

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

Inflation Report
for the 3rd Quarter 2011

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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 Q3 2011 the inflation was at 1.1% (in Q3 2010 – 0.8%), at end-September 2011 the annual inflation made up 8.7% (in December 2010 – 7.8%).

The buildup of inflationary processes in Kazakhstan in the 3rd quarter of 2011 occurred against the minimum impact of monetary factors. So, the money supply growth in July-September was 4.9%, reserve money contracted by 0.2%.

The main factors for the inflation growth in Q3 2011 were unstable situation in the global commodity markets accompanied by the persistently high prices including for major items of Kazakhstani export, steady growth in the income of the population, shortage of fuel and lubricants in the market.

Moreover, the increased business activity in the economy is also conducive to persistent inflationary pressure in the economy. In 2011 the Kazakh economy has been demonstrating quite high development rates. So, during the first half of 2011 the real GDP growth accounted for 6.9%. The output growth was observed in virtually all industries including mining and manufacturing industry, trade, transportation, communications and construction.

The National Bank has been taking actions pursuant to the Monetary Policy Guidelines for 2011 aimed at ensuring the price stability, stability of the Tenge exchange rate and stability of the country's financial sector.

Given some acceleration of inflation in 2011 as well as with a view to influence the inflationary expectations, the National Bank made the decision to increase the official refinancing rate to 7.5% from March 9, 2011. In Q3 2011 the official refinancing rate as well as interest rates on bank deposits with the National Bank remained unchanged.

From May 31, 2011 the minimum reserve requirements on the bank domestic liabilities were increased to 2.5% and on other bank liabilities – to 4.5% (previously – 1.5% and 2.5%, respectively).

As part of its effort to ensure the domestic currency stability, the National Bank monitors the situation with the exchange rate of the Tenge on an ongoing basis. Since the transition to the managed floating exchange rate regime of the Tenge on February 28, 2011, the situation in the domestic foreign exchange market has been stable. At the same time unstable situation in the global stock markets was impacting the foreign currency market players in Kazakhstan. This was accompanied by some volatility of the exchange rate of the Tenge versus the US Dollar. Alongside with that, a slight depreciation of the Tenge was observed in September 2011.

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 Q3 2011 remained high. In addition to that, in the third quarter of 2011 the National Bank started issuing short-term notes with maturity of 9 months, in order to withdraw excessive liquidity for a longer term.

Also, the National Bank provides refinancing loans to banks to support their current liquidity, with the demand for such loans remaining limited.

Evaluation of the Inflation Forecasts for the Third Quarter of 2011

The actual inflation rate (1.1%) in Q3 2011 was higher than the forecast (0.6-0.8%), which was published in the previous issue of the Inflation Report. The inflation was higher than the forecast in July-August and lower than the forecast in September.

The main increase in prices in Q3 2011 was in non-food items and paid services. In their structure, the increased prices for fuel and lubricants, transportation and educational services, and utilities should be pointed out.

In Q3 2011 foodstuffs became cheaper by 0.1%, including decreased prices for fruits and vegetables, sugar. When analyzing the dynamics of the past years one may observe that the decrease in prices for these items is typical for this period since it's caused by the seasonality factor.

In Q3 2011 the main contribution to the inflation buildup was made by paid services due to the appreciation of educational and utility services. This was associated primarily with the beginning of a new academic year and the preparation for the heating season.

The actual annual inflation at end-September 2011 (8.7%) was also higher than the forecast (8.2-8.4%) published in the previous issue of the Inflation Report.

Inflation Forecast for the Fourth Quarter of 2011

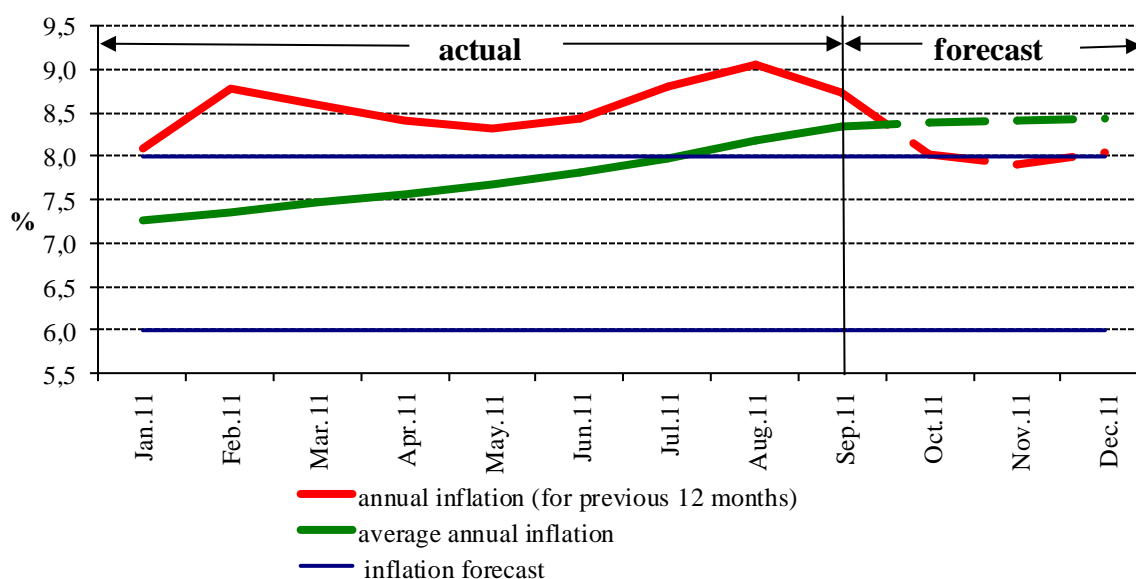
In Q4 2011 the inflation is expected to be within 1.5-1.7% (in Q4 2010 the actual inflation was at 2.4%). This corresponds to the annual inflation rate of 7.8-8.0% at end-December 2011 (Figure 1).

As a rule, the situation in the consumer market during the last months of a year is characterized by the increase in prices. This is related to the seasonality factor and revived consumer demand because of holidays. In October-December 2011 the increase in prices for such goods and services as fruits and vegetables, eggs, dairy and meat products, clothes and footwear, and certain utilities is anticipated.

Also, a persistently stable upward trend in the world oil prices will put pressure on the formation of prices for gasoline and fuel and lubricants within the country in the long run. Given that these commodities are used in the production of certain goods and services, it may be conducive to the growth in the production costs and, thus, in the final cost of goods and services.

Figure 1

Actual and forecasted inflation in 2011



Source: National Bank of the Republic of Kazakhstan

Inflation Forecast for 2012

In 2012 the situation in the consumer market will generally remain stable. Alongside with that the inflationary processes will be building up amidst the growing aggregate demand in the economy. The production growth in the real economy, a stable growth in the cash income of the population, decreased unemployment, and gradual recovery of the lending activity in the banking sector will be conducive to that fact. Moreover, a low level of competition in certain markets of goods and services will have a negative impact on the buildup of inflationary processes.

Given the minimal impact of monetary factors on the inflation, price stability in the Kazakh consumer market will be maintained by the joint efforts of the National Bank and the Government.

In 2012 the National Bank will continue implementing the monetary policy intended for ensuring the price stability. The National Bank, in its turn, while possessing all necessary instruments, will achieve this goal with appropriate monetary policy measures. Monetary policy of the National Bank will be adequate to the evolving macroeconomic conditions. Money supply in the economy will remain at the level consistent with the growth of the economy.

The interest rate policy of the National Bank will be aimed at maintaining the market rates in the money market of short-term instruments within National Bank's interest rate band.

Measures of the National Bank in the area of foreign exchange policy will be aimed at preventing dramatic fluctuations of the real exchange rate of the domestic currency, which may have a negative impact on the competitiveness of the domestic output in the ever-changing global competitive environment. The National Bank will seek to further reduce its participation in the foreign exchange market with a view to enhance the flexibility of the Tenge exchange rate.

Inflation Forecast for the First Quarter of 2012 is 2.8-3.0% (in Q1 2011 the actual inflation was 3.7%). Generally this level corresponds to the inflation trends of January-March, which were typical of the past years. Such expectations are associated mainly with the fact that the inflation in the nearest future will be building up under the impact of the seasonality factor.

At end-March 2012 the annual inflation is expected to be within 7.2-7.4%.

1. Inflationary Processes

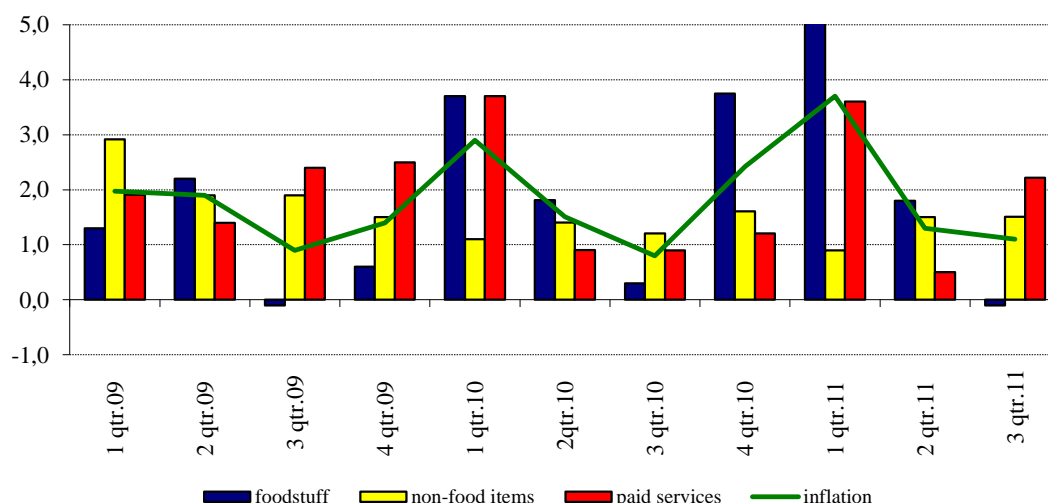
1.1. Consumer Prices

In Q3 2011 the inflation rates continued to slightly go down as compared to Q2 2011, at the same time the inflation was at a higher level as compared to Q3 2010. In Q3 2011 the inflation was at 1.1% (in Q2 2010 – 1.3%).

A minor slowdown in the inflation rates in Q3 2011 was caused by the slowdown in the growth of prices for foodstuffs by 0.1%. The price of non-food items increased by 1.5%, and of paid services – by 2.2% (Figure 2).

Figure 2

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



Source: Agency of Statistics of the Republic of Kazakhstan

The slowdown in the price growth in Q3 2011 occurred in such goods as cereals – from 14.0% in Q2 2011 to 0.6%, sugar – from 2.5% to the fall in prices by 7.4%, wheat flour – from 3.6% to 0.1%, macaroni products – from 3.0% to 0.5%, fruits and vegetables – from the fall in prices by 0.3% to the fall in prices by 13.7%. In the group of foodstuffs the prices for the following products increased in Q3 2011: meat and meat products – by 4.8%, eggs – by 2.7% and tobacco – by 1.9%.

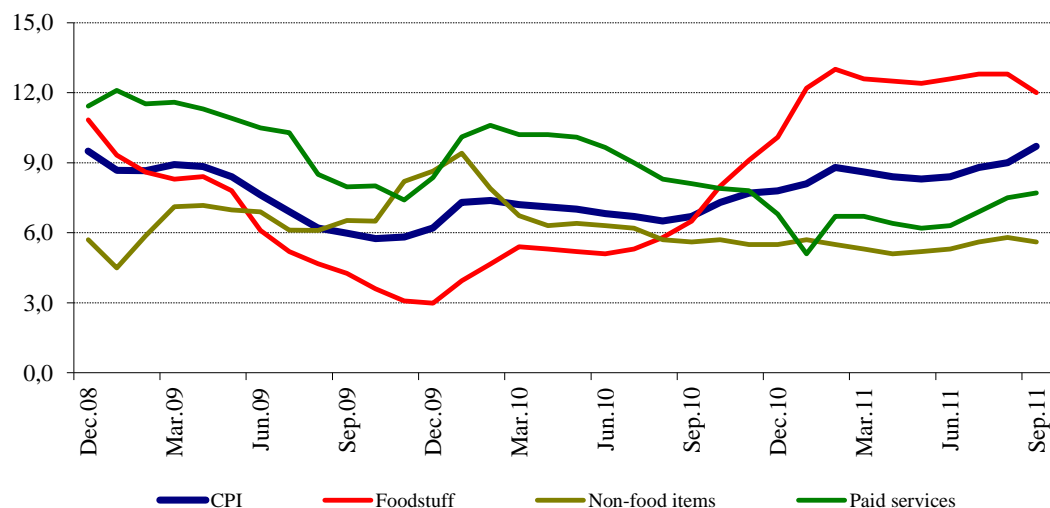
In Q3 2011 in the group of non-food items the prices of fuel and lubricants continued to grow but at a slower pace. So, the prices for gasoline in the third quarter increased by 7.2% (in Q2 2011 – by 11.5%), diesel fuel – by 9.1% (by 12.1%).

The accelerated growth in tariffs in the group of paid services should be also pointed out. The growth rates of prices for educational services increased significantly from 0.8% in Q2 2011 to 8.4% in Q3 2011; this was related to the growth in the tuition fees for university education by 13.4%. Also, the prices for the transportation services increased by 5.2% in Q3 2011 (in Q2 2011 – by 2.3%), including motor vehicles – by 6.7% (by 1.5%). The price of utilities increased by 1.5% (by 0.5%), including the grid gas – by 3.7% (by 1.3%), liquefied gas – by 6.2% (by 3.3%), cold water – by 2.9% (by 0.2%) and collection of waste – by 2.8% (by 4.1%).

At end-September 2011 the annual inflation amounted to 8.7% (in December 2010 – 7.8%). The acceleration of annual inflation rates in September 2011 was caused by the increase in prices for foodstuff by 12.0% (by 10.1%). Prices of non-food items increased by 5.6% (by 5.5%), paid services – by 7.7% (by 6.8%) (Figure 3).

Figure 3

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



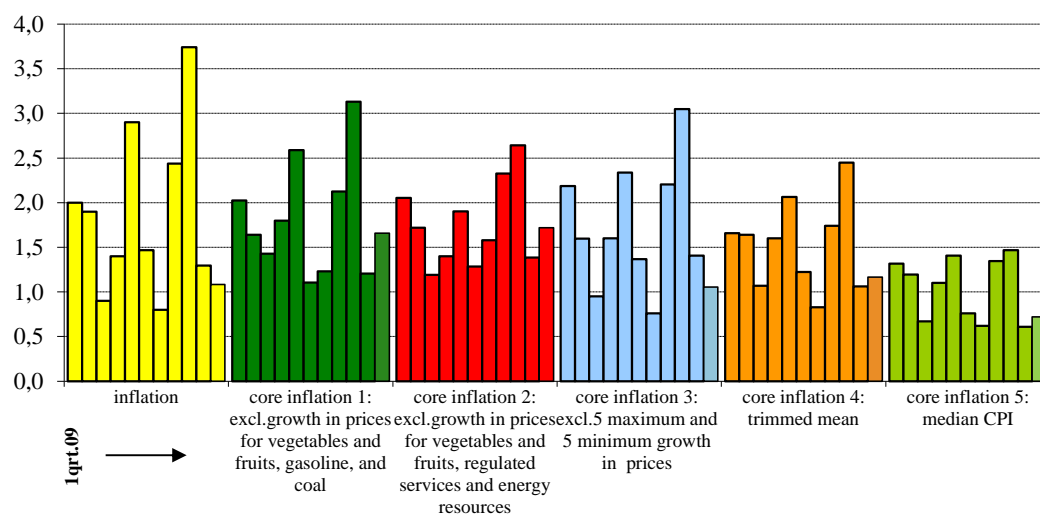
Source: Agency of Statistics of the Republic of Kazakhstan

1.2. Core Inflation

In Q3 2011 indicators of core inflation demonstrated higher growth rates as compared to the previous quarter. Only the indicator of core inflation-3 was an exception to this trend. Alongside with that, all indicators of core inflation were at a higher level as compared to the respective quarter of 2010 (Figure 4).

Figure 4

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



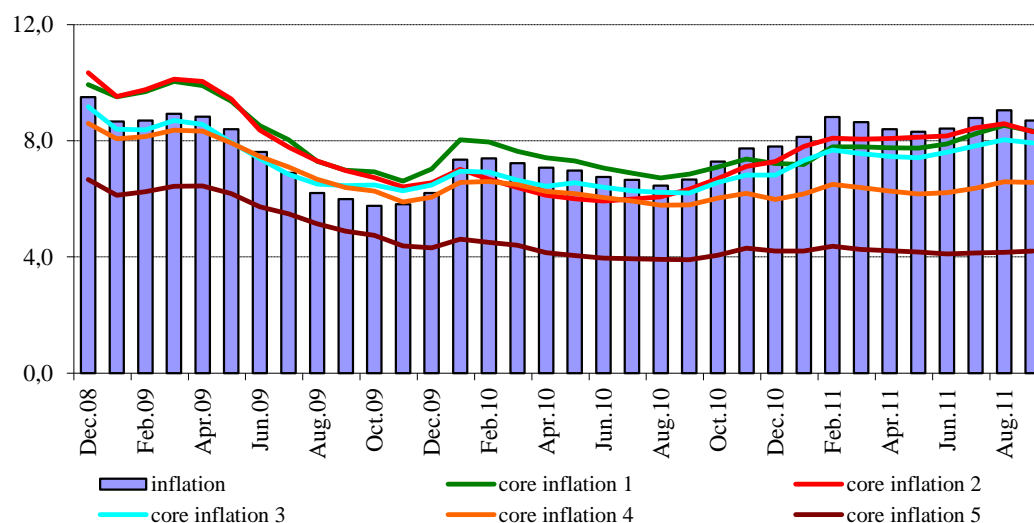
Source: Agency of Statistics of the Republic of Kazakhstan

In July-September 2011 core inflation indicators in annual terms demonstrated multi-directional dynamics. Core inflation-5 in Q3 2011 was accelerating. The rest of the core inflation indicators, after some acceleration in the growth rates in July-August 2011, started to gradually slowdown in September 2011. In doing so, all core inflation indicators at end-September 2011 have been at a lower level as compared to the headline inflation.

In September 2011 all core inflation indicators in annual terms have been at a higher level as compared to those in December 2010. This fact is an indicator of the remaining inflationary background in the economy, with insignificant impact of monetary factors on the inflation (Figure 5).

Figure 5

**Dynamics of annual inflation and core inflation
(as % of the respective quarter 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 Q3 2011 the producer prices have decreased by 0.2% (in Q3 2010 – growth by 0.9%). The cost of output depreciated by 0.3%, at the same time in its composition the price of interim consumption products decreased by 0.6%, the price of production means increased by 2.1%, and the price of consumer goods increased by 1.2%. The prices for production services increased by 2.0%.

In July-September of 2011 the producer prices in the mining industry decreased. After their growth in Q1 2011 by 16.1% and in Q2 2011 – by 9.6%, the prices decreased by 1.0% in Q3 2011 (in Q3 2010 the decrease accounted for 0.2%).

In Q3 2011 the cost of energy resources, after its growth in the previous quarter by 10.5%, decreased by 1.2% (in Q3 2010 – growth by 1.5%). In the composition of energy resources, the cost of oil extraction decreased by 1.5% (in Q3 2010 – growth by 2.2%), the cost of gas condensate decreased by 1.4% (the decrease by 2.5%).

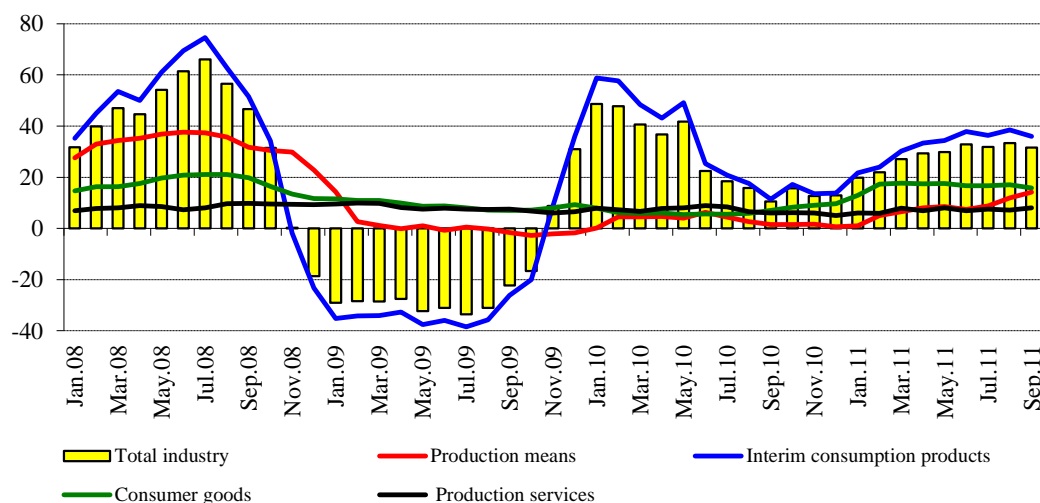
The growth rates of prices in the manufacturing industry in Q3 2011 as compared to the previous quarter slowed down from 2.6% to 1.4% (in Q3 2010 – growth by 3.0%). Prices in the metallurgical industry increased by 0.9%, cost of food production decreased by 1.1%, oil refined products increased in price by 2.9%.

There was a slight growth in prices for electric energy, gas and vapor supply and air conditioning in Q3 2011, which made up 0.5% (in Q3 2010 – growth by 0.7%).

In September 2011 the growth in prices in the industry in annual terms (September 2011 versus September 2010) amounted to 31.6% (Figure 6).

Figure 6

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



Source: Agency of Statistics of the Republic of Kazakhstan

The cost of output increased by 33.5% in annual terms, including the interim consumption products – by 36.0%, consumer goods – by 15.8%, production means – by 14.2%. The cost of production services increased by 8.1%.

1.3.2. Prices in Agriculture

In Q3 2011 prices for agricultural production realized across all channels decreased by 3.3% (in Q3 2010 – the growth by 4.6%). The dynamics of prices in agriculture was impacted by the decrease in the price for plant production.

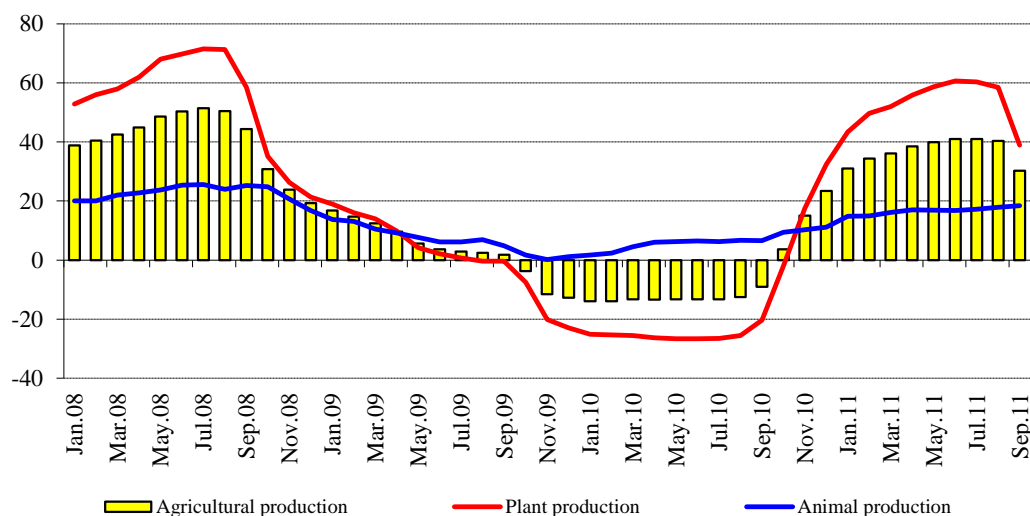
During July-September 2011 plant production became cheaper by 7.3% (in Q3 2010 – growth by 7.2%), alongside with that in the composition of plant production prices for grain cultures decreased by 7.9%, the price of vegetables decreased by 8.6%, and of potatoes – by 7.5%.

The price of animal products in Q3 2011 increased by 2.6%, whereas in Q1 2011 the growth reached 7.7%, in Q2 2011 the decrease accounted for 0.8%, and in Q3 2010 the growth made up 1.3%. In July-September 2011 the prices for meat and poultry increased by 2.6%, the price for unpasteurized milk decreased by 1.6%, and the price of eggs increased by 10.6%.

At end-September 2011, prices for agricultural products in annual terms increased by 30.3%. Alongside with that, the price of plant production increased by 38.9%, and the price of animal products grew up by 18.4% (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. Enterprise Monitoring

In Q3 2011 the demand for final products of enterprises continued to grow but at a somewhat slower pace: this is evidenced by the diffusion index of the demand for final products which went down to 54.5 (from 56.7 in the second quarter). The indicator went down because of a notable decrease in the share of enterprises with increased demand for their products to 25.4% (from 29.1% in the second quarter) and some increase in the share of enterprises that noted the decrease in the demand to 16.4% (from 15.8% in the second quarter).

The decrease in the demand occurred in agriculture where the diffusion index went down to 48.7. In the manufacturing industry and in such industries as “transport and communication” and “construction” a notable slowdown in the demand was observed. The increase in the demand was observed in the sector of “hotels and restaurants” only.

In Q4 2011 a further slowdown in the growth of demand for final products is anticipated, at virtually the same rates: the diffusion index of the change in the demand went down to 53.2. The highest decrease in the demand is anticipated by the enterprises in the construction sector, manufacturing industry and the sector of “hotels and restaurants”.

The growth rates of prices for final products of enterprises have decreased in Q3 2011 as compared to the previous quarter: the diffusion index of the change in prices for final products fell to 58.3 (from 60.4 in the second quarter) because of the increased number of enterprises that noted the decrease in prices to 8.4% (from 5.8% in the 2nd quarter).

The decreased rates of growth in prices for final products are observed in all sectors of the economy, except “real estate operations, rent and services to enterprises” where increased growth rates were observed. The highest decrease in the growth rates of prices occurred in the manufacturing and mining industries. Prices have decreased significantly in the agricultural sector: the diffusion index was 44.3.

In Q4 2011 a further slowdown in the price growth is expected: the diffusion index of the change in prices for final products was 56.9. The slowdown in the growth of prices for final products is anticipated by enterprises in the majority of industries, with the highest

decrease in the price growth rates being anticipated in the trade and construction. The enterprises in the mining industry only expect minor increase in the price growth rates.

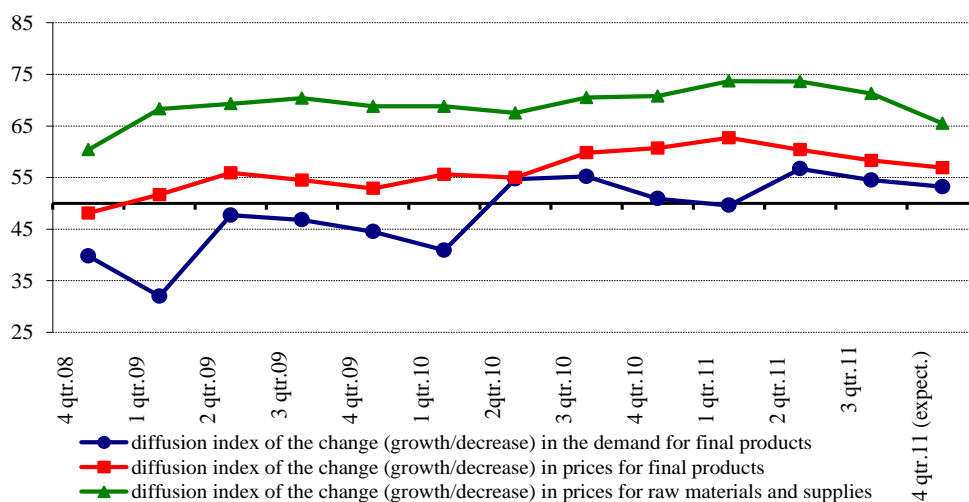
In Q3 2011, despite the slowdown in the growth rates, prices for raw materials and supplies remain high: the diffusion index of the change in prices for raw materials and supplies was 71.3 (in the second quarter – 73.6). A minor increase in the price growth rates was noted in such sectors as “hotels and restaurants”, “real estate operations, rent and services to enterprises”, and the decrease – in all other sectors. In the sample as a whole, the number of enterprises that noted the growth in prices for raw materials and supplies amounted to 52.6%, and only 2.9% of enterprises noted the decrease in prices.

For Q4 2011 the diffusion index of the change in the price for raw materials and supplies fell down to 65.5 (from 71.2 in the second quarter), which means a notable slowdown in the price growth rates. The indicator decreased because of a significant decrease of the share of enterprises anticipating the price growth.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about Q4 2011 are associated with a slowdown in the growth of demand and prices for final products and a more significant slowdown in the growth of prices for raw materials and supplies (Figure 8).

Figure 8

Diffusion indices of the change in demand and prices



Source: National Bank of the Republic of Kazakhstan

2. Inflation Factors

2.1. Aggregate Demand

In Q2 2011 the GDP based on the final consumption method as compared to the respective period of 2010 increased in real terms, according to estimate, by 7.9% (the growth in the second quarter of 2010, according to estimate, accounted for 11.2%, and in Q1 2011 – 5.8%).

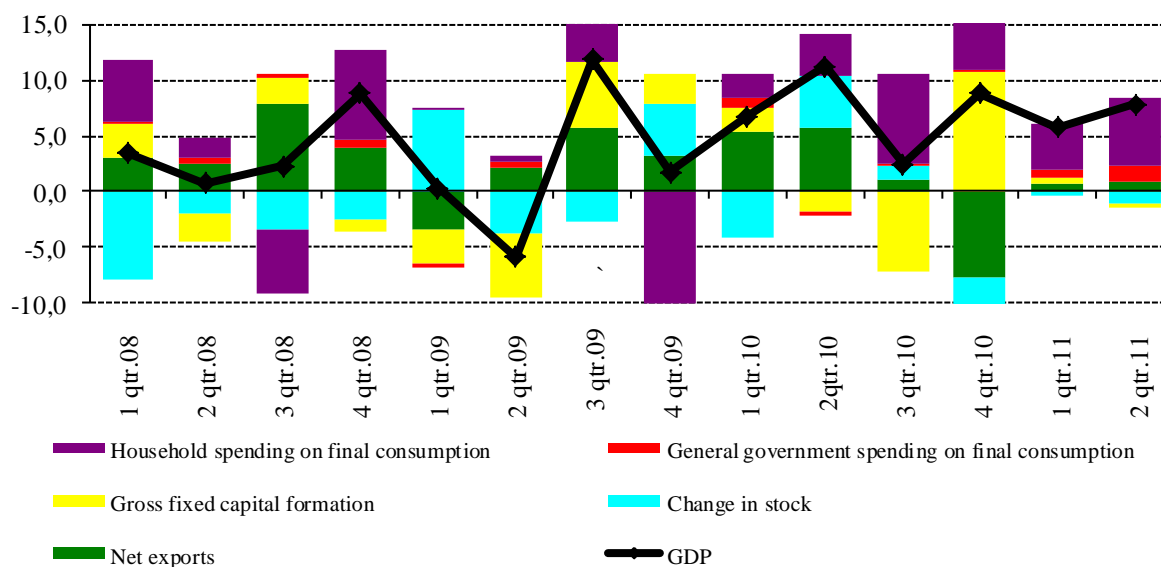
The accelerated growth rates of GDP in Q2 2011 were caused by the growth in the household spending on final consumption, which was stipulated by the increased household current consumption and government current consumption as well as by the growth in the balance of exports and imports of goods and services. In total, according to estimate, spending on final consumption increased by 12.1% (Q1 2011 – growth by 7.7%), net exports increased by 6.5% (5.3%), gross formation decreased by 7.9%.

As a result, household and government spending on consumption made positive contribution to the growth of GDP formation of (+)6.1% and (+)1.5% respectively, and net exports increased the GDP by (+)0.9%.

In its turn, gross formation made negative contribution to the GDP growth of (-)1.4%; the share of gross fixed capital formation in the GDP accounted for (-)0.3%, and changes in stock – for (-)1.1% (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

Household spending on final consumption in Q2 2011 increased versus the respective period of 2010 by 10.1% (in Q1 2011 – growth by 7.5%).

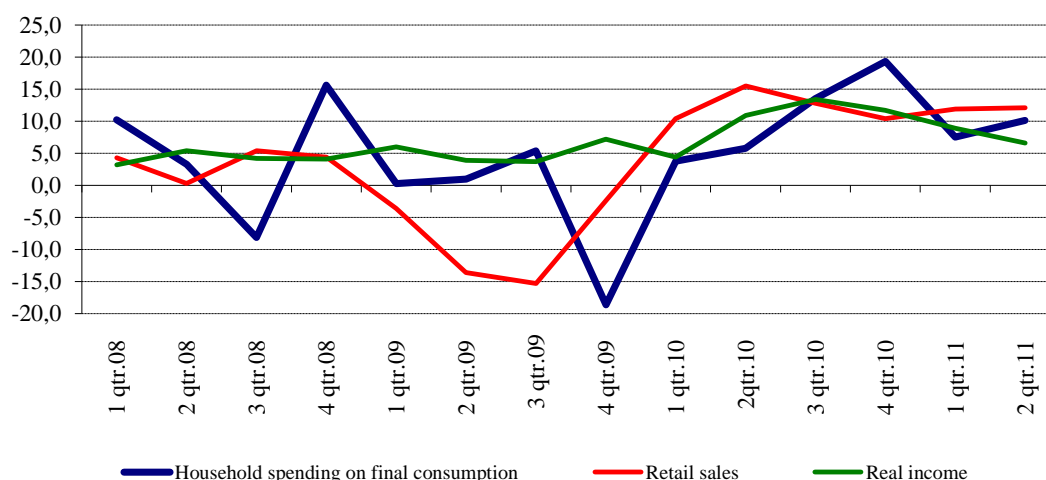
The growth rate of per capita income in nominal terms in Q2 2011 slowed down to 15.6% (in Q1 2011 – growth by 18.2%), and in real terms - to 6.6% (growth by 8.9%). However, such slowdown in the growth rates of per capita income didn't have a significant

impact on the retail sales whose growth rate accelerated from 11.9% to 12.1% as compared to Q1 2011.

A high growth rate of the 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 10.1%, whereas in the second quarter of 2010 the growth accounted for 5.8% only (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

During Q2 2011 the population had more preference to buying in the markets and from individual entrepreneurs where selling volumes increased by 13.7% in nominal terms, whereas sales in the shops and shopping malls, whose percentage in the total volume of retail sales is significant and accounts for 52.4%, increased by 4.7%.

It should be noted that if in Q1 2011 the increase in the cash income of the population, which was caused by the increased amounts of social transfers (retirement benefits, allowances and scholarships) served as the driver for the growth in retail sales, in Q2 2011 the growth in credits to the population was conducive to it.

During Q2 2011 credit exposure of the population increased by 4.7% on the whole, whereas in Q1 2011 its decline by 0.2% was observed. At the same time, credits to the population for consumer purposes increased by 8.0% in the second quarter of 2011.

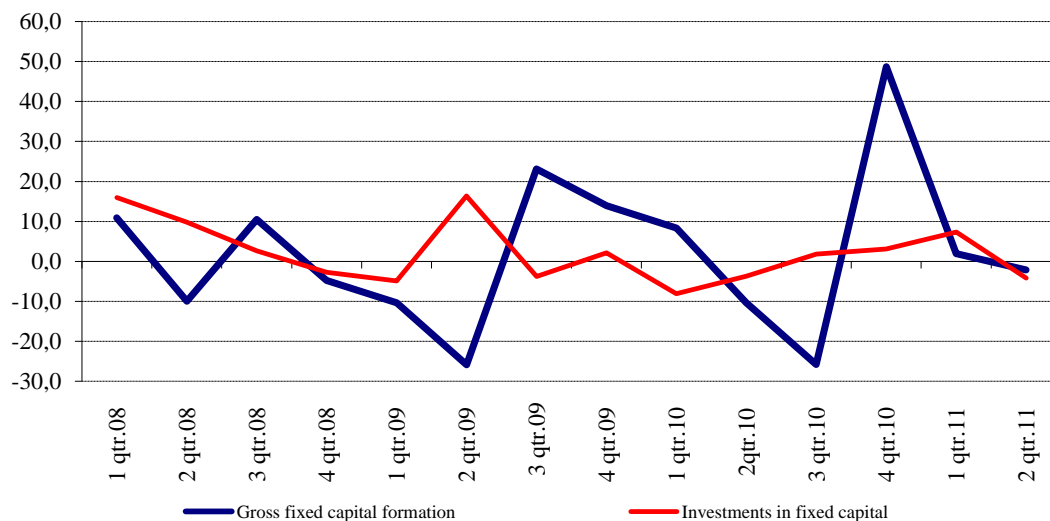
The volume of spending on gross capital formation, after its growth in in Q1 2011 by 0.3%, in the second quarter of 2011 decreased by 7.9%, thus making negative contribution to the growth in the GDP formation of (-)1.4%.

In the structure of gross formation, gross fixed capital formation decreased by 2.1%, making negative contribution to the GDP growth of (-)0.3%, however the second component i.e. the change in stock has aggravated the situation reducing the GDP growth by (-)1.1% more.

The investment activity of enterprises which weakened in Q2 2011 was conducive to the decreased gross formation, resulting in the decrease of investments in fixed capital by 4.2% during the quarter (Q1 2011 – growth by 7.3%) (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 second quarter of 2011 as compared to the respective period of 2010 increased by 18.7% (in Q1 2011 – growth by 8.3%).

In total, in Q2 2011 the state budget spending was financed in the amount of KZT 1410.0 bln. or 13.9% of GDP. As compared to Q2 2010, the increase made up 21.9%.

Current state budget expenditures totaled to KZT 1.0 trln., which is by 17.9% greater than in the second quarter of 2010. Within the current expenditures, costs related to other current expenditures (48.0%), purchase of goods (43.2%), payments of interest on the domestic loans (29.1%), and current transfers to individuals (23.9%) increased the most as compared to the respective quarter of 2010. Current transfers abroad decreased by 25.3%. There were no expenditures related to other current transfers in Q2 2011 at all. In the composition of capital expenditures the expenditures for the purchases of land and intangible assets (51.7%) and fixed capital formation (19.7%) demonstrated significant increase, whereas no expenditures related to capital transfers within the country and abroad were observed.

Expenditures related to budget credits showed significant increase of 18.7 times in Q2 2011, as compared to Q2 2010. This was caused by the increase in the domestic budget credits by 30.9 times as compared to the respective quarter of 2010.

During April-June 2011, the state budget revenues amounted to KZT 1623.4 bln. or 16.1% of GDP, which is by 25.7% higher than in April-June 2010. In the structure of the state budget revenues two items are still prevailing: tax revenues – 65.9% (in the second quarter of 2010 – 63.2%), and official transfers – 31.0% (33.7%). 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 475.0 bln.

As a whole, in the second quarter of 2011 tax revenues increased by 51.6% as compared to Q2 2010. The growth occurred due to the increased revenues in absolute terms

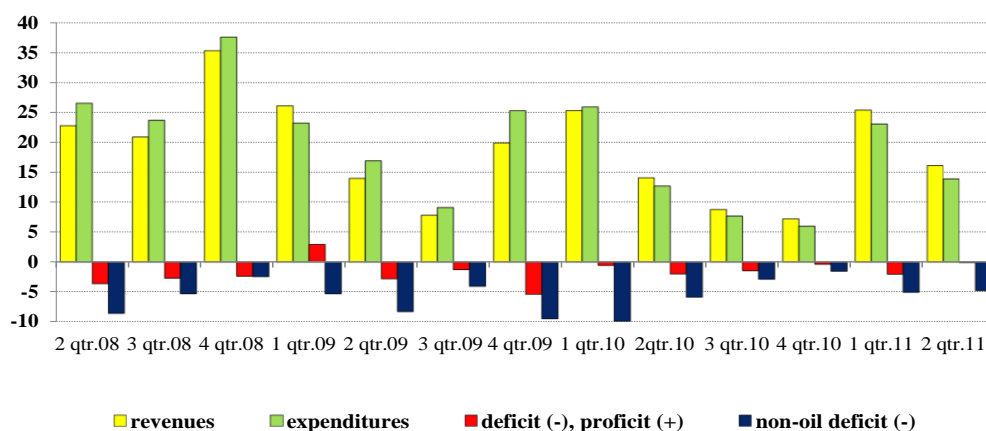
from corporate income tax, value-added tax and revenues from the use of natural and other resources by KZT85.2 bln., 43.9 bln. and 24.3 bln., respectively.

In Q2 2011 as compared to Q2 2010, revenues from fixed capital sales increased by 83.0%, volume of received transfers – 33.8%, non-tax revenues – 23.1%.

Since the expenditures were in excess of revenues to the state budget in the second quarter of 2011, the deficit of KZT14.8 bln. showed up whereas in the respective quarter of 2010 the deficit was KZT181.8 bln. (Figure 12). It should be noted that without the guaranteed transfer of KZT475.0 bln. to the republican budget from the National Fund, Q2 2011 would have ended with the non-oil deficit of KZT489.8 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

During Q2 2011 the Ministry of Finance borrowed KZT145.2 bln., mainly by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT76.4 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT54.0 bln.

Government domestic debt for Q2 2011 increased to KZT1816.3 bln. (8.0% of GDP), i.e. by 21.2% higher than in Q2 2010 (7.7% of GDP). The growth was secured by the issue of government long-term treasury obligations (MEUKAM), government long-term saving treasury obligations (MEUZHKA) and government medium-term treasury obligations (MEOKAM).

The Government's external debt in the second quarter of 2011 increased by 61.1% as compared to Q2 2010 (1.8% of GDP) and amounted to KZT555.7 bln. (2.4% of GDP).

2.1.3. External Sector

– World prices

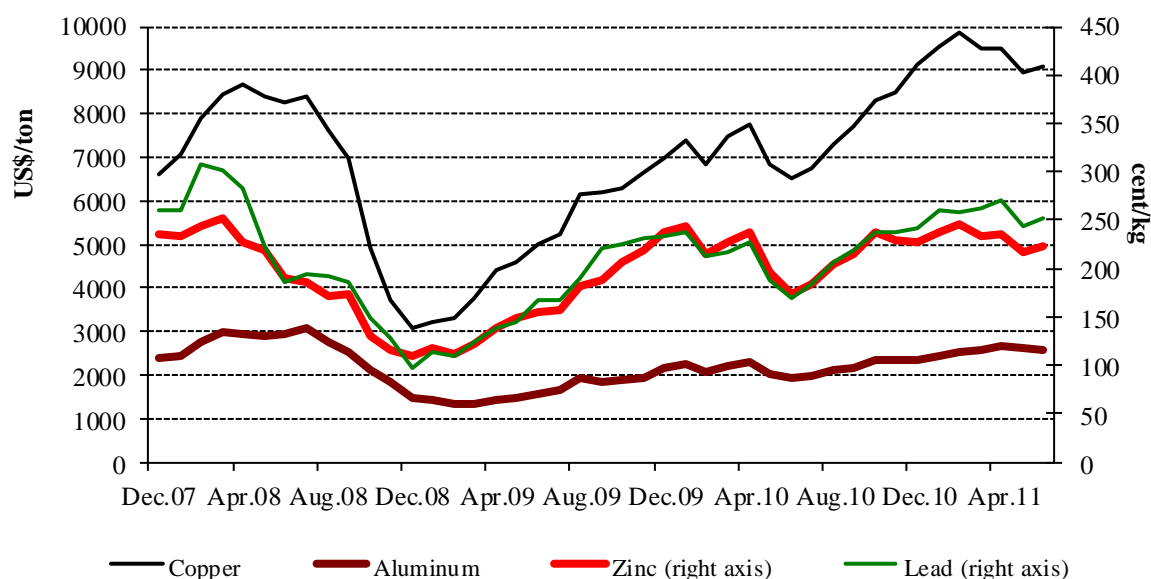
In Q2 2011 the situation in the global commodity markets remained unstable, which was accompanied by volatility of prices for certain commodities.

World prices for metals in April-June 2011 demonstrated a multi-directional dynamics. Some metals increased in price whereas the prices for some others decreased or

remained stable. Prices for copper in the second quarter of 2011 were volatile: the growth was interchanging with the fall in prices. On the whole, during the period prices decreased by 4.9% and were at US\$9173.3 per ton on average during the period. Prices for aluminum demonstrated a downward trend. Nonetheless, on the overall basis in Q2 2011 they grew by 4.4% and amounted to US\$2610.7 per ton. World prices for lead in April-June 2011 decreased by 2.0%, amounting to 255.1 cents per kg on average during the period. Prices for zinc decreased by 5.8% with an average price of 225.5 cents per kg during the period (Figure 13).

Figure 13

Dynamics of world prices for metals

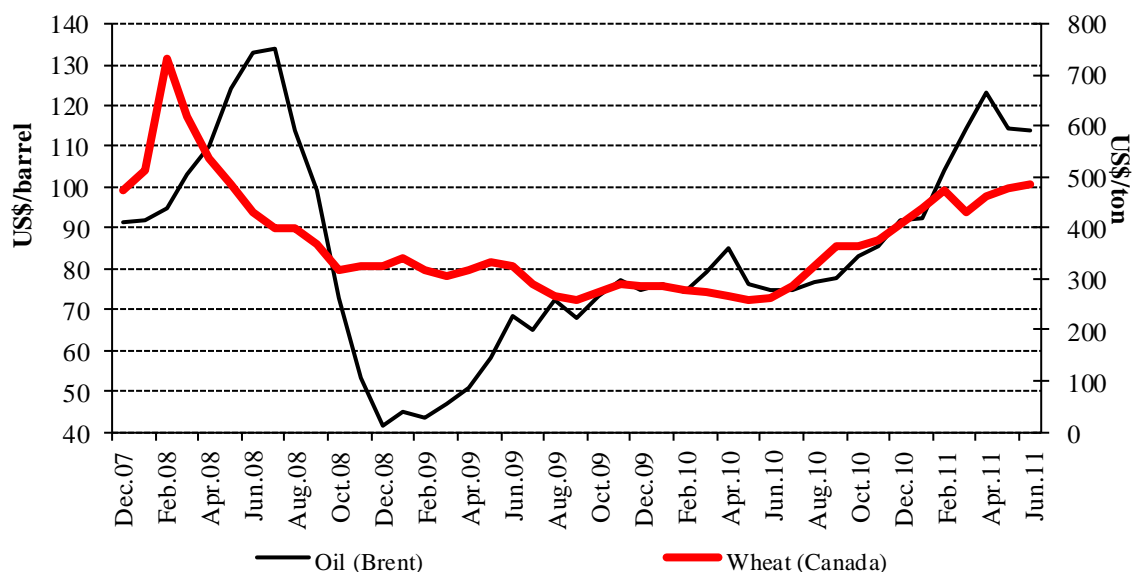


Source: World Bank

In Q2 2011 the oil prices in the global markets somewhat decreased. At the same time, in Q2 2011 as a whole as compared to Q1 2011, oil prices (Brent) increased by 11.6% and were at US\$117.1 per barrel on average for the period (Figure 14).

World prices for wheat had been growing throughout the second quarter of 2011. As a whole, during Q2 2011 the world price for wheat (Canada) increased by 5.7% and was on average at US\$474.6 per ton (Figure 14).

Figure 14

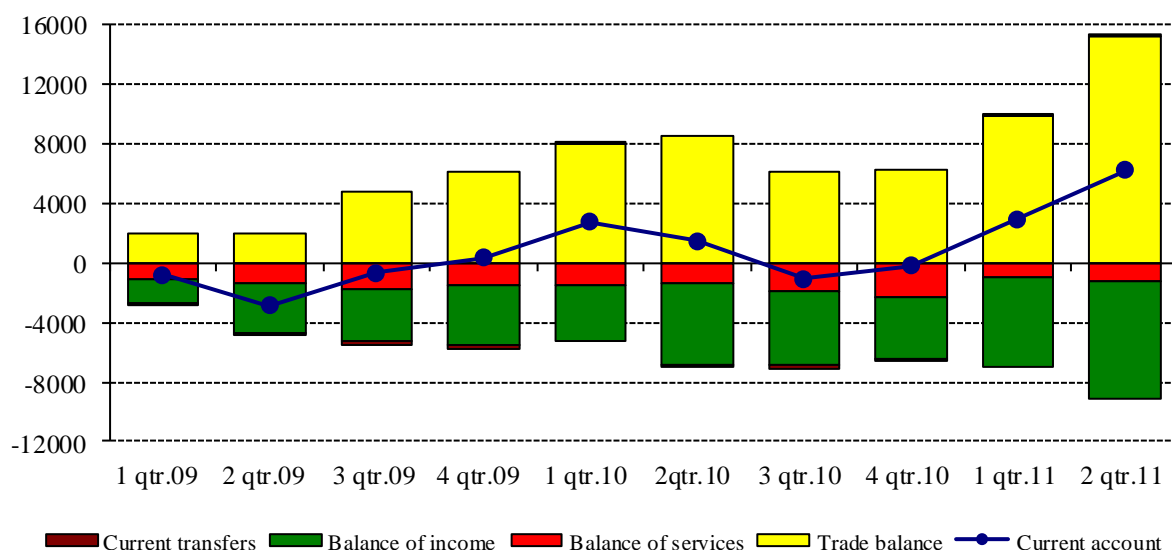
Dynamics of world prices for oil (Brent) and wheat (Canada)

Source: World Bank

– Balance of Payments

In the second quarter of 2011 the current account balance was in surplus of US\$6.2 bln. or 15.5% 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 second quarter of 2011 increased by 62.2%, and expenditures on commodity imports – by 43.0% as compared to Q2 2010. A positive trade balance increased by 80.0% and amounted to US\$15.3 bln. In the second quarter of 2011 the deficit in the balance of services decreased by 7.5% to US\$1.3 bln. as compared to

Q2 2010, and the deficit in the income balance increased by 45.2% and amounted to US\$7.9 bln. Net proceeds from non-residents on current transfers amounted to US\$ 93.1 mln.

The net inflow of resources on financial account operations in the second quarter of 2011 amounted to US\$5.3 bln. (in Q2 2010 – net outflow of US\$1.8 bln.). Foreign assets of residents (except for reserve assets) increased by US\$7.8 bln., which exceeds the indicator of the respective period of 2010 by 48.9%. Foreign liabilities of residents also increased by US\$2.5 bln. (the growth by US\$3.4 bln. in the second quarter of 2010).

As a result, the negative balance of payments for Q2 2011 amounted to US\$1.1 bln. (in the second quarter of 2010 – positive balance of US\$70.2 bln.).

– Terms of Trade and the Real Effective Exchange Rate

In Q2 2011 the aggregate terms of trade index was by 23.4% higher than the respective indicator for Q2 2010. Alongside with that, the terms of trade with the Euro zone countries improved by 22.3%, and with Russia – by 8.5% (Table 1).

Table 1

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

	2 qtr.10	3 qtr.10	4 qtr.10	1qtr.11	2 qtr.11
Export prices	60.1	17.3	18.9	36.5	44.7
Import prices	12.9	4.0	7.0	7.0	18.7
Terms of trade	42.7	16.1	11.7	27.6	23.4
including:					
The Eurozone countries					
Export prices	59.9	17.9	17.9	27.4	49.5
Import prices	31.0	14.1	24.5	9.1	22.9
Terms of trade	25.2	3.7	-5.7	17.1	22.3
Export prices	33.6	-25.2	9.4	37.4	38.0
Import prices	19.1	8.9	7.5	19.1	27.7
Terms of trade	11.0	-30.6	1.9	15.9	8.5

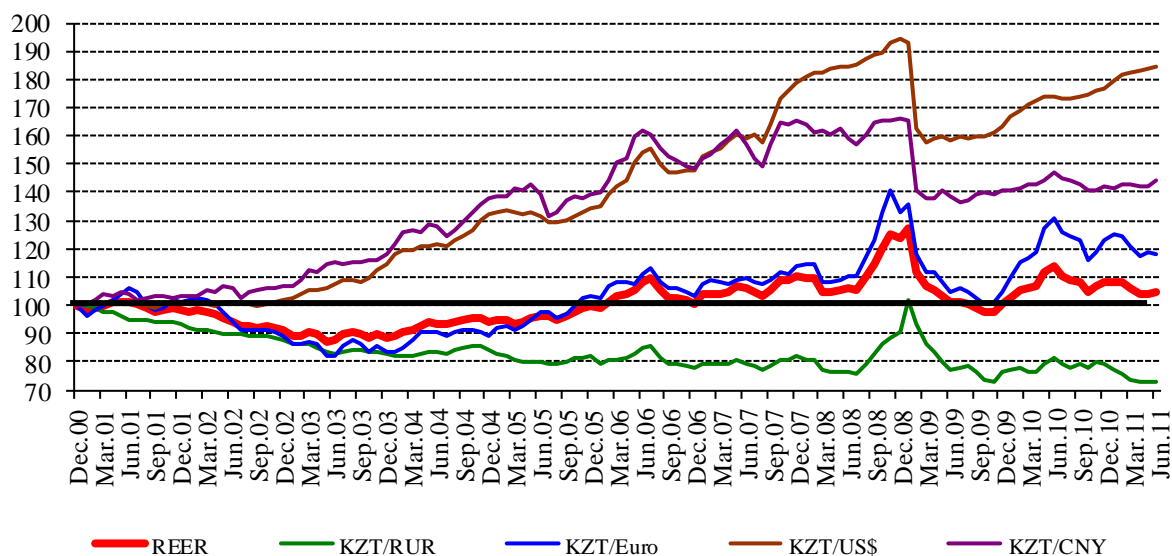
Source: National Bank of the Republic of Kazakhstan

Despite a relatively stable nominal exchange rate, the index of the real effective exchange rate of the Tenge depreciated by 2.9% in Q2 2011 as compared to the previous period. Alongside with that, the Tenge has depreciated versus the CIS currencies basket by 2.8%, and by 3.0% - versus the basket of other currencies.

During Q2 2011 the Tenge appreciated in real terms against the US Dollar by 1.3% as compared to the previous period, against the Euro – depreciated by 4.4% and against the Russian ruble – depreciated by 3.6% (Figure 16).

Figure 16

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



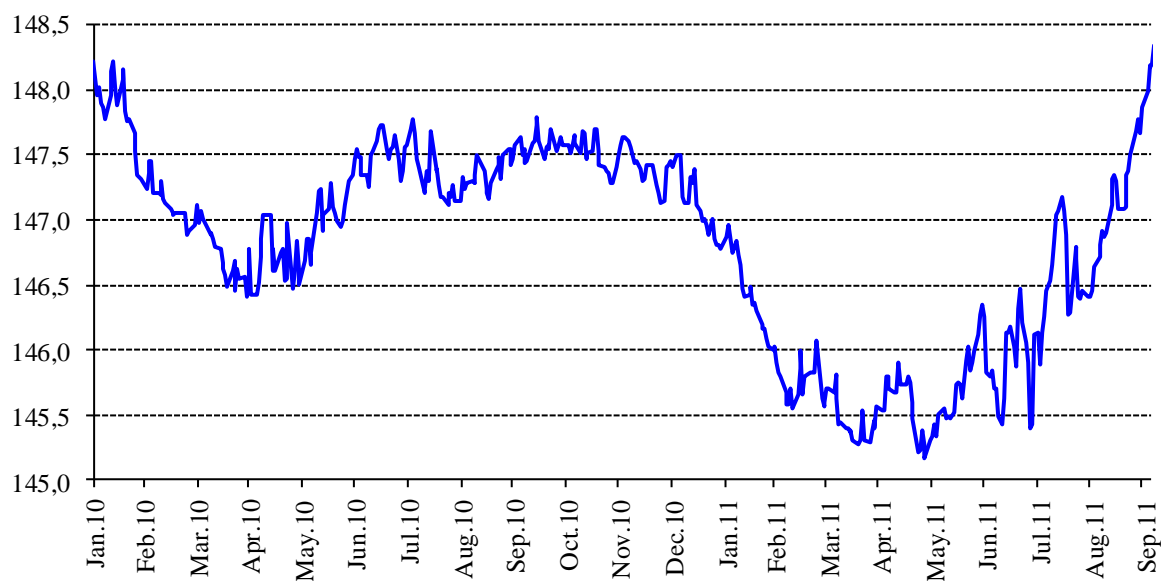
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge for Q3 2011 at the stock exchange was KZT145.65/1\$. The stock exchange rate at end-period was KZT147.99/1\$. Since the beginning of the year the Tenge has depreciated against the US Dollar in nominal terms by 0.3% (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

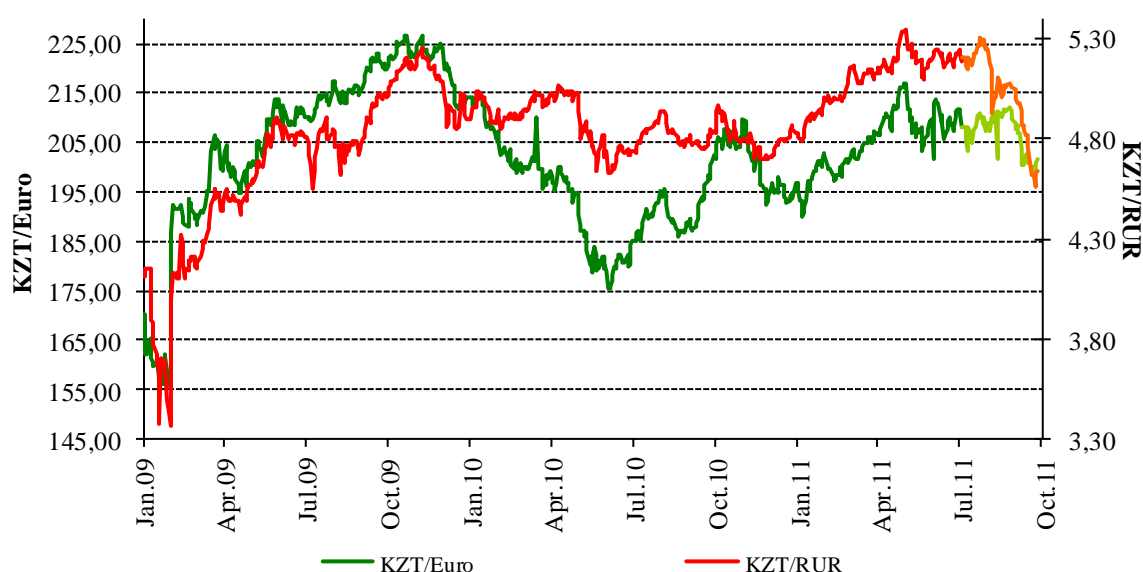
In July the Tenge depreciated versus the US Dollar by 0.2%, in August – by 0.2%, and in September – by 1.0%.

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 Q3 2011 the official exchange rate of the Tenge versus the Euro has appreciated by 2.4%, and versus the Russian ruble – by 11.77% (Figure 18).

Figure 18

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



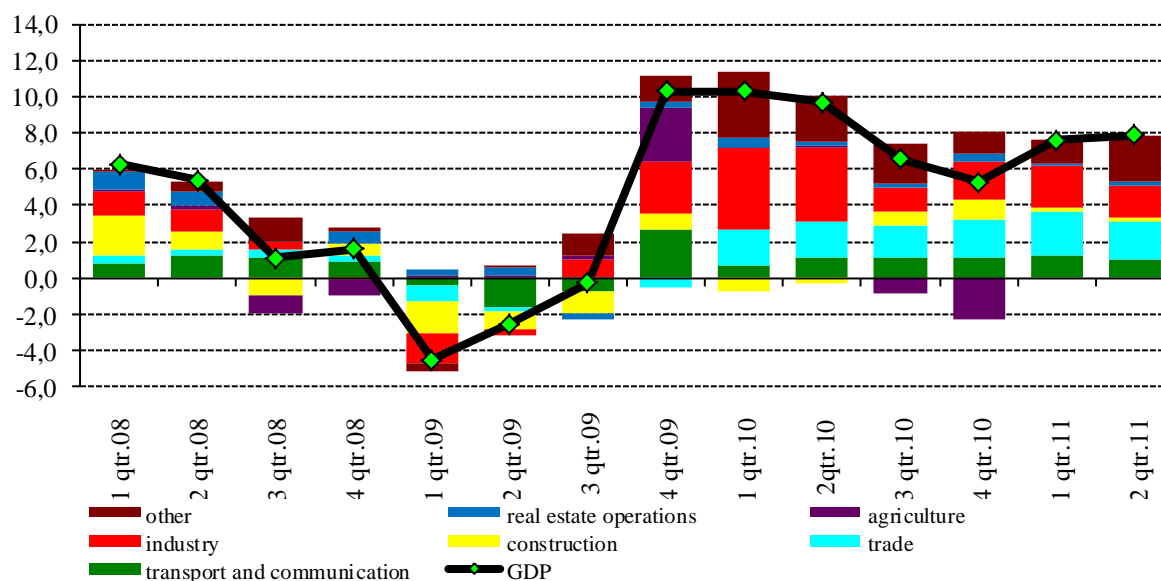
Source: National Bank of the Republic of Kazakhstan

2.2. Production

The volume of GDP output in the second quarter of 2011 amounted to KZT5821.5 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except financial and insurance activities, the GDP in real terms increased, according to estimates, by 7.9% versus Q2 2010 (in Q1 2011 the growth amounted, according to estimates, to 7.6%) (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: Information by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

In Q2 2011 the growth rate in the production of services accelerated to 10.9% (Q1 2011 – the growth by 8.1%), and in the production of commodities the growth rate slowed down to 3.9% (5.6%).

In the production of commodities' segment all key components demonstrated growth and especially significant growth occurred in the manufacturing industry. According to estimate, in Q2 2011 the index of physical volume in the industry was 105.3%, in agriculture – 101.2%, and in the construction sector – 101.1%, which on aggregate resulted in positive contribution to the GDP formation of 3.9%.

In the production of services the decline in the index of physical volume in financial and insurance activities by 0.5% was fully neutralized by high growth in all other components, which resulted in positive contribution to the GDP formation at the level of 5.2%.

In Q2 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 0.7%.

In its turn, the decline in the index of physical volume of net taxes on products and had a minor negative impact on the GDP growth formation of (-)0.04%.

2.3. Labor Market

2.3.1. Employment and Unemployment

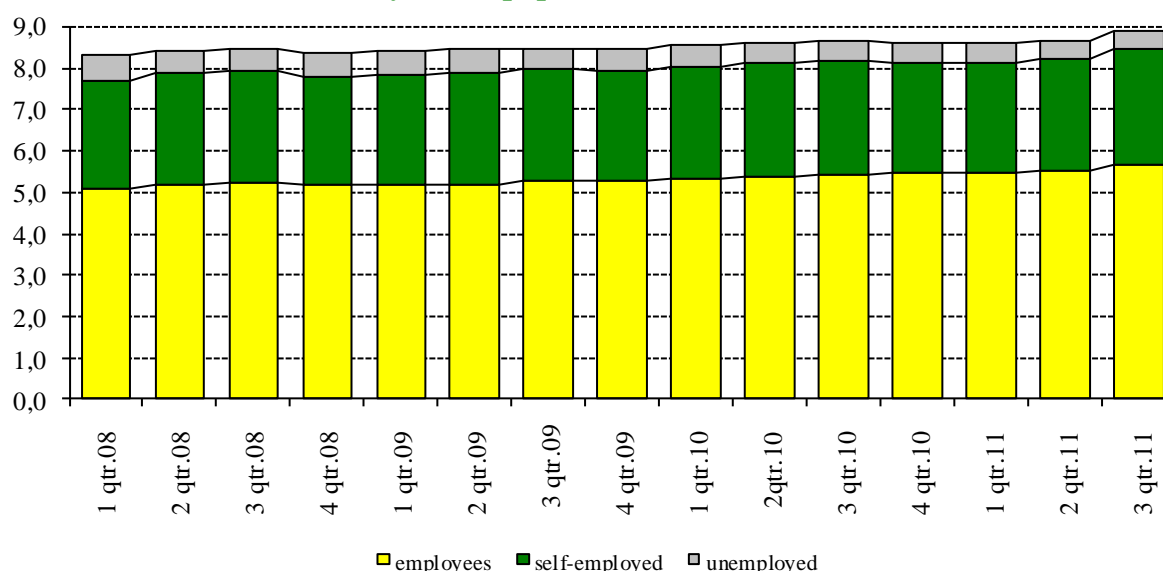
In the third quarter of 2011 the number of people employed in the economy, according to tentative estimates, was 8.4 mln., having increased by 2.9% versus the previous period (the growth versus Q3 2010 accounted for 3.3%). At the same time, the number of employees reached 5.7 mln. (the growth by 3.2%), the number of self-employed – 2.8 mln. people (the growth by 2.3%).

In the structure of employees, 4.7 mln. individuals (82.2% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.2%), at farms – 0.3 mln. individuals (5.6%).

In the third quarter of 2011 the number of unemployed amounted to 472,000 individuals, having increased by 1.1% as compared to the previous period and having decreased by 4.4% as compared to Q3 2010 (Figure 20).

Figure 20

The structure of economically active population, mln. individuals



Source: Agency of Statistics of the Republic of Kazakhstan

In July and August 2011 the following sectoral changes in the structural composition of employees were observed.

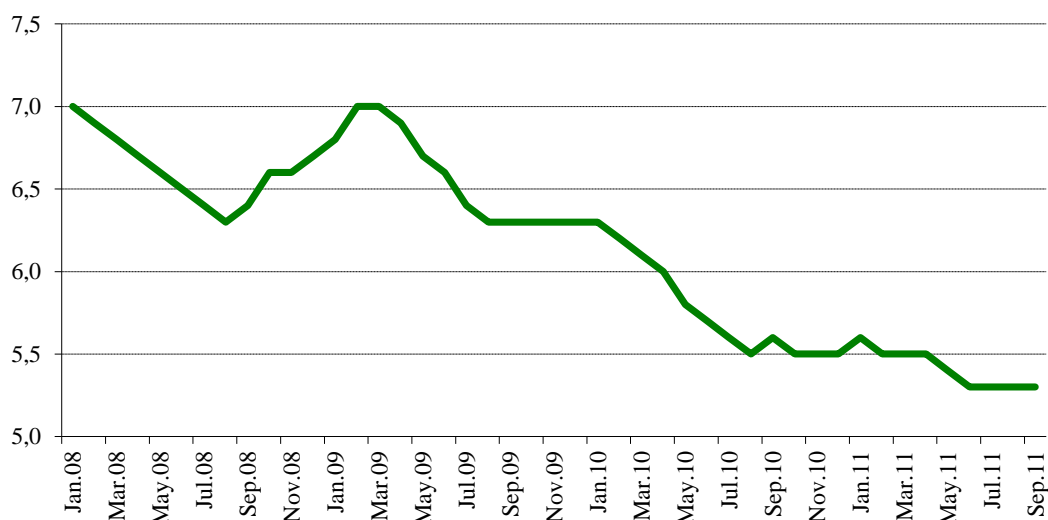
The main sectors that contributed to the growth in the employment rates, as compared to the respective period of 2010, were the following: education; public healthcare and social services; arts, entertainment and recreation; the industry; accommodation and catering services; wholesale and retail trade, repair of cars and motorcycles; construction.

The decrease in the number of employed was observed in the sectors such as: agriculture, forestry and fishery; administration and ancillary services; general government and defense; mandatory social welfare; real estate operations; water supply; 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, whereby the unemployment rate in Q3 2011, according to preliminary information, decreased from 5.4% to 5.3% (Figure 21).

It should be mentioned in this respect that the Employment Program-2020 which started to be implemented from Q2 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 Q2 2011 as compared to Q2 2010, the average monthly wages increased in nominal terms by 9.8% (Q2 2010 – the growth by 17.0%), and in real terms they increased by 1.3% (growth by 9.4%).

As compared to the first quarter of 2011, nominal wages increased by 6.3% and real wages increased by 4.4%.

The slowdown in the growth rates of wages in Q2 2011 was caused by the decrease in wages in April 2011. As compared to the previous month, in April wages decreased in nominal terms by 4.8% and in real terms – by 5.3%.

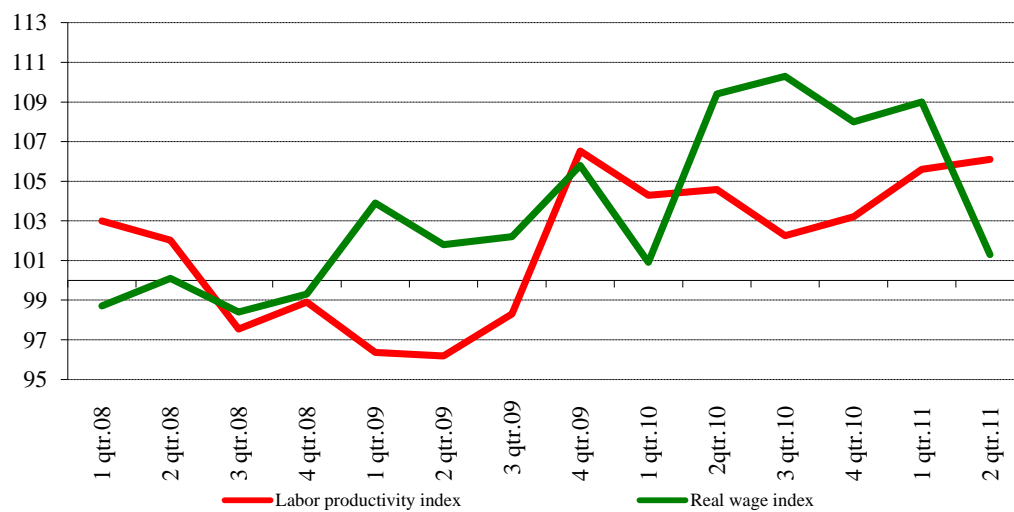
In June 2011 as compared to June 2010, the highest increase in nominal wages occurred in the area of extraterritorial institutions and bodies (growth by 42.4%), in the information and communication sector (growth by 22.9%), and in professional, scientific and technical activity (growth by 19.6%).

The highest wages in money terms were observed in June in the financial and insurance sector (KZT175,300) and the lowest – in agriculture (KZT42,600).

The higher GDP growth rate in the second quarter of 2011 (according to estimates, by 7.9%), as compared to the rate of growth in the number of employed individuals (by 1.1%) caused the acceleration of the labor productivity index to 6.1% (according to the National Bank's estimate), whereas this index reached 5.6% a quarter earlier and in the second quarter of 2010 it accounted for 4.4% (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

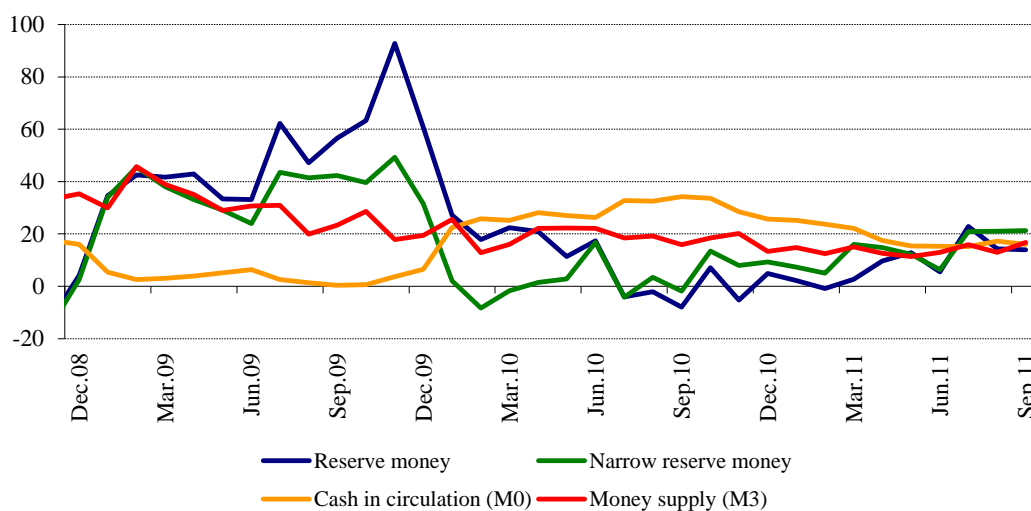
3. Money Supply

3.1. Monetary Aggregates

In Q3 2011 the 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

In Q3 2011 reserve money contracted insignificantly, by 0.2%, and amounted to KZT2883.1 bln. at end-September 2011. Narrow reserve money expanded by 11.2% to KZT2621.5 bln.

In September 2011 as compared to September 2010 reserve money expanded by 14.0%.

Net international reserves of the National Bank increased by 17.0% to US\$31.9 bln. in September 2011, as compared to the respective period of 2010. Within their structure, despite operations on the servicing of the Government's external debt, net currency reserves increased as a result of foreign exchange purchase in the domestic foreign exchange market, growth in the foreign currency balances with correspondent accounts of banks at the National Bank and currency proceeds to the Government's accounts at the National Bank. Assets denominated in gold also increased.

In September 2011 as compared to September 2010 net domestic assets of the National Bank increased (Table 2), mainly because of 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)

	4 qtr.10	1 qtr.11	2 qtr.11	3 qtr.11
Net international reserves	23.0	30.3	30.5	17.0
Net domestic assets	-498.0	-384.4	-104.9	6.0
Net claims on the Government	-64.4	-0.3	-56.2	-70.6
Claims on the economy	-222.6	-352.7	-192.5	30.6
Other net domestic assets	-20.0	-34.9	-52.1	-13.5
Reserve money	5.0	2.7	5.5	14.0
Narrow reserve money	9.2	16.0	6.3	21.2

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During Q3 2011 money supply increased by 4.9% to KZT9820.9 bln.

In September 2011 as compared to September 2010 its growth accounted for 16.8% as a result of increase both in net foreign assets and in 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)

	4 qtr.10	1 qtr.11	2 qtr.11	3 qtr.11
Net foreign assets	62.5	50.3	48.5	21.2
Domestic assets	-15.0	-8.5	-7.8	17.8
Claims on the Government	72.3	284.7	17.6	-54.5
Claims on the economy	5.6	1.4	4.9	10.2
Other net domestic assets	-28.3	-11.1	-21.4	-6.8
Money supply	13.3	15.0	12.9	16.8
Cash in circulation	25.7	22.1	15.3	16.0
Deposits of residents	11.6	14.1	12.6	16.9

Source: National Bank of the Republic of Kazakhstan

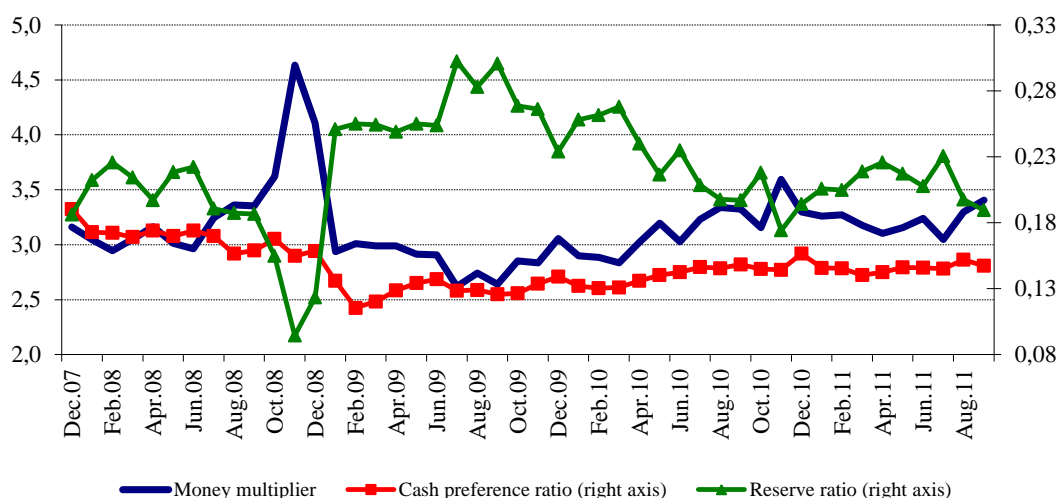
In the structure of net foreign assets of the banking system in September 2011 as compared to the respective period of 2010, net foreign assets of banks and of the National Bank increased. The growth in net foreign assets of banks was mainly stipulated by the decreased claims of non-residents on banks and increased claims on residents.

During the reviewed period in the structure of the main components of money supply some outstripping growth rates of residents' deposits in the banking system as compared to the growth rates of cash in circulation were noted. As a result, the share of deposits of residents in the structure of money supply increased insignificantly from 87.1% in September 2010 to 87.2% at end-September 2011.

The money multiplier grew from 3.32 in September 2010 to 3.41 in September 2011 as a result of outstripping growth in the money supply versus the rates of expansion of the reserve money. The reason for that was also the decreased 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

In Q3 2011 the volume of cash in circulation increased by 5.8% to KZT1260.7 bln. The growth of cash in circulation is explained by the growth in payouts from checking accounts of individuals, the growth in payouts to support ATMs as well as increased payoffs on other items. In addition, in Q3 2011 there was a decrease in proceeds to the bank cashier departments from the sales of goods, services and delivery of works. The effect of these factors was partially neutralized at the end of Q3 2011 by the increased proceeds from foreign exchange sales and decreased payouts on wages, retirement benefits and allowances.

In September 2011 as compared to September 2010 cash in circulation increased by 16.0%. Alongside with that, payouts of cash from the bank cashier departments increased by 21.3% to KZT1.2 trln., and cash receipts to the bank cashier departments increased by 24.5% to KZT1.1 trln.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-September 2011 deposits of residents amounted to KZT8560.3 bln., having increased by 4.8% during Q3 2011. Deposits of legal entities increased by 4.6%, and deposits of individuals increased by 5.4%. Deposits in the domestic currency increased by 1.7% to KZT5744.6 bln. and foreign currency deposits increased by 11.7%, amounting to KZT2815.7 bln.

A significant growth in foreign currency deposits in July and September 2011 could not break the trend of preference to domestic currency deposits that was forming in 2011. As a result, deposits in the domestic currency increased by 20.3%, and foreign currency deposits increased by 10.1%.

The growth in the currency holdings in Q3 2011 resulted in some increase of the deposit dollarization that resulted in the increase of the percentage of foreign currency deposits to 32.9% in September 2011 versus 30.9% in June 2011.

At the same time, despite its growth, this indicator is still below the level of the beginning of the year when it accounted for 34.9% in December 2010.

Thus, despite local demonstrations of growth of foreign currency deposits in 2011, stable growth of the Tenge deposits serves as a main source for the deposit base growth during 2010 and 2011 (Table 4).

Table 4

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

	Sep. 08	Sep. 09	Sep. 10	Sep. 11
Deposits of residents	30.6	19.2	11.4	16.7
<i>of individuals</i>	<i>6.3</i>	<i>24.7</i>	<i>9.9</i>	<i>17.1</i>
<i>of non-bank legal entities</i>	<i>44.7</i>	<i>17.1</i>	<i>12.0</i>	<i>16.5</i>
Deposits in the Tenge	21.5	-7.5	26.9	20.3
Deposits in foreign currency	49.9	67.7	-8.5	10.1

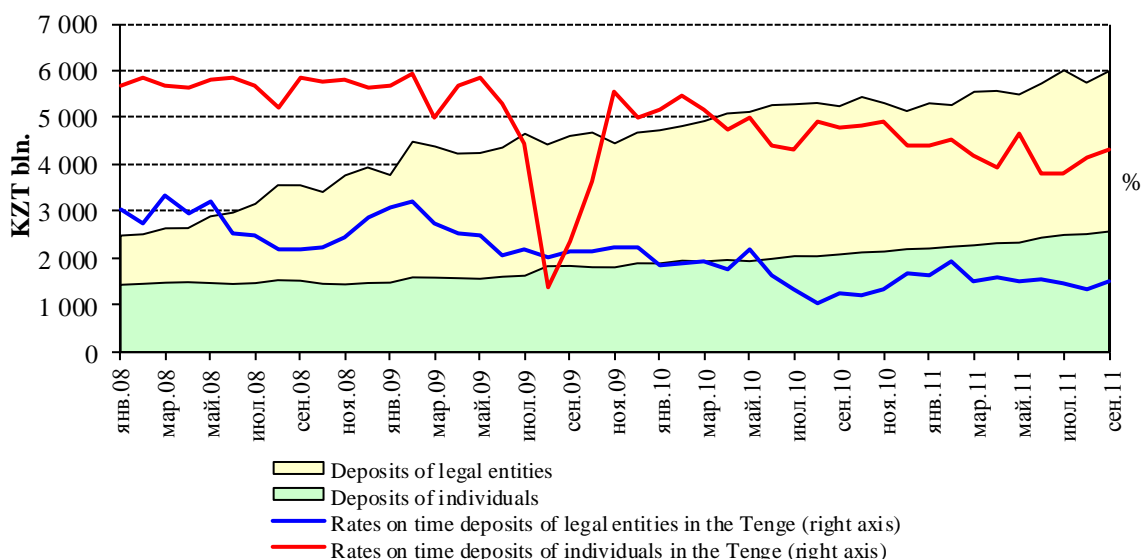
Source: National Bank of the Republic of Kazakhstan

In Q3 2011 the interest rates on deposits generally remained at the level of the previous quarter although there was some decrease in the yield on deposits – both on foreign currency and the domestic currency deposits.

In September 2011 the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 3.0% (in December 2010 – 3.4%), and on deposits of individuals – 8.6% (8.8%) (Figure 25).

Figure 25

Dynamics of deposits and their interest rates

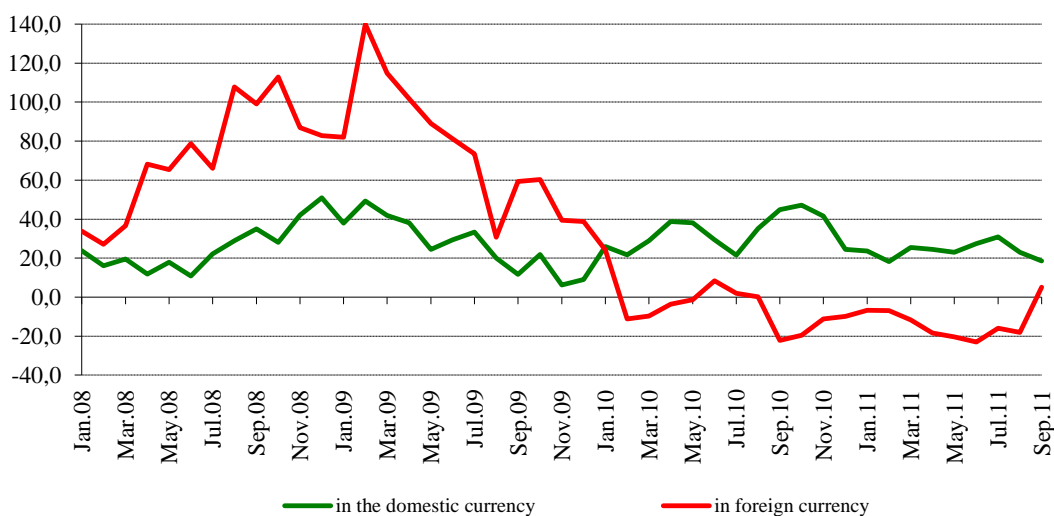


Source: National Bank of the Republic of Kazakhstan

In January-September 2011 the volume of deposits of legal entities increased by 16.5% to KZT5989.7 bln., and the annual growth (September 2011 versus September 2010) accounted for 14.2%. Deposits of legal entities in the domestic currency increased in annual terms by 18.5%, and foreign currency deposits increased by 5.1% (Figure 26).

Figure 26

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

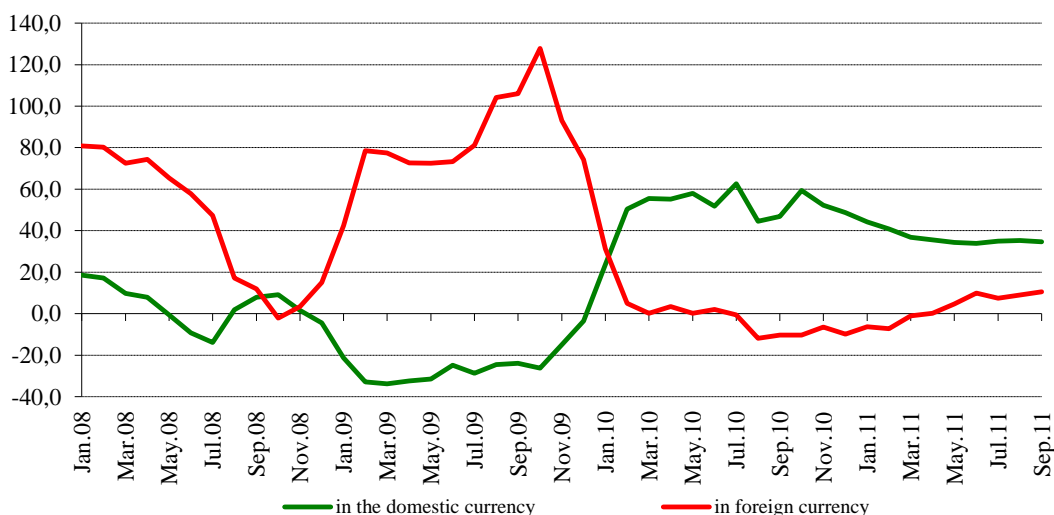


Source: National Bank of the Republic of Kazakhstan

The volume of deposits of individuals has increased by 17.1% to KZT2570.6 bln. since the beginning of the year, and the annual growth accounted for 23.5% in September 2011. Deposits of individuals in the domestic currency in annual terms increased by 34.6%, and foreign currency deposits increased by 10.6% (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 Q3 2011 bank credits to the economy increased by 6.2% to KZT 8420.8 bln. Credits to legal entities increased by 7.6%, credits to the population – by 2.3%.

In January-September 2011 the lending volume increased by 10.9%, where credits to legal entities increased by 12.5% and credits to individuals – by 6.9%.

The average weighted rate on credits to legal entities decreased from 11.9% to 10.8% in September 2011 as compared to December 2010. This was caused by the decrease in the cost of borrowing for legal entities both in the domestic currency and in foreign currency in Q3 2011.

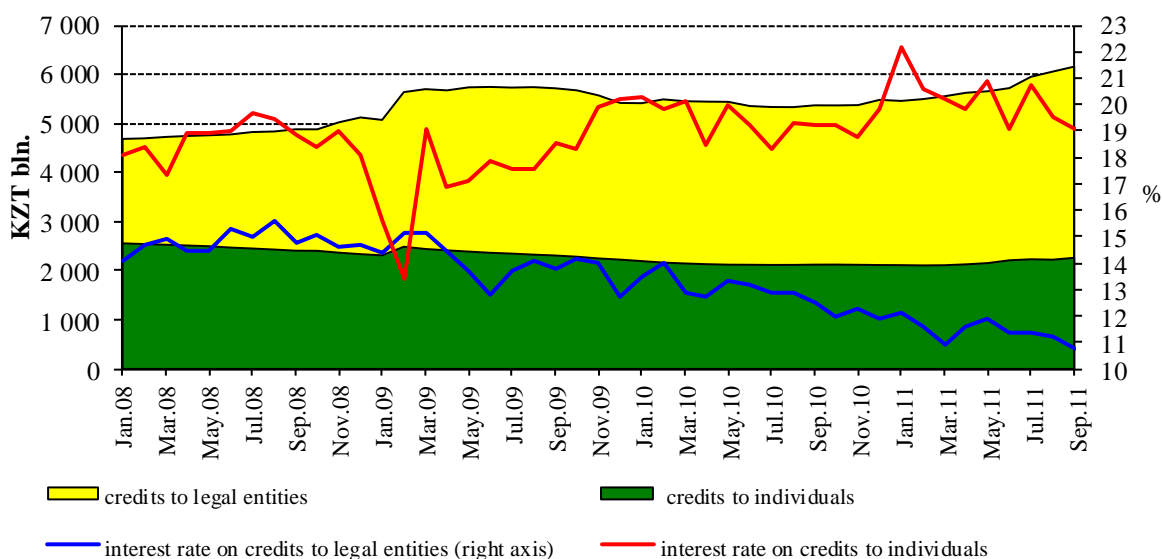
The average weighted rate on credits to individuals decreased from 19.8% to 19.1% in September 2011 as compared to December 2010. In general, in Q3 2011 the growth of rates on foreign currency loans and their slight decrease on loans in the domestic currency was observed (Figure 28).

In the structure of credits by objects of financing the major volume of debt fell on credits provided for the purchase of working capital (26.8%), for new construction and reconstruction (15.9%), as well as for other purposes (24.9%).

In a sectoral breakdown, the highest debt on bank credits to the economy falls on other sectors (non-production sphere and individual entrepreneurship) – 41.5%, trade – 20.3%, construction – 17.9%, and industry – 11.5%.

Figure 28

Dynamics of credits to the economy and their interest rates

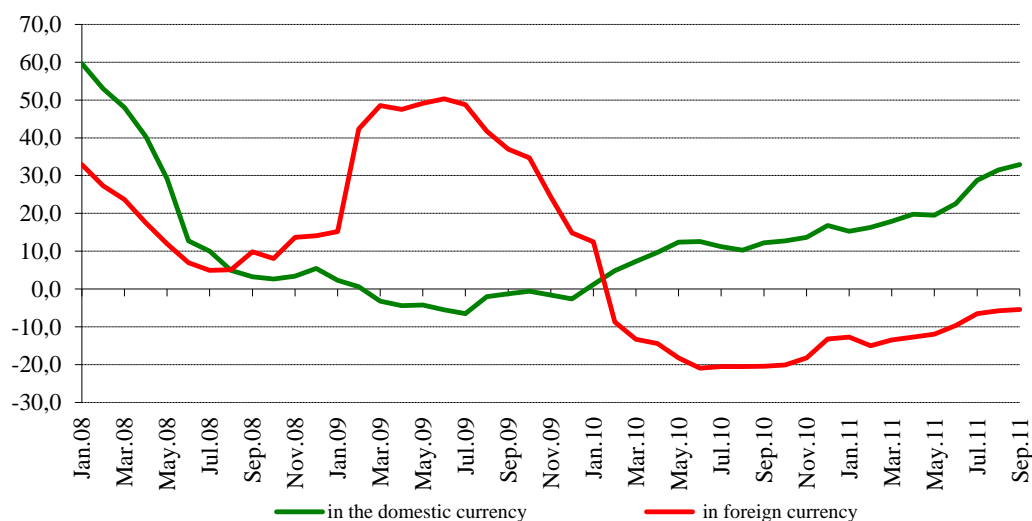


Source: National Bank of the Republic of Kazakhstan

In September 2011 as compared to September 2010, the volume of credits to legal entities increased by 14.7%. Credits to legal entities in the domestic currency increased by 32.9% in annual terms, and credits in foreign currency decreased by 5.4% (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

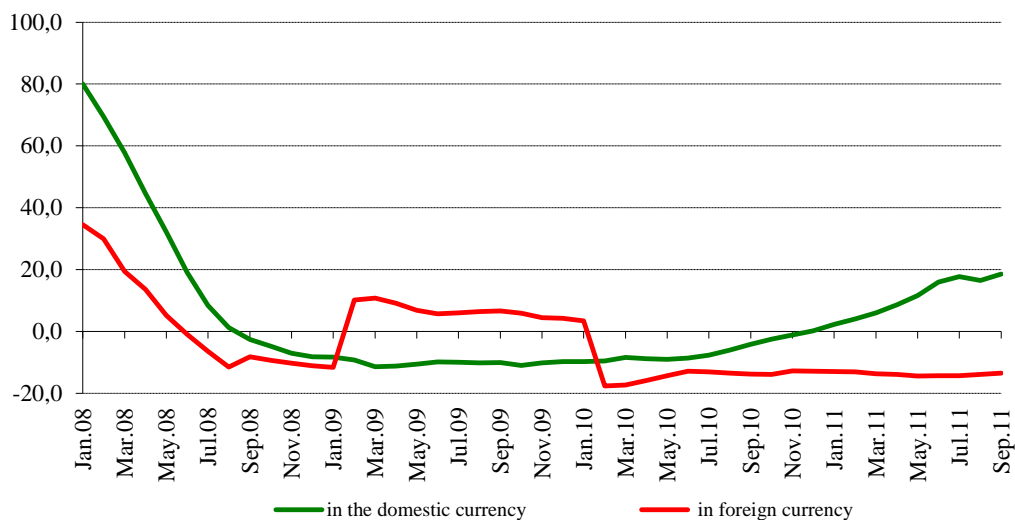
The share of medium- and long-term credits at end-September 2011 amounted to 77.5% in the total volume of credits to legal entities (in December 2010 – 78.8%).

In September 2011 the volume of credits to individuals increased by 6.5%, as compared to the respective period of 2010. In the structure of credits to the population, credits in the domestic currency have demonstrated the increase by 18.5% and credits in foreign currency – the decrease by 13.5% (Figure 30).

The share of medium- and long-term credits at end-September 2011 amounted to 96.4% in the total volume of credits to individuals (in December 2010 – 96.3%).

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

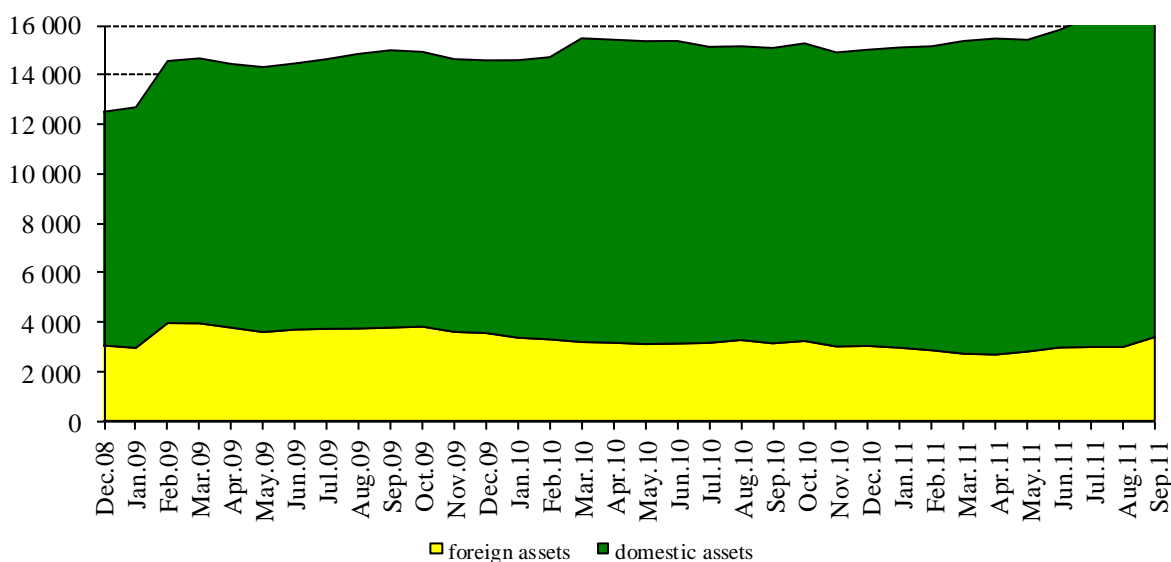
3.2.3. Bank Assets and Liabilities

– Assets

In Q3 2011 the amount of bank assets calculated under the Monetary Survey decreased by 4.3% to KZT16.5 trln. Bank assets increased in annual terms (September 2011 versus September 2010) by 9.3% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

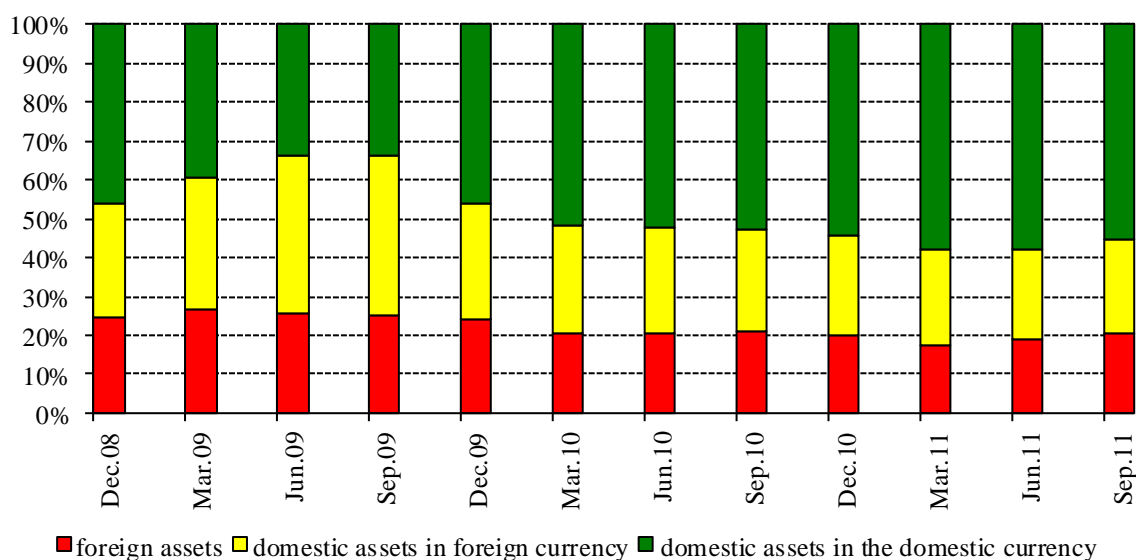
Foreign assets of banks in September 2011 accounted for 20.6% of total assets or US\$22.9 bln. They increased by 10.0% as compared to December 2010, and increased by 12.7% as compared to June 2011.

In the structure of foreign assets in September 2011, credits to non-residents accounted for 48.2% (in June 2011 – 48.7%), deposits placed with non-residents – 32.2% (in June 2011 – 28.8%), securities of non-residents – 4.2% (in June 2011 – 4.2%), other accounts receivable – 15.4% (in June 2011 – 18.3%).

Domestic assets in September 2011 accounted for 79.4% or KZT13.1 trln., where assets in the domestic currency amounted to 69.6% or KZT9.1 trln., in foreign currency – 30.4% or KZT4.0 trln. In July-September 2011 domestic assets increased by 2.0%, where assets in the domestic currency decreased by 0.5%, and foreign currency assets increased by 8.0% (Figure 32).

Figure 32

Structure of bank assets, %



Source: National Bank of the Republic of Kazakhstan

In July-September 2011 the quality of bank assets was slightly deteriorating. The share of standard assets decreased from 49.2% to 47.7%, share of doubtful assets increased from 35.4% to 35.5%, and the share of bad assets increased from 15.4% to 16.8%.

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 30.6% to 30.2%, of category 2 – increased from 12.6% to 9.9%, share of assets of category 3 increased from 22.5% to 22.8%, of category 4 – decreased from 8.8% to 8.2%, category 5 – increased from 25.5% to 28.9%. Such changes in the structure of doubtful assets indicate a remaining threat of deterioration in the quality of bank assets.

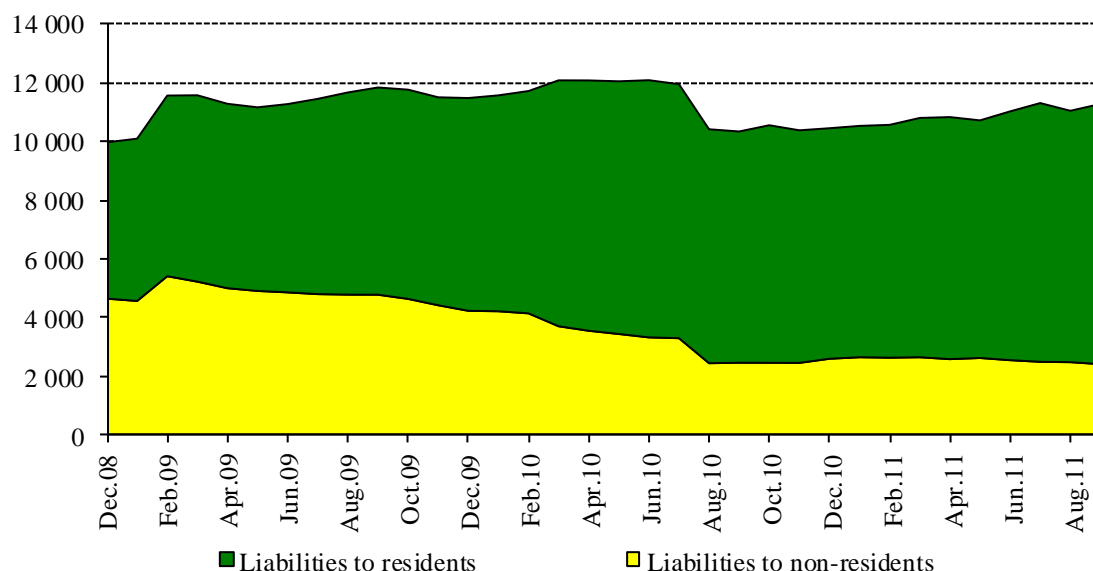
As a whole, under the Monetary Survey for Q3 2011, bank assets demonstrated a slight growth. A high level of credit risk and low asset quality still represent weak aspects of the Kazakh banking system. Despite the growth in lending volumes by 6.2% in Q3 2011, banks still adhere to a conservative policy and avoid active crediting of the economy.

– Liabilities

In Q3 2011 total bank liabilities calculated according to the Monetary Survey increased by 2.3% and amounted to KZT11.3 trln. at end-September (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

Bank liabilities to non-residents decreased by 5.4% to KZT2.4 trln. (US\$16.2 bln.) in September 2011 as compared to June 2011. Bank liabilities decreased by 2.3% versus the respective month of 2010. At end-September 2011 they accounted for 21.3% of the total volume of bank liabilities.

In September 2011, in the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents decreased from 9.0% in June 2011 to 6.3%, the share of liabilities on securities increased from 68.3% to 71.8%, and credits from non-residents decreased from 20.3% to 19.1%, respectively.

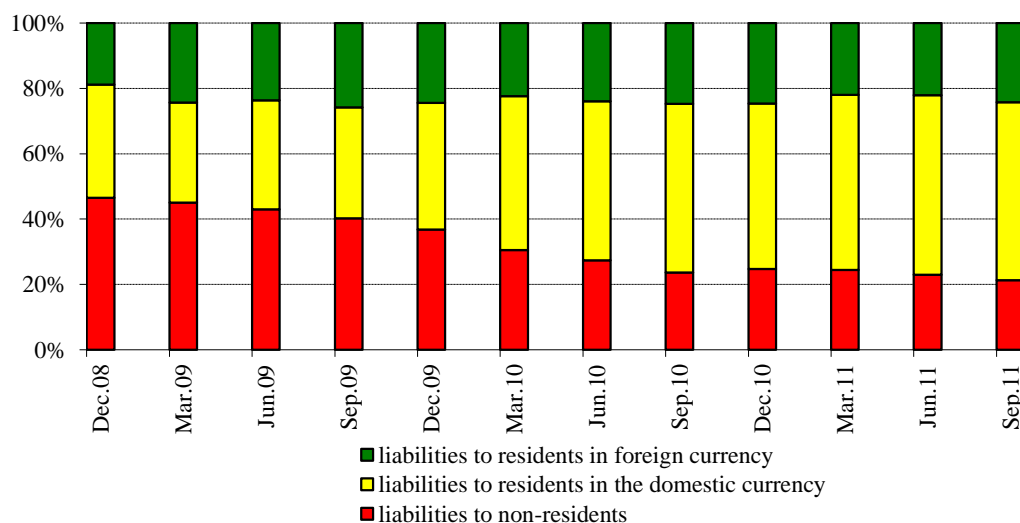
During July-September 2011 liabilities to residents increased by 4.6% to KZT8.9 trln. (US\$60.0 bln.), where liabilities in the domestic currency increased by 1.5% to KZT6.1 trln., and foreign currency liabilities increased by 12.2% to KZT2.7 trln. (Figure 34).

Thus, in Q3 2011 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 foreign currency component. The decrease in liabilities to non-residents occurred as a result of the decrease in deposits and credits of non-residents.

Therefore, one may state that during the third quarter of 2011 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

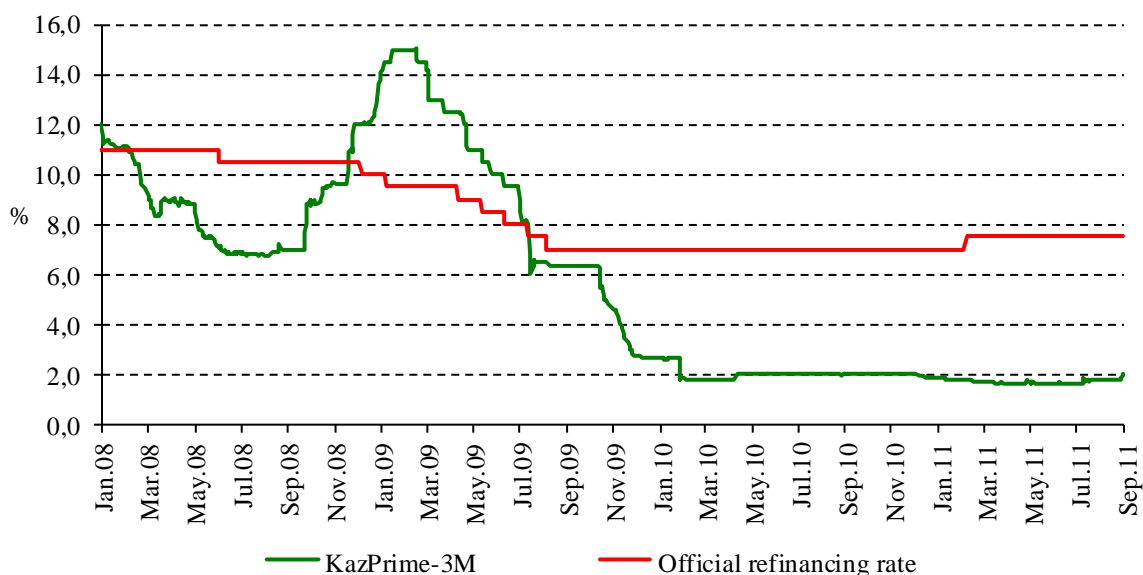
3.2.4. Interbank Market Rates

In Q3 2011 the growth of interest rates was observed in the interbank market.

The KazPrime index increased from 1.65% on average during Q2 2011 to 1.72% on average during Q3 2011. At end-June the indicator was 1.63% and at end-September 2011 – 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

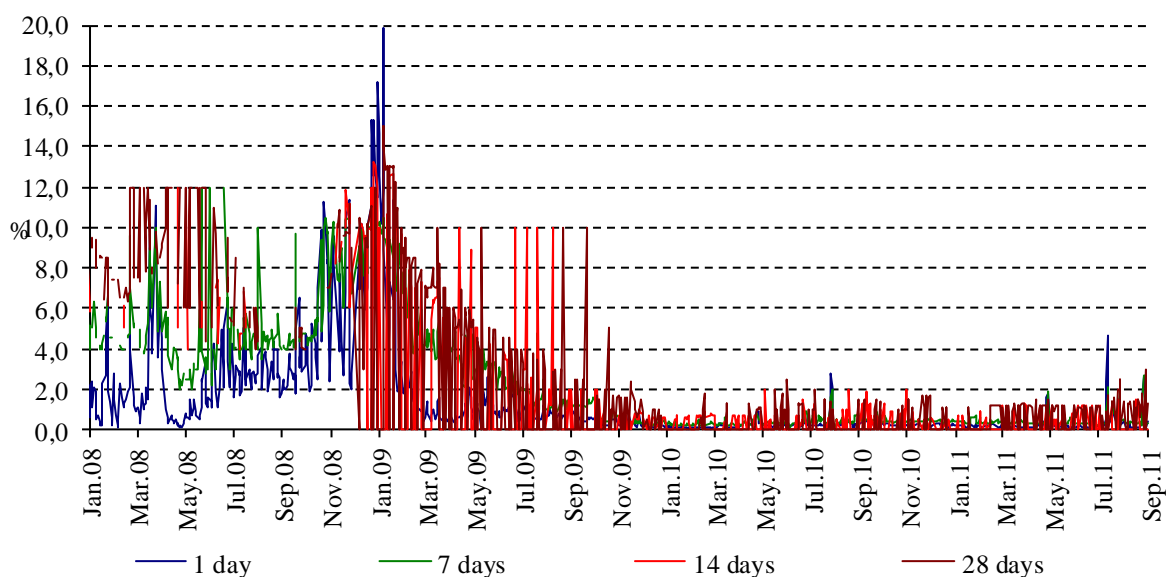
The average weighted rate on 1-day operations in the sector of the automatic REPO in Q3 2011 increased and made up 0.74% (in the second quarter – 0.29%). Its maximum level was 4.69% and minimum – 0.07%.

Rate fluctuations on 7-day REPO operations in Q3 2011 were within the range of 0.20% - 2.67% (the average weighted rate was 0.45%), on 14-day REPO operations – between 0.37% and 1.50% (the average weighted rate was 0.48%), and on 28-day REPO operations – between 0.60% and 3.00% (the average weighted rate was 1.19%) (Figure 36).

In Q3 2011 the transaction volumes in the sector of automatic REPO increased by 14.1% as compared to the previous quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

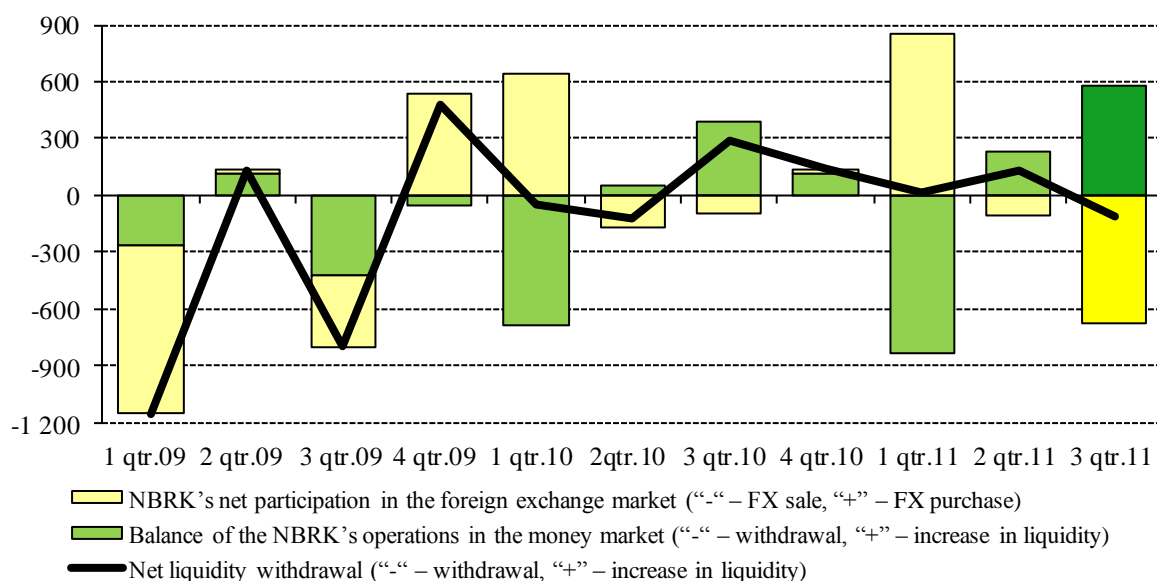
4. Monetary Policy Instruments and Operations

In Q3 2011 the situation in the financial market remained stable, banks had sufficient Tenge liquidity.

In Q3 2011 the National Bank's operations in the financial market resulted in the withdrawal of the Tenge liquidity, which occurred mainly because of the net sale of foreign exchange by the National Bank in the domestic foreign exchange market. (Figure 37).

Figure 37

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

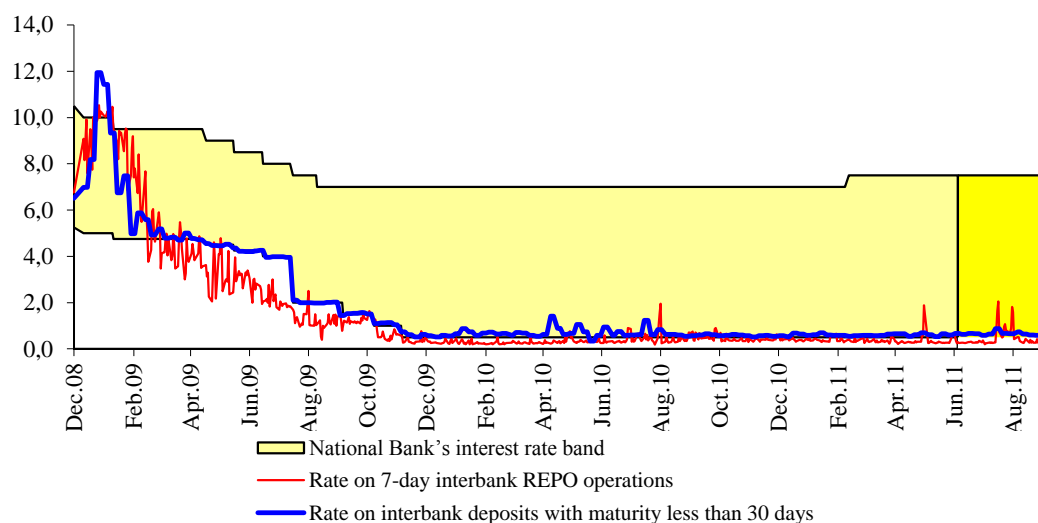


Source: National Bank of the Republic of Kazakhstan

In Q3 2011 the National Bank's rate band remained unchanged. The official refinancing rate was maintained at 7.5%, 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 Q3 2011 the situation in the money market was characterized by the interest rate volatility. In July-August 2011 interest rates were increasing and in September they decreased slightly. On average, in Q3 2011 the level of rates was closer to the lower boundary of the National Bank's rate band. The average weighted rate on interbank deposits with maturity less than 30 days increased from 0.61% in Q2 2011 to 0.66% in Q3 2011. The average weighted rate on interbank 7-day REPO operations also increased from 0.30% in Q2 2011 to 0.45% in Q3 2011 (Figure 38).

Figure 38

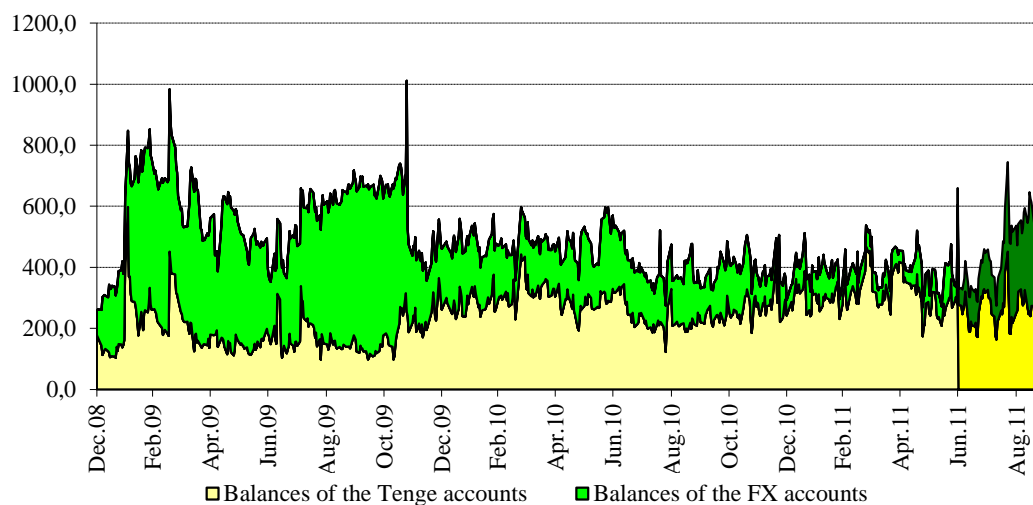
Boundaries of the National Bank's interest rates band, %

Source: National Bank of the Republic of Kazakhstan

In July-September 2011 the dynamics in correspondent account balances of banks with the National Bank was multi-directional. Throughout the third quarter of 2011 correspondent account balances of banks in foreign currency were gradually increasing. As a whole, at end-September 2011 their volume increased by 5.7 times as compared to the volume at end-June 2011.

Correspondent account balances of banks in the domestic currency in Q3 2011 were also volatile; their growth was interchanging with their decrease and vice versa during the entire period. So, in July-August they somewhat increased and in September a downward trend appeared in their dynamics. As a result, their volume decreased by 8.4% at end-September as compared to the volume at end-June 2011 (Figure 39).

Figure 39

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

Source: National Bank of the Republic of Kazakhstan

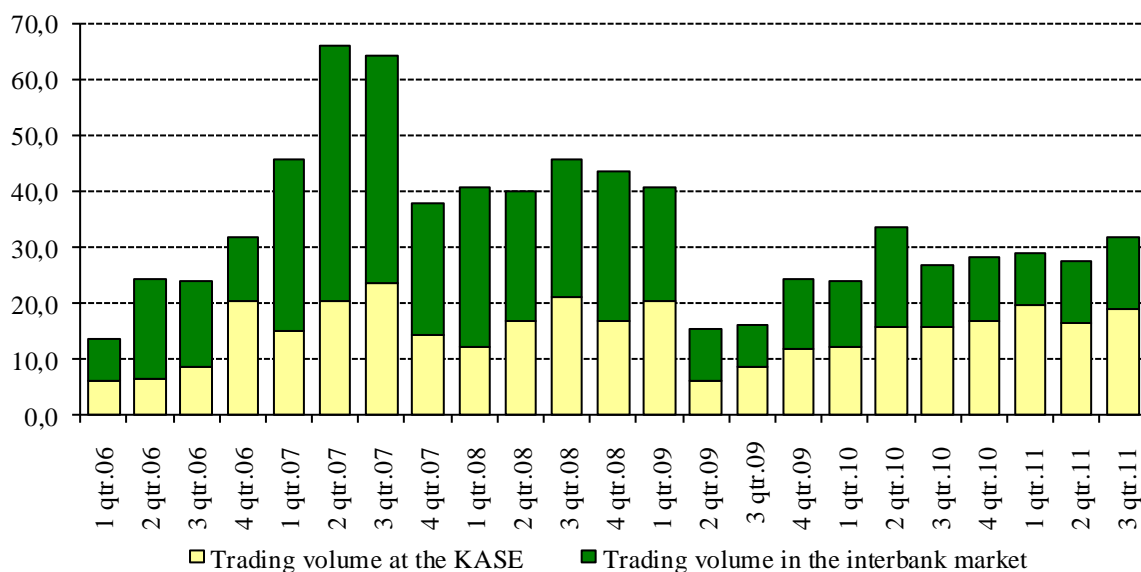
4.1. Interventions in the Domestic Foreign Exchange Market

The situation in the domestic foreign exchange market was developing in the environment of increased demand for foreign exchange over its supply.

In Q3 2011 the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$31.8 bln., having increased (by 16.1%) as compared to Q2 2011.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange increased by 16.9% as compared to Q2 2011 and amounted to US\$19.1 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 Q3 2011 increased by 14.9% as compared to the previous quarter and amounted to US\$12.6 bln. (Figure 40).

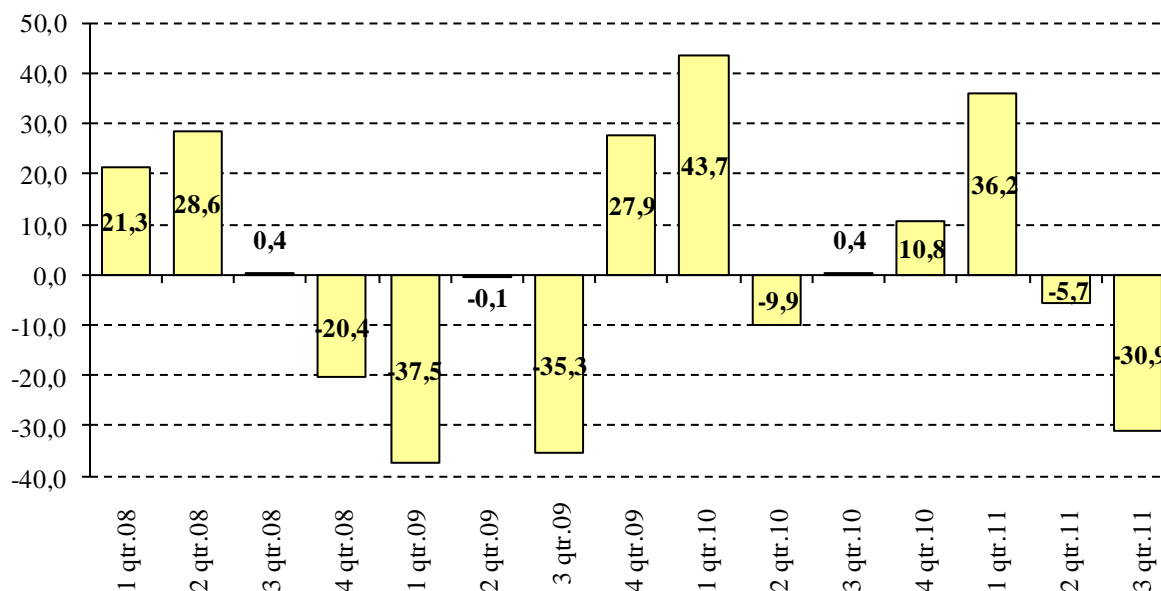
Figure 40

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

Source: National Bank of the Republic of Kazakhstan

In Q3 2011 the National Bank's participation coefficient in the Kazakhstan Stock Exchange made up -30.9% (in the second quarter of 2011 it was -5.7%) (Figure 41). Thus, in Q3 2011 the National Bank was primarily the seller 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

In the environment of persisting inflationary pressure, with a view to tighten monetary policy, amendments were made to the Resolution of the National Bank's Managing Board

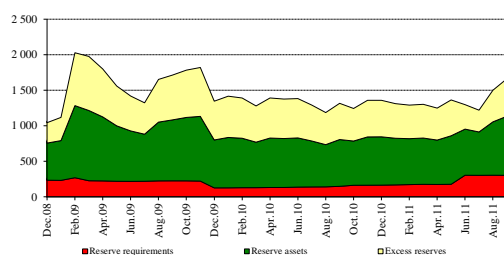
#54 “On Establishing Ratios of Minimum Reserve Requirements”. The decision to change the ratios of minimum reserve requirements (MRR) was made at the meeting of the National Bank’s Managing Board that took place on April 29, 2011). The MRR ratio for the domestic liabilities was established at 2.5%, and for other liabilities – at 4.5%.

Pursuant to the existing legislation, new MRR ratios became effective as of May 31, 2011. As a result of the change in minimum reserve requirements, since June 2011 a reduction in excessive bank liquidity has been observed.

On average, in July-September 2011 reserve assets exceeded the required reserving volume by 2.3 times (in the second quarter of 2011 – by 2.3 times on average, in the second quarter of 2010 – by 5.1 times (Figure 42).

Figure 42

Compliance with minimum reserve requirements, KZT bln.



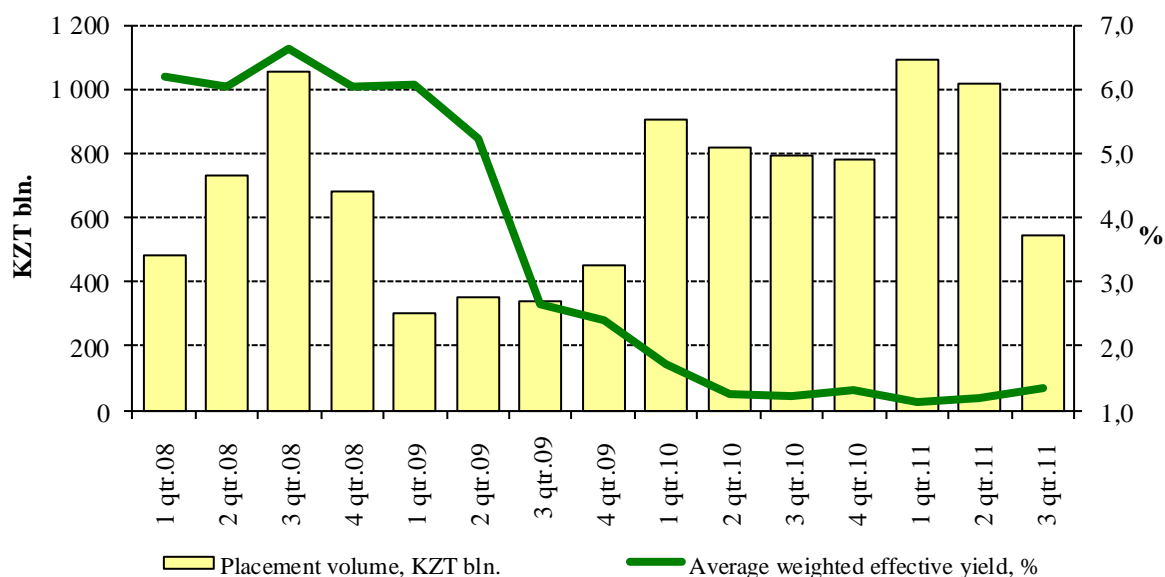
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In Q3 2011 the demand of banks for short-term notes of the National Bank reduced. This was accompanied both by low emission volumes and the decreased volume of short-term notes in the bank portfolios. At the same time, in August 2011 the National Bank started issuing notes with the maturity of 9 months.

The volume of short-term notes issued in Q3 2011 decreased by 1.9 times as compared to Q2 2011 and amounted to KZT547.7 bln. The highest emission volume of short-term notes was in September (45% of the total volume issued during Q3 2011), and the lowest – in July. The average weighted yield on issued notes increased from 1.18% in Q2 2011 to 1.34% in Q3 2011 (Figure 43).

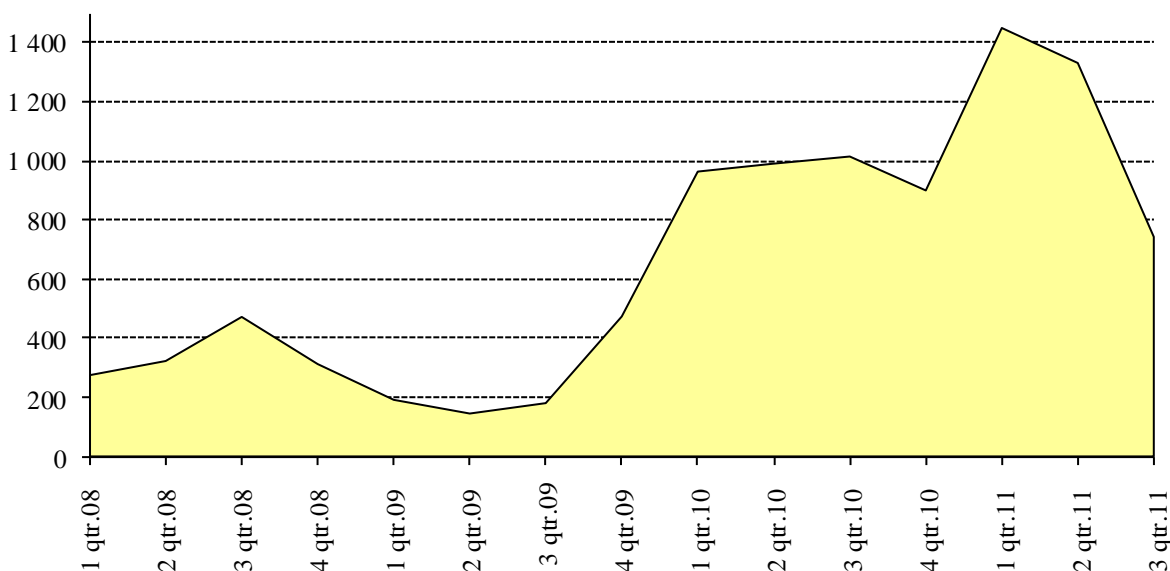
Figure 43

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

Source: National Bank of the Republic of Kazakhstan

At end-September 2011 the volume of short-term notes in circulation amounted to KZT 742.6 bln., which is by 17.5% less than the volume at end-December 2010 (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

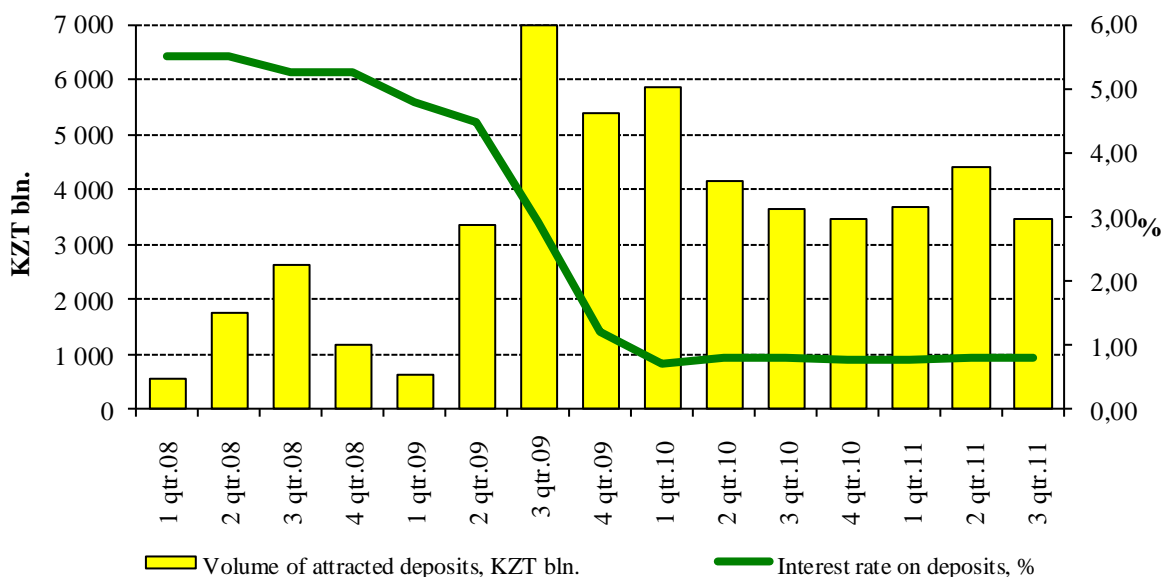
In Q3 2011 the volume of deposits attracted from banks decreased as compared to the previous quarter. At the same time, in July the volumes of attraction were high whereas in August-September they decreased virtually by fifty percent. In total, during July-September

2011 KZT3461.3 bln. of deposits was attracted, which is by 21.7% less than the volume of Q2 2011 and by 4.7% less than the volume of Q3 2010.

The average interest rate on deposits in Q3 2011 increased from 0.79% to 0.81% as compared to the previous quarter (Figure 45).

Figure 45

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

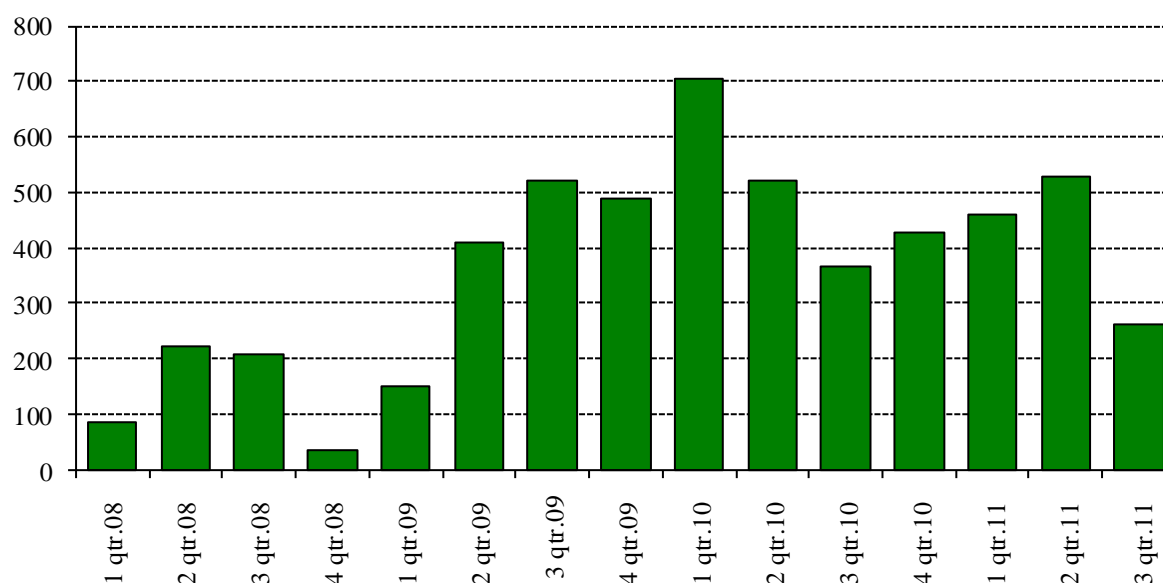


Source: National Bank of the Republic of Kazakhstan

The decrease in the volumes of attracted deposits was accompanied by the decline in the volume of the National Bank's outstanding liabilities on such deposits. In September 2011 the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 561.5 bln., which is by 1.6 times less than in December 2010 (Figure 46).

Figure 46

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

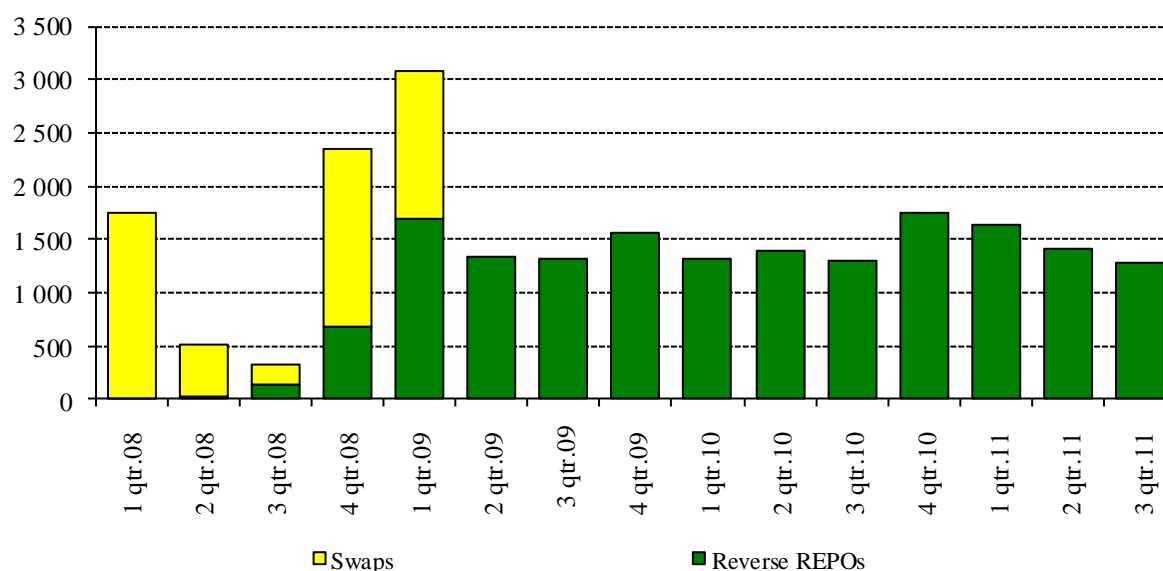


Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in Q3 2011 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. Total volume of reverse REPO operations in July-September 2011 amounted to KZT1286.2 bln. The volumes of such operations decreased by 9.2%, as compared to the previous quarter (Figure 47).

Figure 47

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

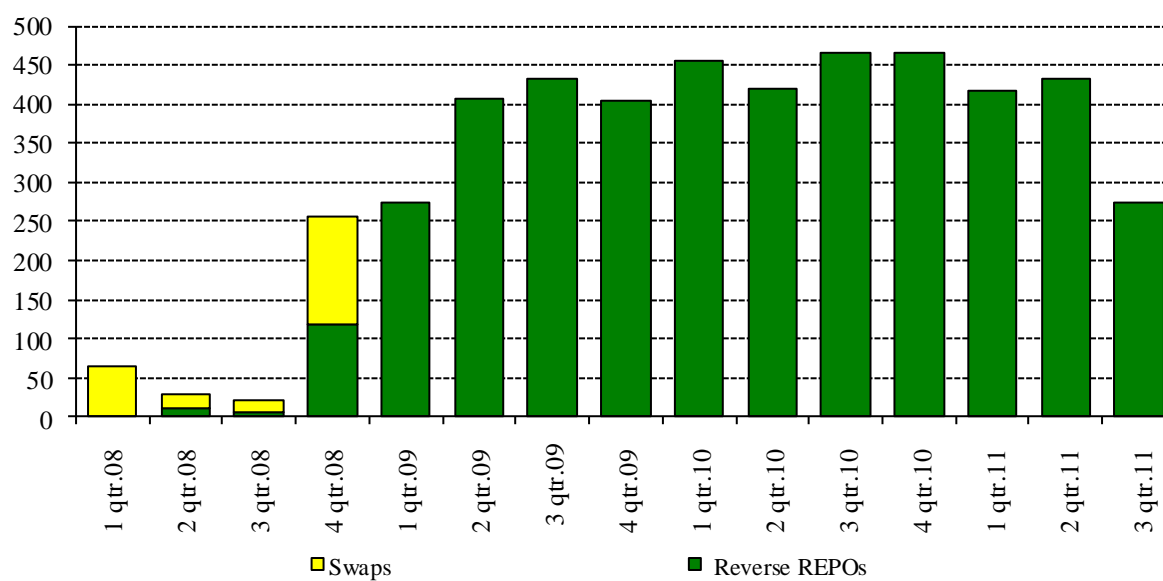


Source: National Bank of the Republic of Kazakhstan

At end-September 2011 the outstanding debt on reverse REPO operations amounted to KZT274.1 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