

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

Inflation Report
for the 1st Quarter of 2012

Table of Contents

Table of Contents	2
Basic Terms and Definitions.....	3
List of Figures and Tables	5
Summary.....	7
Evaluation of the Inflation Forecasts for the First Quarter of 2012	8
Inflation Forecast for 2012.....	8
1. Inflationary Processes	10
1.1. Consumer Prices.....	10
1.2. Core Inflation	11
1.3. Prices in the Real Sector of the Economy	13
1.3.1. <i>Prices in the Industry</i>	13
1.3.2. <i>Prices in Agriculture</i>	14
1.3.3. <i>Monitoring of Enterprises</i>	15
2. Inflation Factors	17
2.1. Aggregate Demand.....	17
2.1.1. <i>Individual Consumption and Investment Demand</i>	17
2.1.2. <i>Government Consumption</i>	19
2.1.3. <i>External Sector</i>	21
2.2. Production	25
2.3. Labor Market.....	26
2.3.1. <i>Employment and Unemployment</i>	26
2.3.2. <i>Wages and Productivity</i>	28
3. Money Supply	30
3.1. Monetary Aggregates	30
3.1.1. <i>Reserve Money</i>	30
3.1.2. <i>Money Supply</i>	31
3.1.3. <i>Cash in Circulation</i>	32
3.2. Financial Market.....	32
3.2.1. <i>Deposits of Residents</i>	32
3.2.2. <i>Credits to the Economy</i>	35
3.2.3. <i>Bank Assets and Liabilities</i>	37
3.2.4. <i>Financial Market Rates</i>	41
4. Monetary Policy Instruments and Operations.....	43
4.1. Interventions in the Domestic Foreign Currency Market.....	45
4.2. Minimum Reserve Requirements.....	46
4.3. Open Market Operations.....	47
4.4. Standing Facilities.....	48

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 the 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.

List of Figures and Tables

Figures

- Figure 1. Actual and forecasted inflation in 2012
- Figure 2. Dynamics of quarterly inflation and its components
- Figure 3. Dynamics of annual inflation and its components
- Figure 4. Dynamics of quarterly inflation and core inflation
- Figure 5. Dynamics of annual inflation and core inflation
- Figure 6. Dynamics of the producer price index
- Figure 7. Dynamics of the agricultural price index
- Figure 8. Diffusion indices of changes in the demand and prices
- Figure 9. Contribution of components of aggregate demand to growth in GDP
- Figure 10. Dynamics of personal spending and income
- Figure 11. Dynamics of spending on investments in fixed capital
- Figure 12. State budget execution
- Figure 13. Dynamics of world prices for metals
- Figure 14. Dynamics of world prices for oil (Brent), and wheat (Canada)
- Figure 15. Current account balance
- Figure 16. Indices of real exchange rates of the Tenge
- Figure 17. Dynamics of the nominal exchange rate of the Tenge versus the U.S. dollar
- Figure 18. Dynamics of the official exchange rate of the Tenge versus the Euro and the Russian ruble
- Figure 19. Contribution of key sectors of the economy to growth in real GDP
- Figure 20. Structure of the economically active population
- Figure 21. Actual unemployment rate
- Figure 22. Dynamics of labor productivity and real wages
- Figure 23. Dynamics of monetary aggregates
- Figure 24. Dynamics of money multiplier and its components
- Figure 25. Dynamics of deposits and interest rates
- Figure 26. Dynamics of the change in corporate deposits
- Figure 27. Dynamics of the change in deposits of individuals
- Figure 28. Dynamics of credits to the economy and their interest rates
- Figure 29. Dynamics of credits to legal entities
- Figure 30. Dynamics of credits to the population
- Figure 31. Dynamics of bank assets.
- Figure 32. Structure of bank assets
- Figure 33. Dynamics of bank liabilities
- Figure 34. Structure of bank liabilities
- Figure 35. Dynamics of the KazPrime index
- Figure 36. Dynamics of rates on REPO operations
- Figure 37. Balance of the National Bank's operations in the domestic market
- Figure 38. Boundaries of the National Bank's interest rates band
- Figure 39. Balances of bank correspondent accounts with the National Bank
- Figure 40. Volume of trading in the domestic foreign exchange market
- Figure 41. Coefficient of the National Bank's participation in the Kazakhstan Stock Exchange
- Figure 42. Compliance with minimum reserve requirements
- Figure 43. Volume of placed short-term notes and their yield
- Figure 44. Short-term notes in circulation
- Figure 45. Volume of deposits and interest rates on deposits attracted by the National Bank

Figure 46. Volume of outstanding liabilities of the National Bank on deposits attracted from banks

Figure 47. Volume of the National Bank's refinancing operations

Figure 48. Volume of outstanding liabilities on the National Bank's refinancing operations

Tables

Table 1. Change in price indices and terms of trade

Table 2. Dynamics of changes in the National Bank's assets and liabilities

Table 3. Dynamics of changes in the money supply

Table 4. Dynamics of changes in deposits of residents

Summary

In the 1st quarter of 2012 inflation was at 1.1% (in the 1st quarter of 2011 – 3.7%), at end-March 2012 annual inflation accounted for 4.6% (in December 2011 – 7.4%).

The observed moderate price growth was generally determined by the outstripping rates of growth in the aggregate demand from individuals, legal entities and the government over the rates of growth in the aggregate supply of goods and services. The fundamental reasons for the price growth - such as undeveloped domestic competition, monopolization of certain markets of goods and services, and inefficient pricing mechanism remain current.

Apart from that, the level of domestic prices is exposed to the growth in global prices for raw materials and foodstuffs and the overall unstable situation in the global commodity markets.

The impact of monetary factors on the inflationary processes remain minimal. So, the growth in the money supply during the 1st quarter of 2012 accounted for 5.6%, the volume of cash decreased by 4.2%, and the reserve money expanded by 15.7%.

The inflationary pressure in the economy also persists due to the growth of the business activity in the country. In 2011 the real GDP growth in Kazakhstan accounted for 7.5%; these are fairly high development rates amid the global crisis. The leaders in the production growth were such sectors as agriculture, trade and communications.

At the same time, the efficiency of the anti-inflationary policy implemented through the joint efforts of the Government, the National Bank and local executive authorities should be pointed out; this policy helps ensuring stability of the consumer market and keeping the inflation within the set target band of 6-8%. Moreover, the inflation rate of 4.6% represents the lowest annual inflation rate in Kazakhstan since May 1999.

The National Bank takes actions in compliance with the Monetary Policy Guidelines of the Republic of Kazakhstan for 2012 intended to ensure the price stability, the Tenge exchange rate stability and stability of the country's financial sector.

As part of its efforts to ensure the domestic currency stability, the National Bank monitors the situation with the exchange rate of Tenge on an on-going basis. At present the managed floating exchange rate regime of Tenge is in force, at the same time the domestic foreign exchange market is developing with minimal involvement of the National Bank in maintaining the exchange rate of Tenge. In order to prevent significant destabilizing exchange rate fluctuations, the National Bank, where necessary, performs foreign exchange purchases and sales. Tenge has appreciated versus the US Dollar by 0.4% in nominal terms since the beginning of the year.

In general, the slowdown trend in the inflation growth rates that commenced in the second half of 2011 (at end-August 2011 the annual inflation accounted for 9.0%) continued in the first quarter of 2012. In this connection the National Bank made the decision to lower the official refinancing rate from 7.5% to 7.0% from February 14, 2012.

At the same time, interest rates on bank deposits with the National Bank remained at the same minimum level: 0.5% on 7-day deposits and 1.0% – on one month deposits.

Mechanism of minimum reserve requirements as well as their ratios in the 1st quarter of 2012 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 regulated short-term money market liquidity by issuing short-term notes and taking deposits from banks. The volumes of these operations in the 1st quarter of 2012 decreased as compared to the same indicators for the 1st quarter of 2011: the issue of short-term notes decreased by 68.4%, and the volume of deposits attracted from banks – by 2.1 times.

In the 1st 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 First Quarter of 2012

The actual inflation rate (1.1%) in the 1st quarter of 2012 was almost twice lower than the forecast (2.0-2.2%), which was published in the previous issue of the Inflation Report. Throughout the 1st quarter of 2012 the inflation has been lower than the forecast.

The main increase in prices in the 1st quarter of 2012 was in the price for foodstuffs. Within their structure, the growth in prices for such products as meat products, sugar, eggs, fish and seafood should be pointed out. The increase in prices for these foodstuffs was primarily associated with the seasonality factors. Moreover, unstable situation in the global food markets also negatively affects the pricing within Kazakhstan.

The increase in prices for non-food products and paid services was moderate in January-March 2012. Prices for fuel and lubricants as well as utility tariffs remained stable. At the same time, there was growth in prices and tariffs for services provided by the healthcare establishments, for personal care products, detergents, and clothes.

The actual annual inflation at end-March 2012 accounted for 4.6%, which is lower than the forecast (5.6-5.8%) published in the previous issue of the Inflation Report.

Inflation Forecast for 2012

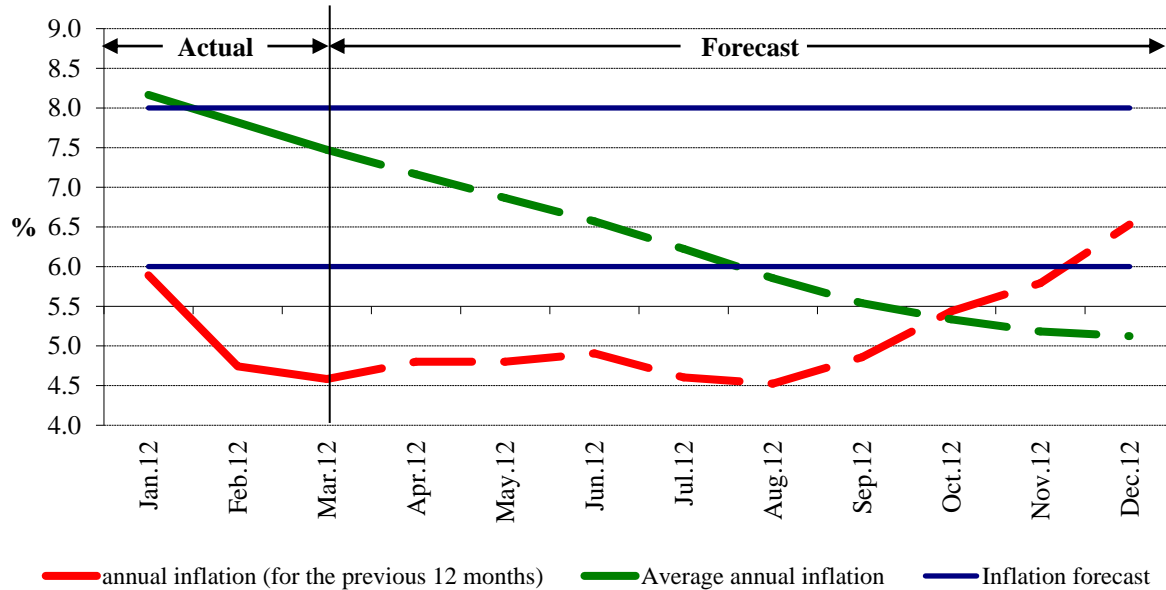
Pursuant to the Monetary Policy Guidelines of the Republic of Kazakhstan for 2012, the main goal of the National Bank is to keep inflation within 6-8% (Figure 1).

In 2012 the situation in the consumer market will be generally stable. The inflationary processes will be building up against the growing aggregate demand in the economy. The production growth in the real economy, stable growth of the cash income of the population, decreasing unemployment, and gradual recovery of the lending activity of the banking sector will be conducive to this fact. Besides this, low level of competition in certain markets of goods and services will be negatively affecting the buildup of inflationary processes.

In order to promote a stable situation in the country's consumer market, the National Bank jointly with the Government and local executive authorities will continue implementing the anti-inflationary policy. The main efforts will be aimed at encouraging fair competition in the market, preventing the price collusion, developing small and medium-size business and agro-industrial enterprises. For its part, the National Bank will take necessary actions to maintain money supply in the economy at an adequate level.

Figure 1

Actual and forecasted inflation in 2012



Source: National Bank of the Republic of Kazakhstan

The inflation forecast for the 2nd quarter of 2012 is 1.4-1.6% (in the 2nd quarter of 2011 the actual inflation accounted for 1.3%). In general, this level corresponds to the inflation trends of April-June typical for the past years. Such expectations are associated with the fact that the inflation in the nearest future mainly will be building up under the impact of the seasonality factor. The decrease in prices for certain type of goods and services is expected (eggs, dairy products, meat products, and education services). Some slowdown in the rate of growth in prices for fruits and vegetables, meat products, utility services is not excluded.

At end-June 2012 the annual inflation is expected to be at 4.7-4.9%.

The inflation forecast for the 3rd quarter of 2012 is 0.9-1.1% (in the 3rd quarter of 2011 the actual inflation was at 1.0%), which corresponds to the annual inflation of 4.8-5.0% at end-September 2012. During this period, the decrease in prices for certain foodstuffs such as eggs, dairy products, fruits and vegetables, meat products, and certain utilities is expected.

1. Inflationary Processes

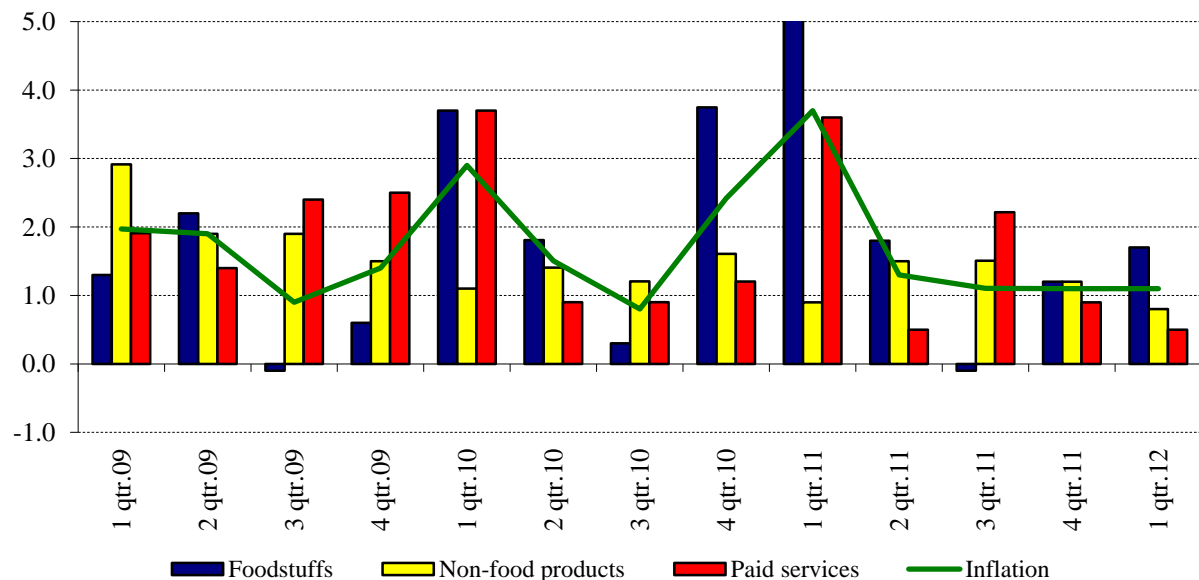
1.1. Consumer Prices

In the 1st quarter of 2012 the inflation was at 1.1% (in the 1st quarter of 2011 – 3.7%), remaining at the level of the 4th quarter of 2011 (1.1%). This has been the lowest quarterly inflation rate during January-March since 1999. The inflation in the period was mainly building up because of the growth in prices for consumer goods.

So, in the 1st quarter of 2012 prices for foodstuffs increased by 1.7% (in the 1st quarter of 2011 – by 6.0%), for non-food products – by 0.8% (by 0.9%). During the period the price of paid services increased by 0.5% (by 3.6%) (Figure 2). The slowdown in the growth of prices for paid services was achieved owing to the timely actions taken by the Government.

Figure 2

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



Source: Agency of Statistics of the Republic of Kazakhstan

In March 2012 as compared to December 2011, the highest increase in prices occurred among the following foodstuffs: sugar – by 4.4%, meat and meat products – by 4.2%, including pork – 6.3%, horse meat – 5.5%, beef – 5.4%, mutton – 4.7%, eggs – by 2.0%, and fish and seafood – by 1.9%. During the reviewed period the price of fruits and vegetables increased by 1.1%, including cabbage – by 6.0%, dairy products – by 1.0%, and confectionery – by 1.8%. Among foodstuffs, the price of the following products decreased: cereals – by 11.2%, including buckwheat – by 13.7%, millet – by 6.4%, flour – by 3.2%.

In the group of non-food products, during the reporting period the price of clothes and footwear increased by 1.1%, house wares and cutlery – by 1.4%, detergents and scoring products – by 1.2%, and medications – by 0.8%. The price of diesel fuel increased by 0.3%, and the price of gasoline decreased by 0.1%.

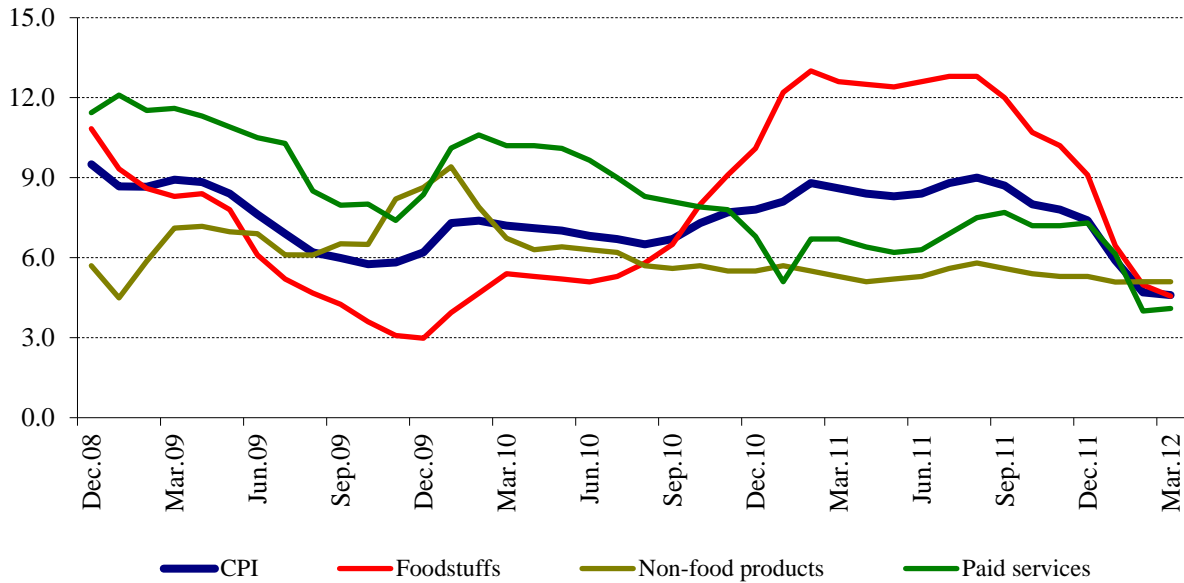
In January- March 2012, in the structure of paid services the price of utilities increased by 0.2%. At the same time, the fee for solid waste collection increased by 3.4%, for house rentals – by 1.7%, and the costs of upkeep increased by 1.3%. The price of communication services also increased – by 0.6% (due to the increase in prices for postal services – by

14.0%), for education services – by 0.6%, including pre-school and elementary education – by 2.0%, and for legal services – by 6.8%.

In March 2012, the annual inflation accounted for 4.6% (in December 2011 – 7.4%). This has been the lowest annual inflation rate since May 1999. Over the last 12 months the price of foodstuffs increased by 4.6% (by 9.1%), non-food products – by 5.1% (by 5.3%), and the price of paid services – by 4.1% (by 7.3%) (Figure 3).

Figure 3

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



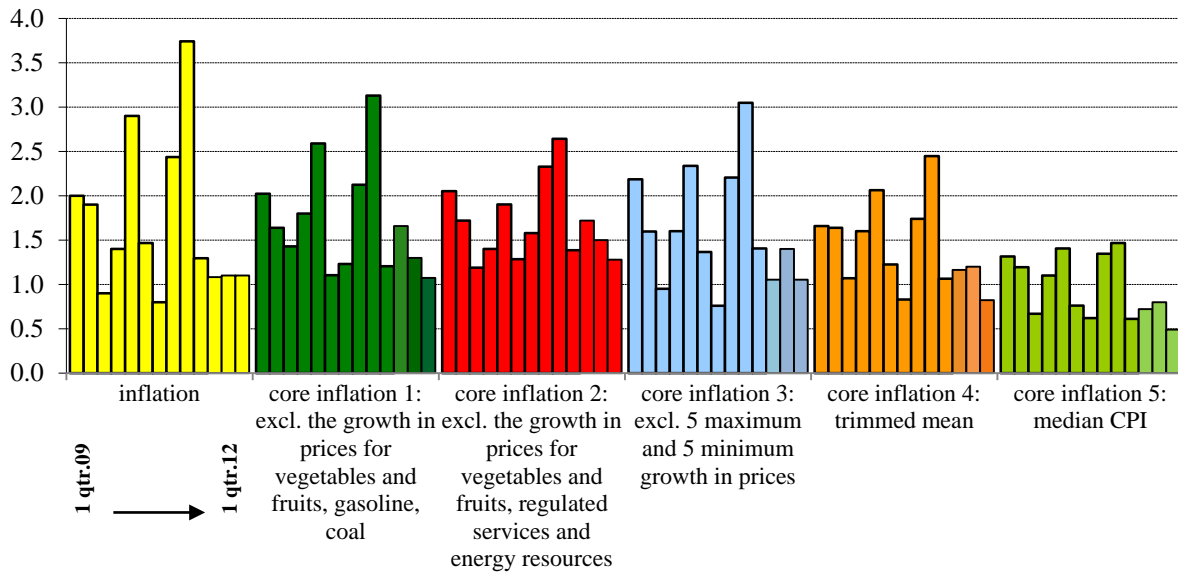
Source: Agency of Statistics of the Republic of Kazakhstan

1.2. Core Inflation

In the 1st quarter of 2012 all core inflation indicators were at a lower level, both as compared to the respective quarter of 2011 and to the previous quarter (Figure 4).

Figure 4

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



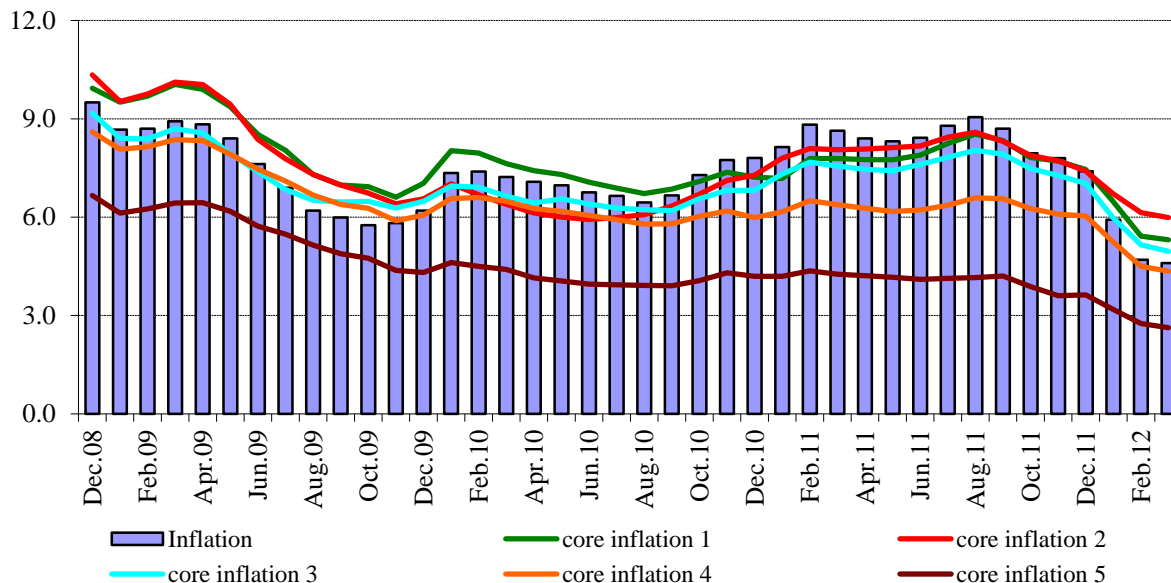
Source: Agency of Statistics of the Republic of Kazakhstan

In January-March 2012, core inflation indicators in annual terms demonstrated downward dynamics. At the same time, indicators of core inflation-4 and core inflation-5 were below the headline inflation at end-March 2012, whereas the rest of core inflation indicators have demonstrated higher rates.

In March 2012, all core inflation indicators in annual terms were at a lower level as compared to the indicators for December 2011. This is an evidence of the slowdown in the inflationary processes, with the impact of monetary factors on the inflation remaining insignificant (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 2012 the producer prices have increased by 3.1% (in the 1st quarter of 2011 – the growth by 12.7%). The cost of output increased by 3.4%, at the same time the price of interim consumption products increased by 3.6%, of production means – by 2.3%, and the cost of consumer goods decreased by 0.6%. The prices of production services decreased by 0.4%.

In January-March 2012 the growth rate of producer prices in the mining industry accelerated to 4.1% as compared to its growth by 0.9% in the previous 4th quarter of 2011 (in the 1st quarter of 2011 the growth accounted for 16.1%).

The cost of energy resources, after its growth in the previous quarter by 0.6%, in the 1st quarter of 2012 increased by 5.6% (in the 1st quarter of 2011 – the growth by 16.0%). In the composition of energy resources, the price of oil extraction increased by 5.8% (in the 1st quarter of 2011 – the growth by 16.3%), and the cost of gas condensate increased by 8.8% (the growth by 20.2%).

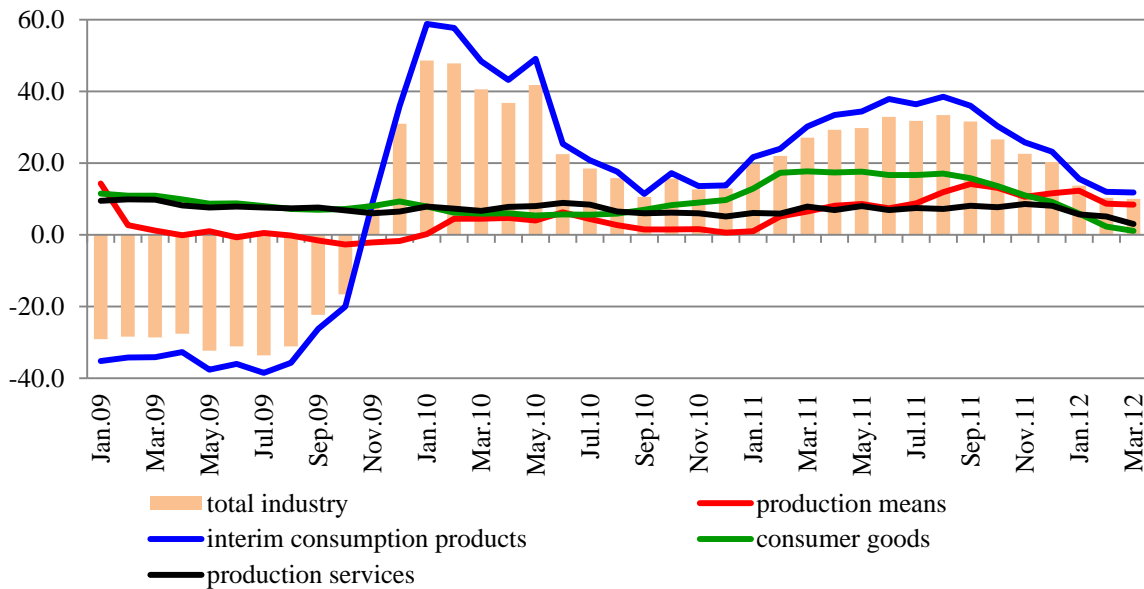
Prices in the manufacturing industry, after their decline in the previous quarter by 3.0%, increased by 1.2% in the reporting quarter (in the 1st quarter of 2011 – the growth by 6.2%). In the 1st quarter of 2012 prices in the metallurgical industry increased by 1.2%, the cost of food production depreciated by 1.8%, and the price of refined products increased by 3.1%.

In the 1st quarter of 2012, the prices for electric energy, gas and vapor supply and air conditioning changed insignificantly, having increased by 0.1% (in the 1st quarter of 2011 the price growth accounted for 10.9%).

In March 2012 the growth in prices in the industry in annual terms (March 2012 versus March 2011) accounted for 10.0% (in March 2011 the growth in prices in the industry in annual terms accounted for 27.1%) (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 10.5% in annual terms, including the interim consumption products – by 11.8%, consumer goods – by 1.1%, and production means – by 8.4%. The cost of production services increased by 3.0%.

1.3.2. Prices in Agriculture

In the 1st quarter of 2012 prices for agricultural production realized across all channels increased by 1.1% (in the 1st quarter of 2011 – the growth by 9.7%). The dynamics of prices in agriculture was impacted in a multi-directional manner by the decrease in the price for plant production and increase in prices for animal production.

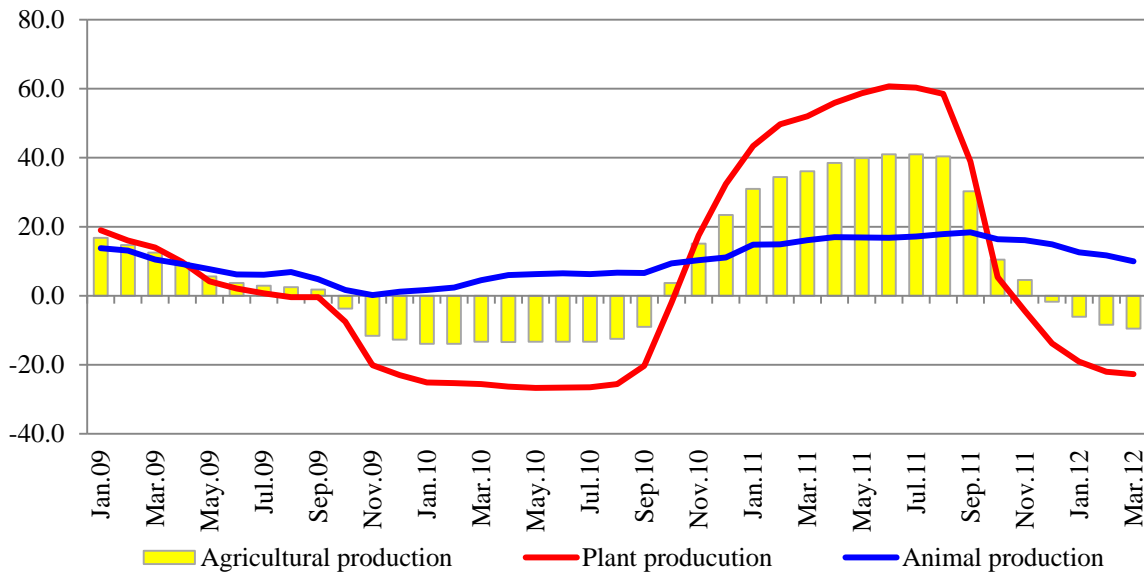
As compared to the fall in prices by 18.8% in the previous quarter, the price of plant production during January-March 2012 decreased by 0.3% only (in the 1st quarter of 2011 – the growth by 11.0%), where prices for grain cultures increased by 0.1%, vegetables became cheaper by 4.2%, and the price of potatoes decreased by 5.7%.

The price for animal production, after its growth by 5.0% in the 4th quarter of 2011, increased by 3.0% in the 1st quarter of 2012 (in the 1st quarter of 2011 - the growth by 7.7%). During January-March 2012 prices for meat and poultry increased by 3.1%, the price of unpasteurized milk increased by 3.6%, and the price of eggs increased by 1.5%.

At end-March 2012 prices for agricultural products in annual terms decreased by 9.5%. The plant production became cheaper by 22.7%, and the price of animal products increased by 10.0% (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 1st quarter of 2012 the demand for final products of enterprises in the real economy as a whole decreased notably; this is evidenced by the diffusion index of the change in the demand for final products which decreased to 47 (from 52.8 in the 4th quarter of 2011). The indicator decreased due to a notable increase in the share of enterprises with decreased demand for their products to 25.8% (from 19.6% in the 4th quarter of 2011) and the decrease in the share of enterprises that noted the increased demand for their products to 19.8% (from 25.2% in the 4th quarter of 2011).

The decrease in the demand was observed in all sectors except in "the production and distribution of electricity, gas and water" (where the diffusion index was 61.2) and in such sectors as "agriculture" and "transport and communications" where the demand remained unchanged at the level of the previous quarter. The highest decrease in the demand occurred in the sector of "hotels and restaurants" covering 41.4% of enterprises. The construction sector demonstrated the maximum decrease in the demand versus the rest of the economy (the diffusion index - 42), in trade (45.5) and in the manufacturing industry (46.6).

In the 2nd quarter of 2012 a notable growth in the demand in the real sector as a whole is anticipated as compared to the 1st quarter: the diffusion index of the change in the demand based on the expectations of enterprises would be 59.5. The increase in the demand for their products is anticipated by enterprises in all sectors except "the production and distribution of electricity, gas and water" where the diffusion index would be 47.4. The highest increase in the demand is expected in the manufacturing industry (62.9) and in the construction sector (62.5).

The rates of growth in prices for final products of enterprises in the 1st quarter of 2012 slightly increased: the diffusion index of the change in prices for final products has risen to 57.9 (from 56.1 in the 4th quarter of 2011) due to the increased number of enterprises that noted the price growth to 21.9% (from 19.6% in the 4th quarter of 2011) and the decreased number of enterprises that noted the decline in prices to 6.2% (from 7.4% in the 4th quarter of 2011).

The highest increase in the growth rates of prices for final products occurred in the mining industry: the diffusion index has risen to 59.6 (from 50 in the 4th quarter of 2011). In other sectors of the economy the increased growth rates of prices is also observed but at a more moderate pace. Only the sector of "hotels and restaurants" demonstrated the decreased growth rates of prices (the diffusion index was 51.7 (in the 4th quarter of 2011- 56.7), and in the "construction" sector and in "the production and distribution of electricity, gas and water" the growth rates of prices remained unchanged at the level of the previous quarter.

In the 2nd quarter of 2012 in the real economy as a whole the upward trend in the price growth rates is expected: the diffusion index of the change in prices for final products would be 59.5. The increased price growth rates are anticipated by enterprises in all sectors except for agriculture and the sector of "real estate operations, rent and services to enterprises". The highest price growth is expected in the sector of "the production and distribution of electricity, gas and water" and in the mining industry.

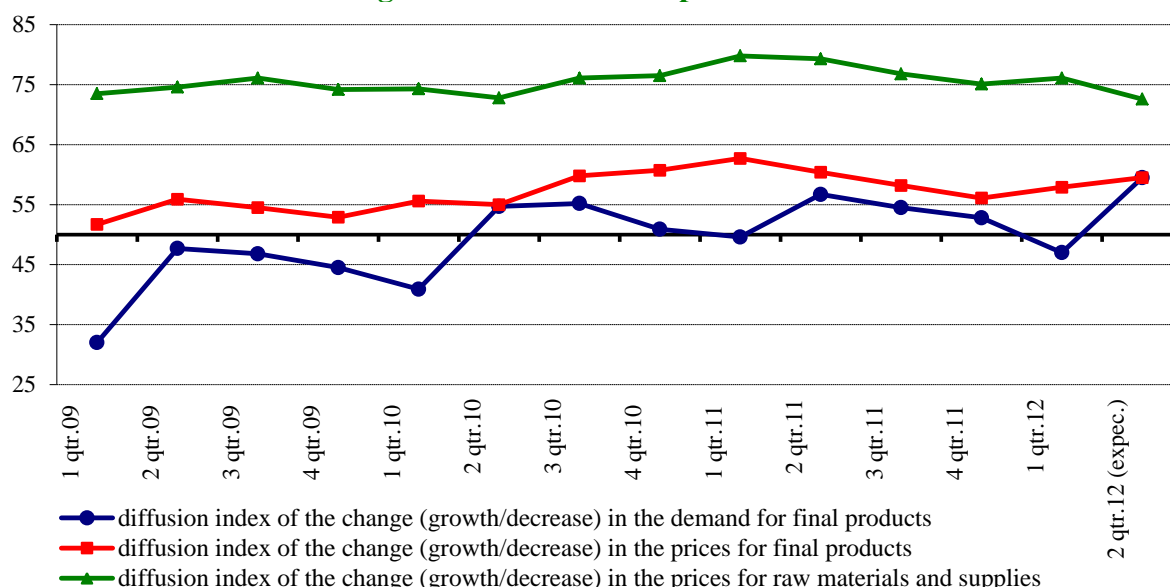
In the 1st quarter of 2012, growth rates in prices for raw materials and supplies increased insignificantly: the diffusion index of the change in prices was 76.1 (in the 4th quarter of 2011– 75.1). A minor decrease in the price growth rates was noted in the construction sector and the increase - in all other sectors, especially in agriculture and in 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 accounted for 54%, and only 1.7% of enterprises noted the decrease in prices.

For the 2nd quarter of 2012 the diffusion index of the change in prices for raw materials and supplies would drop to 72.6, which means the slowdown in the price growth rates. The indicator decreased because of a notable decrease in the number of enterprises anticipating the price growth.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about the 2nd quarter of 2012 are associated with a notable increase in the demand for final products, some increase in their price growth rates and a slowdown in the growth of prices for raw materials and supplies (Figure 8).

Figure 8

Diffusion indices of the change in the demand and prices



Source: National Bank of the Republic of Kazakhstan

2. Inflation Factors

2.1. Aggregate Demand

In the 4th quarter of 2011 GDP based on the final consumption method increased in real terms as compared to the respective period of 2010, according to estimate, by 8.3% (the growth in the 4th quarter of 2010 accounted for 7.3% according to estimate, and the growth in the 3rd quarter of 2011 – 7.2%).

The GDP growth in the 4th quarter of 2011 was impacted by the growth in the spending on final consumption caused by the increase in the current household consumption, growth in gross formation as well as decreased expenditures of the general government and decreased contribution by net exports.

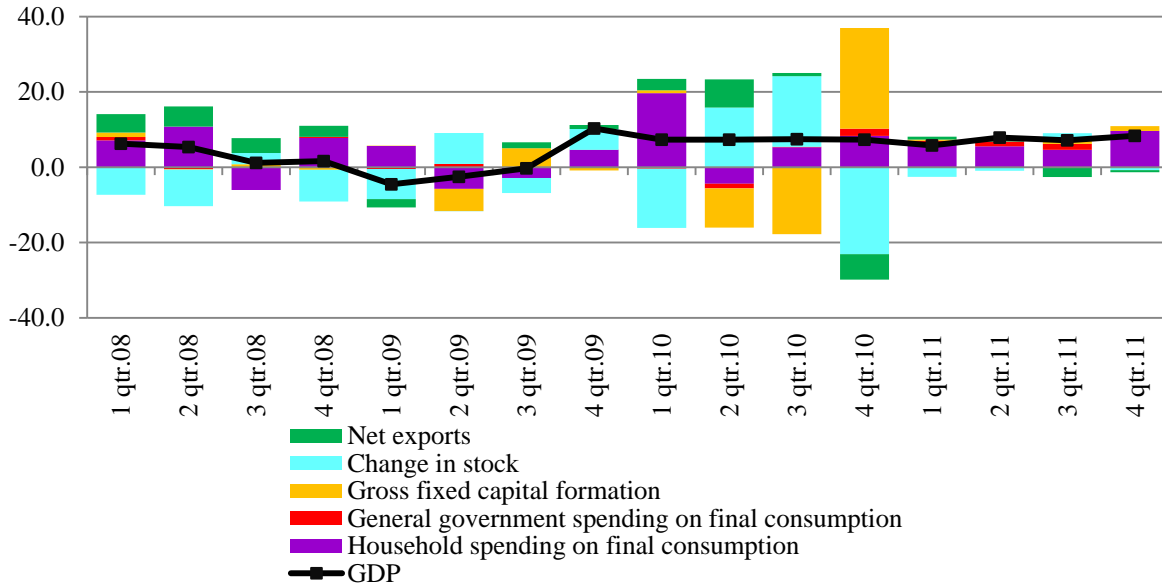
On the whole, in the 4th quarter of 2011 as compared to the respective quarter of 2010, spending on final consumption increased, according to estimates, by 11.2% (in the 3rd quarter of 2011 – the growth by 12.6%), gross formation increased by 2.1% (the growth by 7.2%) and net exports increased by 42.4% (the decrease by 47.1%).

As a result, households and general government's spending on consumption made a positive and negative contribution, respectively, to the GDP growth formation of (+)9.6% and (-)0.03%, and gross formation increased the GDP by (+)0.6%.

In the composition of gross formation fixed capital formation accounted for (+)1.3% and the change in stock accounted for (-)0.7%. In its turn, net exports had a negative impact on the GDP growth of (-)0.5% (Figure 9).

Figure 9

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



Source: Data from 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

Household spending on final consumption in the 4th quarter of 2011 increased by 14.9% versus the respective period of 2010 (in the 3rd quarter of 2011 – the growth by 9.9%).

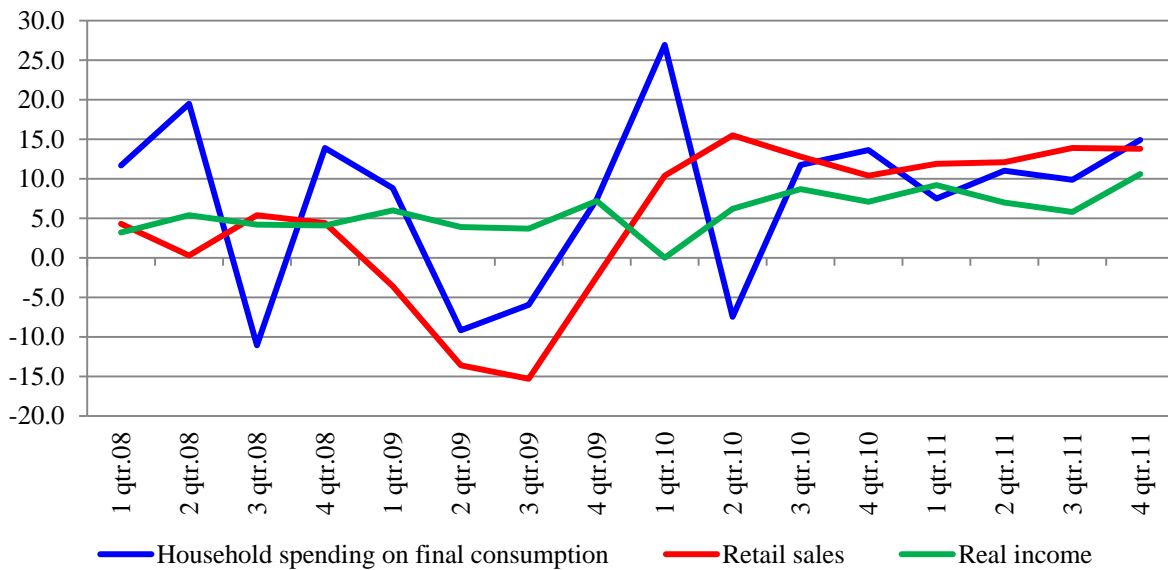
The growth rate of per capita income in nominal terms in the 4th quarter of 2011 accelerated slightly to 16.0% (in the 3rd quarter of 2011 – the growth by 15.2%), and in real terms accelerated to 7.7% (the growth by 5.8%). However, such acceleration in the growth

rates of personal income didn't have a significant impact on retail sales whose growth rate remained virtually unchanged as compared to the 3rd quarter of 2011, accounting for 13.8% (in the 3rd quarter of 2011 – the growth by 13.9%).

Meantime, high growth rate in retail sales had a significant impact on the improvement of one of the key GDP components by the final consumption method, namely the growth in the household spending on final consumption which increased by 14.9% (Figure 10).

Figure 10

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



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

In the 4th quarter of 2011 the growth rates of sales at the retailers (shops) and in the markets and individual businesses were virtually the same although the growth rate in the shops was somewhat higher and increased in nominal terms as compared to the previous quarter by 23.2%, whereas in the markets it increased by 22.9%.

The trade growth was promoted by the increased personal income in the 4th quarter of 2011 and especially in December; this was related to the increased payouts to employees in connection with a jubilee - the 20th anniversary of independence of Kazakhstan. As a result, in December 2011 the maximum growth rates in the trading volumes were recorded (by 21.8% versus the previous month and by 16.9% versus the respective month of the previous year).

The increased lending activity of the population also affected the trade growth. After the slowdown in the growth rates of lending to the population in the 3rd quarter of 2011 to 2.3%, the growth rate accelerated to 3.7% in the 4th quarter. Alongside with that, consumer lending to the population also accelerated from 2.7% in the 3rd quarter of 2011 to 7.3% in the 4th quarter of 2011.

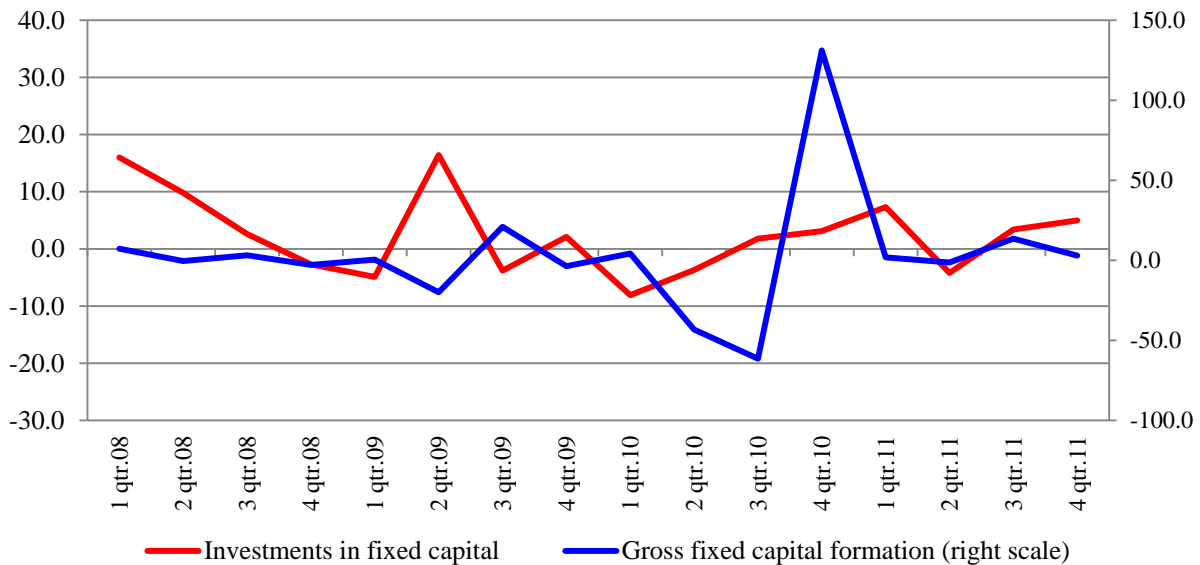
The volume of spending on gross capital formation, after its growth in the 3rd quarter of 2011 by 7.2%, in the 4th quarter of 2011 increased by 2.1%, thus making positive contribution to the growth in the GDP formation of (+)0.6%.

In the structure of gross formation, gross fixed capital formation increased by 3.0%, making positive contribution to the GDP growth of (+)1.3%, however, the second component i.e. the change in stock has a negative effect reducing the GDP growth by (-)0.7%.

The growth in investment activity of enterprises was conducive to the increase in gross formation in the 4th quarter of, resulting in the increased volume of investments in fixed capital during the quarter by 5.0% (in the 3rd quarter of 2011 – the growth by 3.4%) (Figure 11).

Figure 11

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



Source: Data 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 2011 decreased by 4.3% as compared to the respective period of 2010 (in the 3rd quarter of 2011 – the growth by 23.9%).

In total, during the 4th quarter of 2011 the state budget spending was financed in the amount of KZT 3016.1 bln. or 11.0% of GDP (as compared to the 4th quarter of 2010 - the increase by 2.4 times).

Current state budget expenditures totaled KZT 1.2 trln., which is by 30.9% higher than in the 4th quarter of 2010. Within the current expenditures, costs related to other current expenditures (50.5%), current transfers to legal entities (33.3%), employer contributions (32.8%), wages (32.2%), purchase of goods (29.8%), current transfers to natural persons (29.7%) and purchase of services (28.8%) increased significantly as compared to the respective quarter of 2010. There were no expenditures for other current transfers in the 4th quarter of 2011, just as during all quarters of 2011.

State budget capital expenditures in the 4th quarter of 2011 increased by 33.5% as compared to the respective period of 2010, mainly due to increased expenditures for purchases of land and intangible assets, fixed capital acquisition and for major overhaul. Expenditures related to capital transfers abroad and within the country didn't change during 2011.

Budget credits in the 4th quarter of 2011 increased as compared to the 4th quarter of 2010 by 27.6%, expenditures related to financial asset acquisitions increased by 2.1% only.

During September-December 2011 state budget revenues amounted to KZT 1433.5 bln. or 5.3% of GDP, which is by 7.1% less than in September-December 2010. In the structure of the state budget revenues two items are still prevailing: tax revenues – 79.9% (in the 4th quarter of 2010 – 73.8%), and official transfers – 15.4% (21.1%).

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 215.0 bln.

As a whole, in the 4th quarter of 2011 tax revenues increased by 15.4% as compared to the 4th quarter of 2010. The growth occurred due to the increased revenues in absolute terms from corporate income tax, value-added tax and personal income tax of KZT 43.2 bln., 25.6 bln. and 21.8 bln., respectively.

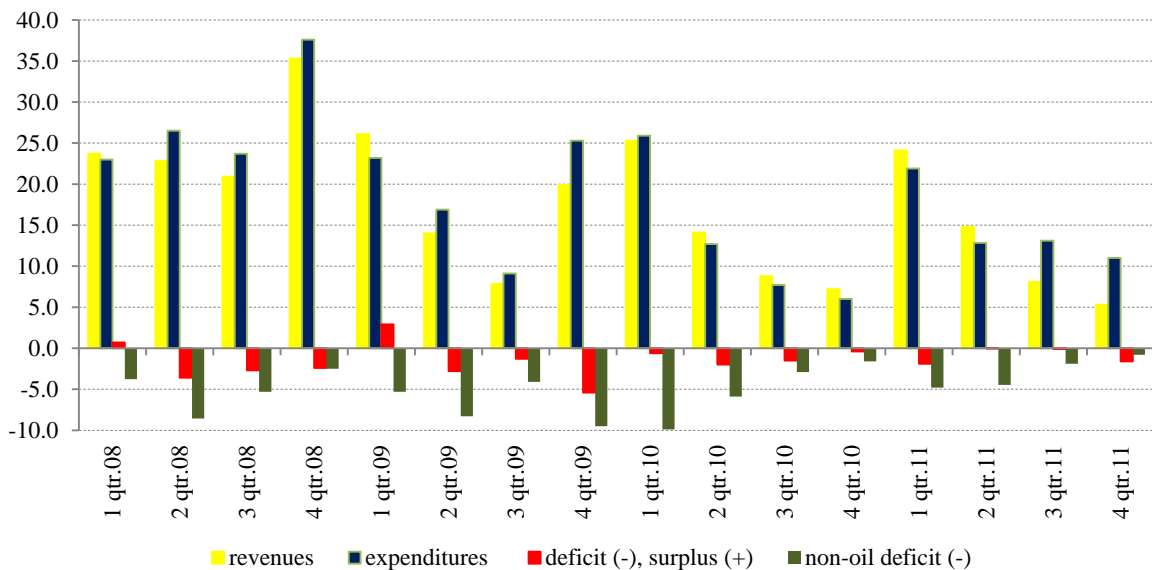
In the 4th quarter of 2011 as compared to the 4th quarter of 2010, non-tax revenues increased by 6.3%, whereas revenues from fixed capital sales and received transfers decreased by 23.7% and 21.8%, respectively.

Since the expenditures were in excess of revenues to the state budget in the 4th quarter of 2011, the deficit of KZT 439.8 bln. (1.6% of GDP), showed up whereas in the respective quarter of 2010 the deficit was KZT 79.8 bln. (0.4% of GDP) (Figure 12). It should be noted that without the guaranteed transfer of KZT 215.0 bln. to the republican budget from the National Fund, the 4th quarter of 2011 would have ended with the non-oil deficit of KZT 654.8 bln.

During the 4th quarter of 2011 the Ministry of Finance borrowed KZT 283.9 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 56.8 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 212.7 bln.

Figure 12

State budget execution, KZT bln.



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

Government domestic debt for the 4th quarter of 2011 increased to KZT 2080.5 bln. (7.6% of GDP), i.e. by 24.6% as compared to the 4th quarter of 2010 (7.8% 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 external debt in the 4th quarter of 2011 increased by 18.8% as compared to the 4th quarter of 2010 (2.4% of GDP) and amounted to KZT 661.2 bln. (2.6% of GDP).

2.1.3. External Sector

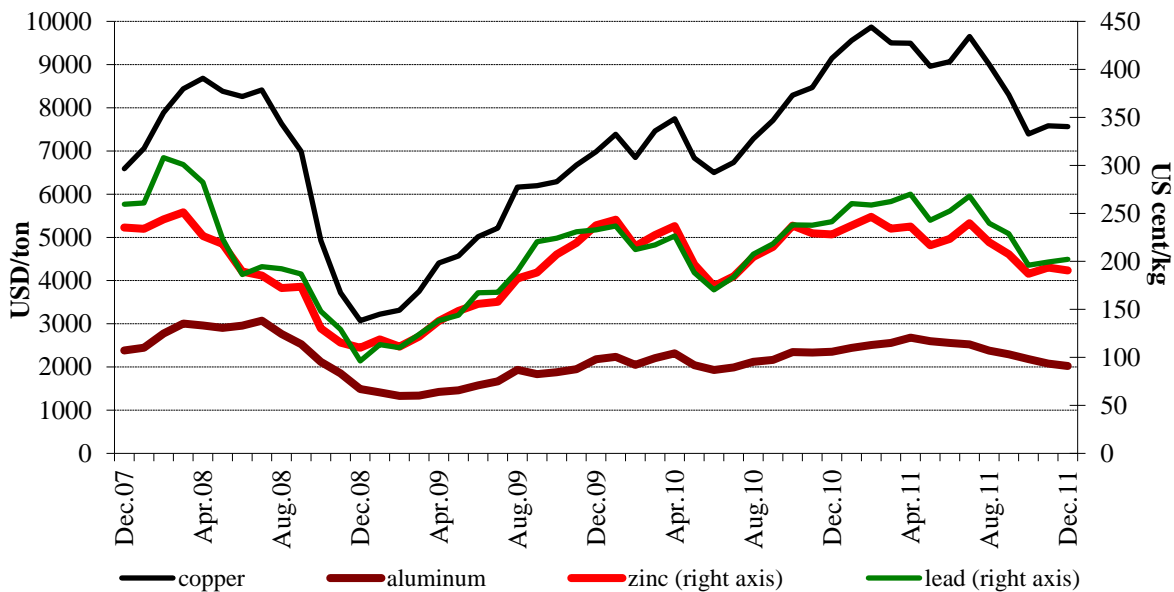
– **World Prices**

In the 4th quarter of 2011 the situation in the global commodity markets remained unstable, which was accompanied by volatility of prices for certain commodities.

In the 4th quarter of 2011 the downward trend in the world price dynamics for metals was persisting. Copper prices in the 4th quarter of 2011 decreased by 16.4% and were at US\$ 7514 per ton on average during the period. Prices for aluminum during the 4th quarter of 2011 as a whole decreased by 12,7% and amounted to US\$ 2094 per ton. World prices for lead in October-December 2011 decreased by 18.9%, amounting to 199.2 US cents per kg on average during the period. Prices for zinc decreased by 14.3% with the average price during the period of 190.4 US cents per kg (Figure 13).

Figure 13

Dynamics of world prices for metals



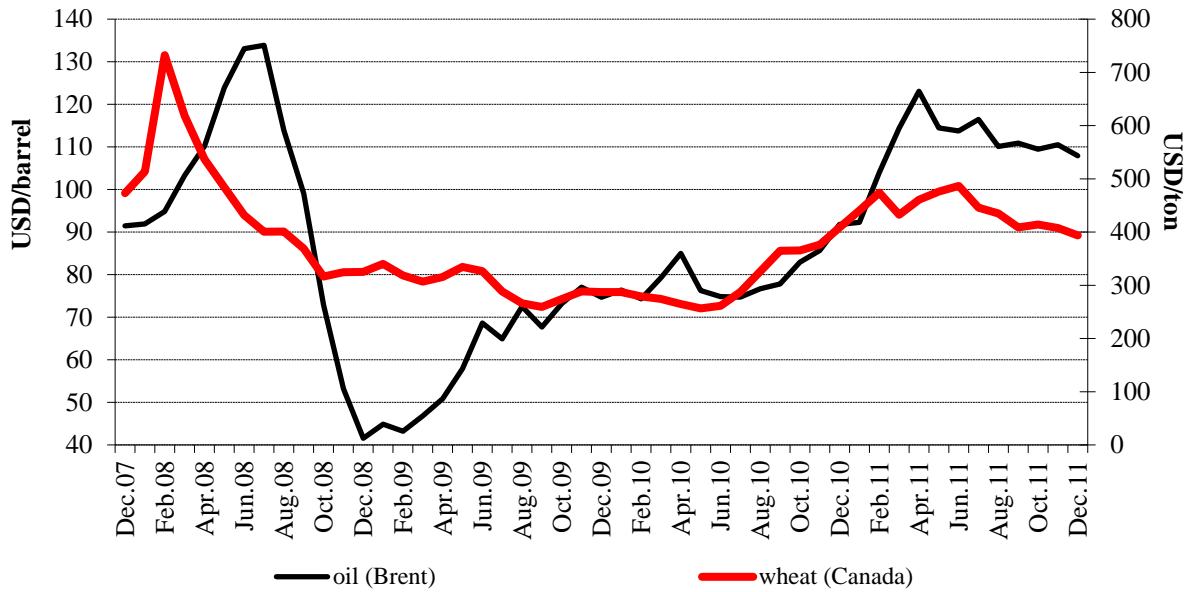
Source: World Bank

In the 4th quarter of 2011 as compared to the 3rd quarter of 2011 world oil prices (Brent) decreased by 2.8% and were at US\$ 109.3 per barrel on average during the period (Figure 14).

World prices for wheat were gradually decreasing throughout the period. During the 4th quarter of 2011 as a whole, the world price for wheat (Canada) decreased by 5.7% and was at US\$ 405.2 per ton on average (Figure 14).

Figure 14

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



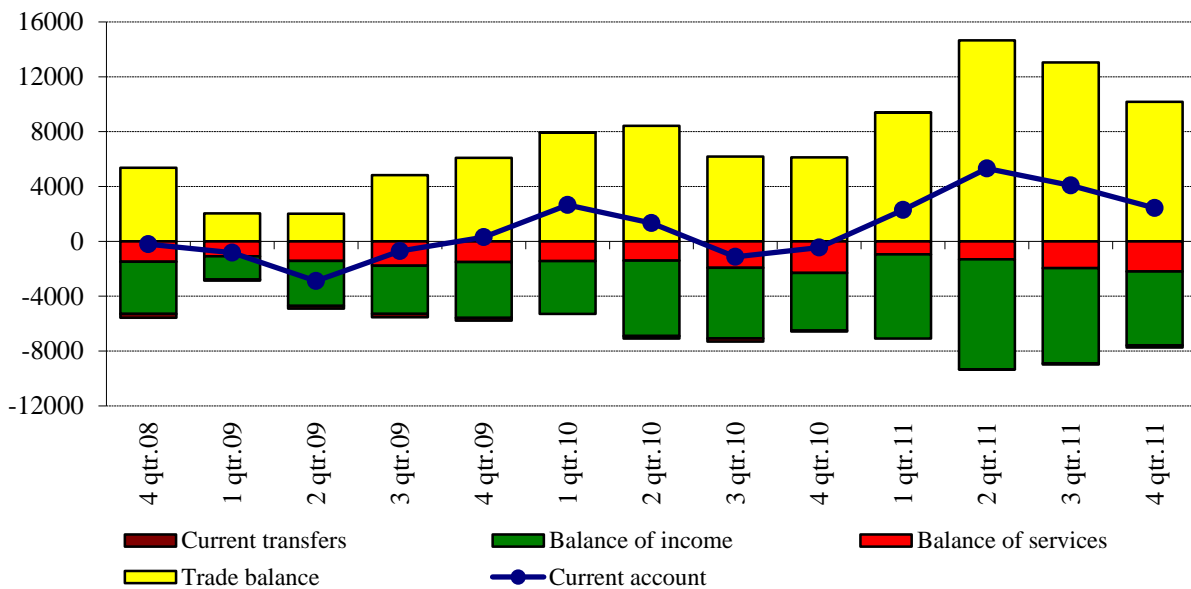
Source: World Bank

– Balance of Payments

At the end of the 4th quarter of 2011 the current account balance was in surplus of US\$ 2.4 bln. or 3.9% to GDP of the respective period (Figure 15).

Figure 15

Current account balance, US\$ mln.



Source: National Bank of the Republic of Kazakhstan

Proceeds from the exports of goods in the 4th quarter of 2011 increased by 37.3%, and expenditures on commodity imports – by 19.6% as compared to the 4th quarter of 2010. A positive trade balance increased by 66.2% and amounted to US\$ 10.2 bln. In the 4th quarter of 2011 the deficit in the balance of services as compared to the 4th quarter of 2010 decreased

by 4.3% to US\$ 2.2 bln., the deficit in the income balance increased by 27.9% and amounted to US\$ 5.4 bln. Net payouts on current transfers to non-residents amounted to US\$ 162.7 mln.

The net outflow of resources on financial account operations in the 4th quarter of 2011 amounted to US\$ 3.7 bln. (in the 4th quarter of 2010 net outflow of resources of US\$ 257.8 mln.). Foreign assets of residents (except for reserve assets) grew by US\$ 4.8 bln., as compared to their growth by US\$ 12.5 bln. in the respective period of 2010. Foreign liabilities of residents also increased by US\$ 1.1 bln. (the increase by US\$ 12.2 bln. in the 4th quarter of 2010).

As a result, the negative balance of payments in the 4th quarter of 2011 amounted to US\$ 3.3 bln. (in the 4th quarter of 2010 – positive balance of US\$ 348.0 mln.).

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

In the 4th quarter of 2011 the aggregate terms of trade index was by 23.4% higher than the respective indicator for the 4th quarter of 2010. Alongside with that, the terms of trade with the Euro zone countries improved by 19.9%, and with Russia – by 44.1% (Table 1).

Table 1

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

	4 qtr.10	1 qtr.11	2 qtr.11	3 qtr.11	4 qtr.11
Export prices	18.7	41.1	49.5	55.0	33.9
Import prices	10.3	6.1	17.4	10.0	8.6
Terms of trade	8.0	32.9	29.3	41.5	23.4
including:					
the Euro zone countries					
Export prices	18.2	25.6	47.5	53.3	36.3
Import prices	27.7	6.0	20.3	15.0	12.3
Terms of trade	-8.1	18.8	23.3	30.8	19.9
Russia					
Export prices	9.4	38.2	39.2	61.7	44.9
Import prices	9.2	18.8	27.0	11.4	2.0
Terms of trade	0.3	16.9	10.1	39.9	44.1

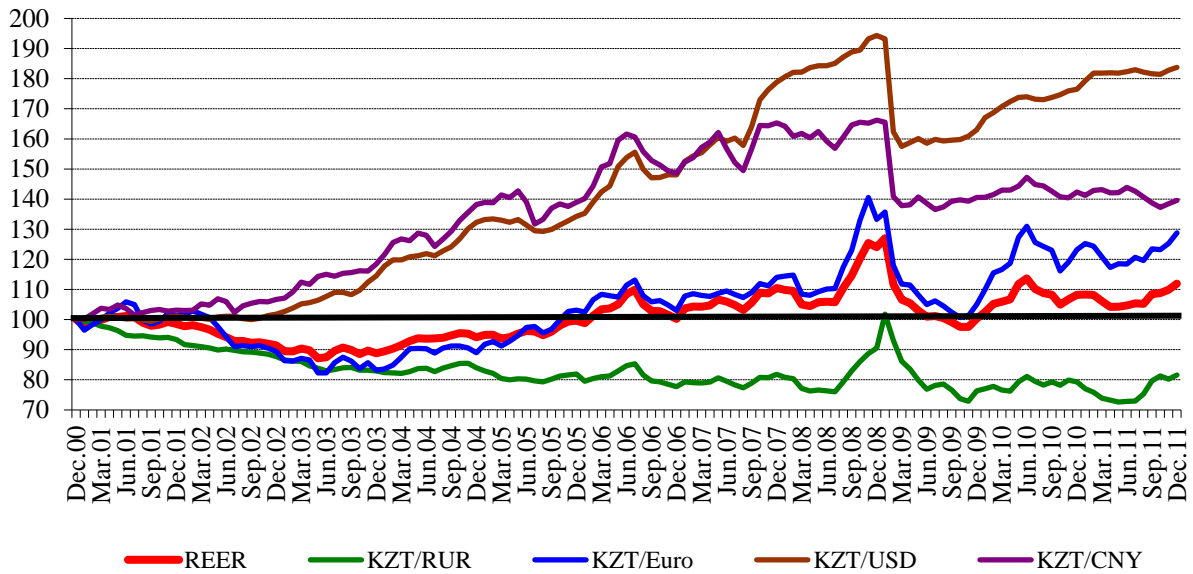
Source: National Bank of the Republic of Kazakhstan

Despite a relatively stable nominal exchange rate, the index of the real effective exchange rate of Tenge appreciated by 3.6% at the end of the 4th quarter of 2011 as compared to the previous period. Alongside with that, Tenge has appreciated versus the CIS currencies basket by 5.9% and appreciated by 2.9% versus the basket of other currencies.

During the 4th quarter of 2011 Tenge depreciated in real terms against the US Dollar by 0.2% as compared to the previous period, it appreciated against the Euro by 3.8% and appreciated against the Russian ruble by 6.7% (Figure 16).

Figure 16

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



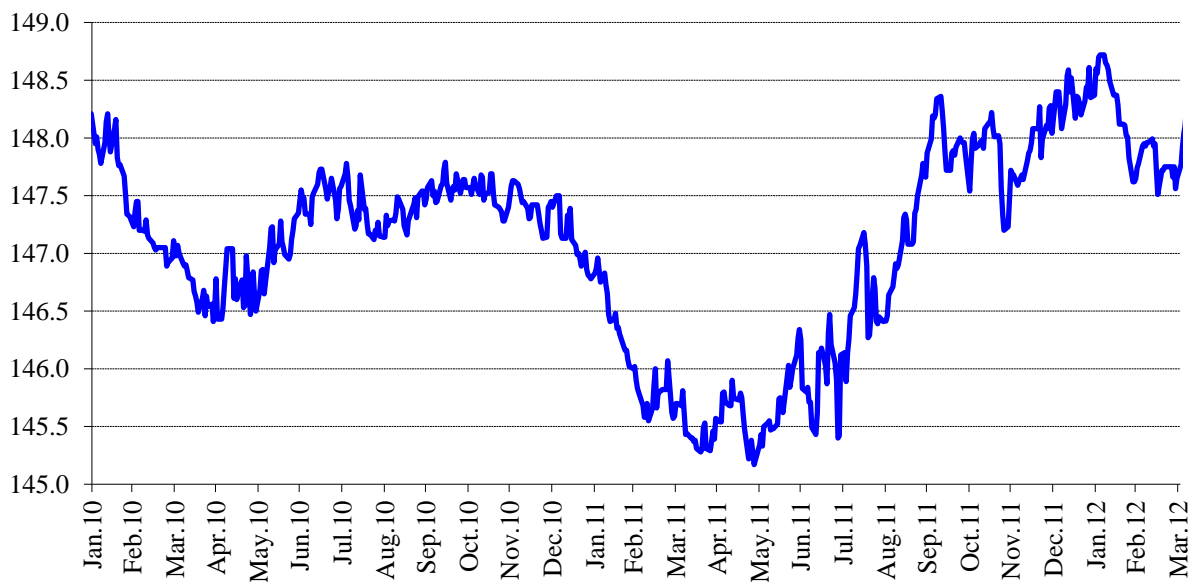
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the 1st quarter of 2012 at the stock exchange was KZT 147.77 per 1 US\$. Since the beginning of the year the Tenge has appreciated against the US Dollar in nominal terms by 0.4% (Figure 17).

Figure 17

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



Source: National Bank of the Republic of Kazakhstan

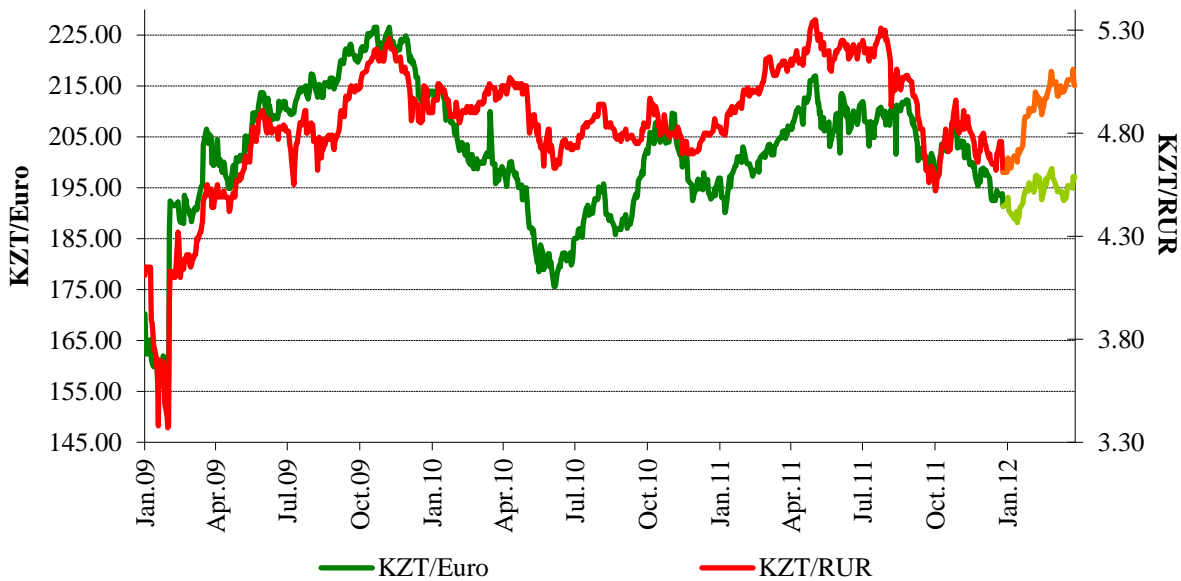
In January the Tenge depreciated versus the US Dollar by 0.1%, and in February it appreciated by 0.55%.

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 1st quarter of 2012 the official exchange rate of the Tenge versus the Euro depreciated by 2.7%, and versus the Russian ruble – by 9.3% (Figure 18).

Figure 18

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



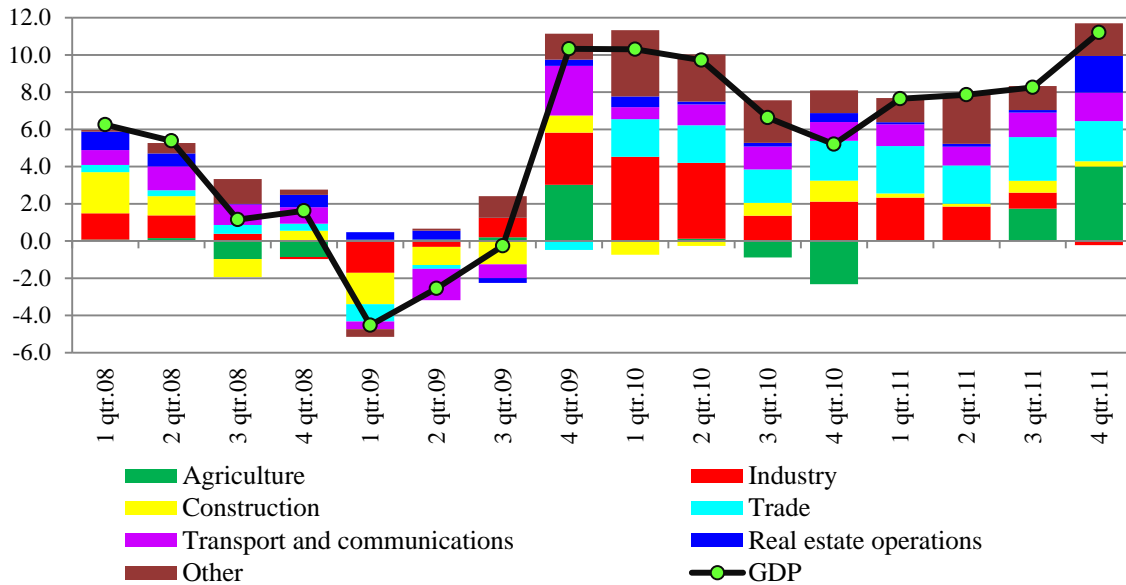
Source: National Bank of the Republic of Kazakhstan

2.2. Production

The volume of GDP output in the 4th quarter of 2011 amounted to KZT 9124.2 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except the industrial, financial and insurance activities, the GDP in real terms increased versus the 4th quarter of 2010, according to estimates, by 11.2% (in the 3rd quarter of 2011 the growth accounted for 8.3%, according to estimates) (Figure 19).

Figure 19

**Contribution of key sectors of the economy to growth in real GDP
(as % of the respective period of the previous year)**



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

In the production of commodities the growth was demonstrated in agriculture and in the construction sector. A significant growth rate was observed in the agricultural sector promoted by a record-high harvesting of grain cultures; in the construction sector and in the industry there was a slowdown in the growth rates.

According to estimates, in the 4th quarter of 2011 the volume of industrial output decreased by 0.7% (in the 3rd quarter of 2011 – the growth by 3.5%), in agriculture – by 64.7% (14.3%), and in the construction sector – by 2.2% (4.3%), which on aggregate resulted in positive contribution to the GDP formation of 4.1%.

In the production of services the decrease in the index of physical volume in financial and insurance activities by 17.7% was fully neutralized by high growth in all other components, which resulted in positive contribution to the GDP formation at the level of 7.4%.

In the 4th quarter of 2011, 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 0.3%.

In its turn, the decrease in the index of physical volume of net taxes for products and imports by 12.2% negatively affected the formation of the GDP growth of (-)0.6% (in the 3 qtr. of 2011 - (+)1.1%).

2.3. Labor Market

2.3.1. Employment and Unemployment

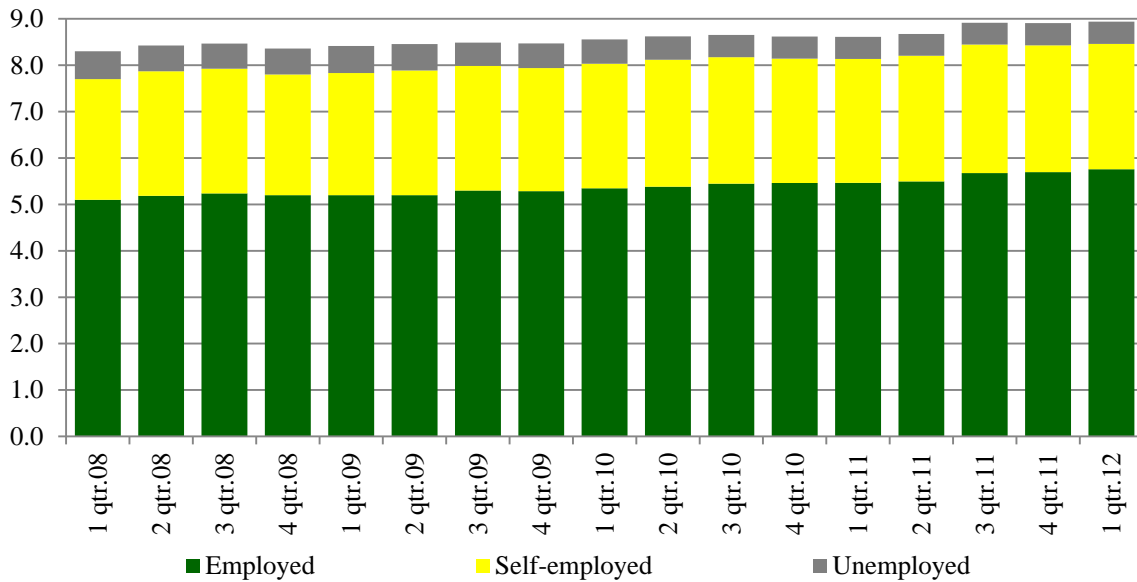
In the 1st quarter of 2012, the number of people employed in the economy, according to tentative estimates, was 8.5 mln., having increased by 0.4% versus the previous period (the growth versus the 1st quarter of 2011 accounted for 4.0%). At the same time, the number of employees reached 5.8 mln. having increased by 1.1% versus the 4th quarter of 2011), and the number of self-employed – 2.7 mln. people (the decrease by 1.2%).

In the structure of employees, 4.7 mln. individuals (81.8% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.5%), at farms – 0.3 mln. individuals (5.7%).

In the 1st quarter of 2012, the number of unemployed amounted to 478,700 individuals, having increased by 0.3% as compared to the previous period and by 0.6% - as compared to the respective period of the previous year (Figure 20).

Figure 20

The structure of economically active population, mln. individuals



Source: Agency of Statistics of the Republic of Kazakhstan

In January and February 2012, the following sectoral changes in the structural composition of employees were observed.

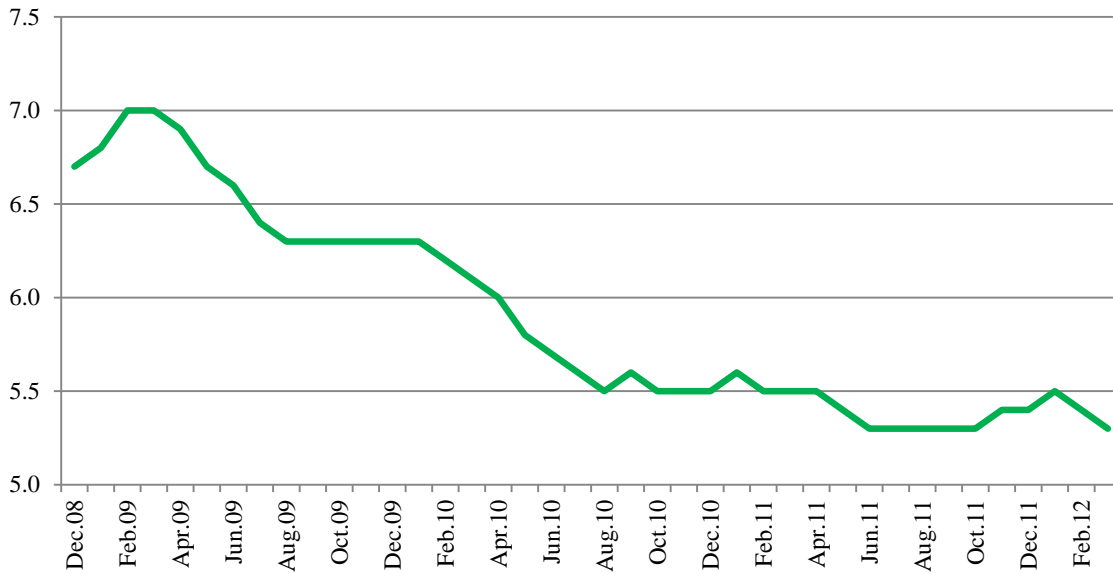
The main sectors that contributed to the growth in the employment rates, as compared to the respective period of 2011, were as follows: wholesale and retail trade; repair of cars and motorcycles; financial and insurance activities; administration and ancillary services; arts, entertainment and recreation; public healthcare and social services; education; and the mining industry.

The decrease in the number of employed was observed in the following sectors: agriculture, forestry and fishery; general government and defense; mandatory social welfare; electricity, gas and vapor supply and air conditioning; sewage system, control over waste collection and distribution.

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, despite its growth in January 2012 to 5.5% decreased to 5.3% by March 2012 and, according to preliminary information, accounted for 5.4% in the 1st quarter of 2012, remaining unchanged as compared to the previous period (Figure 21).

It should be mentioned in this respect that the Employment Program-2020 which started to be implemented from the 2nd quarter of 2011 had certain impact on the decrease in the unemployment rate and increase of employment among the population.

Figure 21

Actual unemployment rate, %

Source: Agency of Statistics of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the 4th quarter of 2011, as compared to the respective period of the previous year, the average monthly wages demonstrated maximum growth increasing in nominal terms by 19.8% (in the 3rd quarter of 2011 – the growth by 15.9%), and in real terms – by 11.3% (the growth – by 6.4%).

Versus the previous quarter, nominal wages increased by 8.2% and real wages increased by 7.1%.

The accelerated rates of growth in wages in the 4th quarter of 2011 were ensured by a significant increase in wages in December 2011 when the wages increased by 29.8% in nominal terms and by 29.4% in real terms versus the previous month.

The main reason for the high growth was the increase in the volume of payouts to employees in connection with the December jubilee i.e. the 20th anniversary of independence of Kazakhstan.

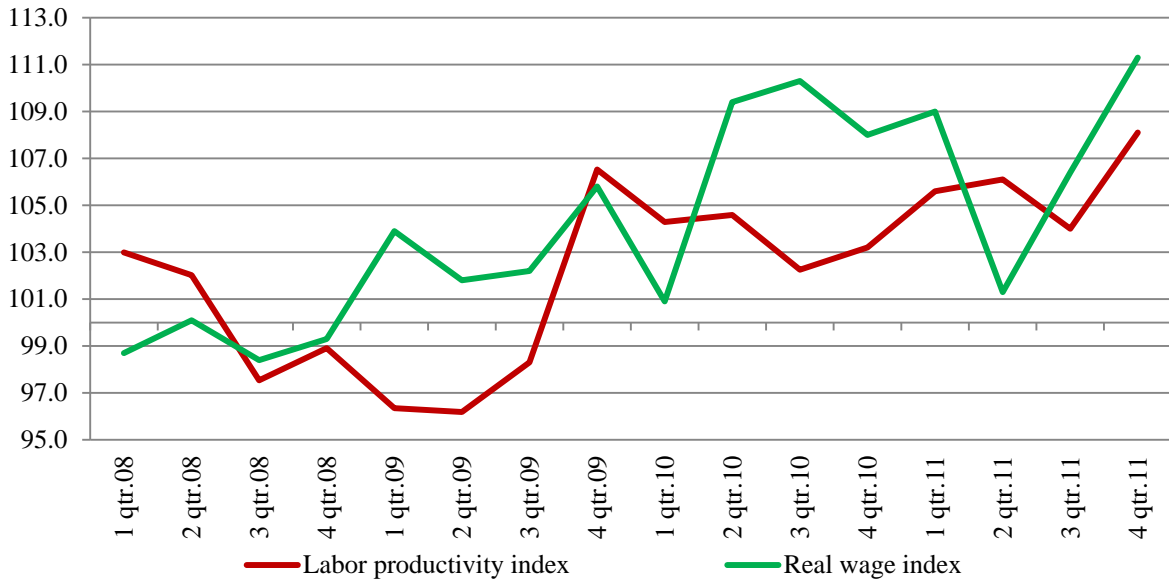
In December 2011 as compared to December 2010, the highest increase in wages in nominal terms occurred in the following sectors: arts, entertainment and recreation – by 38.8%; agriculture, forestry and fishery – by 38.6%; mandatory social welfare – by 34.8%; healthcare and social services – by 34.0%; information and communications – by 32.6%; education – by 32.0%; transport and warehousing – by 26.0%.

In December 2011 the highest wages in money terms were paid in professional, scientific and technical activity (KZT 241,400) and the lowest - in agriculture, forestry and fishery (KZT 55,700).

A high rate of the GDP growth in the 4th quarter of 2011 (according to the National Bank's estimate - by 11.4%), the decreased number of the employed and the growth in wages caused the accelerating rate of growth in the labor productivity index to 8.1% (according to the National Bank's estimate), whereas in the previous quarter the index growth reached 4.0% (Figure 22).

Figure 22

**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

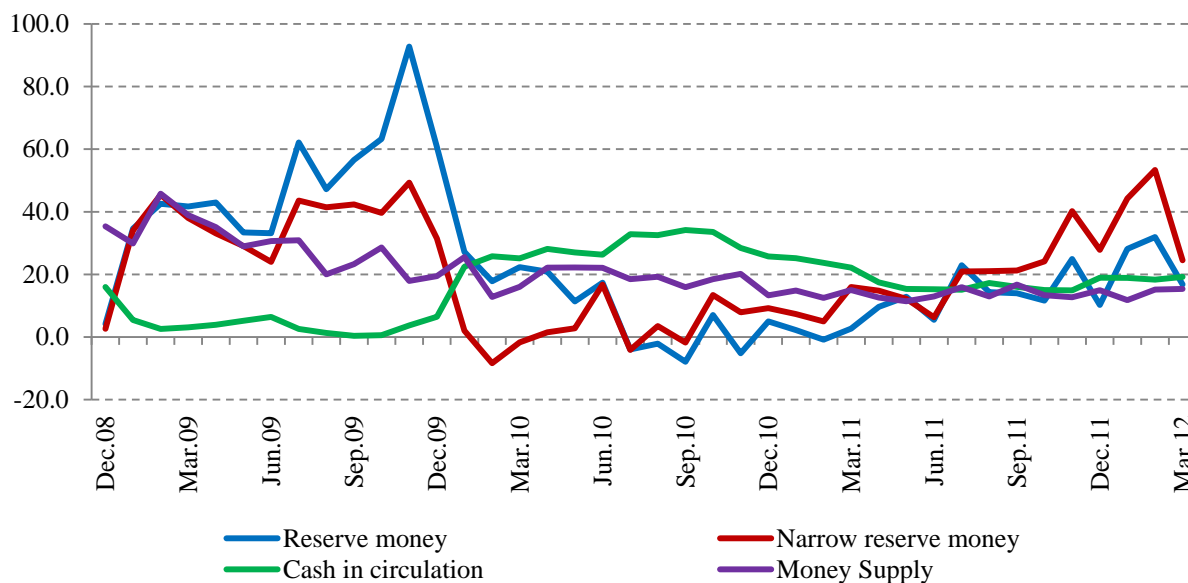
3. Money Supply

3.1. Monetary Aggregates

In the 1st quarter of 2012 annual dynamics of monetary aggregates demonstrated moderate growth rates (Figure 23).

Figure 23

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 2012 reserve money expanded by 15.7% and amounted to KZT 3282.7 bln. at end-March 2012. Narrow reserve money expanded by 6.9% to KZT 2927.9 bln.

In March 2012 as compared to March 2011 reserve money expanded by 16.8%.

Net international reserves of the National Bank in March 2012 as compared to the respective period of 2011 decreased by 8.3% to US\$ 31.8. Foreign exchange purchases at the domestic foreign exchange market, and currency proceeds to the Government's accounts at the National Bank were neutralized by operations on the servicing of the Government's external debt and asset replenishment of the National Fund from gold and foreign currency reserve accounts. Apart from that, foreign currency balances of bank correspondent accounts with the National Bank decreased. As a result, in the reviewed period net currency reserves (CQTR) decreased by 15.4%, assets denominated in gold grew by 65.8% as a result of performed transactions and its price growth in the global markets.

In March 2012 as compared to March 2011, net domestic assets of the National Bank increased (Table 2), mainly because of the decrease in 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)**

	2 qtr.11	3 qtr.11	4 qtr.11	1 qtr.12
Net international reserves	30.5	17.0	3.8	-8.3
Net domestic assets	-104.9	6.0	55.8	48.3
Net claims on the Government	-56.2	-70.6	33.1	-54.5
Claims on the economy	-192.5	30.6	128.9	119.7
Other net domestic assets	-52.1	-13.5	-9.8	-15.3
Reserve money	5.5	14.0	10.3	16.8
Narrow reserve money	6.3	21.2	27.8	24.5

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the 1st quarter of 2012 money supply increased by 5.6% to KZT 10293.1 bln.

In March 2012 as compared to March 2011, its growth accounted for 15.3% as a result of the increase in both net foreign assets and 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.11	3 qtr.11	4 qtr.11	1 qtr.12
Net foreign assets	48.5	21.2	16.7	14.5
Domestic assets	-7.8	17.8	18.0	10.5
Claims on the Government	17.6	-54.5	86.7	-44.3
Claims on the economy	4.9	10.2	14.0	14.0
Other net domestic assets	-21.4	-6.8	-11.7	-10.1
Money supply	12.9	16.8	15.0	15.3
Cash in circulation	15.3	16.0	18.9	19.2
Deposits of residents	12.6	16.9	14.3	14.8

Source: National Bank of the Republic of Kazakhstan

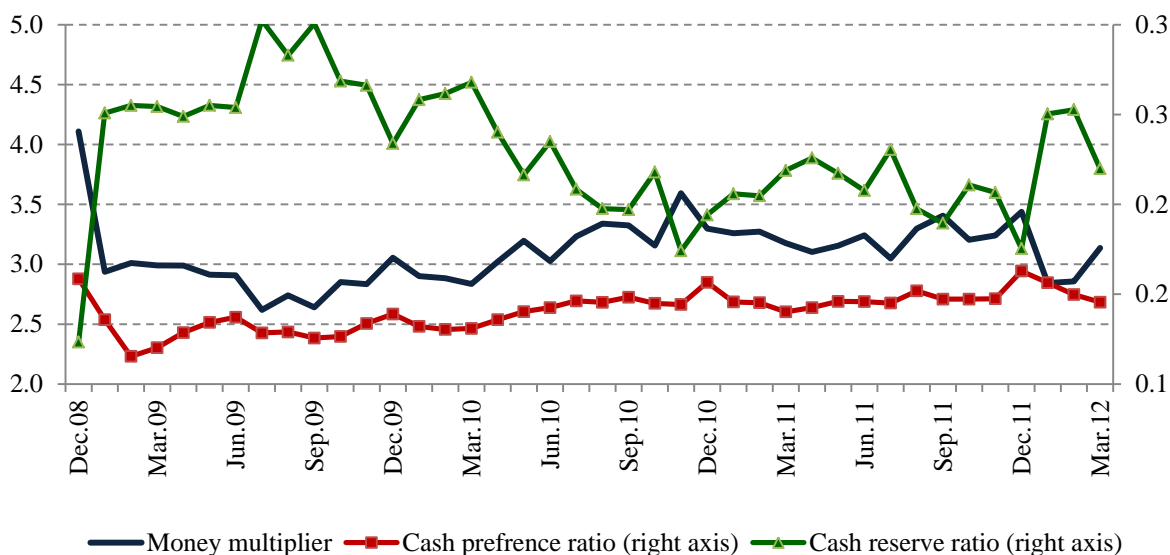
In the structure of net foreign assets of the banking system in March 2011 as compared to the respective period of 2011, net foreign assets of banks and of the National Bank increased. The growth in net foreign assets of banks was mainly stipulated by the decreased claims of non-residents on banks and 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 87.7% in March 2011 to 87.3% in March 2012.

The money multiplier dropped from 3.18 in March 2011 to 3.14 in March 2012 as a result of outstripping growth rates of the reserve money expansion as compared to the rates of growth in the money supply. The reason for that was the increase in the reserve ratio alongside with an increase in cash preference ratio (Figure 24).

Figure 24

Dynamics of money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

During the 1st quarter of 2012 the volume of cash in circulation contracted by 4.2% to KZT 1307.8 bln.

In March 2012 as compared to March 2011, cash in circulation increased by 19.2%. Cash payouts from the bank cashier departments increased by 18.3% to KZT 1.2 trln., and cash receipts to the bank cashier departments increased by 25.1% to KZT 1.2 trln.

The growth of cash in March 2012 as compared to the respective period of 2011 was associated with the growth in payouts on wages, retirement benefits and allowances and, as a result, by the growth in payouts to support ATMs. Also, increased payoffs on accounts of individuals were conducive to the growth of cash in circulation. At the same time, the impact of these factors was not neutralized by the growth in proceeds from the sales of goods, works and services, and proceeds from foreign exchange sales observed during the reviewed period.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-March 2012 deposits of residents amounted to KZT 8985.3 bln., having increased by 7.2% during the 1st quarter of 2012. The percentage of corporate deposits increased by 8.5%, deposits of individuals increased by 4.3%.

In the 1st quarter of 2012 the deposit base was characterized by the prevailing rate of growth in foreign currency savings caused by the increase in foreign currency deposits of legal entities.

As a result, since the beginning of the year foreign currency deposits increased by 15.0% and amounted to KZT 3024.6 bln., whereas deposits in the domestic currency grew only by 3.6% to KZT 5960.6 bln.

The growth in the volume of foreign currency savings caused by the foreign currency inflow to the corporate accounts during all three months of the first quarter of 2012 with the average monthly rate of 7.4%, resulted in the increased dollarization of deposits and the

growth in the percentage of foreign currency deposits from 31.4% in December 2011 to 33.7% in March 2012.

Thus, despite the trend of preference for the Tenge deposits developing during the last two years (2010-2011), in the 1st quarter of 2012 the foreign currency inflow to the corporate accounts served as the main source for the bank deposit base growth (Table 4).

Table 4

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

	March 2009	March 2010	March 2011	March 2012
Deposits of residents	10.4	4.4	6.7	7.2
<i>of individuals</i>	<i>7.8</i>	<i>2.1</i>	<i>3.7</i>	<i>4.3</i>
<i>of non-bank legal entities</i>	<i>11.4</i>	<i>5.3</i>	<i>8.0</i>	<i>8.5</i>
Deposits in the Tenge	-10.6	13.3	12.4	3.6
Deposits in foreign currency	48.5	-7.2	-3.8	15.0

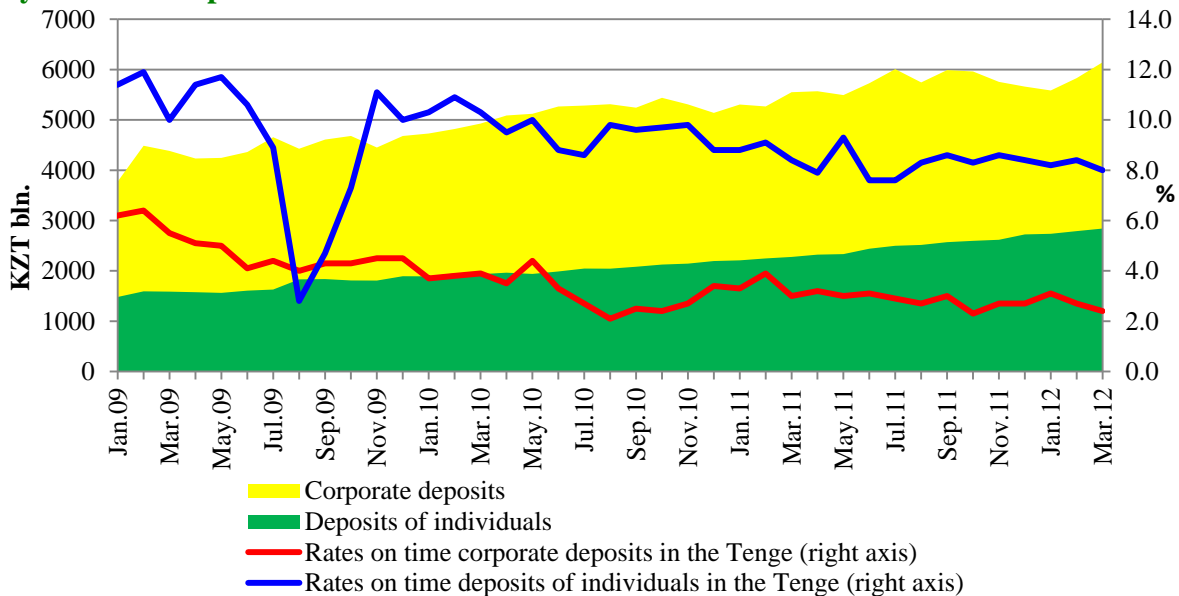
Source: National Bank of the Republic of Kazakhstan

The interest rates on deposits continued to decrease. In the 1st quarter of 2012, interest rates on deposits, both in foreign currency and in the domestic currency, were generally at a lower level than in the 1st quarter of 2011.

In March 2012 the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 2.4% (in December 2011 – 2.7%), and on deposits of individuals – 8.0% (8.4%) (Figure 25).

Figure 25

Dynamics of deposits and their interest rates

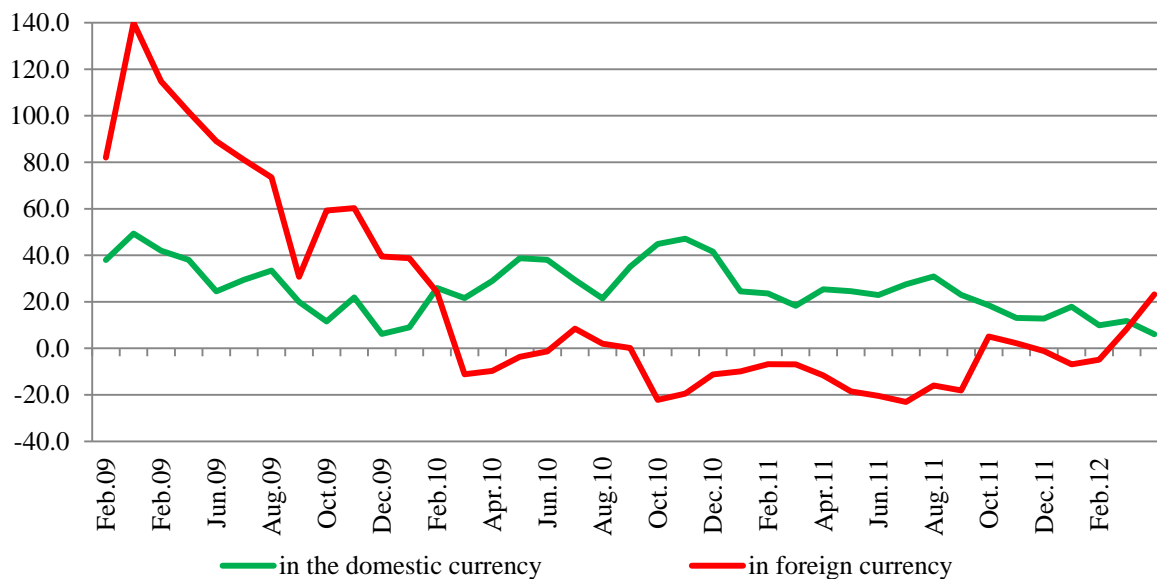


Source: National Bank of the Republic of Kazakhstan

During the 1st quarter of 2012 the volume of corporate deposits increased by 8.5% to 6144,6 bln., at the same time the annual growth (March 2012 versus March 2011) accounted for 10.7%. Corporate deposits in the domestic currency increased by 6.1% in annual terms, and foreign currency deposits increased by 23.2% (Figure 26).

Figure 26

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

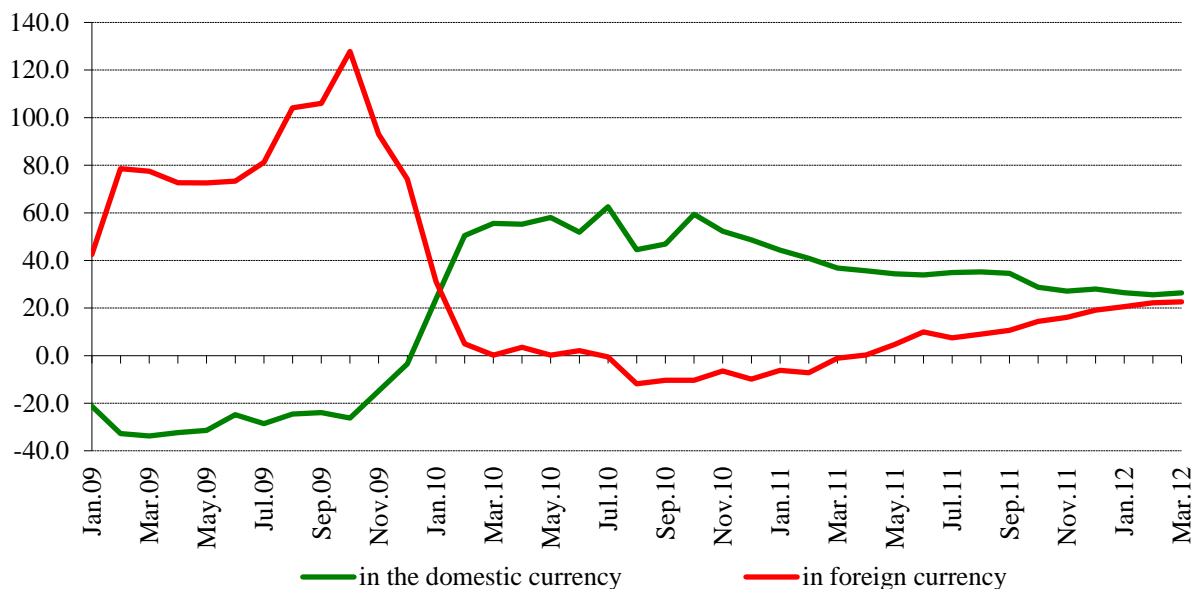


Source: National Bank of the Republic of Kazakhstan

The volume of deposits of individuals increased by 4.3% during the 1st quarter of 2012, with its annual growth accounting for 24.8%. Deposits of individuals in the domestic currency increased in annual terms by 26.4%, and foreign currency deposits increased by 22.6% (Figure 27).

Figure 27

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 1st quarter of 2012 bank credits to the economy increased by 1.7% to KZT 8934.5 bln. During January-March 2012, credits to legal entities increased by 1.9% amounting to KZT 6556.1 bln., and credits to individuals increased by 1.4% to KZT 2378.5 bln.

The volume of credits in the domestic currency increased by 4.2% to KZT 5917.7 bln., and the volume of foreign currency credits decreased by 2.7% to KZT 3016.8 bln.

During January-March 2012, long-term lending increased by 1.0% to KZT 7156.3 bln., short-term lending increased by 4.9% to KZT 1778.2 bln. As a result, in March 2012 as compared to December 2011, the percentage of long-term credits decreased from 80.7% to 80.1%.

In March 2012, the average weighted interest rate on credits in the domestic currency to non-bank legal entities increased from 10.8% to 11.3% as compared to December 2011, and the average weighted interest rate on the Tenge credits to individuals remained virtually unchanged and was 20.5% (in December 2011 - 20.4%). In general, in the 1st quarter of 2012 the interest rate level was characterized by the upward trend (Figure 28).

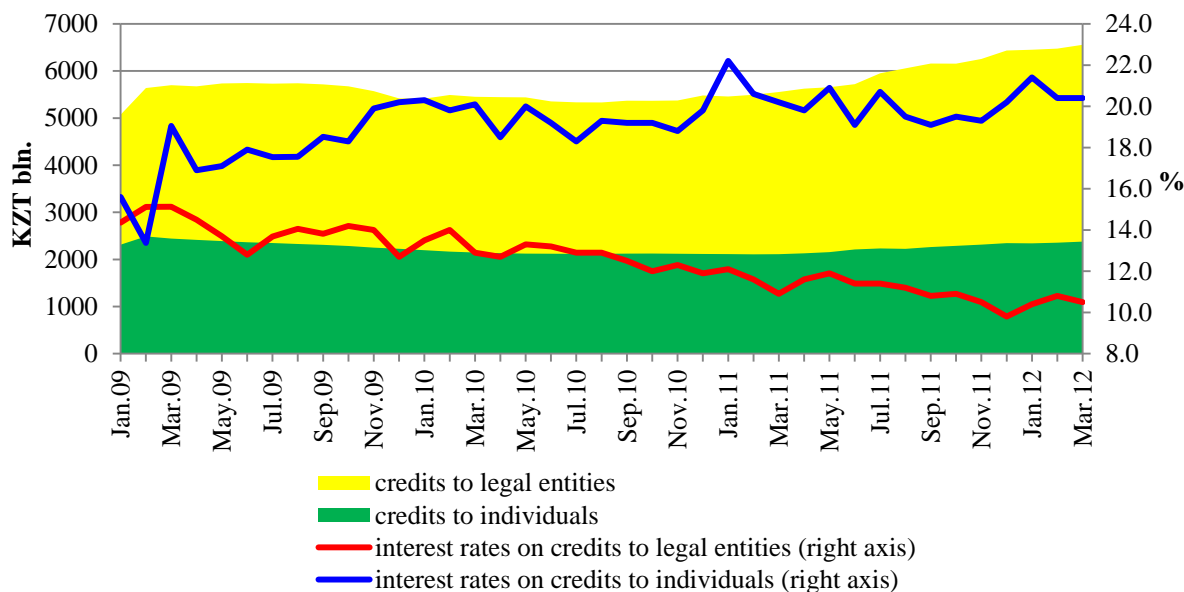
In the structure of credits by objects of financing the major volume of debt fell on credits provided for the purchase of working capital (28.2%), for new construction and reconstruction (15.3%), as well as for other purposes (23.8%).

In a sectoral breakdown, the highest debt on bank credits to the economy falls on other sectors (non-production sphere and individual entrepreneurship) – 44.1%, trade – 21.0%, construction – 14.8%, and the industry – 12.2%.

During January-March 2012, credits to the economy increased by 3.4%, to the communications sector – by 5.5%, trade – by 2.7%, construction sector – by 1.1%, whereas credits to the agricultural sector decreased by 8.2%.

Figure 28

Dynamics of credits to the economy and their interest rates



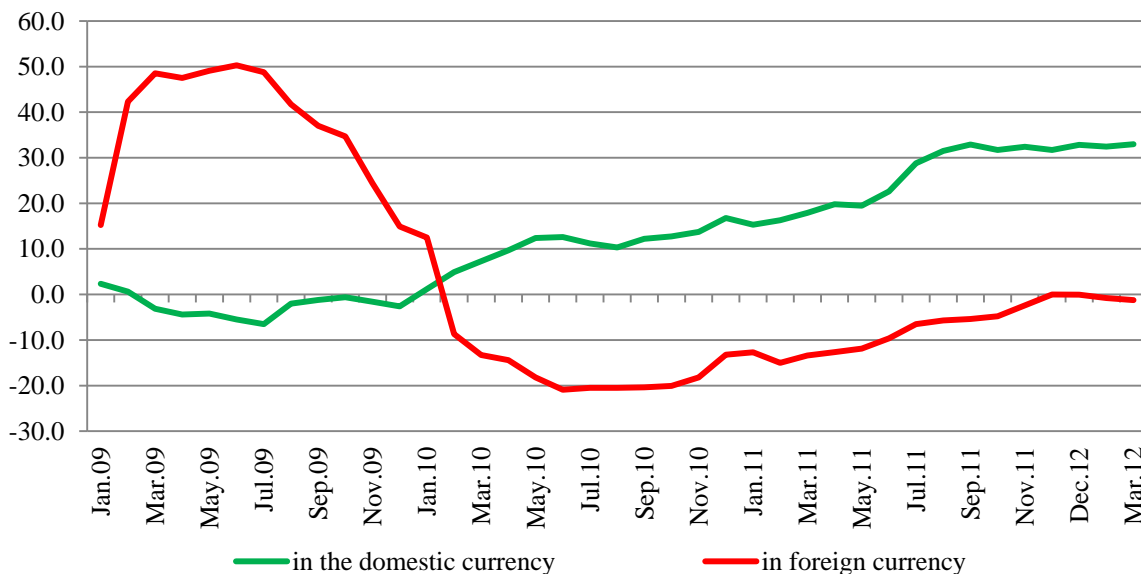
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities in March 2012 as compared to March 2011 increased by 18.0%. There were changes in the structure of credits by their tenors. The share of medium- and long-term credits in the total volume of credits to legal entities at end-March 2012 accounted for 74.3%, whereas in March 2011 it reached 79.0%.

Credits to legal entities in the domestic currency increased in annual terms by 33.0%, and foreign currency credits decreased by 1.2% (Figure 29).

Figure 29

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



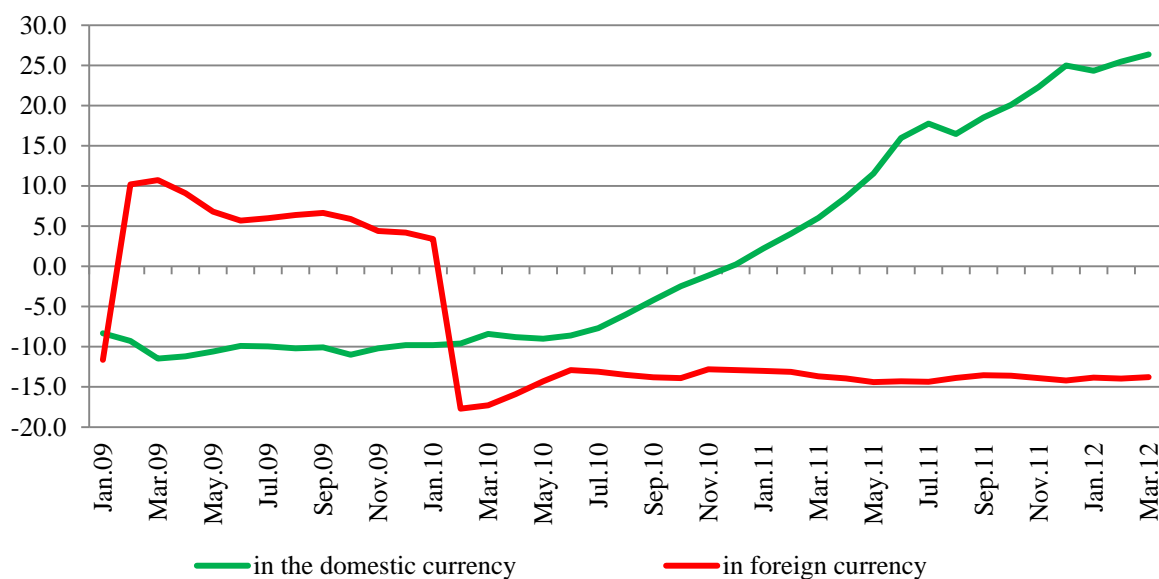
Source: National Bank of the Republic of Kazakhstan

The volume of credits to individuals in March 2012 as compared to the respective period of 2011 increased by 12.6%. At end-March 2012, the share of medium- and long-term credits in the total volume of credits to individuals slightly decreased and accounted for 96.1%, as compared to 96.4% in March 2011.

In the structure of credits to the population credits in the domestic currency demonstrated the increase of 26.4%, and foreign currency credits showed the decrease by 13.8% (Figure 30).

Figure 30

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



Source: National Bank of the Republic of Kazakhstan

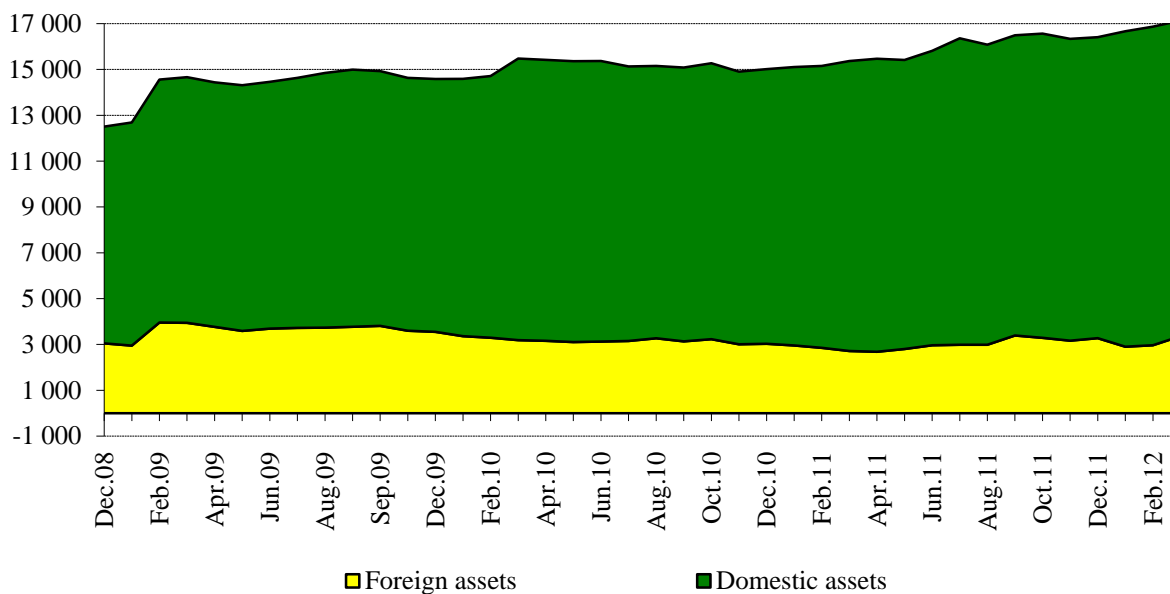
3.2.3. Bank Assets and Liabilities

– **Assets**

In the 1st quarter of 2012 the amount of bank assets calculated under the Monetary Survey increased by 4.4% to 17.1 trln. In annual terms (March 2012 versus March 2011) bank assets increased by 11.5% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

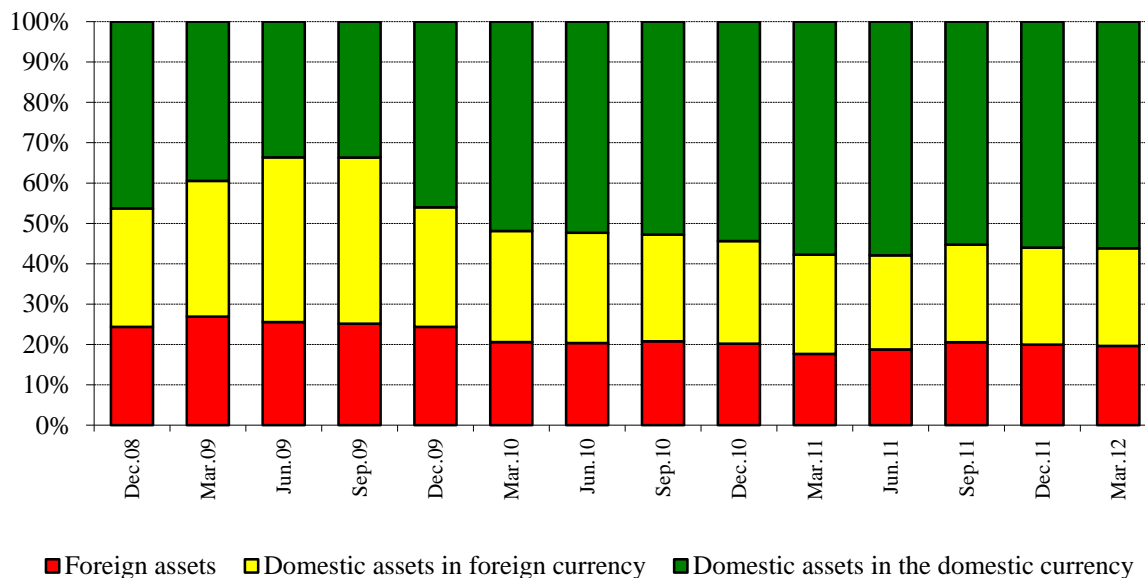
Foreign assets of banks in March 2012 accounted for 19.6% in the total assets or US\$ 22.8 bln. As compared to March 2011, they increased by 22.1%, and as compared to December 2011 they increased by 3.1%.

In the structure of foreign assets in March 2012, credits to non-residents accounted for 49.1% (in December 2011 – 49.9%), deposits placed with non-residents – 31.0% (in December 2011 – 29.0%), securities of non-residents – 4.4% (in December 2011 – 4.8%), and other accounts receivable – 15.5% (in December 2011 – 16.2%).

Domestic assets in March 2012 accounted for 80.4% or KZT 13.8 trln., of which domestic assets in the domestic currency accounted for 70.0% or KZT 9.6 trln., and domestic assets in foreign currency – 30.0% or KZT 4.1 trln. During January-March 2012, domestic assets increased by 4.8%, of which assets in the domestic currency increased by 4.8%, and assets in foreign currency increased by 5.0% (Figure 32).

Figure 32

Structure of bank assets, %



Source: National Bank of the Republic of Kazakhstan

In January-March 2012 the quality of bank assets somewhat improved. The share of standard assets increased from 45.9% to 47.9%, share of doubtful assets decreased from 37.0% to 35.1%, and the share of bad assets decreased from 17.1% to 17.0%.

In the structure of doubtful assets a certain migration of assets towards concentration of assets of category 1, 3 and 5 is observed. The share of assets of category 1 within the structure of doubtful assets decreased from 30.0% to 29.3%, of category 2 - increased from 12.4% to 13.4%, and of category 3 – increased from 23.2% to 26.1%, of category 4 – increased from 7.6% to 9.4%, and of category 5 – decreased from 26.8% to 21.7%.

As a whole, under the Monetary Survey for the 1st quarter of 2012, bank assets demonstrated a slight growth. Despite the overall reduction of the credit risk level ensured by the improved financial condition of the corporate sector and households, low asset quality still represents a weak aspect of the Kazakh banking system.

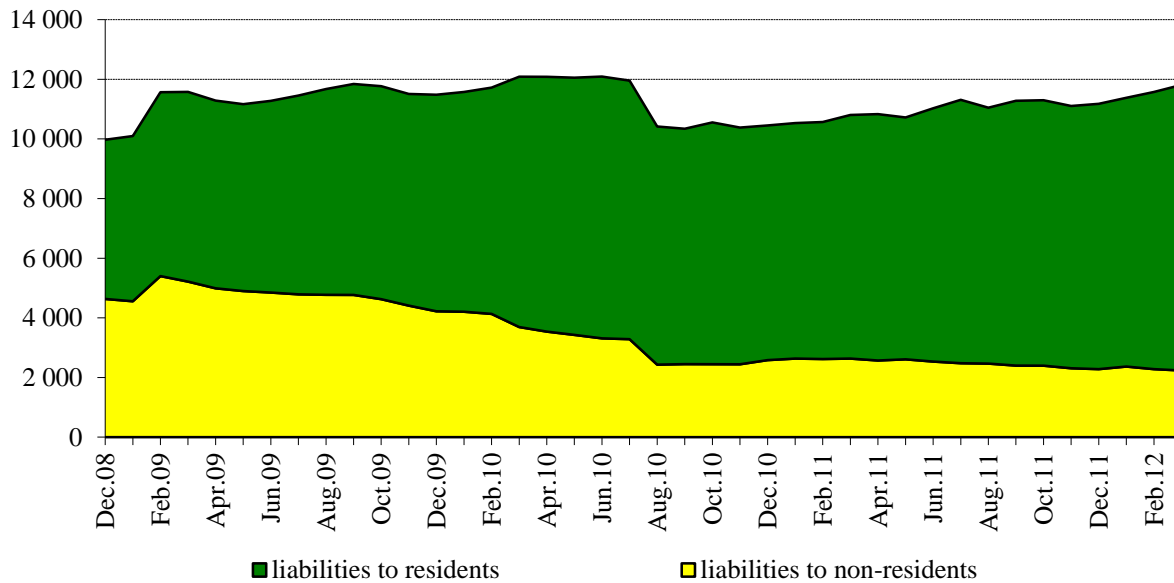
Acceleration of the lending growth rates in the 1st quarter of 2012 to 1.7%, as compared to 1.0% in the respective quarter of 2011, helped slightly improve the asset quality, however, credit policies of banks still contain some elements of conservatism that constrain the process of replacement of "bad" credits.

– Liabilities

In the 1st quarter of 2012 total liabilities of banks calculated under the Monetary Survey increased by 5.7% and amounted to KZT 11.8 trln. at end-March (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

Bank liabilities to non-residents in March 2012 as compared to December 2011 decreased by 2.0% to KZT 2.2 trln. (US\$ 15.1 bln). Bank liabilities versus the respective month of 2011 decreased by 15.2%. At end-March 2012 bank liabilities to non-residents accounted for 18.9% of the total volume of bank liabilities.

In the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents increased from 6.8% in December 2011 to 7.1% in March 2012, the share of liabilities on securities increased from 72.9% to 73.0%, and credits from non-residents increased from 17.9% to 18.5%, respectively.

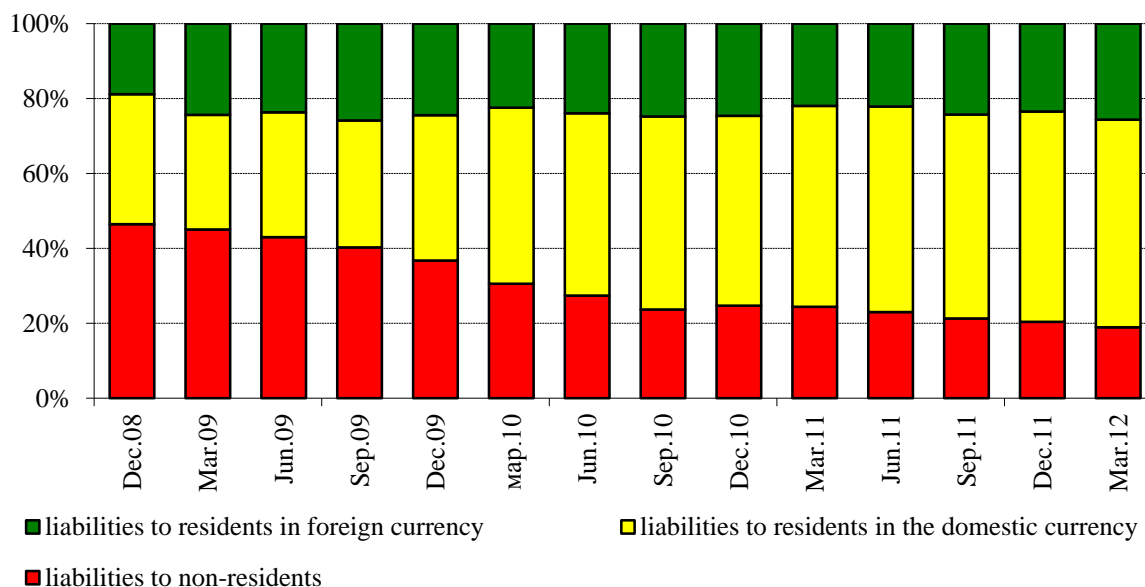
During January-March 2012, liabilities to residents increased by 7.7% to KZT 9.6 trln. (US\$ 64.8 bln.), where liabilities in the domestic currency increased by 4.4% to KZT 6.6 trln., and foreign currency liabilities increased by 15.4% to KZT 3.0 trln. (Figure 34).

Thus, in the 1st quarter of 2012 there was a multi-directional trend in respect of bank liabilities: both the growth in liabilities to residents and the decrease in liabilities to non-residents. The growth in liabilities to residents was secured by the increase in the domestic currency component.

Therefore, one may state that during the first quarter of 2012 the process of replacing the external funding by the domestic funding sources was continuing.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

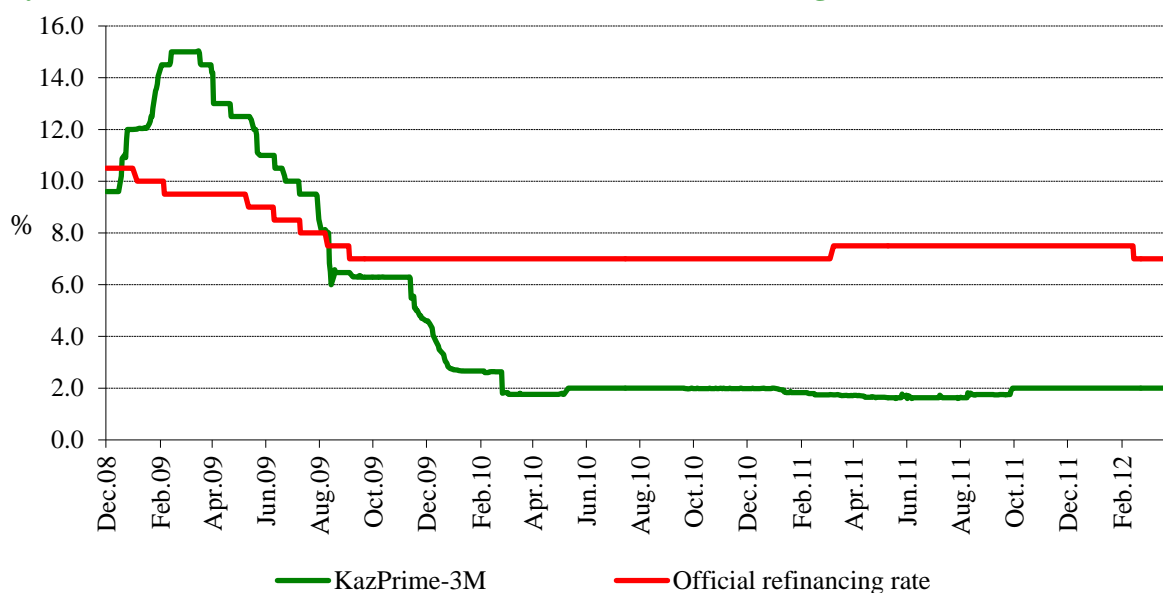
3.2.4. Financial Market Rates

In the 1st quarter of 2012 the decreasing level of interest rates in the interbank market were observed.

The KazPrime index on average remained unchanged during the 1st quarter and was at the level of 2.00%, just as during the 4th quarter of 2011 on average. At end-March, the index also remained unchanged versus end-December – 2.00% (Figure 35).

Figure 35

Dynamics of the KazPrime index and the official refinancing rate, %



Source: Kazakhstan Stock Exchange, National Bank of the Republic of Kazakhstan

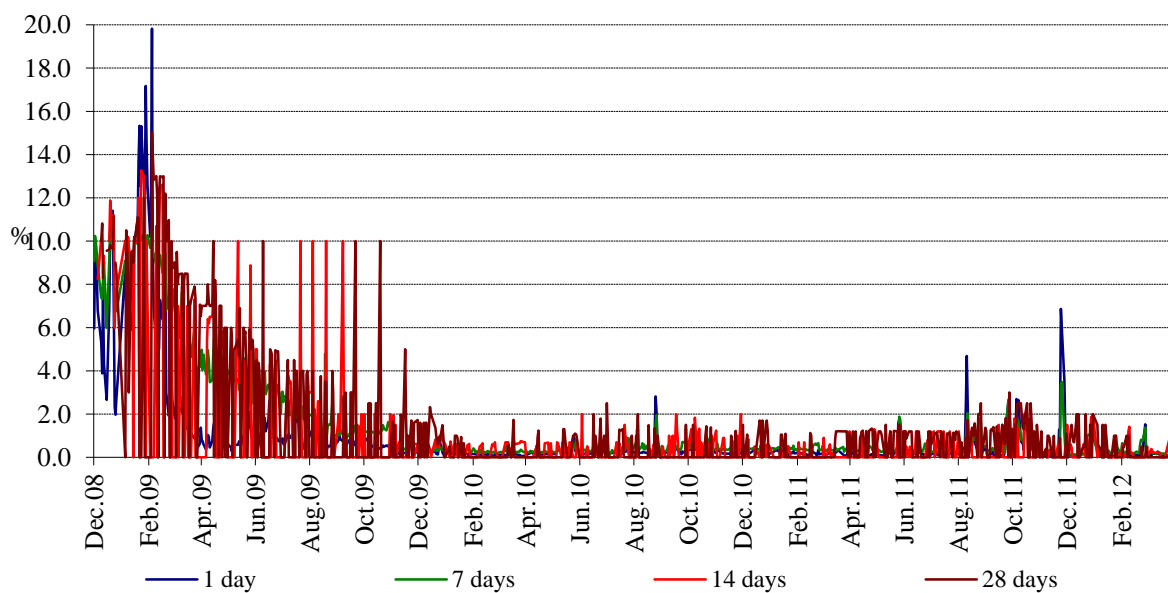
In the 1st quarter of 2012 the average weighted rate on 1-day operations in the sector of automatic REPO decreased and was 0.22% (in the 4th quarter of 2011 – 1.37%). At the same time, its maximum level was 1.53%, and minimum – 0.03%.

In the 1st quarter of 2012 rate fluctuations on 7-day REPO operations were within the range from 0.12% to 1.37% (the average weighted rate was 0.25%), on 14-day REPO operations – from 0.18% to 1.42% (the average weighted rate was 0.30%), and on 28-day REPO operations – from 0.25% to 1.50% (the average weighted rate was 0.48%) (Figure 36).

In the 1st quarter of 2012 the transaction volumes in the sector of automatic REPO decreased by 7.2% as compared to the previous quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

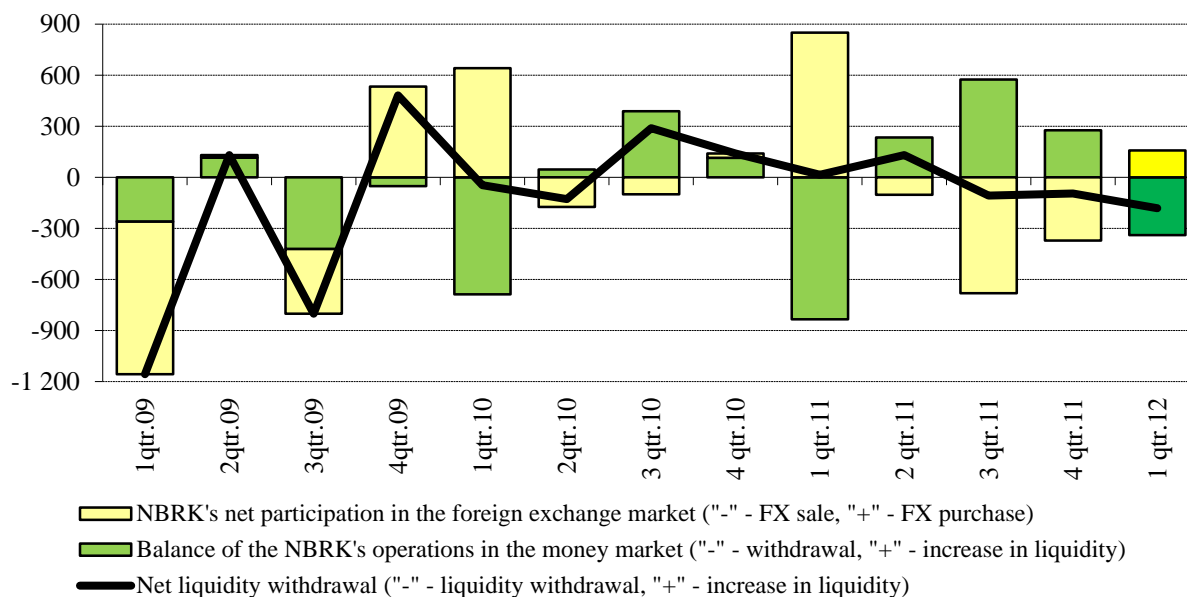
4. Monetary Policy Instruments and Operations

In the 1st quarter of 2012 the situation in the financial market remained stable, banks had sufficient Tenge liquidity.

In the 1st quarter of 2011 the National Bank's operations in the financial market resulted in the withdrawal of the Tenge liquidity, mainly due to growth in balances of banks on deposits and correspondent accounts in foreign currency (Figure 37).

Figure 37

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

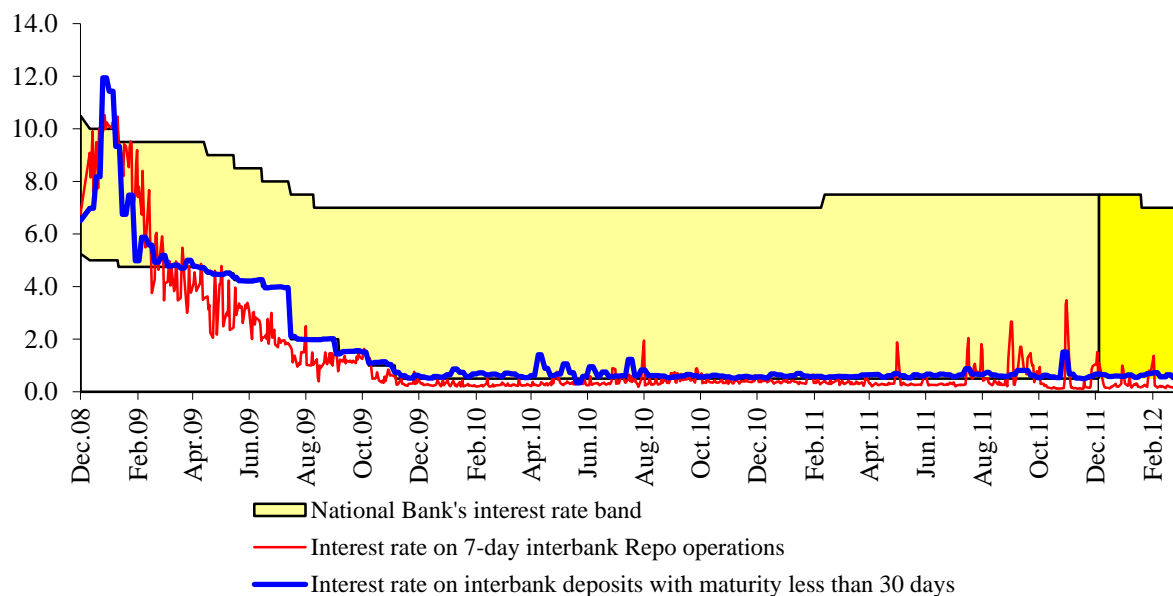


Source: National Bank of the Republic of Kazakhstan

In the 1st quarter of 2012 the National Bank's rate band was changed. From February 14, 2012 the official refinancing rate was lowered from 7.5% to 7.0%, interest rates on deposits attracted from banks remained unchanged: the interest rate on 7-day deposits is 0.5%, and on 1-month deposits – 1.0%.

In the 1st quarter of 2012 the situation in the money market was characterized by the interest rate volatility. In January-February 2012 interest rates slightly increased, in March they started to decrease gradually. On average, in the 1st quarter of 2012 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 decreased from 0.63% in the 4th quarter of 2011 to 0.61% in the 1st quarter of 2012. The average weighted rate on interbank 7-day REPO operations decreased from 0.45% in the 4th quarter of 2011 to 0.25% in the 1st quarter of 2012 (Figure 38).

Figure 38

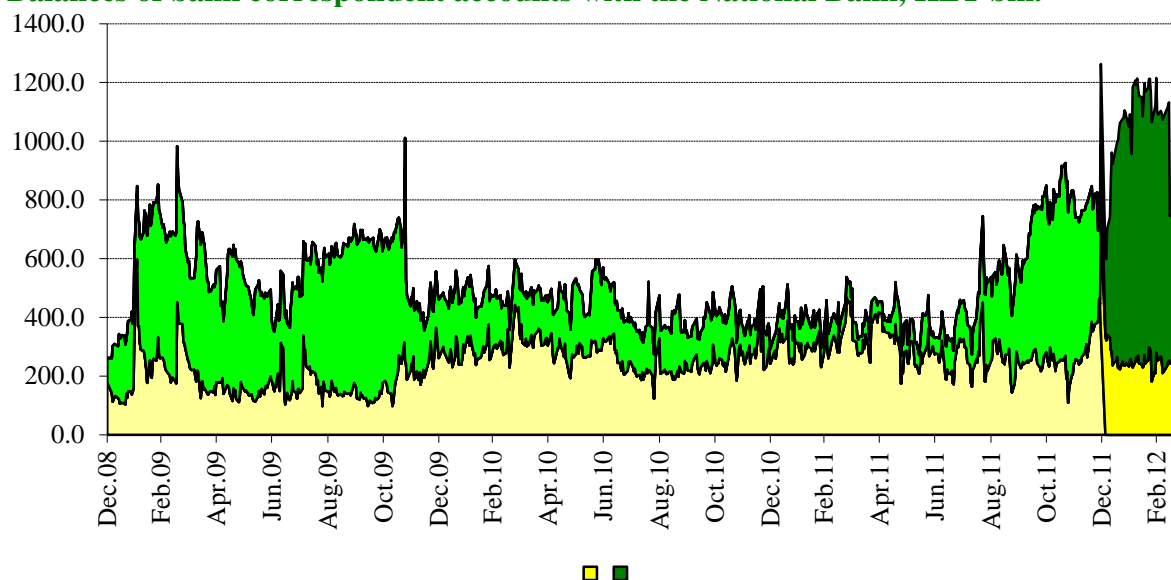
Boundaries of the National Bank's interest rates band, %


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. Correspondent account balances of banks in foreign currency were dramatically increasing in January-February 2012 and in March they decreased again. As a whole, their volume at end-March 2012 increased by 1.8 time as compared to December 2011.

Correspondent account balances of banks in the domestic currency in the 1st quarter of 2012 were also volatile, throughout the period their growth was interchanging with the decrease and vice versa. So, in January they decreased and in February-March they started to increase gradually. Meantime, their volume at end-March 2012 decreased by 13.5% as compared to the volume at end-December 2011 (Figure 39).

Figure 39

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


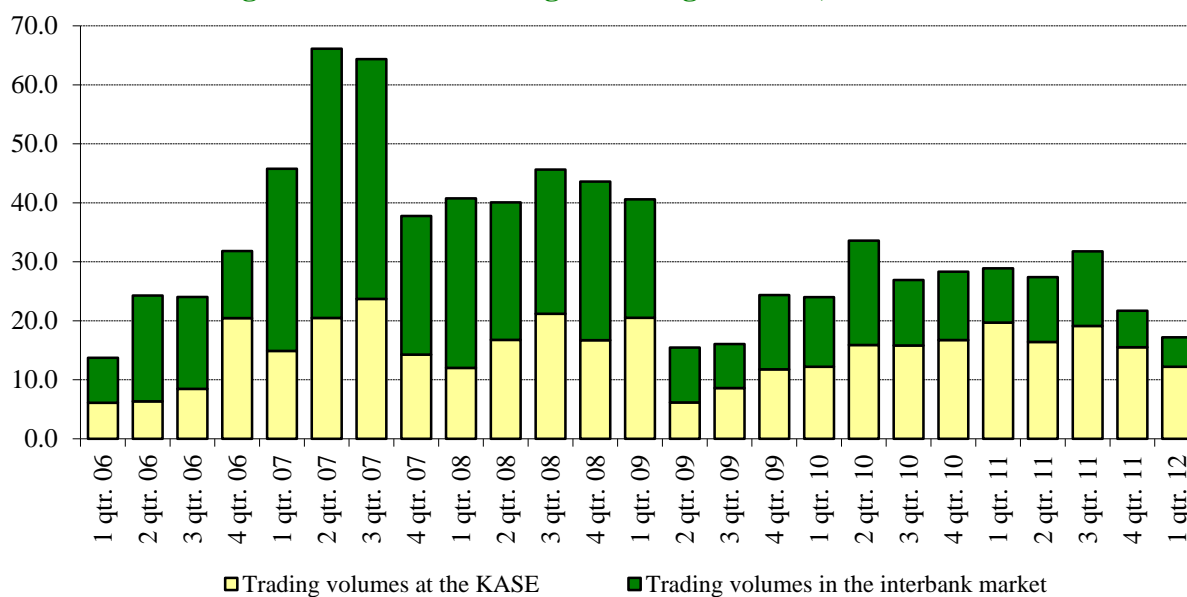
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Currency Market

In the 1st 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\$ 17.3 bln., having decreased by 20.4% as compared to the 4th quarter of 2011.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange decreased by 20.9% as compared to the 4th quarter of 2011 and amounted to US\$ 12.2 bln. (net trades at the Kazakhstan Stock Exchange made up 78% of gross trades). In the off-exchange foreign currency market the volume of transactions in the 1st quarter of 2012 decreased by 18.9% as compared to the previous quarter and amounted to US\$ 5.0 bln. (Figure 40).

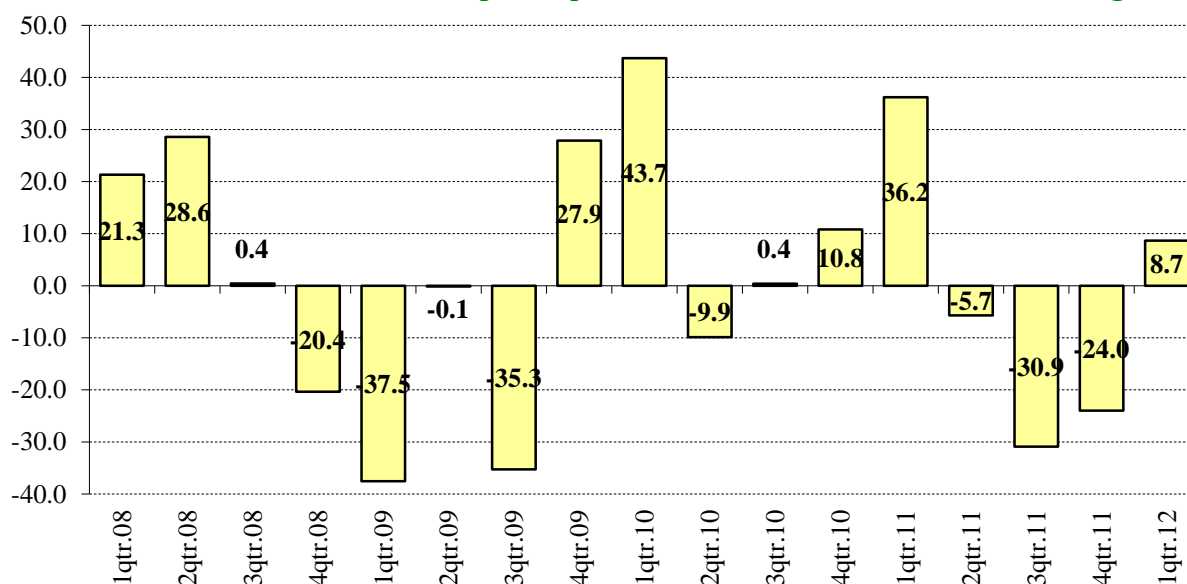
Figure 40

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


Source: National Bank of the Republic of Kazakhstan

At the end of the 1st quarter of 2012, the National Bank's participation coefficient in the Kazakhstan Stock Exchange accounted for 8.7% (in the 4th quarter of 2011 it accounted for (-)24.0%) (Figure 41). Thus, in the 1st quarter of 2012 the National Bank was primarily the buyer of foreign exchange in the domestic foreign exchange market.

Figure 41

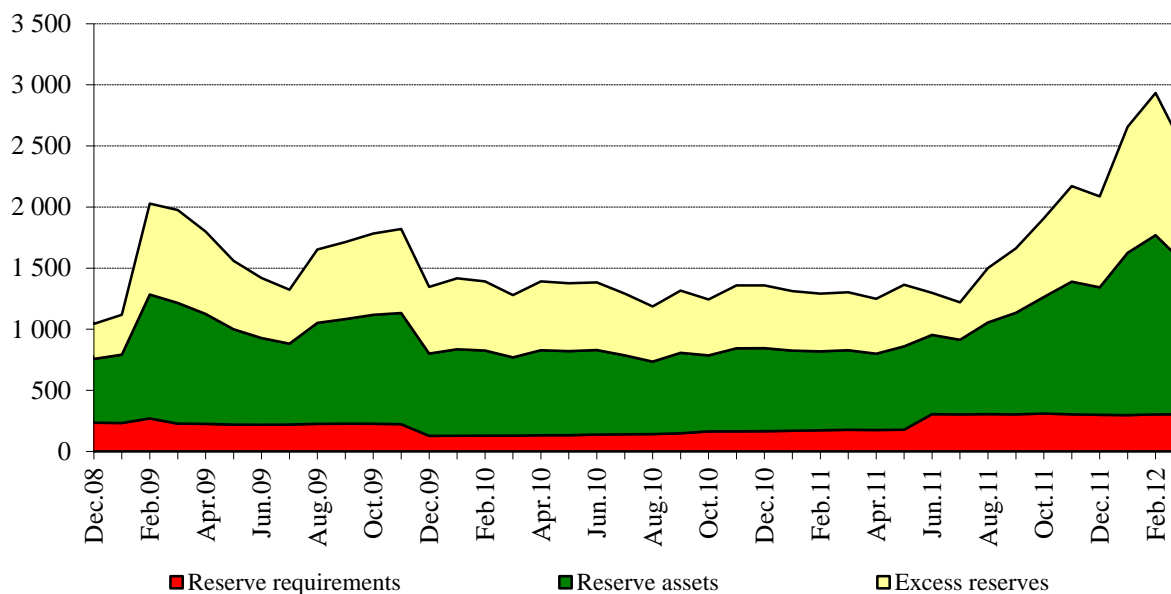
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %


Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During January-March 2012 reserve assets exceeded the required reserving volume by 4.3 times on average (in the 4th quarter of 2011 – by 3.4 times on average, and in the 1st quarter of 2011 – by 3.7 times) (Figure 42).

Figure 42

Compliance with minimum reserve requirements, KZT bln.


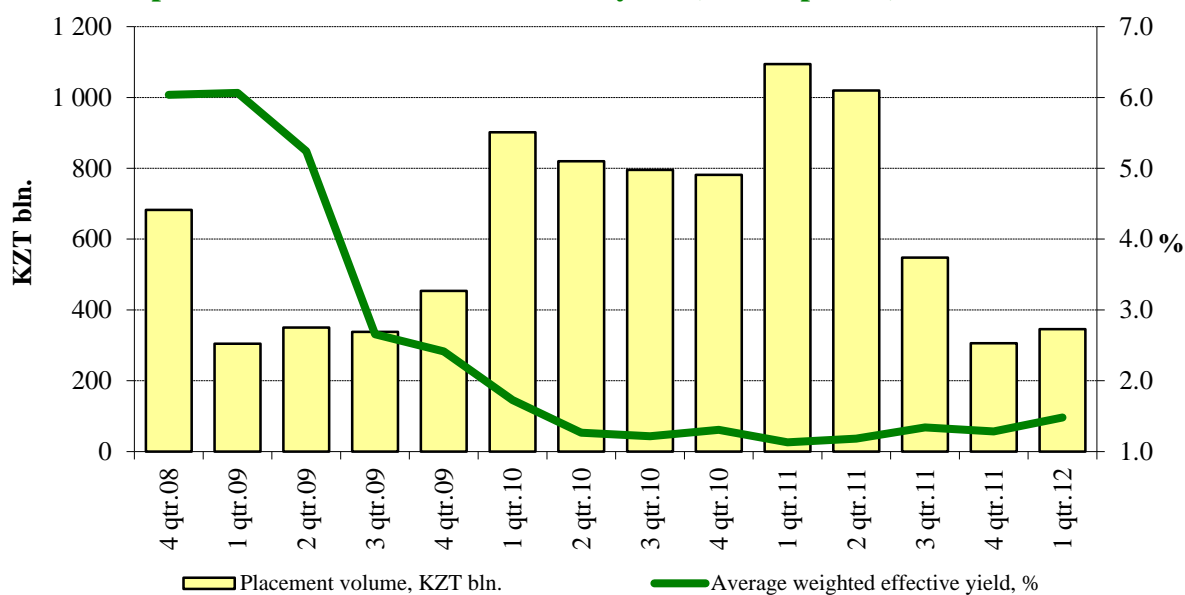
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the 1st quarter of 2012 the demand of banks for short-term notes of the National Bank remained limited. Only in March some revival in this market was observed, accompanied by the growth in performed transactions. The minimal demand for these instruments was observed in January 2012.

The volume of short-term notes issued in the 1st quarter of 2012 as compared to the 4th quarter of 2011 increased by 13.0% and amounted to KZT 3345.5 bln. The highest emission volume of short-term notes was observed in March (over 50% of the total emission volume for the 1st quarter of 2012). The average weighted yield on issued notes increased from 1.28% in the 4th quarter of 2011 to 1.48% in the 1st quarter of 2012 (Figure 43).

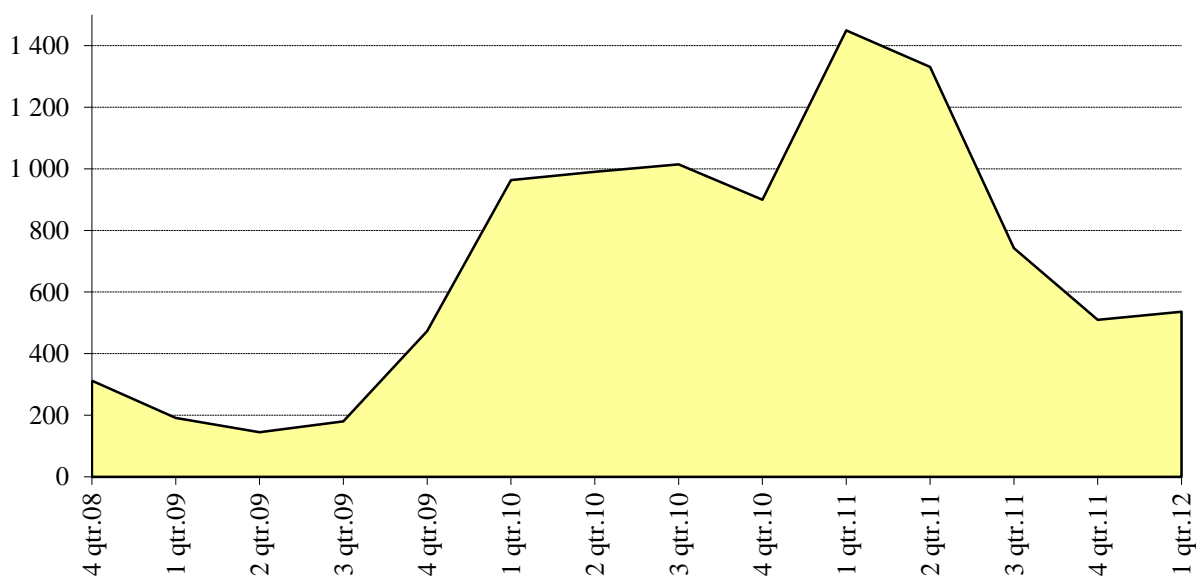
Figure 43

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


Source: National Bank of the Republic of Kazakhstan

At end-March 2012 the volume of short-term notes in circulation amounted to KZT 536.0 bln., which exceeds their volume at end-December 2011 by 5.1% (Figure 44).

Figure 44

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


Source: National Bank of the Republic of Kazakhstan

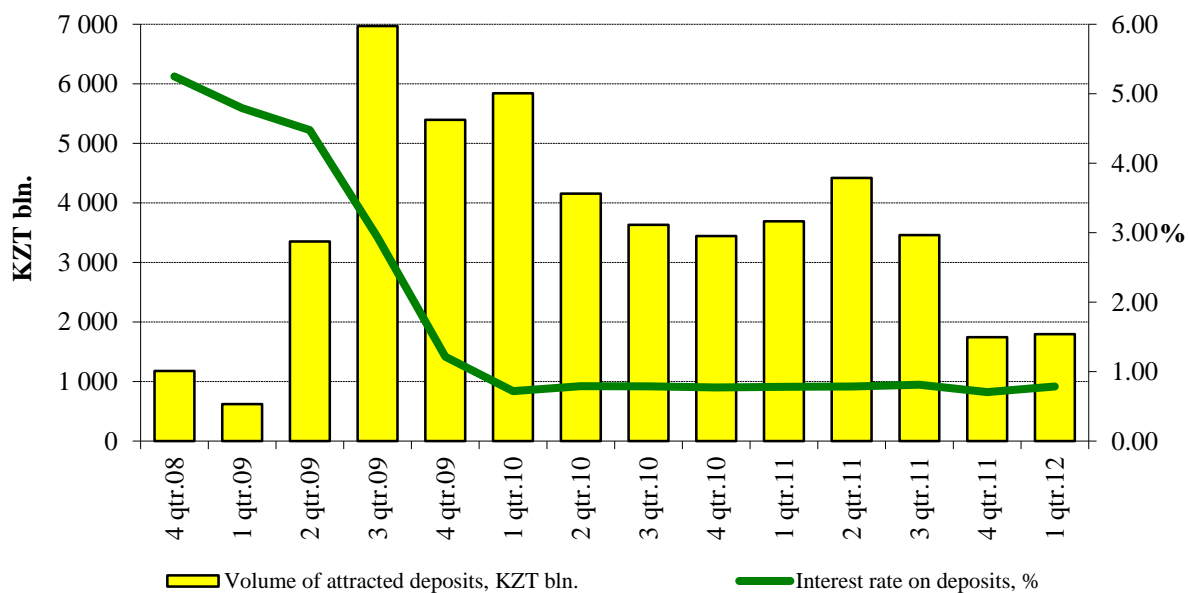
4.4. Standing Facilities

In the 1st quarter of 2011 the volume of deposits attracted from banks increased as compared to the previous quarter. The peak of deposit attractions from banks occurred in March. In total, KZT 1796.8 bln. of deposits were attracted during January-March 2012, which exceeds their volume in the 4th quarter of 2011 by 3.0% and is less than in the 1st quarter of 2011 by 2.1 times.

The average interest rate on deposits increased from 0.71% in the 4th quarter of 2011 to 0.79% in the 1st quarter of 2012 (Figure 45).

Figure 45

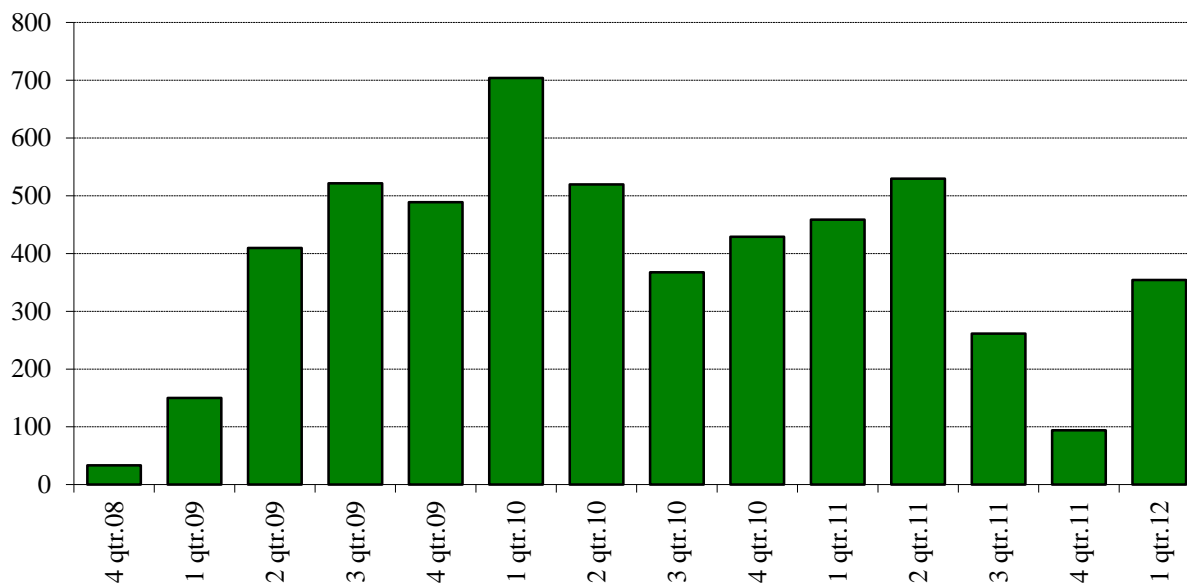
Volume and interest rates on deposits attracted by the National Bank (for the period)



Source: National Bank of the Republic of Kazakhstan

The increase in the volumes of attracted deposits was accompanied by the growth in the volume of the National Bank's outstanding liabilities on such deposits. At end-March 2012, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 354.2 bln., which exceeds the volume in December 2011 by 3.8 times (Figure 46).

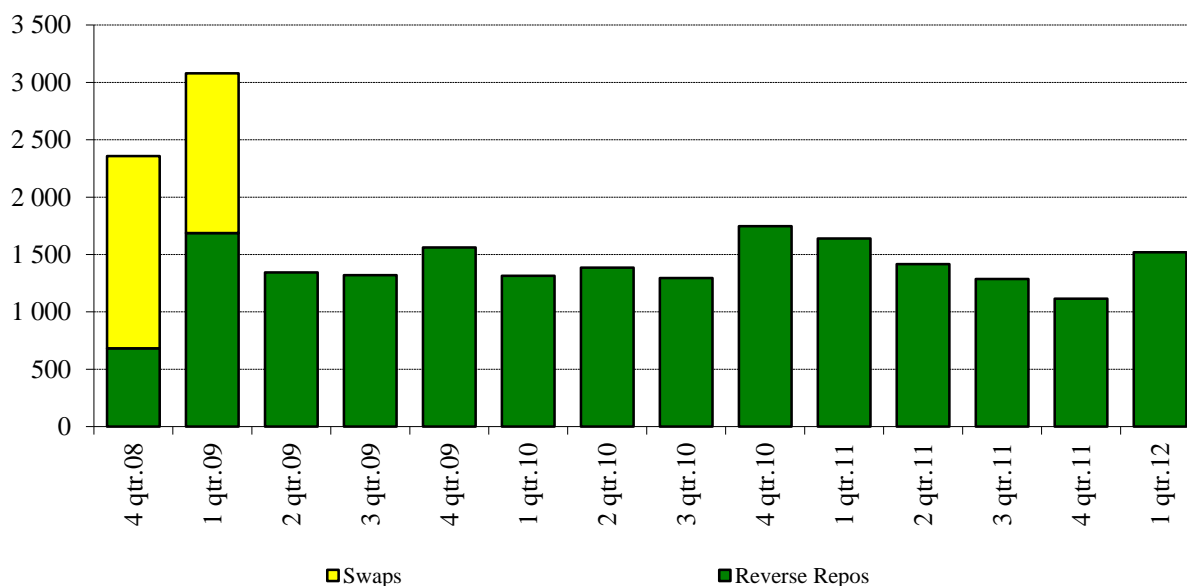
Figure 46

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


Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in the 1st quarter of 2012 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. The total volume of reverse REPO operations in the 1st quarter of 2012 amounted to KZT 1519.7 bln. The volumes of such operations increased by 36.3%, as compared to the previous quarter (Figure 47).

Figure 47

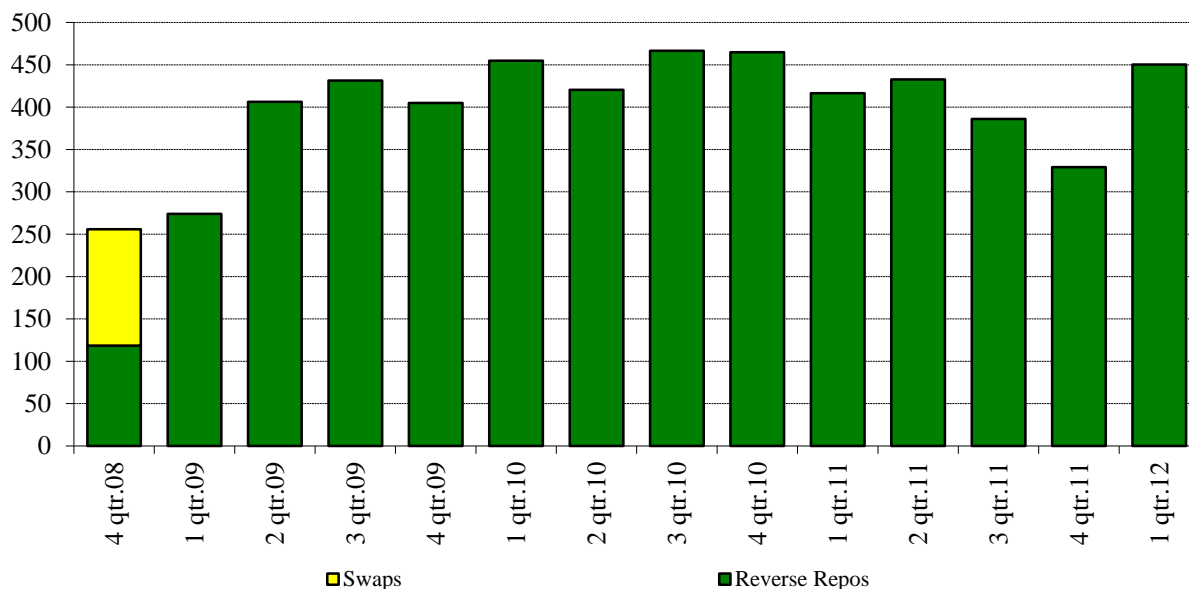
Volume of the National Bank's refinancing operations, KZT billion (for the period)


Source: National Bank of the Republic of Kazakhstan

At end-March 2012, the outstanding debt on reverse REPO operations also slightly increased and amounted to KZT 450.3 bln. (Figure 48).

Figure 48

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



Source: National Bank of the Republic of Kazakhstan