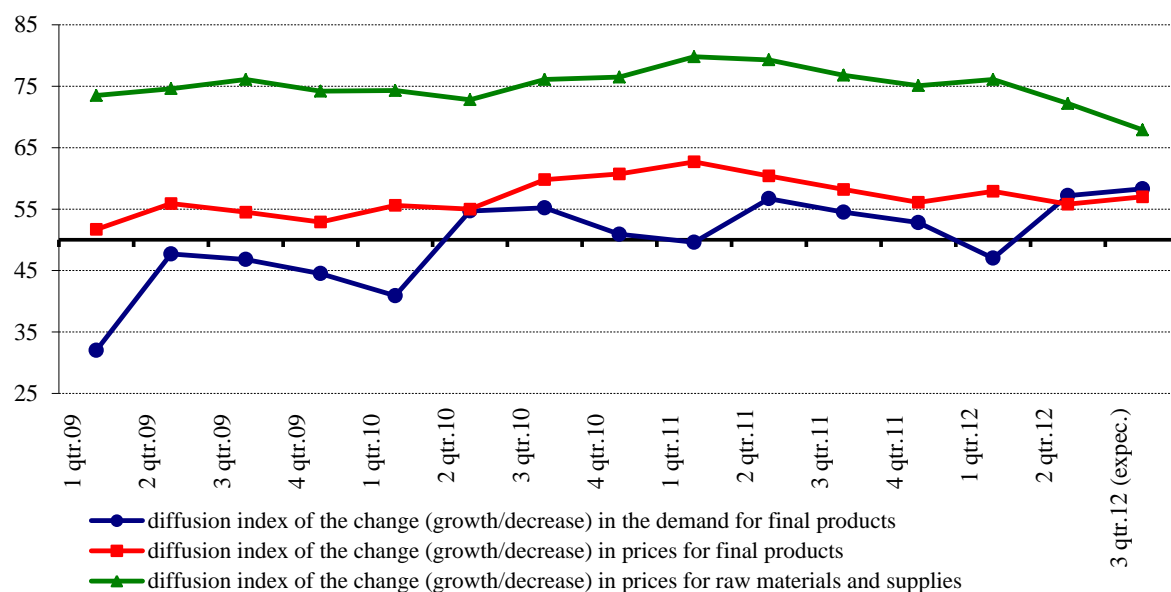
In the 2nd quarter of 2012, the growth rates of prices for raw materials and supplies slowed down notably: the diffusion index of the change in prices made up 72.2 (in the 1st quarter of 2012 – 76.1). The slowdown in the price growth was noted in all industries of the real sector of the economy, especially in agriculture and the sector of "hotels and restaurants". In the sample as a whole, the number of enterprises that noted the growth in prices for raw materials and supplies amounted to 47.5%, and only 3.1% of enterprises noted the decrease in prices.

In respect of the 3rd quarter of 2012, the diffusion index of the change in prices for raw materials and supplies fell to 67.9, which means the slowdown in the price growth versus the 2nd quarter. The indicator decreased because of notable decrease in the percentage of enterprises which anticipate the price growth.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about the 3rd quarter of 2012 are associated with notable growth in the demand for final products, slight increase in the growth rates of prices for final products and the slowdown in price growth 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 1st quarter of 2012, the GDP based on the final consumption method as compared to the respective period of 2011 increased in real terms, according to estimate, by 5.4% (the growth in the 1st quarter of 2011, according to estimate, accounted for 5.8%, and the growth in the 4th quarter of 2011 – for 8.3%).

The GDP growth in the 1st quarter of 2012 occurred under the impact of the growth in spending on final consumption caused by the increased personal spending on current consumption and general government spending on current consumption, change in gross formation as well as decreased contribution by net exports.

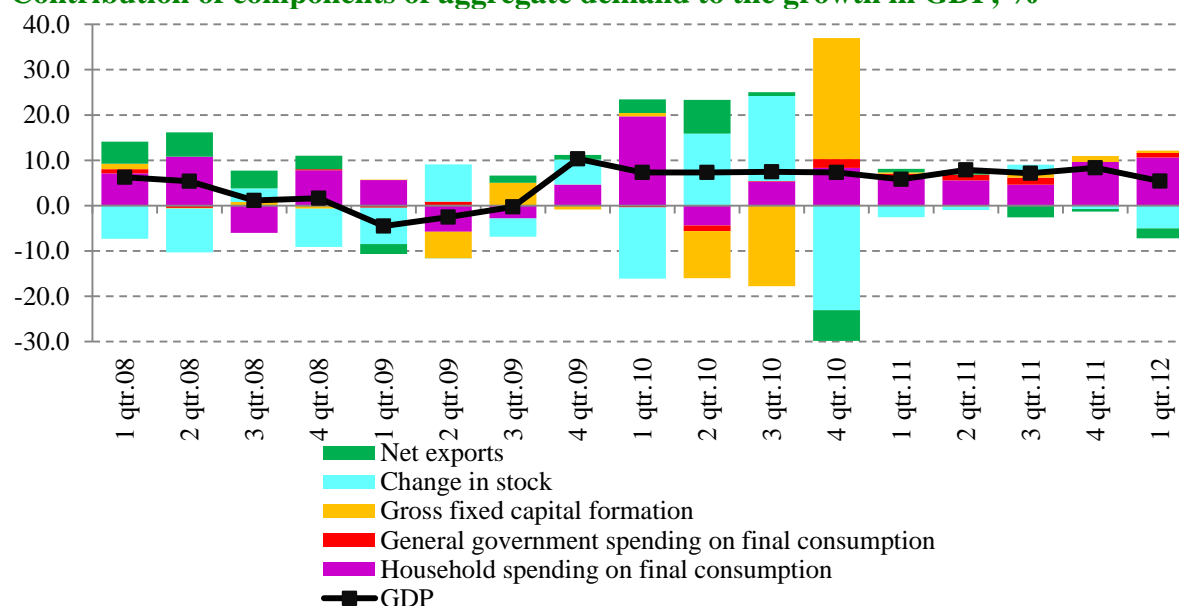
On the whole, according to estimates and as compared to the respective quarter of 2011, spending on final consumption increased by 12.6% in the 1st quarter of 2012 (the 4th quarter of 2011 – the growth by 11.2%), gross formation increased by 45.5% (the growth by 2.1%), and net exports decreased by 15.9% (the growth by 42.4%).

As a result, household spending on consumption and general government spending on consumption made positive contribution to the formation of the GDP growth of (+)10.6% and (+)1.0%, respectively, and gross formation lowered the GDP by (-)4.5%.

Within the gross formation, fixed capital formation accounted for (+)0.5%, and the change in stock accounted for (-)5.0%. In their turn, net exports made negative contribution to the GDP growth of (-)2.2% (Figure 9).

Figure 9

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



Source: Information by 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 1st quarter of 2012 household spending on final consumption increased by 12.1% versus the respective period of 2011 (in the 4th quarter of 2011 – the growth by 14.9%).

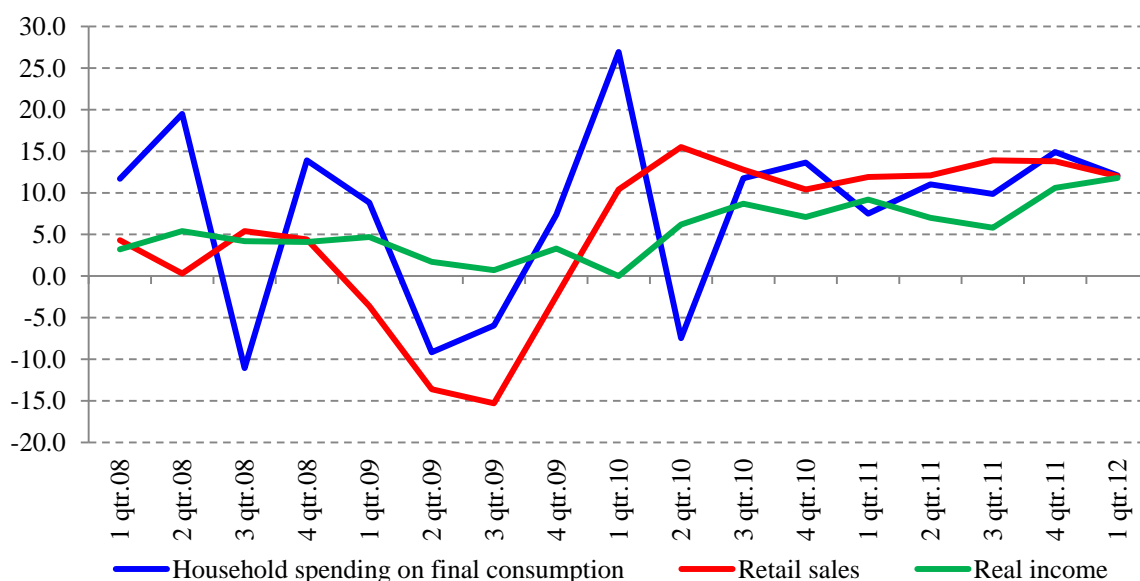
In the 1st quarter of 2012 the growth rate of per capita income in nominal terms slowed down to 17.5% (in the 4th quarter of 2011 – the growth by 19.1%), and in real terms it

accelerated to 11.8% (the growth by 10.6%). At the same time, such change in the growth rates of household income didn't significantly affect retail sales which slowed down in their growth, as compared to the 4th quarter of 2011, to 12.0% (in the 4th quarter of 2011 – the growth by 13.8%).

Meanwhile, the slowdown in the growth rates of retail sales affected one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption, which increased by 12.1%, whereas a quarter before the growth reached 14.9% (Figure 10).

Figure 10

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



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

In January-March 2012 the growth rates of the selling volumes at the points of sale (shops) were slightly lower and accounted for 11.6%, whereas the selling volumes in the markets and at private entrepreneurs increased by 12.6%. The share of market trading in the total retail sales is high and accounts for 45.8%.

Such ample growth of trade in the 1st quarter of 2012 was promoted by the increased growth rates in household income caused by the slowdown in the growth of inflation as well as lending activity of the population.

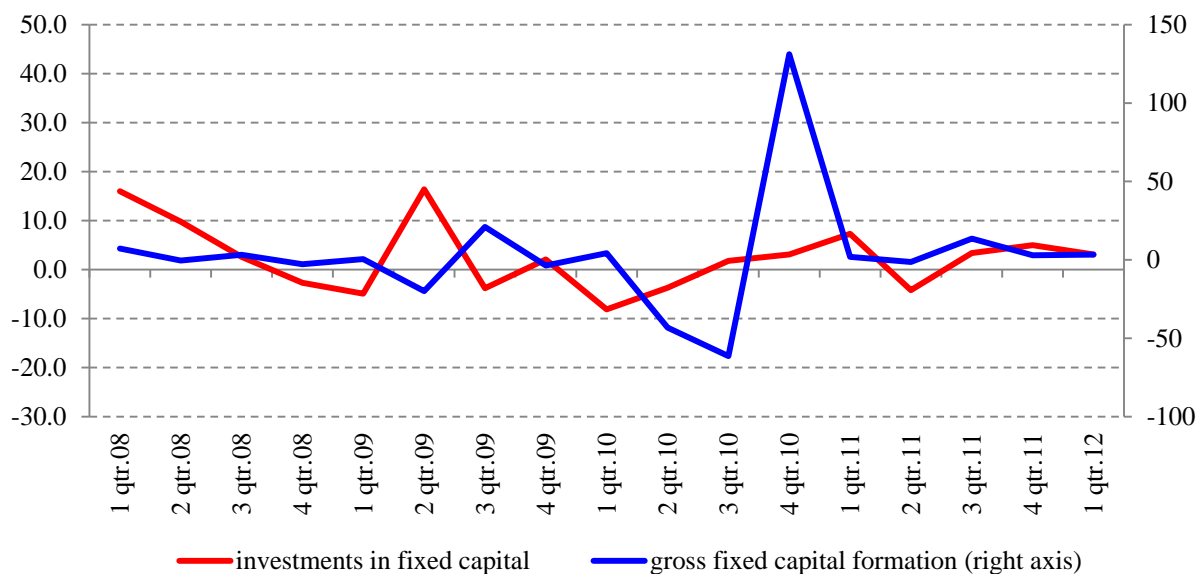
After the growth in credits to the population in the 4th quarter of 2011 by 3.7%, their growth rate slowed down to 1.4% in the 1st quarter of 2012. In the 1st quarter of 2012 credits to individuals for consumer purposes also slowed down with their growth accounting for 3.4%, as compared to 7.3% in the 4th quarter of 2011.

Minor acceleration in the rate of growth of gross fixed capital formation, which increased by 3.3% (the 4th quarter of 2011 – the growth by 3.0%), made positive contribution to the GDP growth of (+)0.5%; in doing so, the second component i.e. the change in stock made negative contribution reducing the GDP growth by (-)5.0%.

The increase in gross formation in the 1st quarter of 2012 was restrained by low investment activity of enterprises which resulted in the growth in fixed capital investments by 3.1%, whereas in the 4th quarter of 2011 the growth reached 5.0% (Figure 11).

Figure 11

**Dynamics of spending on investments in fixed capital
(as % of the respective period of the previous year)**



Source: Information by 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 first quarter of 2012 as compared to the respective period of 2011 increased by 15.0% (in the 4th quarter of 2011 – decreased by 4.3%).

In general, during the 1st quarter of 2012 the state budget spending was financed in the amount of KZT 1377.2 bln. or 23.0% of GDP (the increase by 17.1% as compared to the 1st quarter of 2011).

Current state budget expenditures totaled to KZT 1.1 trln., which is by 20.7% higher than in the 1st quarter of 2011. Within the current expenditures costs related to current transfers to legal entities (80.8%), other current expenditures (40.3%), purchase of goods (35.7%), wages (32.1%) and employer's contributions (29.8%) demonstrated significant increase as compared to the respective quarter of 2011. There were no other current transfers during the 1st quarter of 2012 whatsoever, just like in all quarters of 2011.

Capital expenditures in the state budget in the 1st quarter of 2012 increased by 31.7% as compared to the respective period of 2011, mainly due to increased expenditures for purchases of land and intangible assets and for major overhaul. Expenditures for capital transfers abroad and within the country didn't change during the 1st quarter of 2012 just like in 2011.

In the 1st quarter of 2012 credits from the budget increased by 20.6% as compared to the 1st quarter of 2011, expenditures for acquisition of financial assets decreased by 59.2%.

During January-March 2012 state budget revenues amounted to KZT 1385.3 bln. or 23.2% of GDP, which is by 28.7% greater than in January-March 2011. In the structure of the state budget revenues two items are still prevailing: tax revenues – 69.8% (in the 1st quarter of 2011 – 81.8%), and official transfers – 28.2% (13.9%). High percentage 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 390.0 bln.

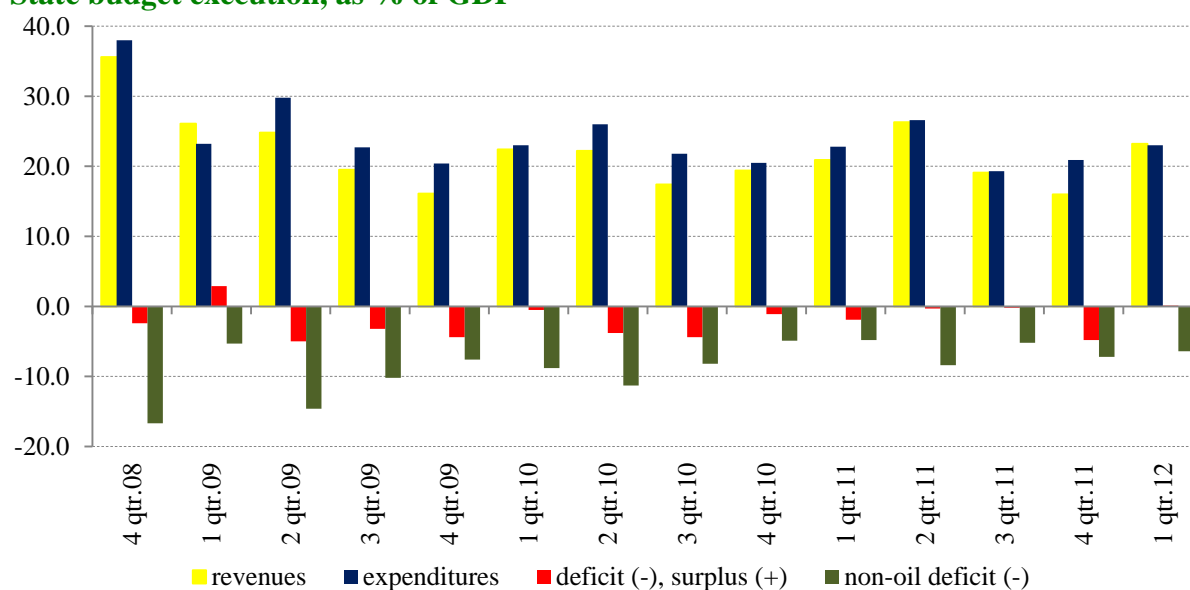
As a whole, in the 1st quarter of 2012 tax revenues increased by 9.8% as compared to the 1st quarter of 2011. The growth occurred due to the increased revenues in absolute terms from corporate income tax, value-added tax and personal income tax by KZT 52.8 bln., KZT 28.5 bln. and KZT 16.1 bln., respectively.

In the 1st quarter of 2012 as compared to the 1st quarter of 2011, non-tax revenues decreased by 47.9%, revenues from fixed capital sales also decreased by 2.1%, whereas inflow of transfers increased by 2.6 times.

Since revenues were in excess of expenditures in the 1st quarter of 2012, the state budget showed up a surplus of KZT 8.1 bln. (0.1% of GDP), versus the deficit in the 1st quarter of 2011 of KZT 99.6 bln. (1.9% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 390.0 bln. to the republican budget from the National Fund, the 1st quarter of 2012 would have ended with the non-oil deficit of KZT 381.9 bln.

Figure 12

State budget execution, as % of GDP



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

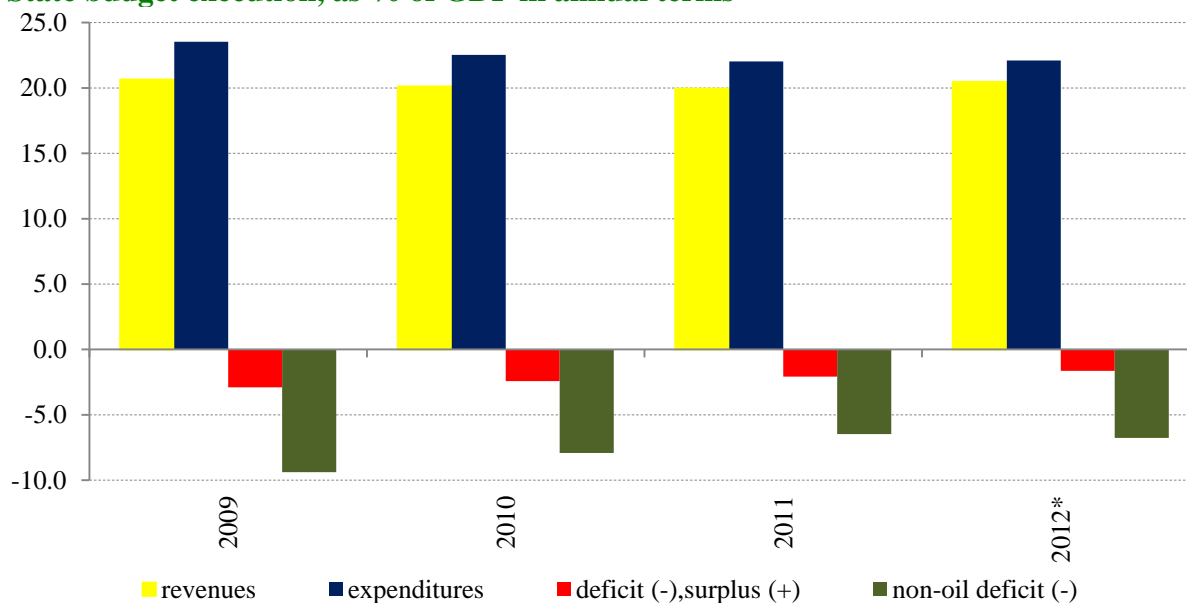
During the 1st quarter of 2012 the Ministry of Finance borrowed KZT 194.4 bln., mainly by issuing government securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT 55.5 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 147.1 bln.

Government domestic debt during the 1st quarter of 2012 increased to KZT 2216.2 bln. (37.1% of GDP), i.e. it exceeded the amount of the 1st quarter of 2011 by 26.4% (34.0% of GDP). The growth was secured by the issue of government long-term treasury obligations (MEUKAM), government long-term saving treasury obligations (MEUZHKAM), and government medium-term treasury obligations (MEOKAM).

The Government's external debt in the 1st quarter of 2012 increased by 18.8% as compared to the 1st quarter of 2011 (10.8% of GDP) and amounted to KZT 647.2 bln. (10.6% of GDP).

There is a downward trend for the budget deficit. In the 1st quarter of 2012 the deficit accounted for 1.6% of GDP in annual terms (in 2011 – 2.1% of GDP) (Figure 13), which to a large extent is caused by the increase in the transfer.

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 Republic of Kazakhstan

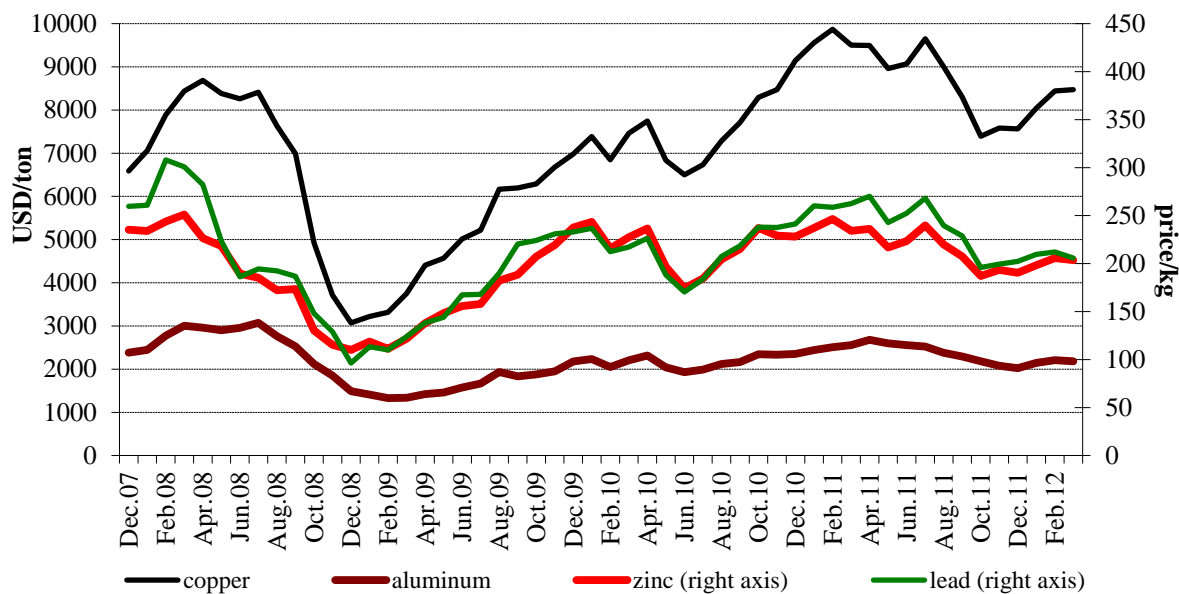
* - for the period from the 2nd qtr. of 2011 through the 1st qtr. of 2012

2.1.3. External Sector**– World prices**

In the 1st quarter of 2012 the situation in the global commodity markets was gradually stabilizing. This was accompanied by the fall as well as by the slowdown in the growth rates of prices for certain commodity items.

In the 1st quarter of 2012 there was an increase in prices for certain metals in the global markets, however, their growth rates slowed down. So, in the 1st quarter of 2012 copper prices increased by 10.7% and were at US\$ 8318 per ton on average for the period. During the 1st quarter of 2012 prices for aluminum grew by 4.1% and amounted to US\$ 2179 per ton. In January-March 2012 world prices for lead increased by 5.0%, amounting to US\$ 209.1 cents per kg on average during the period. Prices for zinc increased by 6.4% with the average price for the period of US\$ 202.5 cents per kg (Figure 14).

Figure 14

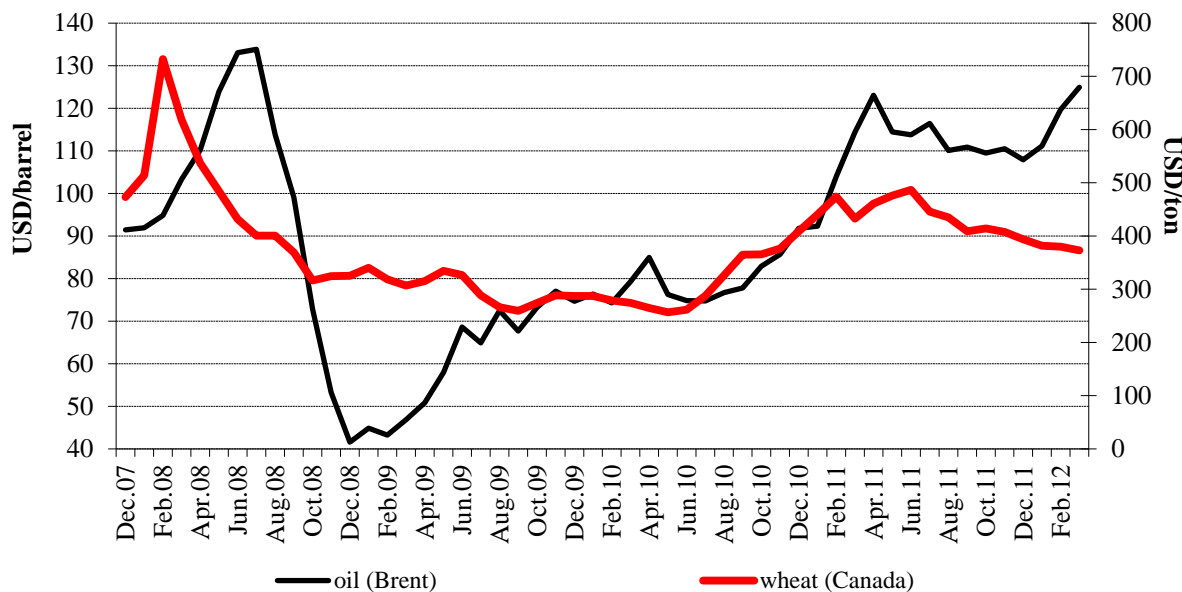
Dynamics of world prices for metals

Source: World Bank

In the 1st quarter of 2012 as compared to the 4th quarter of 2011, world prices for oil (Brent) increased by 8.5% and were at US\$ 118.6 per barrel on average during the period (Figure 15).

World prices for wheat were gradually decreasing throughout the period, and during the 1st quarter of 2012 the world price for wheat (Canada) decreased by 6.7% as compared to the previous period, being at US\$ 378.1 per ton on average (Figure 15).

Figure 15

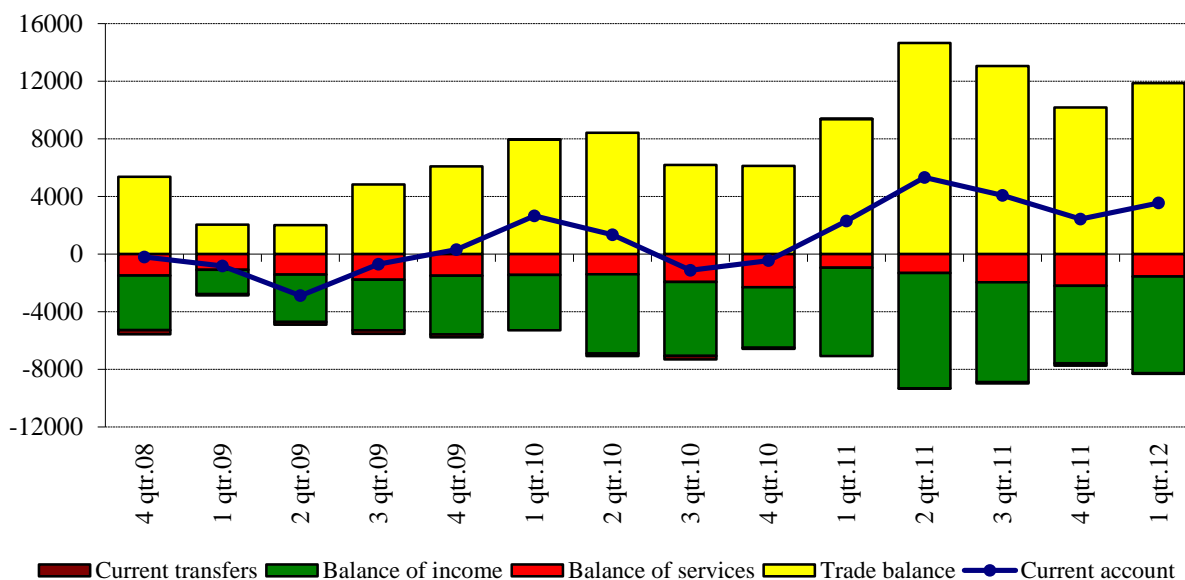
Dynamics of world prices for oil (Brent) and wheat (Canada)

Source: World Bank

– Balance of Payments

At the end of the 1st quarter of 2012 the current account balance was in surplus of US\$ 3.5 bln. or 8.8% of the GDP for the respective period (Figure 16).

Figure 16

Current account balance, US\$ mln.

Source: National Bank of the Republic of Kazakhstan

In the 1st quarter of 2012 proceeds from the exports of goods increased by 30.9% to US\$ 22.0 bln., and expenditures on commodity imports – by 36.6% as compared to the 1st quarter of 2011, exceeding US\$ 10.0 bln. A positive trade balance increased by 26.5% and amounted to US\$ 11.9 bln. In the 1st quarter of 2012 the deficit in the balance of services

increased by 64.6% to US\$ 1.6 bln. as compared to the 1st quarter of 2011, and the deficit in the income balance increased by 9.3% and amounted to US\$ 6.7 bln. Net payouts to non-residents on current transfers amounted to US\$ 50.1 bln.

Net outflow of resources on financial account operations in the 1st quarter of 2012 amounted to US\$ 99.7 mln. (in the 1st quarter of 2011 – net inflow of US\$ 2.5 bln.). Foreign assets of residents (except for reserve assets) increased by US\$ 5.1 bln. as compared to their growth by US\$ 4.6 bln. in the respective period of 2011. Foreign liabilities of residents also increased by US\$ 5 bln. (the increase of US\$ 7 bln. in the 1st quarter of 2011).

As a result, the positive balance of payments for the 1st quarter of 2012 amounted to US\$ 2.1 bln. (in the 1st quarter of 2011 – positive balance of US\$ 6.3 bln.).

– Terms of Trade and the Real Effective Exchange Rate

In the 1st quarter of 2012 the aggregate terms of trade index was by 7% higher than in 1st quarter of 2011. Alongside with that, the terms of trade with the Euro zone countries improved by 5%, and with Russia – by 10% (Table 1).

Table 1

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

	1 qtr.11	2 qtr.11	3 qtr.11	4 qtr.11	1 qtr.12
Export prices	41	49	55	34	11
Import prices	6	17	10	9	5
Terms of trade	33	29	41	23	7
including:					
Euro Zone Countries					
Export prices	26	48	53	36	19
Import prices	6	20	15	12	14
Terms of trade	19	23	31	20	5
Russia					
Export prices	38	39	62	45	9
Import prices	19	27	11	2	0
Terms of trade	17	10	40	44	10

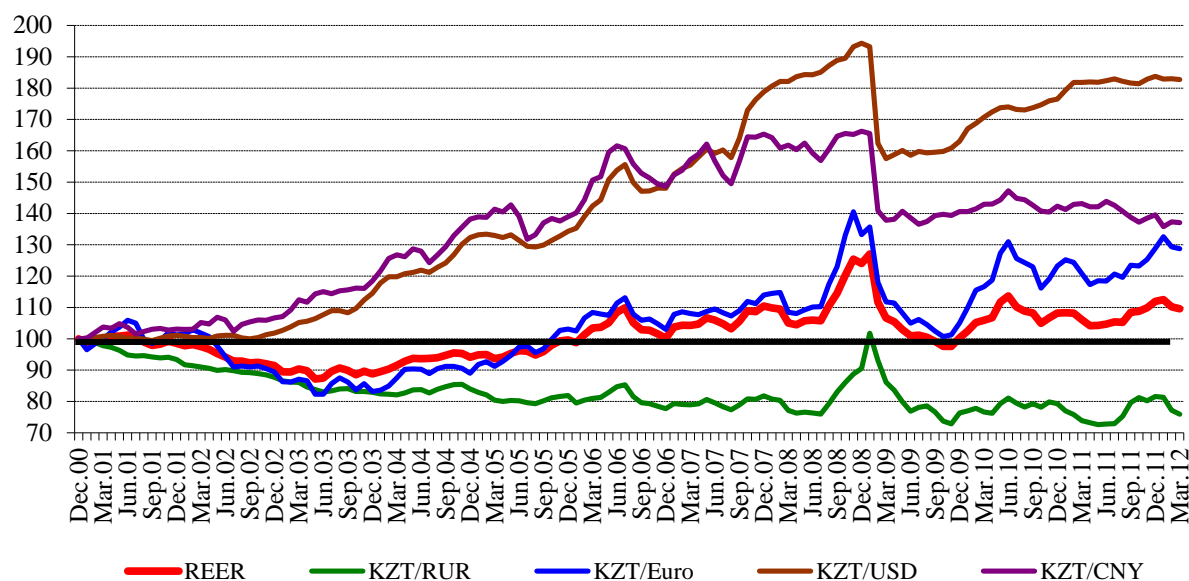
Source: National Bank of the Republic of Kazakhstan

At the end of the 1st quarter of 2012 as compared to the respective period of 2011, the index of the real effective exchange rate of the Tenge appreciated by 0.5%. Alongside with that, the Tenge has depreciated versus the CIS currencies basket by 2.8%, and appreciated by 1.6% versus the basket of other currencies.

During the 1st quarter of 2012 the Tenge appreciated in real terms against the US Dollar by 0.1% as compared to the previous period, against the Euro – by 3.7% and depreciated against the Russian ruble by 3.5% (Figure 17).

Figure 17

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



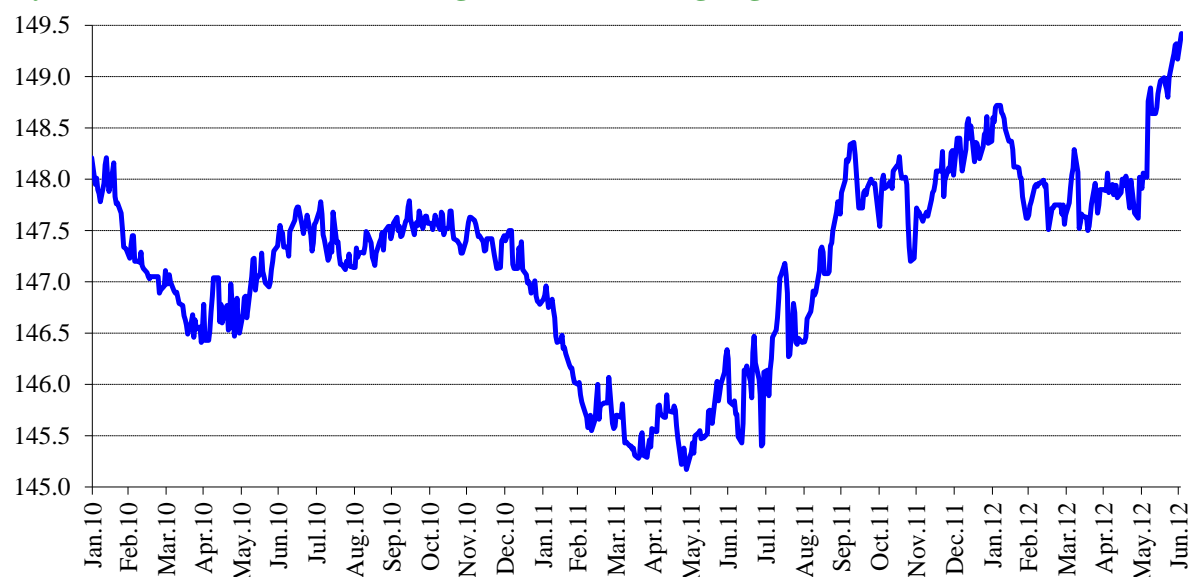
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the 2nd quarter of 2012 was KZT 148.17 per 1 USD. The stock exchange rate at end-period was KZT 149.42 per 1 USD. Since the beginning of the year the Tenge has depreciated versus the US Dollar by 0.7% in nominal terms (Figure 18).

Figure 18

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



Source: National Bank of the Republic of Kazakhstan

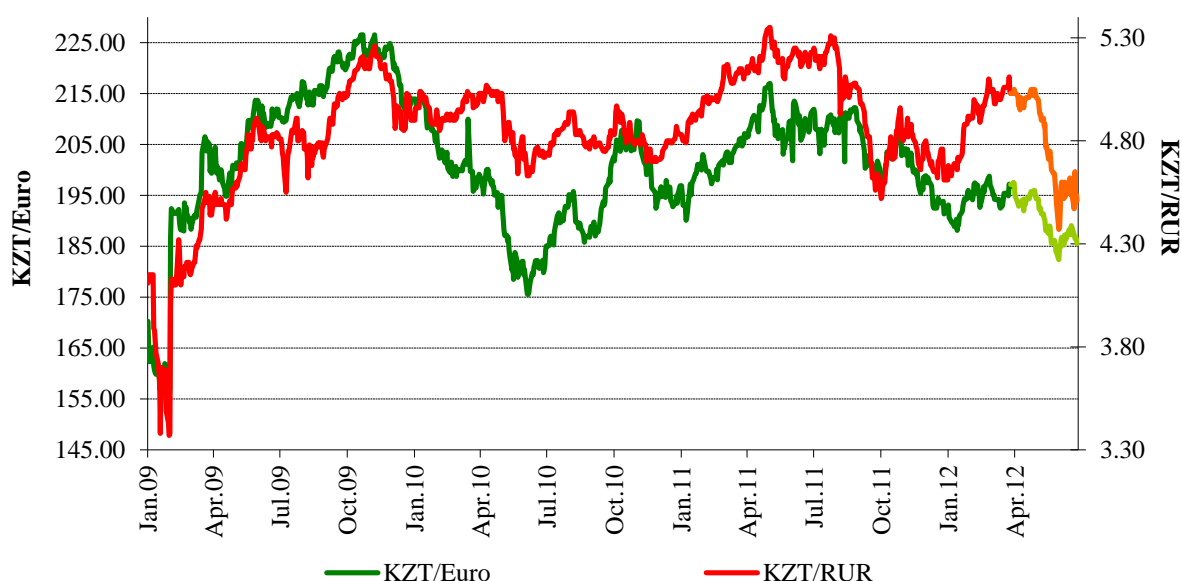
In April and May the Tenge depreciated versus the US Dollar by 0.1%, and in June – by 0.9%.

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.

On the whole, during the 2nd quarter of 2012 the official exchange rate of the Tenge versus the Euro appreciated by 5.7%, and versus the Russian ruble – by 10.5% (Figure 19).

Figure 19

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



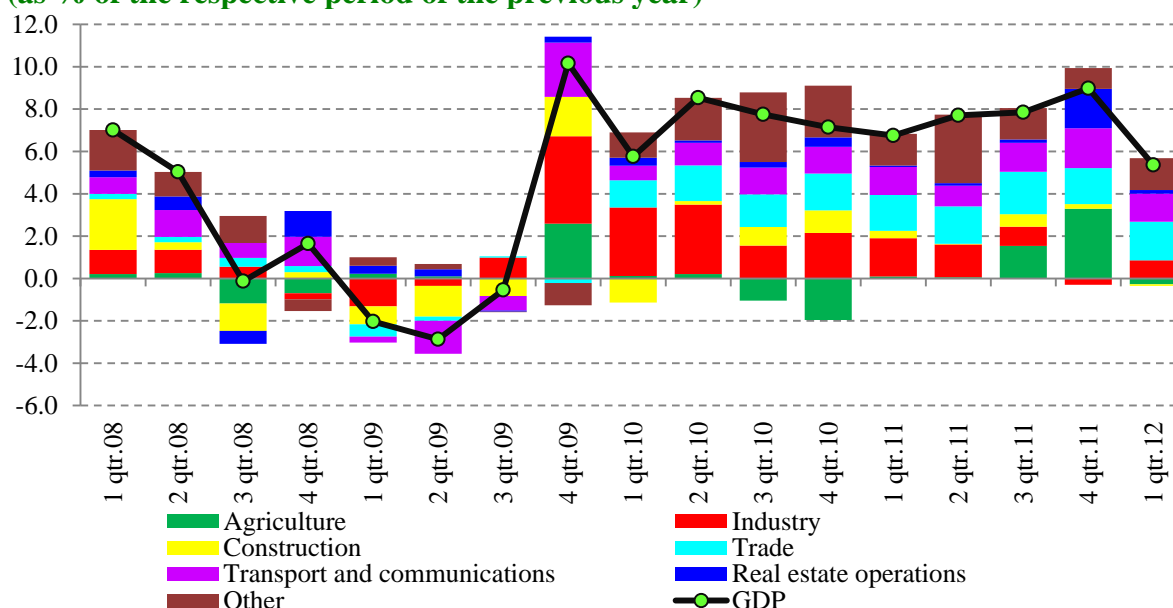
Source: National Bank of the Republic of Kazakhstan

2.2. Production

The volume of GDP output in the first quarter of 2012 amounted to KZT 5976.7 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except agriculture and construction, the GDP in real terms (in prices of the year 2005) increased versus the 1st quarter of 2011, according to estimates, by 5.4% (in the 4th quarter of 2011 the growth accounted for 9.0%, according to estimates) (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 by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The growth rate in the production of commodities was demonstrated in the industry whereas agriculture and construction demonstrated the decrease in the growth rate. At the same time, despite the growth in the industry, the growth rate in the mining industry and quarry operations decreased by 0.4%, which caused the slowdown in the growth rates of the industrial output.

According to estimate, in the 1st quarter of 2012 the volume of industrial output increased by 3.0% (in the 1st quarter of 2011 – the growth by 6.3%), the agricultural output decreased by 5.1% (the growth by 1.7%), construction – decreased by 0.7% (the growth by 3.1%), thus on aggregate making positive contribution to the GDP growth formation of 0.5%.

In the production of services virtually all sectors of the economy comprising this component demonstrated growth. The exception to this was the activity of households that hire domestic servants and manufacture goods for personal consumption where the indicator remained unchanged versus the 1st quarter of 2011. As a result, the sectors that comprise the production of services on aggregate were conducive to positive contribution to the GDP growth of 8.6%.

In the 1st quarter of 2012 the decrease in the volume of financial intermediation services indirectly measured which are used with a negative sign in the total volume of GDP, contributed positively to the GDP formation in the amount of 0.1%.

The growth in net taxes on products and imports by 5.0% had positively influenced the GDP growth formation of 0.2% (in the 1st quarter of 2011 – the growth by 0.6%).

2.3. Labor Market

2.3.1. Employment and Unemployment

In the 2nd quarter of 2012 the number of people employed in the economy, according to tentative estimates, was 8.5 mln. having increased by 0.8% versus the previous period (the growth versus the 2nd quarter of 2011 accounted for 3.9%). At the same time, the number of

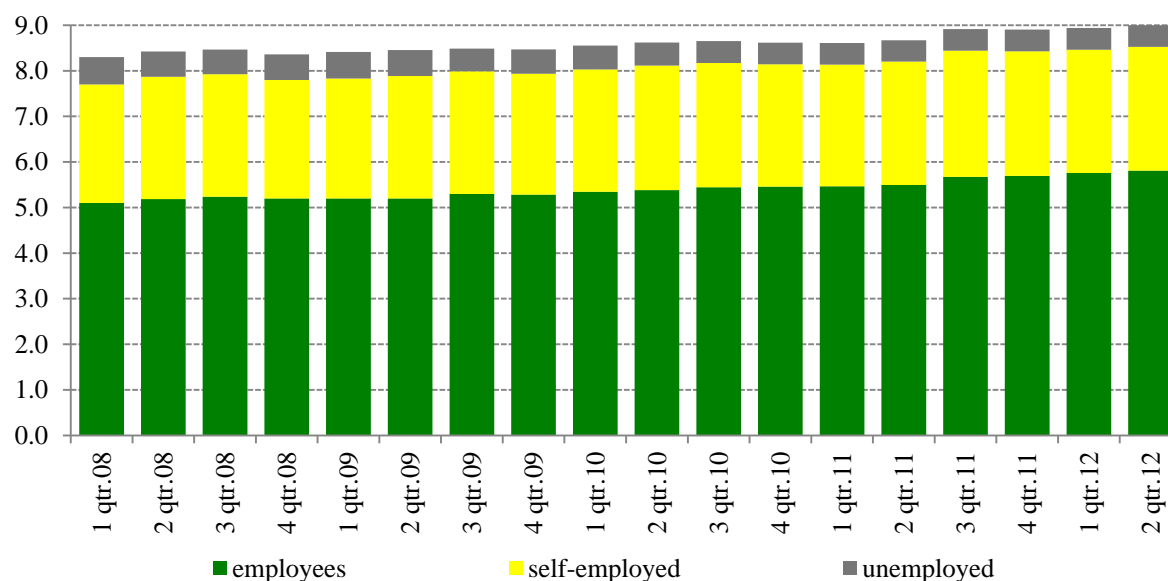
employees reached 5.8 mln. having increased by 0.9% versus the 2nd quarter of 2011, the number of self-employed – 2.7 mln. people (the growth by 0.5%).

In the structure of employees, 4.7 mln. individuals (81.5% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.5%), and at farms – 0.4 mln. individuals (6.0%).

In the 2nd quarter of 2012 the number of the unemployed amounted to 473,100 individuals, which is by 1.1% less than in the previous period and by 1.3% more than in the 2nd quarter of 2011 (Figure 21).

Figure 21

The structure of economically active population, mln. individuals



Source: Agency of Statistics of the Republic of Kazakhstan

In April and May 2012 the following sectoral changes in the structural composition of employees were observed.

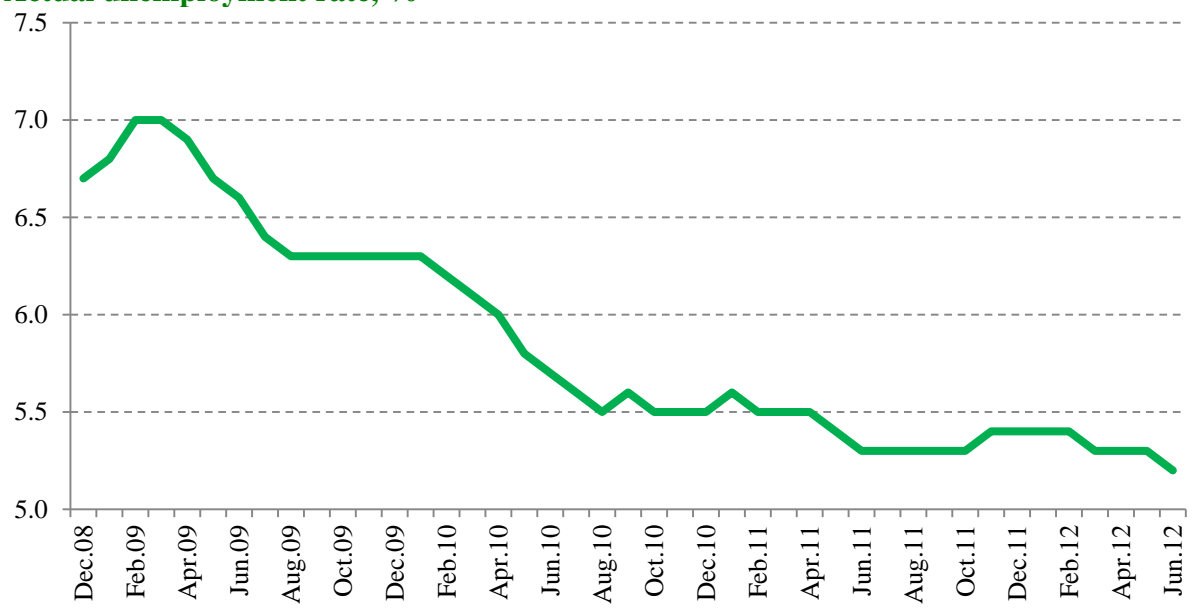
The main sectors that contributed to the growth in the employment rates, as compared to the respective period of 2011, were as follows: the mining industry and quarry operations; construction; trade; financial and insurance business; administration and ancillary services; arts, entertainment and recreation; public healthcare and social services; education; electricity, gas and vapor supply and air conditioning.

The decrease in the number of the employed was in such sectors as agriculture, forestry and fishery; manufacturing industry; water supply; sewage collection system, control over waste collection and distribution.

The decrease in the number of employed in some sectors was compensated by their growth in other sectors. As a result, the unemployment rate in the 2nd quarter of 2012 decreased to 5.3%, as compared to 5.4% in the 1st quarter of 2012, and in June 2012 accounted for 5.2%, which has been the lowest indicator since the beginning of 2012 (Figure 22).

It should be mentioned in this respect that the Employment Program-2020 which started to be implemented from the 2nd quarter of 2011 has certain impact on the decrease in the unemployment rate and increase in employment among the population; as part of the Program 56,300 individuals have been employed.

Figure 22

Actual unemployment rate, %

Source: Agency of Statistics of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the 1st quarter of 2012 as compared to the respective quarter of the previous year, the average monthly wages increased in nominal terms by 17.1% (in the 4th quarter of 2011 – the growth by 19.8%), and in real terms – by 11.5% (the growth – by 11.3%).

As compared to the previous quarter, nominal wages decreased by 6.8% and real wages decreased by 7.8%.

In March 2012 as compared to March 2011, the highest increase in nominal wages was observed in the following sectors: general government and defense – by 34.1%; public healthcare and social services – by 29.5%; education – by 28.2%; agriculture, forestry and fishery – by 25.7%; arts, entertainment and recreation – by 20.4%. The wages in two sectors decreased: in the construction sector – by 1.2%, and in the sector of administration and ancillary services – by 3.5%.

In March 2012 the highest wages in money terms were observed in the financial and insurance business (KZT 191,800), and the lowest - in agriculture, forestry and fishery (KZT 41,600).

Lower GDP growth rates in the 1st quarter of 2012 versus the respective period of 2011 (according to the National Bank's estimate – by 5.4%, whereas in the 1st quarter of 2011 – the growth by 6.8%), the growth in the number of the employed and the wages in the 1st quarter of 2012 caused the slowdown in the growth rate of the labor productivity index to 1.1% (according to the National Bank's estimate), whereas the growth in the index reached 8.0% a quarter before (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 Republic of Kazakhstan

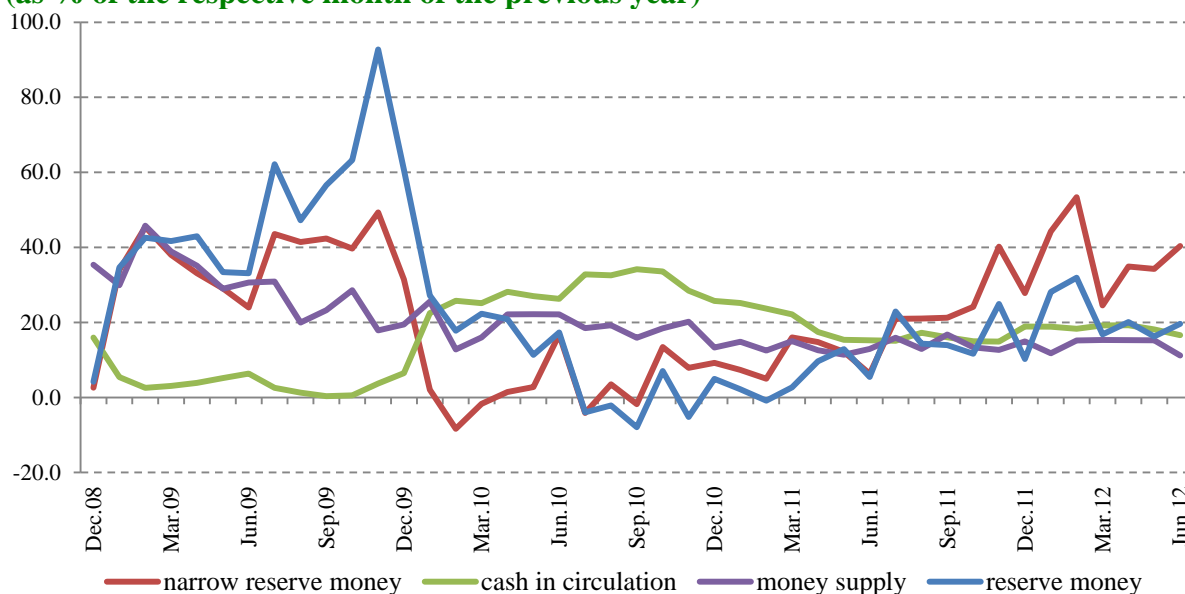
3. Money Supply

3.1. Monetary Aggregates

In the 2nd quarter of 2012 the annual dynamics of monetary aggregates demonstrated moderate growth rates (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 2nd quarter of 2012 the reserve money expanded by 5.2% and amounted to KZT 3454.7 bln. at end-June 2012. Narrow reserve money expanded by 13.1% to KZT 3310.6 bln.

In June 2012 as compared to June 2011 the reserve money expanded by 19.6%.

Net international reserves of the National Bank in June 2012 as compared to the respective period of 2011 decreased by 6.6% to US\$ 31.8 bln. During the reviewed period net currency reserves decreased by 12.9%, assets denominated in gold increased by 50.1% as a result of performed transactions and the growth of its price in the global markets.

In June 2012 as compared to June 2011, net domestic assets of the National Bank 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.11	4 qtr.11	1 qtr.12	2 qtr.12
Net international reserves	17.0	3.8	-8.3	-6.6
Net domestic assets	6.0	40.3	48.3	51.2
Net claims on the Government	-70.6	33.1	-54.5	-42.7
Claims on the economy	30.6	128.8	119.7	129.8
Other net domestic assets	-13.5	-9.8	-15.3	0.1
Reserve money	14.0	10.3	16.8	19.6
Narrow reserve money	21.2	27.9	24.5	40.4

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the 2nd quarter of 2012 money supply increased by 1.1% to KZT 10405.6 bln.

In June 2012 as compared to June 2011 its growth accounted for 11.2% as a result of increase in the domestic assets of the banking system, despite the decrease in net foreign assets (Table 3).

Table 3

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

	3 qtr.11	4 qtr.11	1 qtr.12	2 qtr.12
Net foreign assets	21.2	16.7	14.5	-10.7
Domestic assets	17.8	18.0	10.5	31.9
Claims on the Government	-54.5	86.7	-44.3	-51.5
Claims on the economy	10.2	14.0	14.0	14.0
Other net domestic assets	-6.8	-11.7	-10.1	4.9
Money supply	16.8	15.0	15.3	11.2
Cash in circulation	16.0	18.9	19.2	16.6
Deposits of residents	16.9	14.3	14.8	10.4

Source: National Bank of the Republic of Kazakhstan

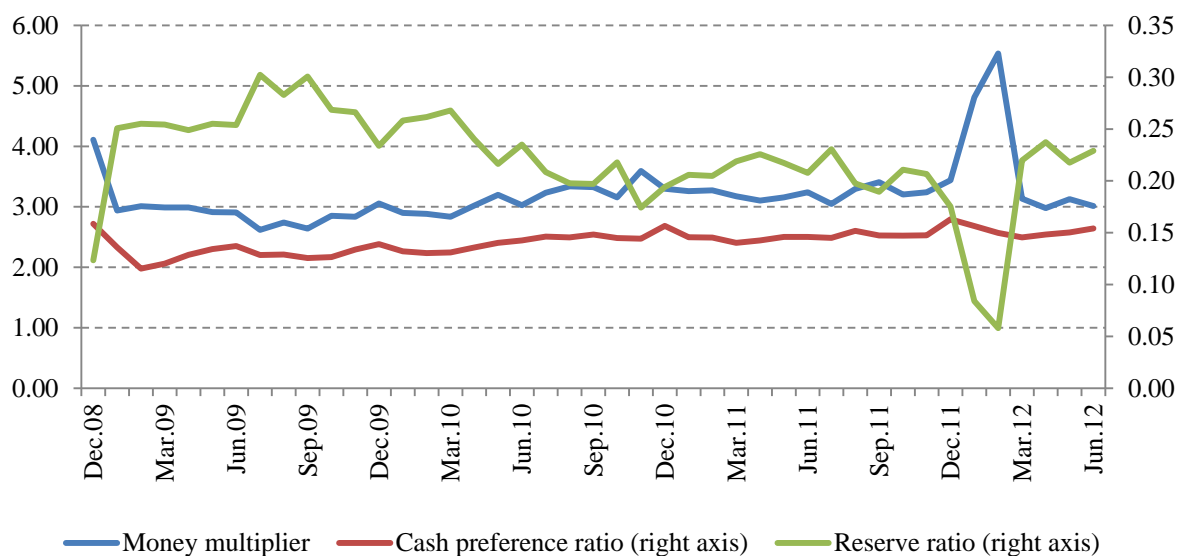
In the structure of net foreign assets of the banking system in June 2012 as compared to the respective period of 2011, net foreign assets of the National Bank increased, while net foreign assets of banks decreased. The decrease in net foreign assets of banks was caused by a major growth in bank liabilities to non-residents versus the growth in claims on 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 June 2011 to 86.6% in June 2012.

The money multiplier dropped from 3.24 in June 2011 to 3.01 in June 2012 as a result of outstripping rates of expansion of the reserve money against the growth rates of money supply. The increase in cash preference ratio and reserve ratio was also conducive to the fact. (Figure 25).

Figure 25

Dynamics of money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

During the 2nd quarter of 2012 the volume of cash in circulation increased by 6.2% to KZT 1389.4 bln.

In June 2012 as compared to June 2011, cash in circulation increased by 16.6%. Cash payouts from bank cashier's departments increased by 25.9% to KZT 1.5 trln., and receipts to bank cashier's departments – by 34.2% to KZT 1.4 trln.

The growth in cash in June 2012 as compared to the respective period of 2011, was associated with the growth in payouts for payments for goods, services and completed works, increased withdrawals from individuals' accounts, and the growth in payouts to support ATMs. Also, the increase in net sales of foreign exchange and its disbursements for loans contributed to the growth. At the same time, the impact of these factors was not neutralized by the growth in refunds of cash received for remuneration of labor, noted during the reviewed period.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-June 2012 deposits of residents amounted to KZT 9016.2 bln., having increased by 0.3% during the 2nd quarter of 2012. Deposits of legal entities decreased by 2.3%, deposits of individuals – increased by 6.1%.

In the 2nd quarter of 2012 the status of the deposit base was characterized by the decrease in foreign currency deposits caused by the 14.4% decrease in foreign currency holdings of legal entities. As a result, in the 2nd quarter the volume of foreign currency deposits decreased by 6.4%, amounting to KZT 2831.7 bln., whereas deposits in the domestic currency increased by 3.8% to KZT 6184.5 bln.

The decrease in the volume of foreign currency holdings caused by the outflow of foreign currency from the accounts of legal entities during the three months of the 2nd quarter of 2012 with the average monthly rate of growth of 5.0%, with concurrent growth in the Tenge deposits, resulted in the decreased degree of dollarization in the deposit market and

the growth in the percentage of holdings in the domestic currency from 66.3% in March 2012 to 68.6% in June 2012.

Thus, the inflow of the domestic currency to accounts of legal entities and individuals served as a main source for the overall bank deposit base growth in the 2nd quarter of 2012.

At the same time, the developments since the beginning of the year, i.e. in January-June 2012, have been somewhat different, and in this case the deposit base growth was based equally on the Tenge and foreign currency holdings (Table 4). Such situation was caused by the excess of the volume of currency inflow to deposit accounts in the 1st quarter of 2012 over the volume of currency outflow in the 2nd quarter of 2012, thus allowing to retain positive balance on foreign currency deposits at the end of 6 months of this year.

Table 4

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

	June 2009	June 2010	June 2011	June 2012
Deposits of residents	10.3	10.3	11.4	7.5
<i>of individuals</i>	<i>9.1</i>	<i>5.0</i>	<i>11.2</i>	<i>10.6</i>
<i>of non-bank legal entities</i>	<i>10.8</i>	<i>12.5</i>	<i>11.5</i>	<i>6.0</i>
Deposits in the Tenge	-6.6	18.3	18.2	7.4
Deposits in foreign currency	41.2	0.1	-1.5	7.7

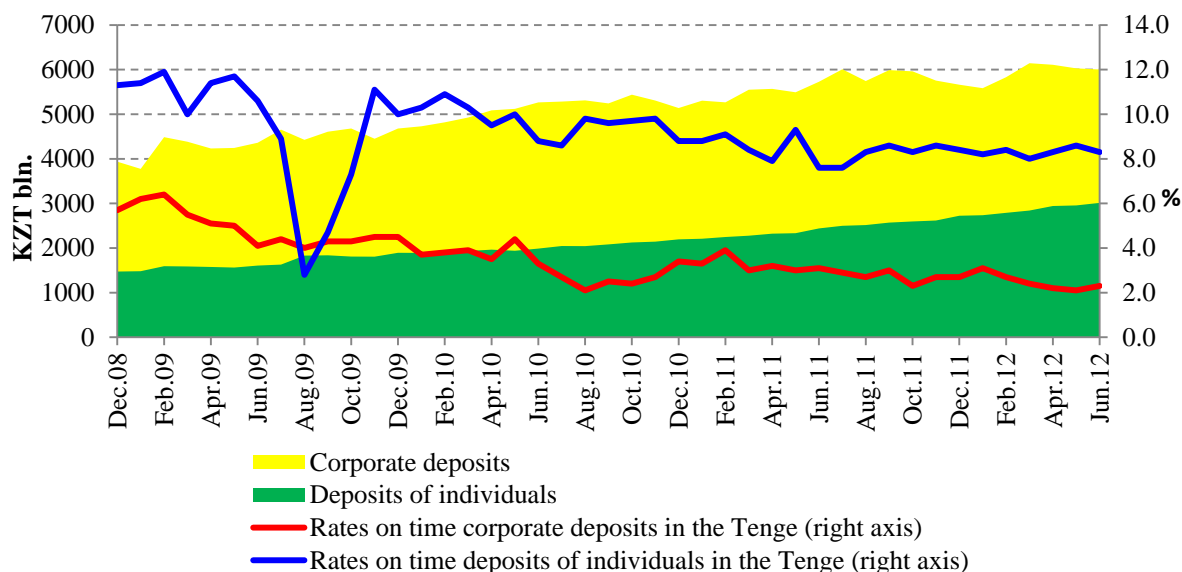
Source: National Bank of the Republic of Kazakhstan

Interest rate on deposits continued to decrease. The performance of interest rates on deposits, both in the domestic currency and in foreign currency, in the 2nd quarter of 2012 was generally at a lower level than in 1st quarter of 2012.

In June 2012 the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 2.3% (in December 2011 – 2.7%), and on deposits of individuals – 8.3% (8.4%) (Figure 26).

Figure 26

Dynamics of deposits and their interest rates

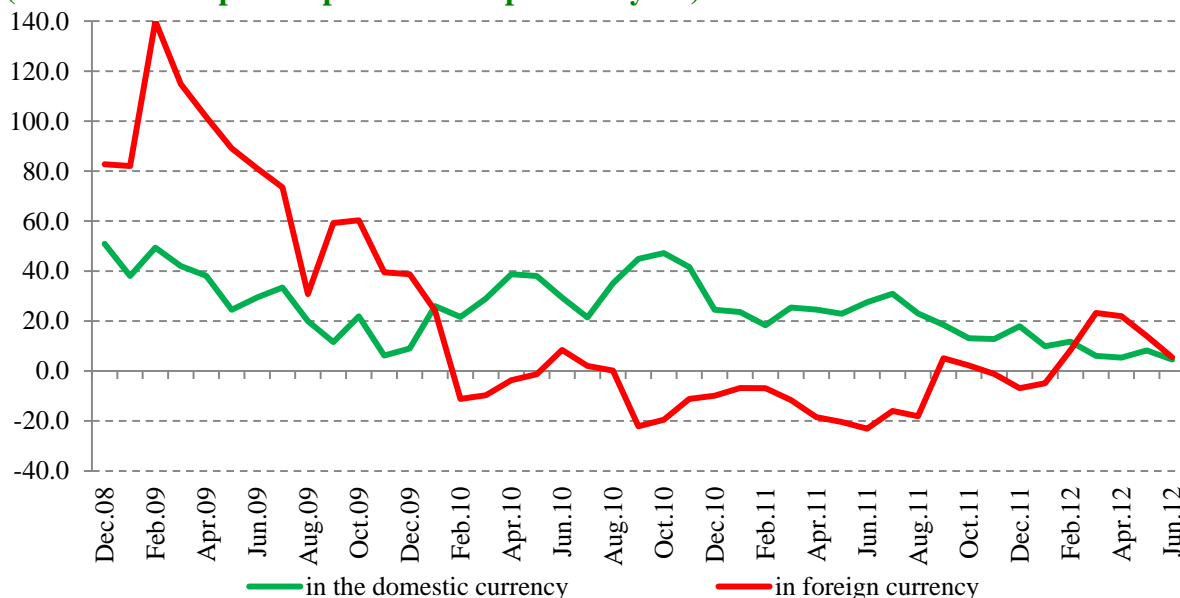


Source: National Bank of the Republic of Kazakhstan

During the 2nd quarter of 2012 the volume of deposits of legal entities decreased by 2.3% to KZT 6003.5 bln., and the annual growth (June 2012 versus June 2011) accounted for 4.8%. Deposits of legal entities in the domestic currency increased in annual terms by 4.6%, and foreign currency deposits increased by 5.5% (Figure 27).

Figure 27

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



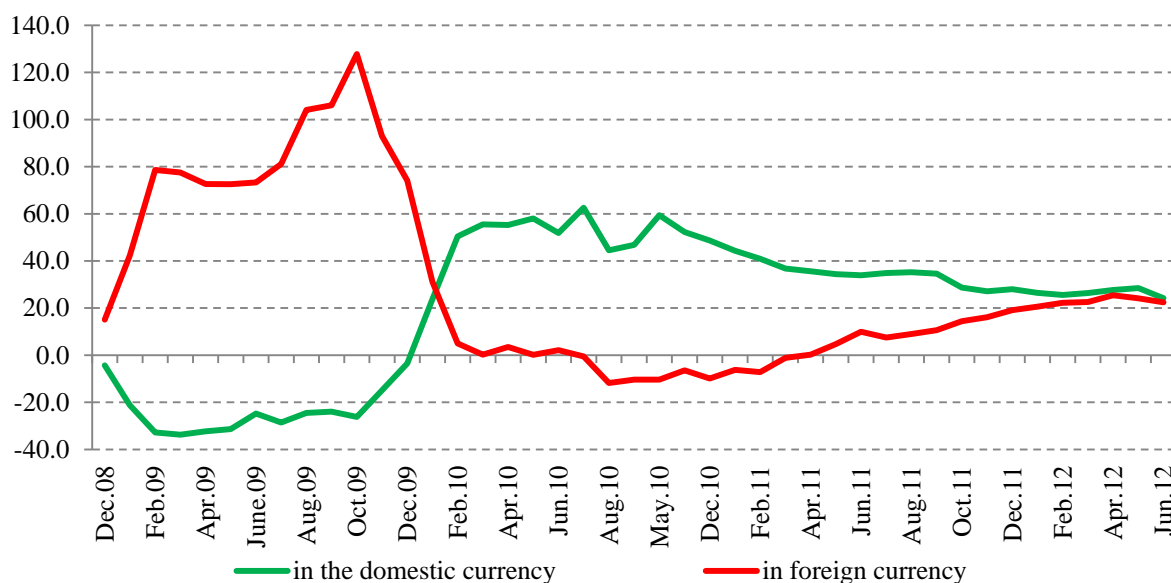
Source: National Bank of the Republic of Kazakhstan

The volume of deposits of individuals has increased by 6.1% to KZT 3012.6 bln. since the beginning of the year, and the annual growth accounted for 23.5%. Deposits of individuals

in the domestic currency increased by 24.2% in annual terms, and foreign currency deposits increased by 22.4% (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 2nd quarter of 2012 bank credits to the economy increased by 3.6% to KZT 9253.2 bln. During April-June 2012 credits to legal entities increased by 2.6% amounting to KZT 6725.2 bln., and credits to individuals increased by 6.3%, to KZT 2528.0 bln.

The volume of credits in the domestic currency increased by 5.3%, to KZT 6231.9 bln., and in foreign currency – increased by 0.1% to KZT 3021.3 bln.

During April-June 2012 long-term lending increased by 4.5% to KZT 7474.8 bln., short-term lending remained virtually unchanged amounting to KZT 1778.5 bln. As a result, the percentage of long-term credits in June 2012 as compared to March 2011 increased from 80.1% to 80.8%.

In June 2012 average weighted interest rate on credits to non-bank legal entities provided in the Tenge decreased slightly to 11.2% (in March 2012 - 11.3%), and on the credits to individuals provided in the Tenge - increased to 20.9% (in March 2012 – 20.5%). In the 2nd quarter of 2012 as a whole, the movement of the rates was multi-directional (Figure 29).

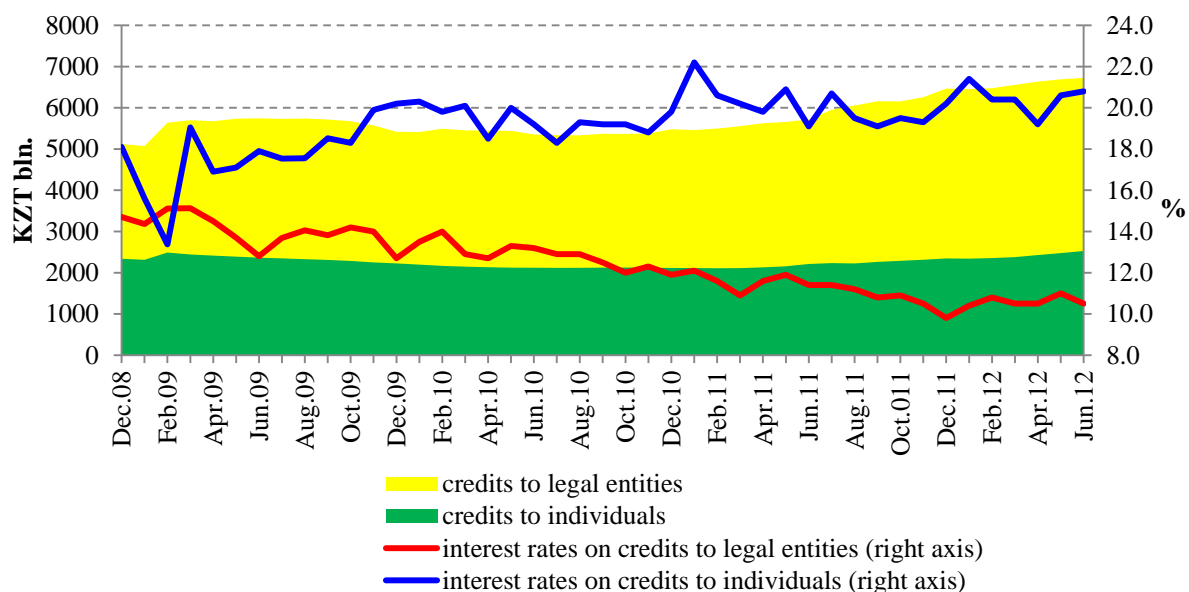
In the structure of credits by objects of financing the major volume of debt fell on credits provided for the purchase of working capital (27.7%), other purposes (23.2%), new construction and reconstruction (15.0%), as well as for consumer purposes of individuals (13.3%).

In a sectoral breakdown, the highest debt on bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 45.2%, trade – 20.1%, construction – 14.9%, and the industry – 12.2%.

During the 2nd quarter of 2012 credits to the construction sector increased by 4.4%, industry – by 3.6%, transport sector – by 3.6%, sector of communications – by 3.2% whereas credits to the agricultural sector decreased by 4.2% and credits to the trade sector – by 0.9%.

Figure 29

Dynamics of credits to the economy and their interest rates



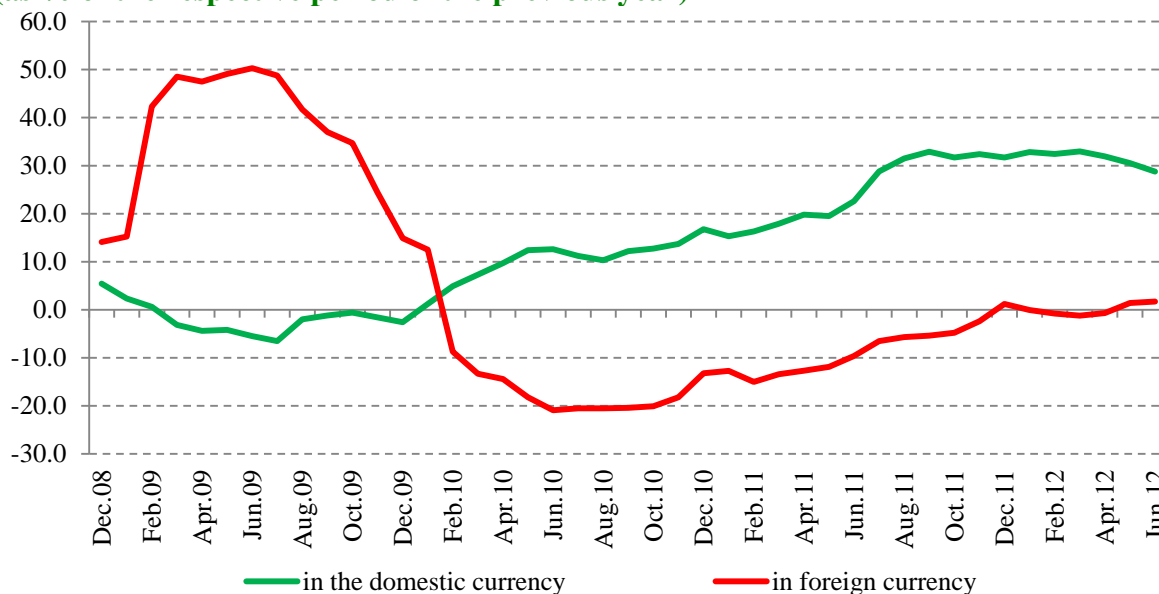
Source: National Bank of the Republic of Kazakhstan

In June 2012 as compared to June 2011, the volume of credits to legal entities increased by 16.6%. There were changes in the structure of credits in terms of their tenors. The share of medium- and long-term credits in total credits to legal entities accounted for 75.2% at end-June 2012, whereas in June 2011 they reached 78.0%.

Credits to legal entities in the domestic currency increased by 28.8% in annual terms, and foreign currency credits increased by 1.7% (Figure 30).

Figure 30

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



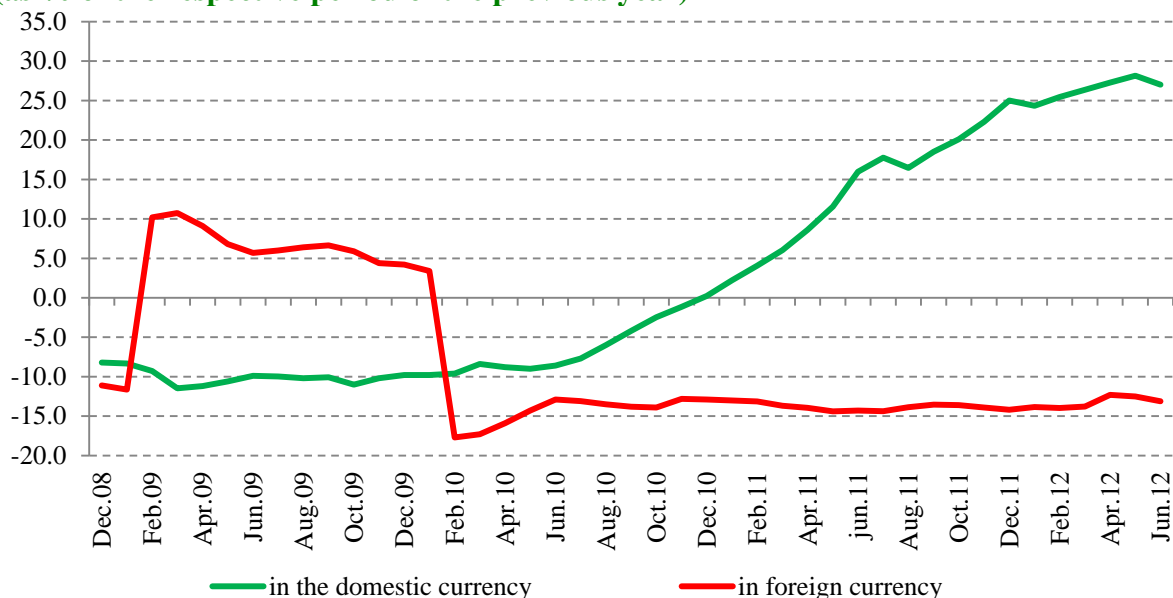
Source: National Bank of the Republic of Kazakhstan

In June 2012 as compared to the respective period of 2011, the volume of credits to individuals increased by 14.3%. At end-June 2012 the share of medium- and long-term credits in total credits to individuals slightly decreased and accounted for 95.6%, versus 96.7% in June 2011.

In the structure of credits to the population, credits in the domestic currency have demonstrated the increase by 27.0%, and credits in foreign currency – the decrease by 13.1% (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

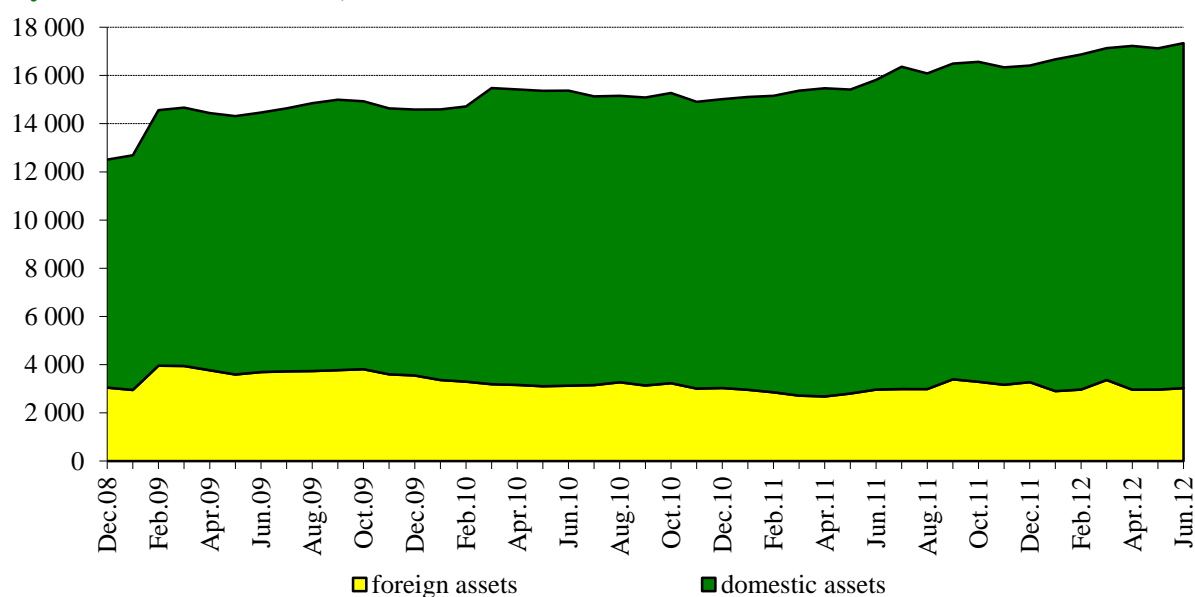
3.2.3. Bank Assets and Liabilities

– Assets

In the 2nd quarter of 2012 the amount of bank assets calculated under the Monetary Survey increased by 1.2% to KZT 17.3 trln. Bank assets increased in annual terms (June 2012 versus June 2011) by 9.7% (Figure 32).

Figure 32

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

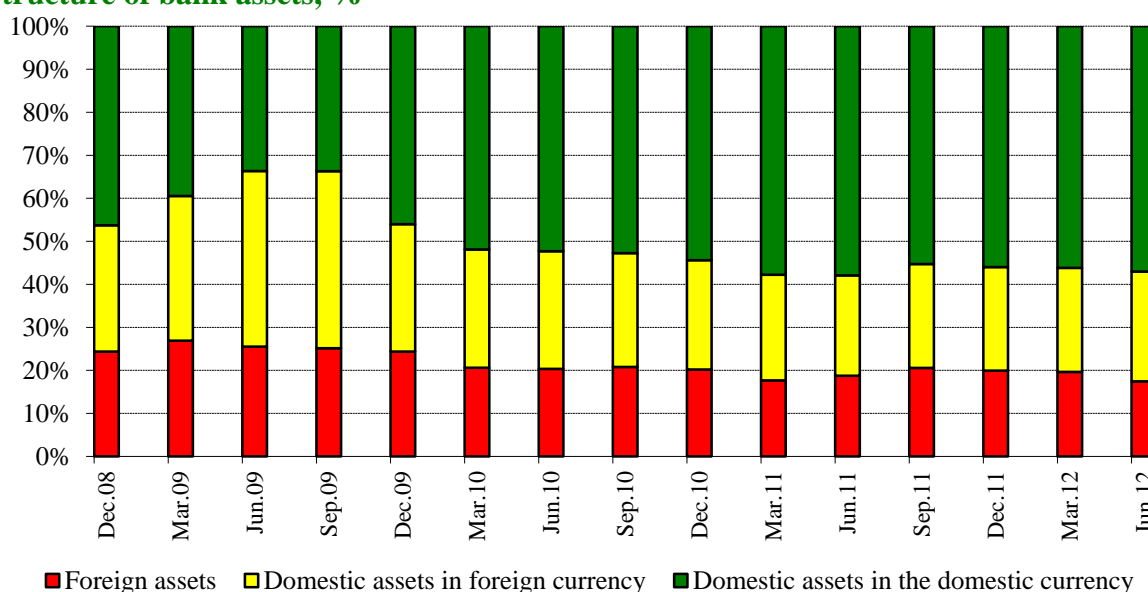
Foreign assets of banks in June 2012 accounted for 17.5% of total assets or US\$ 20.3 bln. As compared to June 2011, they increased by 2.1%, and as compared to December 2011 they decreased by 7.5%.

In the structure of foreign assets in June 2012, credits to non-residents accounted for 55.2% (in March 2012 – 49.1%), deposits placed with non-residents – 22.7% (in March 2012 – 31.0%), securities of non-residents – 5.0% (in March 2012 – 4.4%), other accounts receivable – 17.1% (in March 2012 – 15.5%).

Domestic assets in June 2012 accounted for 82.5% or KZT 14.3 trln., where assets in the domestic currency accounted for 69.1% or KZT 9.9 trln., and foreign currency assets – for 30.9% or KZT 4.4 trln. During the 2nd quarter of 2012 domestic assets increased by 3.9%, including the increase in the domestic currency assets by 2.7%, and the increase in foreign currency assets by 6.7% (Figure 33).

Figure 33

Structure of bank assets, %



Source: National Bank of the Republic of Kazakhstan

As a whole, under the Monetary Survey for the 2nd quarter of 2012, bank assets increased by 1.2%. In the 2nd quarter of 2012 some positive changes in the quality of bank assets may be noted. So, the share of standard assets increased from 47.9% to 48.1%, the share of doubtful assets decreased from 35.1% to 29.8%, and the share of loss assets increased from 17.0% to 22.1%.

In the structure of doubtful assets the migration of assets towards concentration of assets of category 1, 3 and 4 was observed. The share of assets of category 1 within the structure of doubtful assets increased from 29.3% to 30.6%, the share of assets of category 2 decreased from 13.5% to 8.8%, of category 3 – increased from 26.1% to 30.1%, of category 4 – increased from 9.4% to 11.4%, and of category 5 – decreased from 21.7% to 19.1%.

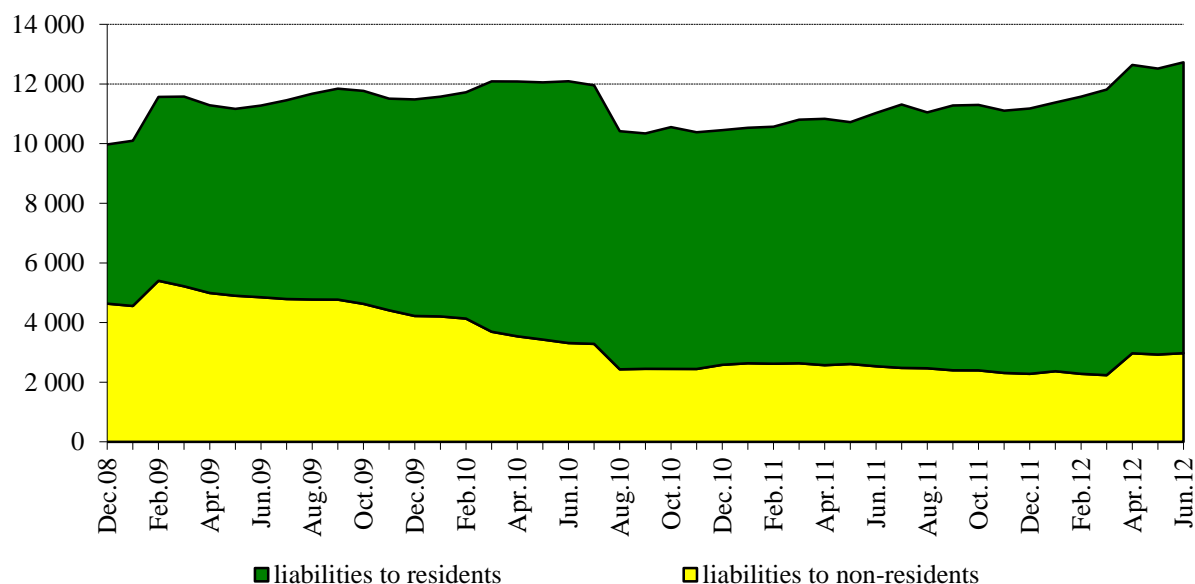
In the 2nd quarter of 2012 some improvement in the quality of assets was promoted by accelerated growth rates of lending to 3.6%, as compared with the growth of 1.7% in the previous quarter and of 3.5% - in the respective period of 2011.

– Liabilities

In the 2nd quarter of 2012 total bank liabilities calculated under the Monetary Survey increased by 7.7 and amounted to KZT 12.7 trln. at end-June. (Figure 34).

Figure 34

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

Bank liabilities to non-residents in June 2012 as compared to March 2011 increased by 33.1% to KZT 3.0 trln. (US\$ 19.9 bln.). Bank liabilities increased by 17.3% versus the respective month of 2011. At end-June 2012 bank liabilities to non-residents accounted for 23.4% of total bank liabilities.

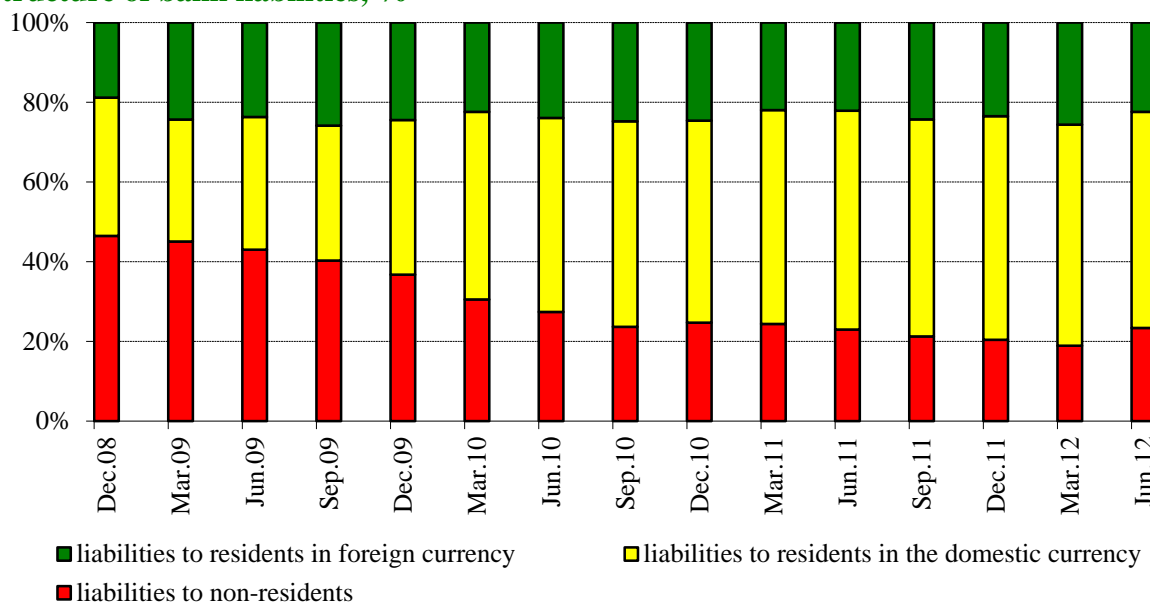
In the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents increased from 7.1% in March 2012 to 7.8% in June 2012, the share of liabilities on securities increased from 73.0% to 78.7%, and credits from non-residents decreased from 18.5% to 12.2%, respectively.

During the 2nd quarter of 2012 liabilities to residents increased by 1.8% to KZT 9.8 trln., where liabilities in the domestic currency increased by 5.3% to KZT 6.9 trln., and foreign currency liabilities decreased by 5.8% to KZT 2.9 trln. (Figure 35).

Thus, in the 2nd quarter of 2012 there was an upward trend in bank liabilities involving the growth of liabilities both to non-residents and residents. The growth in liabilities to residents was ensured by the increase in the domestic currency component.

Figure 35

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

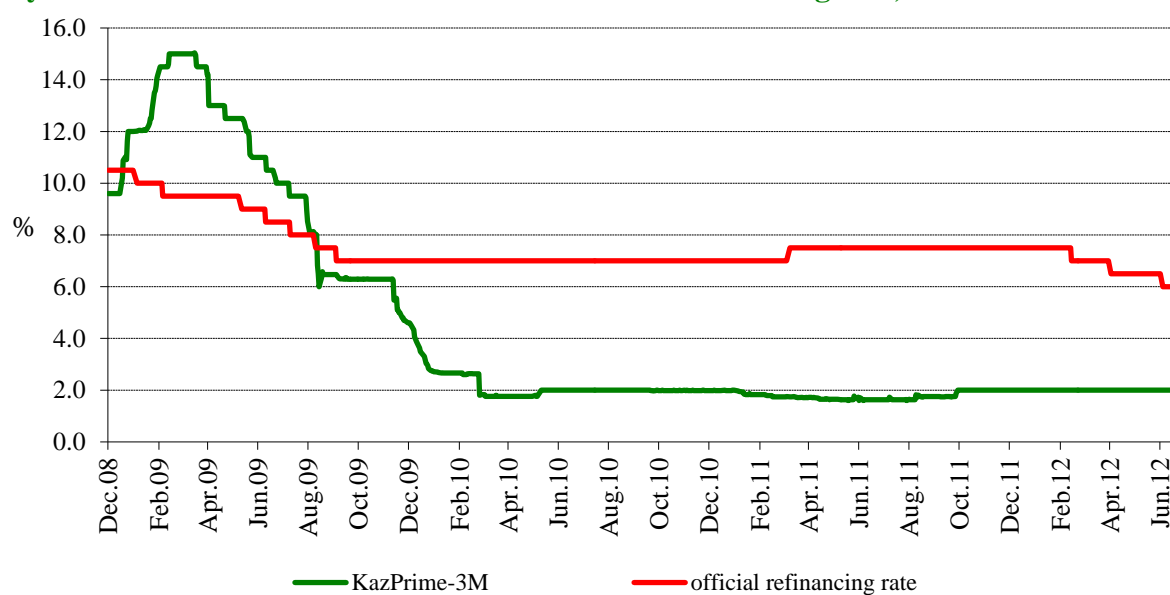
3.2.4. Financial Market Rates

In the 2nd quarter of 2012 multi-directional trends of the change in the rates were observed in the interbank market.

The KazPrime index on average didn't change during the 2nd quarter of 2012 and remained at 2.00%, just like in the 1st quarter, on average. At end-June the index also remained unchanged versus end-March – 2.00% (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.

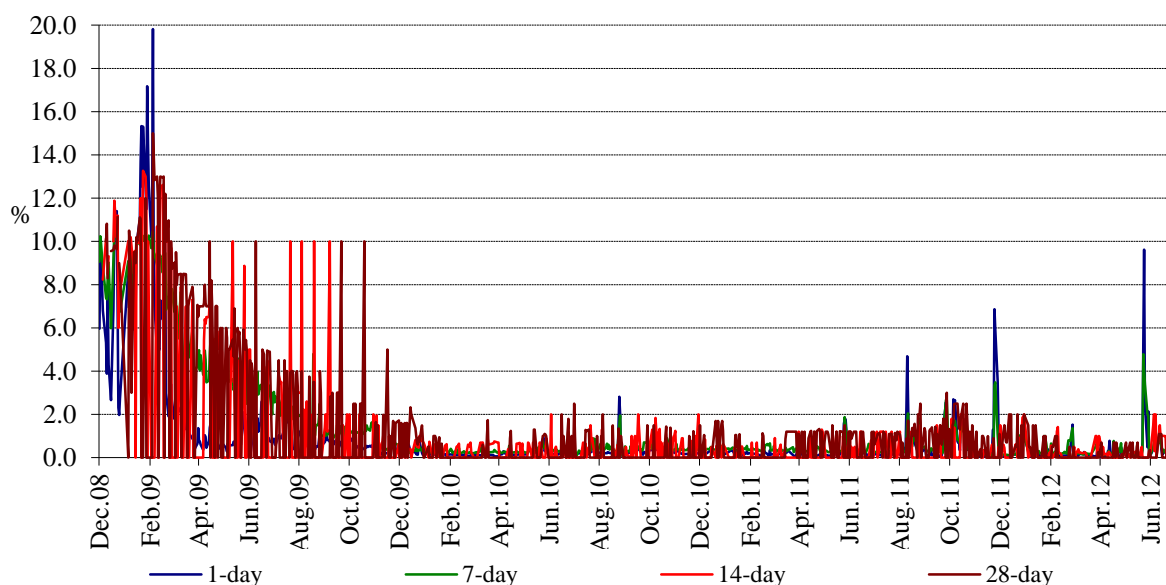
In the 2nd quarter of 2012 the average weighted rate on 1-day operations in the sector of automatic REPO increased and accounted for 0.75% (in the 1st quarter – 0.22%). Its maximum level was 9.62% and minimum – 0.03%.

In the 2nd quarter of 2012 rate fluctuations on 7-day REPO operations were within the range from 0.12% to 4.78% (the average weighted rate was 0.51%), on 14-day REPO operations – from 0.15% to 2.00% (the average weighted rate was 0.40%), and on 28-day REPO operations – from 0.17% to 1.14% (the average weighted rate was 0.45%) (Figure 37).

The transaction volumes in the sector of automatic REPO increased by 3.7% in the 2nd quarter of 2012 as compared to the previous quarter.

Figure 37

Dynamics of rates on REPO operations, %



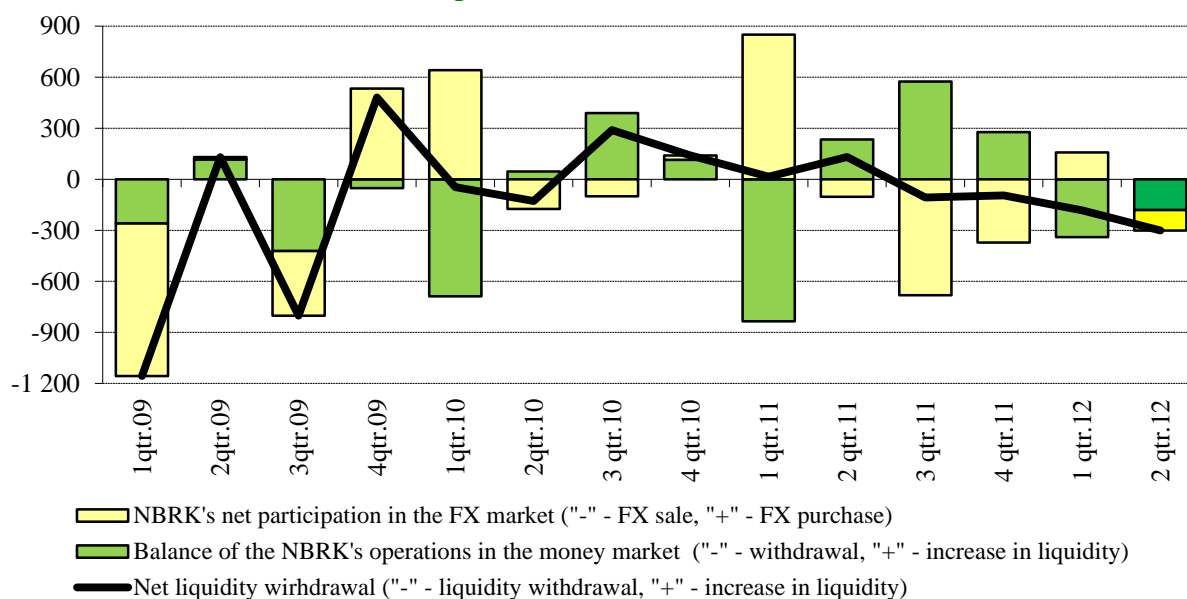
Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

In the 2nd quarter of 2012 there were no significant fluctuations in the money market, and the situation with the Tenge liquidity remained stable. During the 2nd quarter of 2012 the National Bank's operations in the financial market resulted in the withdrawal of the Tenge liquidity, mainly because of the growth in balances of bank correspondent accounts in the Tenge at the National Bank (Figure 38).

Figure 38

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

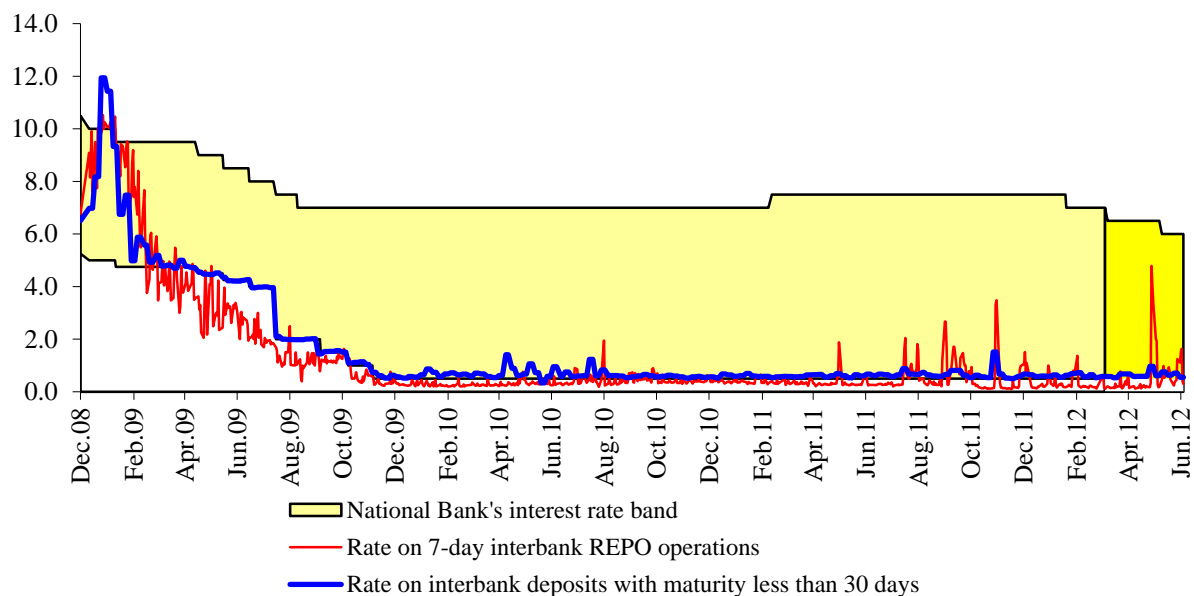


Source: National Bank of the Republic of Kazakhstan

In the 2nd quarter of 2012 the National Bank's interest rate band was changed. During the period the official refinancing rate was changed twice: on April 2, 2012 from 7.0% to 6.5%, and on June 4, 2012 – to 6.0%. 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 2nd quarter of 2012 the situation in the money market was characterized by the interest rate volatility. A gradual increase in the interest rates had been observed throughout the period. In the 2nd quarter of 2012 on average the level of interest rates was closer to the lower boundary of the National Bank's interest rate band. The average weighted rate on interbank deposits with maturity less than 30 days increased from 0.61% in the 1st quarter of 2012 to 0.63% in the 2nd quarter of 2012. The average weighted rate on interbank 7-day REPO operations increased from 0.25% in the 1st quarter of 2012 to 0.51% in the 2nd quarter of 2012 (Figure 39).

Figure 39

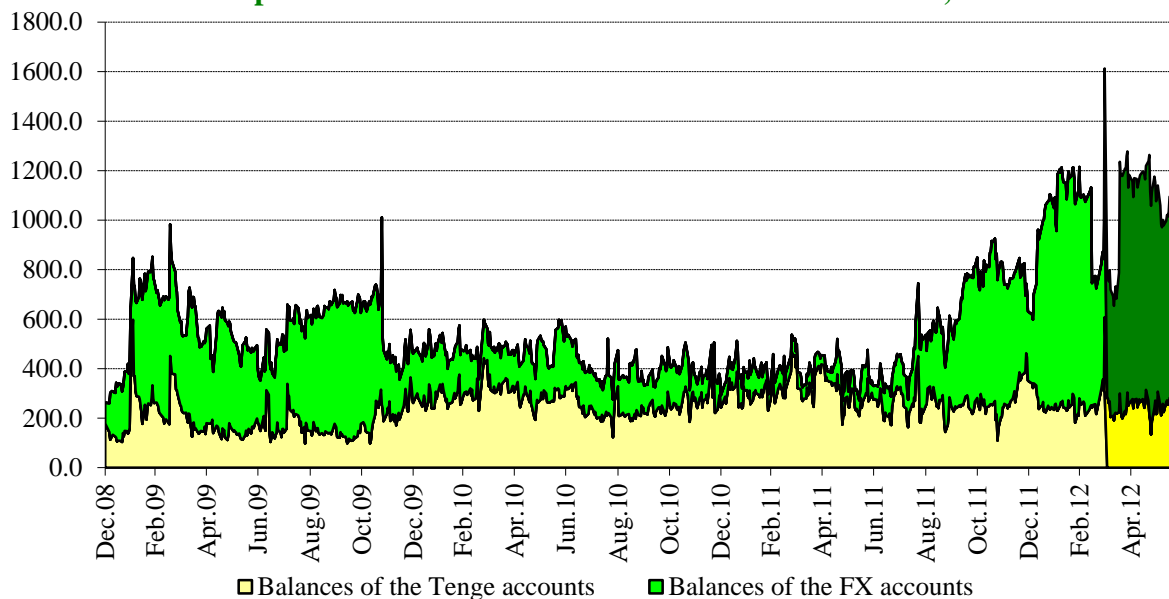
Boundaries of the National Bank's interest rates band, %

Source: National Bank of the Republic of Kazakhstan

In January-March 2012 the dynamics in correspondent account balances of banks with the National Bank was multi-directional. In March 2012 correspondent account balances of banks in foreign currency showed nearly a two-time increase, in April they remained relatively stable and in June a downward trend outlined. In total, their volume increased by 1.6 times at end-June 2012 as compared to March 2012.

Correspondent account balances of banks in the domestic currency in the 2nd quarter of 2011 were also volatile; their growth was interchanging with their decrease and vice versa during the entire period. In April-May 2012 their volume remained generally unchanged, and in June 2012 they started to increase gradually. At end-June 2012 their volume increased by 1.5 times as compared to that at end-March (Figure 40).

Figure 40

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

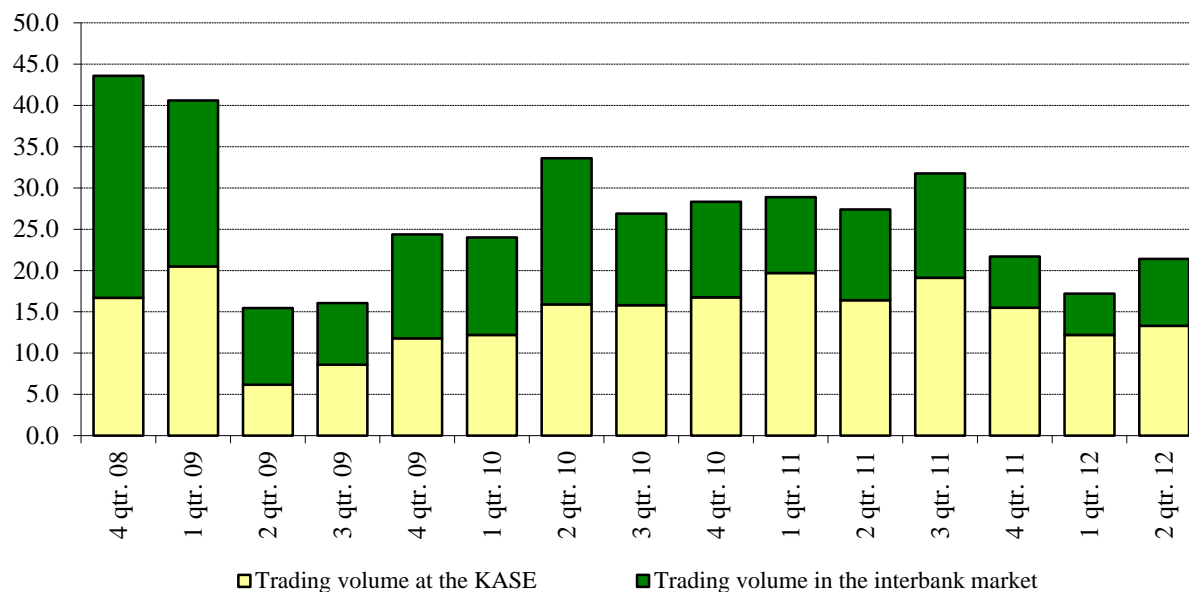
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the 2nd quarter of 2012 the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$ 21.4 bln., having increased by 24.4% as compared to the 1st quarter of 2012.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 8.7% as compared to the 1st quarter of 2012 and amounted to US\$ 13.3 bln. (net trades at the Kazakhstan Stock Exchange made up 80% of gross trades). In the off-exchange foreign currency market the volume of transactions in the 2nd quarter of 2012 increased by 61.4% as compared to the previous quarter and amounted to US\$ 8.1 bln. (Figure 41).

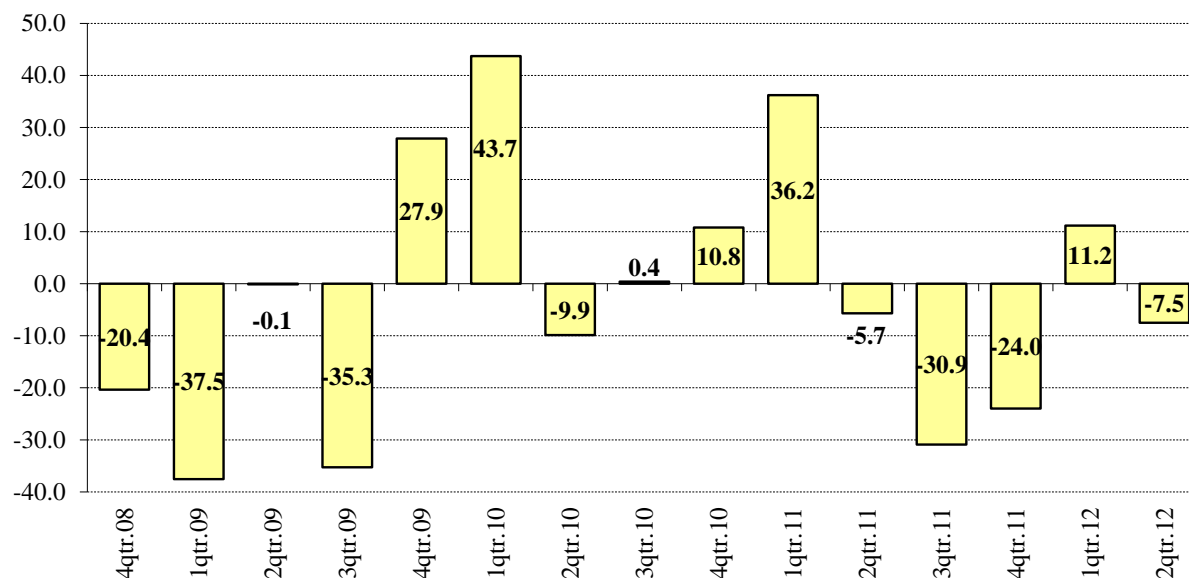
Figure 41

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

Source: National Bank of the Republic of Kazakhstan

At the end of the 2nd quarter of 2012 the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -7.5% (in the 1st quarter of 2012 it was 11.2%) (Figure 42). Thus, in the 2nd quarter of 2012 the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 42

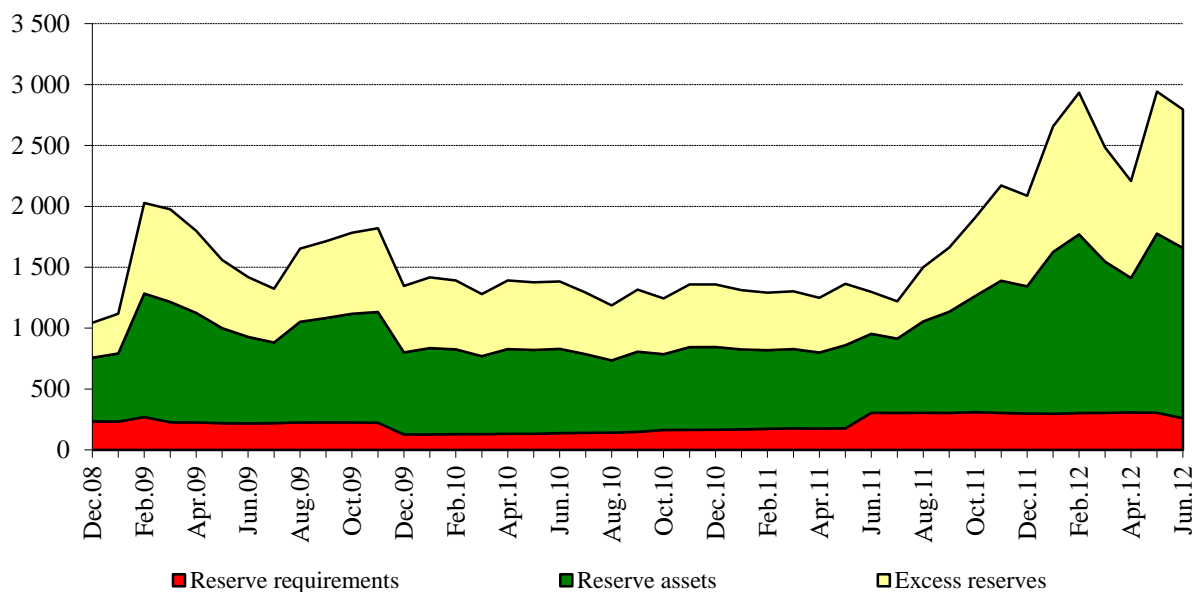
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %

Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During April-June 2012, reserve assets on average exceeded the required reserving volume by 4.6 times (in the 1st quarter of 2012 – by 4.3 times on average, and in the 2nd quarter of 2011 – by 3.2 times) (Figure 43).

Figure 43

Compliance with minimum reserve requirements, KZT bln.

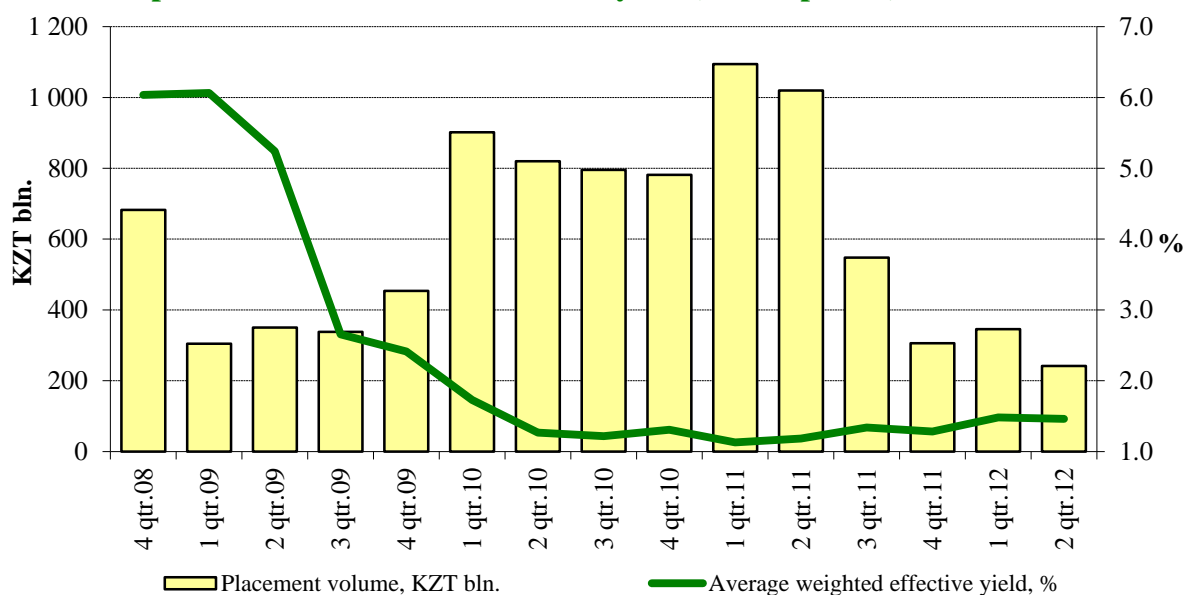
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the 2nd quarter of 2012 the demand of banks for short-term notes of the National Bank somewhat decreased. Some revival in the segment was observed in April only, however, in May and June the demand for such instruments decreased.

The volume of short-term notes issued in the 2nd quarter of 2012 as compared to the 1st quarter of 2012 decreased by 30.1% and amounted to KZT 241.7 bln. The highest emission volume of short-term notes was in April (over 40% of the total emission volume for the 2nd quarter of 2012). The average weighted yield on issued notes decreased from 1.48% in the 1st quarter of 2012 to 1.46% in the 2nd quarter of 2012 (Figure 44).

Figure 44

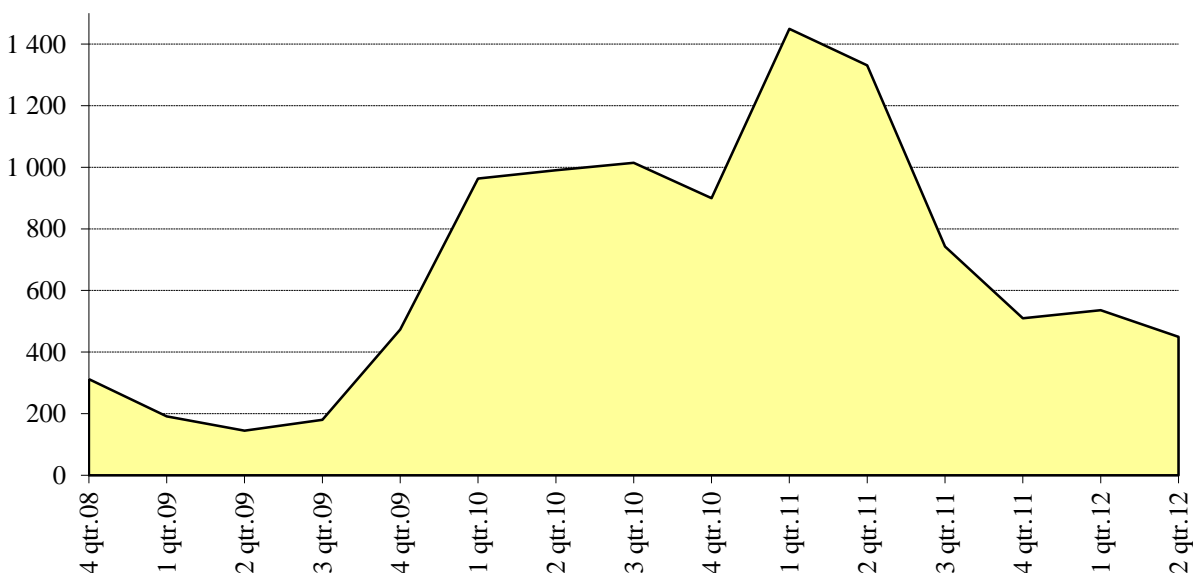
Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

In the 2nd quarter of 2012 the National Bank was issuing notes with maturities of 3, 6 and 9 months. The highest emission volume was on 3-month instruments (over 50% of the total emission volume).

At end-June 2012 the volume of short-term notes in circulation amounted to KZT 449.5 bln., which is by 16.1% less than their volume at end-March 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

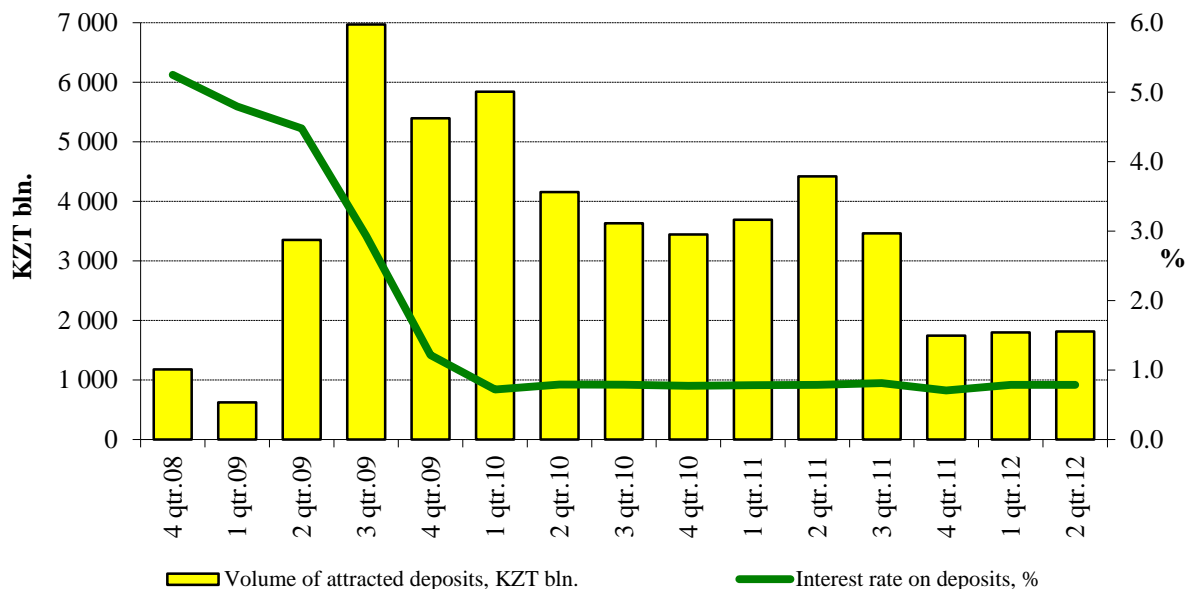
In the 2nd quarter of 2012 the volume of deposits attracted from banks slightly increased as compared to the previous quarter. The peak of their attraction was recorded in

April-May and in June the demand for these instruments decreased. In total, KZT 1815.0 bln. of deposits was attracted during April-June 2012, which is by 1.0% higher than their volume in the 1st quarter of 2012 and by 2.4 times less than in the 2nd quarter of 2011.

The average interest rate on deposits in the 2nd quarter of 2012 hasn't changed since the 1st quarter of 2012 and was 0.79% (Figure 46).

Figure 46

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

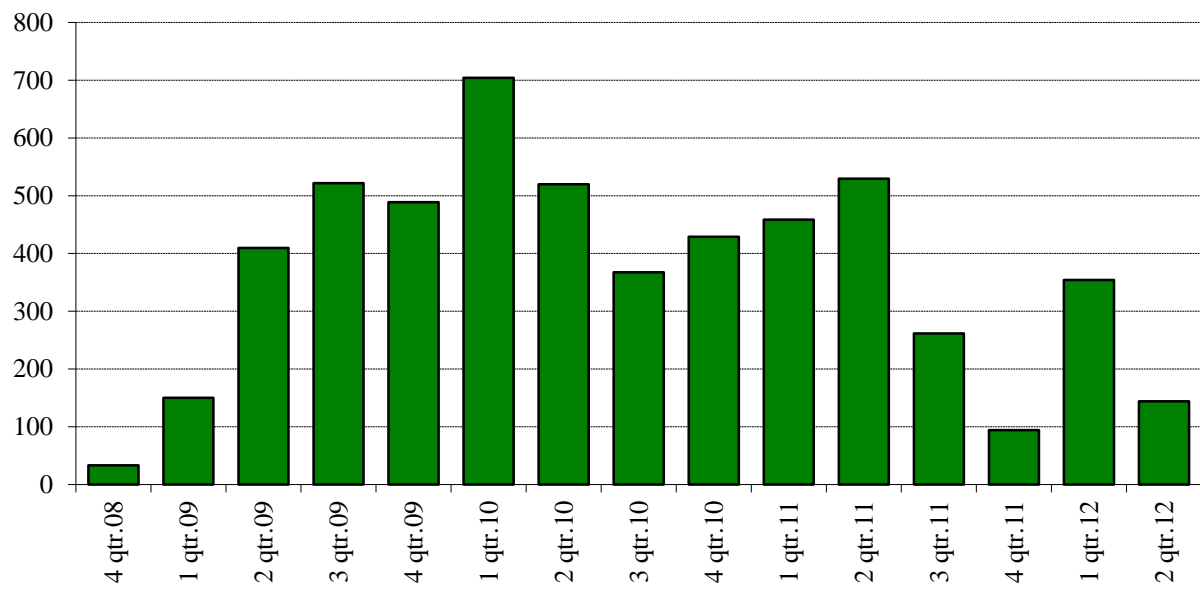


Source: National Bank of the Republic of Kazakhstan

In the 2nd quarter of 2012 the volume of outstanding liabilities of the National Bank on bank deposits decreased. At end-June 2012 the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 144.0 bln., which is by 2.5 less than their volume in March 2012 (Figure 47).

Figure 47

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

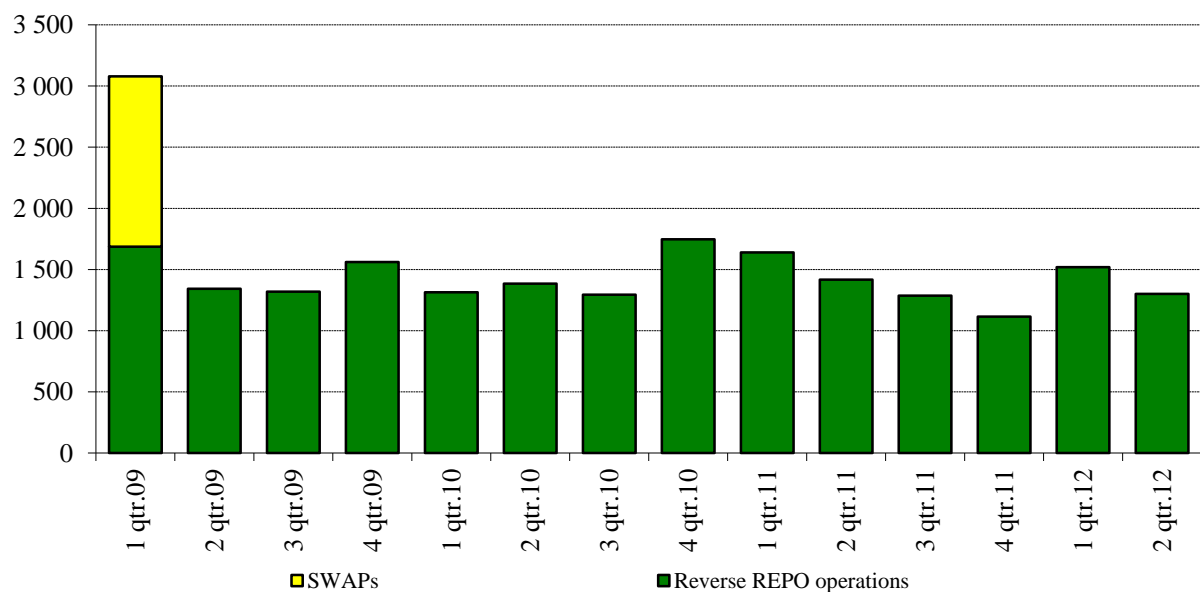


Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in the 2nd quarter of 2012 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. Total volume of reverse REPO operations in April-June 2012 amounted to KZT 1301.5 bln. The volumes of such operations decreased by 14.4%, as compared to the previous quarter (Figure 48).

Figure 48

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

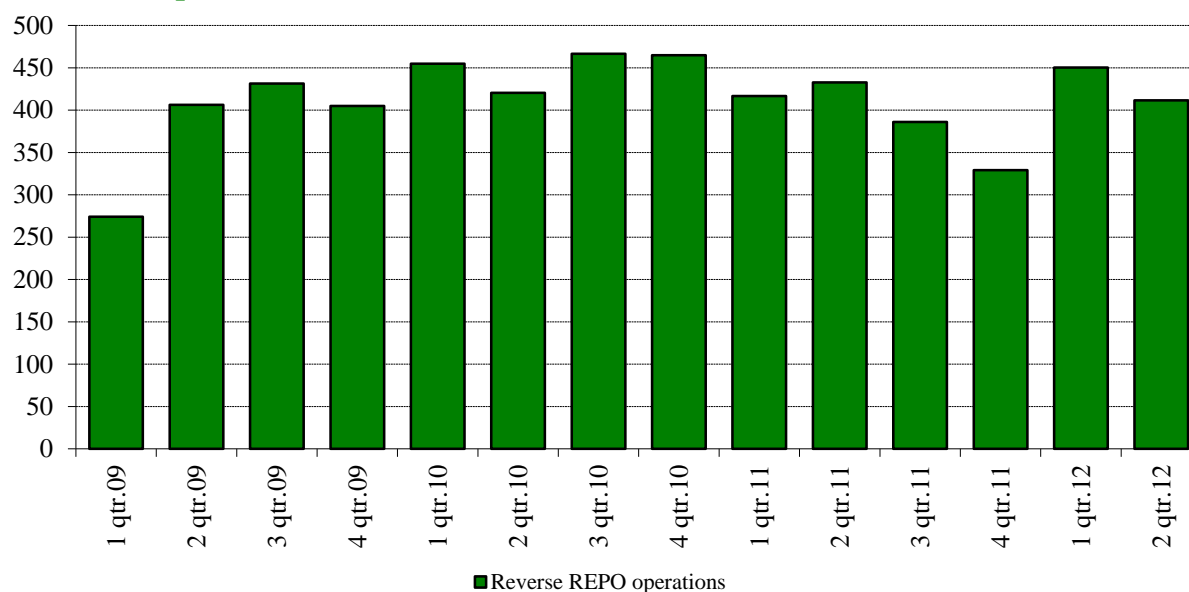


Source: National Bank of the Republic of Kazakhstan

At end-June 2012 the outstanding debt on reverse REPO operations also somewhat decreased and amounted to KZT 411.6 bln. (Figure 49).

Figure 49

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



Source: National Bank of the Republic of Kazakhstan