

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

Inflation Report
for the First Quarter 2010

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 2010	7
Inflation Forecast for 2010	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>Enterprise Monitoring</i>	14
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>	20
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>Deposit of Residents</i>	32
3.2.2. <i>Credits to the Economy</i>	33
3.2.3. <i>Bank Assets and Liabilities</i>	36
3.2.4. <i>Financial Market Rates</i>	39
4. Monetary Policy Instruments and Operations	41
4.1. Interventions in the Domestic Foreign Exchange Market	43
4.2. Minimum Reserve Requirements	44
4.3. Open Market Operations	44
4.4. Standing Facilities	46

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 Statistics Agency 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;
- 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 for 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 base 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 place 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 2010
- 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 for changes in 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. Execution of the state budget
- 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 against the U.S. dollar
- figure 18. Dynamics of the official exchange rate of the Tenge against 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 credits to the economy and interest rates
- figure 26. Dynamics of credits to legal entities
- figure 27. Dynamics of credits to the population
- figure 28. Dynamics of bank assets
- figure 29. Structure of bank assets
- figure 30. Dynamics of bank liabilities
- figure 31. Structure of bank liabilities
- figure 32. Dynamics of the KazPrime index
- figure 33. Dynamics of rates on REPO operations
- figure 34. Balance of the National Bank's operations in the domestic market
- figure 35. Boundaries of the National Bank's interest rates band
- figure 36. Balances of correspondent accounts with the National Bank
- figure 37. Volume of trading in the domestic exchange market
- figure 38. Coefficients of the National Bank's participation in the Kazakhstan Stock exchange
- figure 39. Compliance with minimum reserve requirements
- figure 40. Volume of placed short-term notes and their yield
- figure 41. Short-term notes in circulation
- figure 42. Volume of deposits and interest rates on deposits attracted by the National Bank
- figure 43. Volume of outstanding liabilities of the National Bank on deposits attracted from banks
- figure 44. Volume of the National Bank's refinancing operations

figure 45. 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 2010 some increase in inflation is observed in Kazakhstan. Based on the 1st quarter 2010 the inflation was at 2.9% (in Q1 2009 – 2.0%), annual inflation rate was 7.2% (in December 2009 – 6.2%) based on March 2010.

The increased inflation in January-March 2010 was, in the first instance, caused by the increase in prices for food items and paid services to the population. The major increase in prices occurred in January 2010 (over 47% of the overall inflation for Q1 2010). It should be noted that the acceleration of inflationary processes was caused by non-monetary factors which do not reflect changes in the macroeconomic situation as well as by a seasonal growth in prices for certain goods.

In 2010 the macroeconomic situation remains favorable. The growth in production output is observed in many economic sectors, income of the population is steadily growing, and the situation in the banking sector remains positive and continues to improve. Nonetheless, it should be noted that economic recovery will be slow.

The situation in the domestic foreign exchange market has stabilized completely due to the measures taken by the National Bank as well as favorable prices for the key positions of the Kazakhstani export. This allowed the National Bank expanding the band of the Tenge fluctuations since February 5, 2010: 150 KZT/\$ (+)10% or KZT 15, (-)15% or KZT 22,5. This fact reflects the assurance of the National Bank about a higher degree of probability that the Tenge will appreciate. At the same time the National Bank holds sufficient gold and foreign exchange reserves required to ensure stability of the exchange rate of the Tenge with the given band.

In the first quarter of 2010 the National Bank proposed implementing a balanced monetary policy. In particular, refinance loans were provided to banks. Also, the National Bank issued short-term notes and attracted deposits from banks.

The rate band of the National Bank in Q1 2010 remained unchanged. The official refinancing rate was maintained at the previous level of 7.0% p.a. from January 1, 2010. The rate on deposits attracted from banks was 0.5% on 7-day deposits and 1.0% – on 1-month deposits.

On February 1, 2010 the Board of the National Bank approved the Monetary Policy Guidelines of the Republic of Kazakhstan for 2010. The measures of the National Bank specified in this Report will be aimed at maintaining economic growth, developing the deposit market potential as well as at restoring credit activity of the banking sector.

Evaluation of the Inflation Forecasts for the First Quarter 2010

The actual inflation rate in Q1 2010 was a little higher than the forecast (2.5-2.7%) which was published in the previous issue of the Inflation Report. The inflation rate was higher than the projected level throughout the entire period.

The main increase in prices occurred in January when consumer prices increased by 1.4%. Such growth was caused by increased prices for paid services to the population including utilities and communications services.

Prices for food items also demonstrated high growth in March 2010. The increase in prices for fruits and vegetables, sugar, meat and dairy products should be distinguished in their structure, which is typical for the period and is caused by the seasonality factor in the first instance.

The impact of non-food items on the inflation rate in January-March 2010 was insignificant.

The actual inflation rate in annual terms at end-March 2010 (7.2%) also appeared to be higher than the forecast which was published in the previous issue of the Inflation Report (6.9-7.1%).

Inflation Forecast for 2010

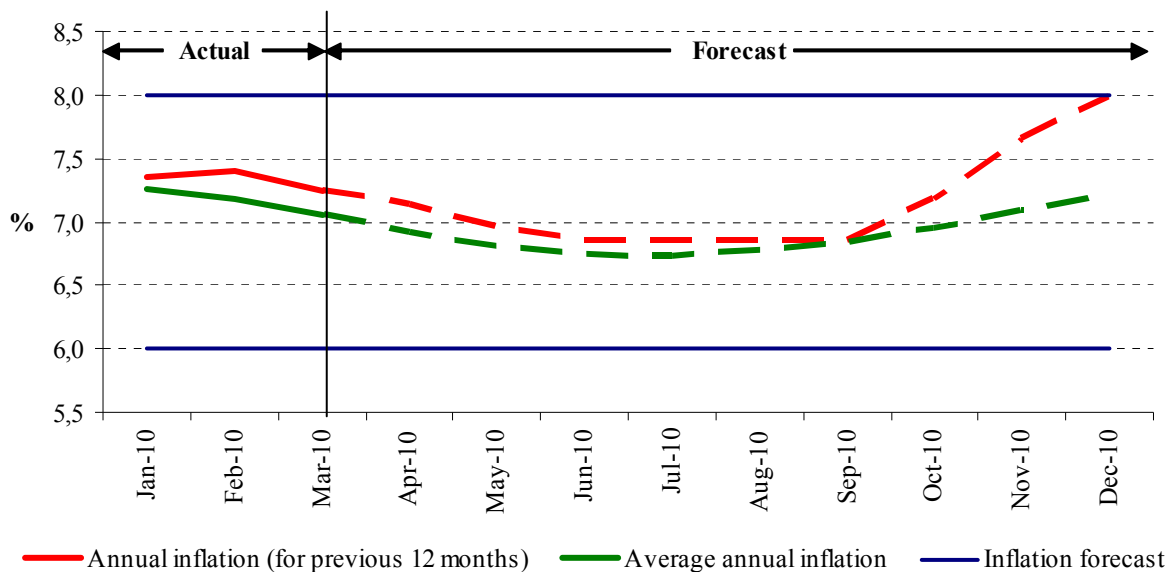
A slow recovery of the global economy, moderate world prices in the commodity markets including prices for the major items of Kazakhstan's export, remaining uncertainty in the global financial market will be the main factors determining the tendencies of economic development of the Republic of Kazakhstan.

The situation in the consumer market will remain stable in 2010.

The main goal of the monetary policy for 2010 is to ensure the price stability and to maintain inflation within 6-8% based on 2010 (figure 1).

figure 1

Actual and forecasted inflation in 2010



Source: National Bank of the Republic of Kazakhstan

Also, the measures of the Government for support of the economy namely implementation of innovation, industrial projects, support of the small and medium-size business, development of the agroindustrial complex anticipated by the Plan of Joint Actions of the Government, National Bank and the FSA for stabilization of the economy and the financial system for 2009-2010, will contribute to competition in the market, productivity growth in the non-oil sectors of the economy. This will have a favorable impact on the development of the economy as a whole and will promote price stability in the consumer market.

The inflation for Q2 2010 is forecasted at 1.3-1.5% (in Q2 2009 actual inflation was 1.9%). Generally, this level is in line with the inflation trends of the 2nd quarter that were typical of the past years.

These expectations are associated with the fact that the inflation buildup in the nearest term will be primarily affected by the seasonality factor. The decrease in prices for some items of goods and services (eggs, meat, and dairy products) is expected. The beginning of farming will most likely result in the increased prices for fuel and lubricants.

Based on June 2010, the annual inflation is expected to be at 6.8-7.0%.

The inflation forecast for Q3 2010 is 0.9-1.1% (in Q3 2009 – 0.9%), which corresponds to annual inflation of 6.7-6.9% at end-September 2010.

The situation in the consumer market during the period is to a great extent dependent on the seasonality factor which, in its turn, leads to the decrease in prices for certain food items (eggs, dairy products, fruits and vegetables, and meat products). At the same time, the beginning of an academic year is as a rule associated with the increase in prices for educational services, published matter, clothes and footwear.

1. Inflationary Processes

1.1. Consumer Prices

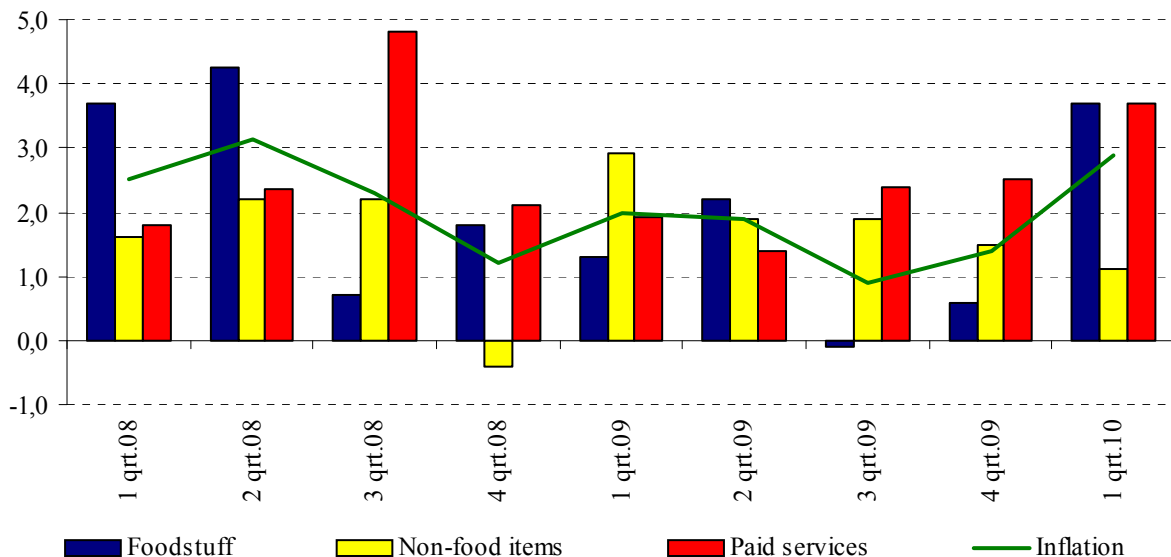
In Q1 2010 there was a trend for the increased inflationary pressure in the economy. During the period inflation was growing at a higher rate as compared both to Q1 2009 and the previous quarter. In January-March 2010 inflation was at 2.9% (in October-December 2009 – 1.4%).

Accelerated inflation rates in January-March 2010 were caused by the seasonality factor due to the increase in prices for certain food items and by significant increase in prices for certain services provided to the population including regulated services (electric energy, cool water supply, telephone communications).

Prices for food stuff and paid services increased by 3.7%, non-food items – by 1.1% (figure 2).

figure 2

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



Source: Statistics Agency of the Republic of Kazakhstan

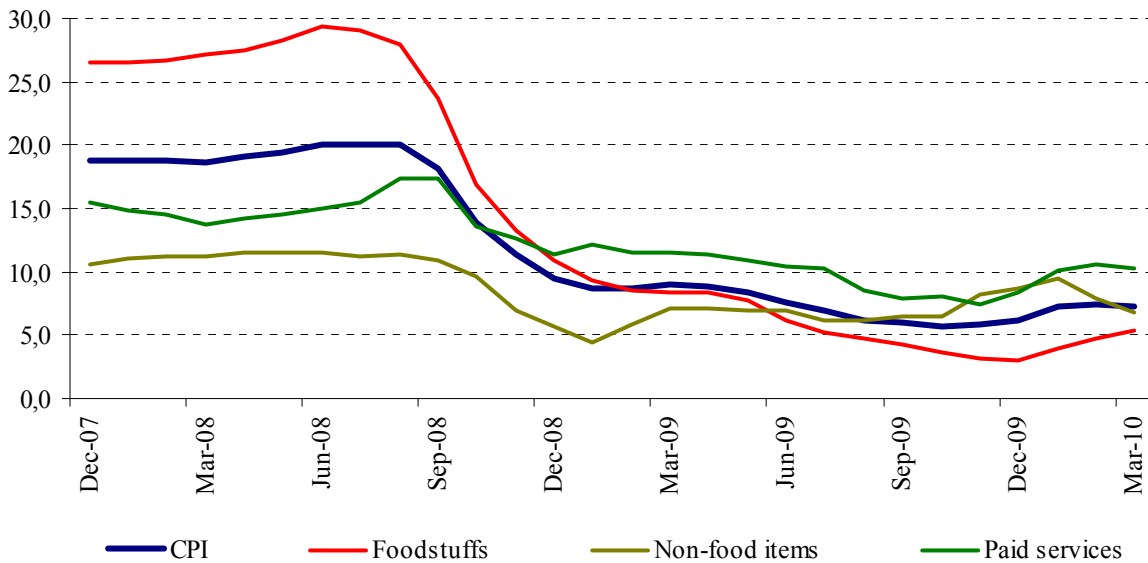
The major rise in prices in Q1 2010 was in such goods and services as fruits and vegetables – by 12.6%, sugar and tobacco – by 8.1%, dairy and meat products – by 4.1%, electricity payments – by 12.4%, payment for cold water – by 10.6%, payment for sewage – by 6.8%. Also, there was an increase in prices for communications services – by 8.4% (mainly due to increased prices for telephone and facsimile services - by 11.1%), for legal services – by 7.3%.

The decrease in prices for certain food items and non-food items should also be noted. Bread and cereal products became cheaper by 1.3%, including wheat flour – by 5.1% and rice – by 3.6%, gasoline and diesel oil – by 2.2% and 0.4%, respectively.

Based on March 2010, the annual inflation was 7.2% (in December 2009 – 6.2%). Prices for foodstuff increased by 5.4% (by 3.0%), non-food items – by 6.7% (by 8.6%), paid services – by 10.2% (by 8.4%) (figure 3).

figure 3

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



Source: Statistics Agency of the Republic of Kazakhstan

1.2. Core Inflation

The indicators of core inflation in Q1 2010 alike the headline inflation demonstrated higher growth rates, both as compared to Q1 2009 and as compared to Q4 2009 (figure 4).

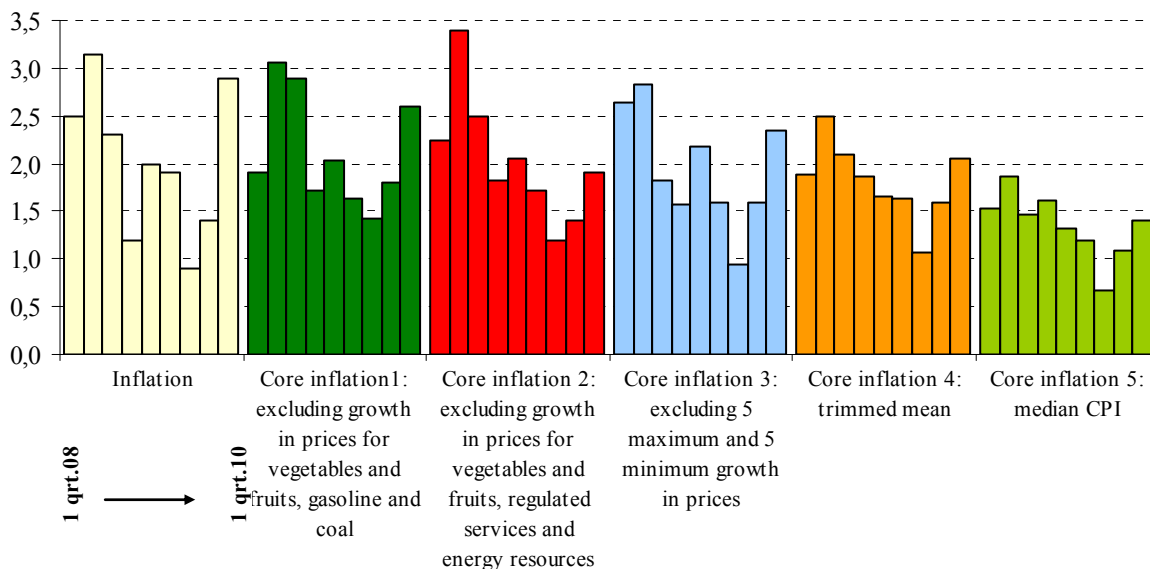
In Q1 2010 the headline inflation was at a higher level as compared to all core inflation indicators. This was caused, to a greater extent by increased prices for fruits and vegetables because of its large share in the structure of the consumer basket as well as with a significant increase in the tariffs for certain utility services (cold water supply, sewage, electric energy).

In January-March 2010 there was a slowdown in all core inflation indicators in annual terms. At the same time only the core inflation indicator-1 was at a higher level as compared to the headline inflation. This was stipulated, in the first instance, by decreased prices for fruits and vegetables in March 2010 as compared to March 2009.

In March 2010 as compared to March 2009, all core inflation indicators were at a lower level. This fact is an indicator of the overall slowdown in inflationary processes despite disturbances (rise or fall) in the price dynamics for certain goods and services which “fall beyond” the overall trend (figure 5).

figure 4

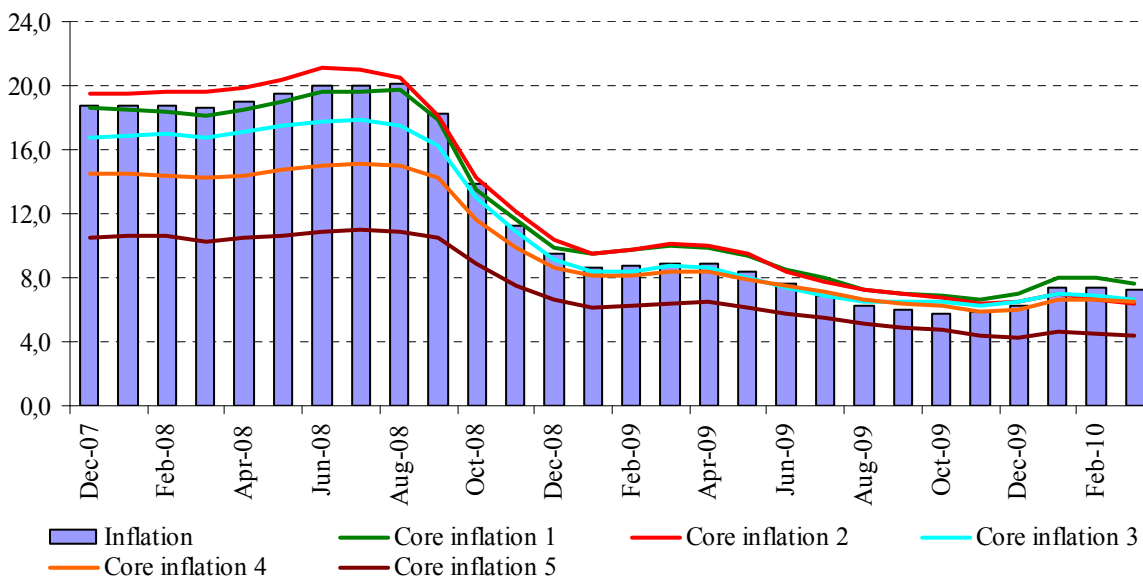
**Dynamics of quarterly inflation and core inflation
(as % of the previous period)**



Source: Statistics Agency of the Republic of Kazakhstan

figure 5

**Dynamics of annual inflation and core inflation
(as % of the respective quarter of the previous year)**



Source: Statistics Agency of the Republic of Kazakhstan

1.3. Prices in the Real Sector of the Economy

1.3.1. Prices in the Industry

In Q1 2010 the producer prices have increased insignificantly as compared to the previous period – by 0.1% (in Q1 2009 – decrease by 6.7%). The cost of output did not change, at the same time production means within its composition became cheaper by 0.4%, consumer goods increased in price by 0.5%, and prices for interim consumption products remained unchanged. The prices for production services increased by 1.9%.

In January-March 2010 as compared to the previous period producer prices in the mining industry decreased by 1.5%, (in the respective period of 2009 – decrease by 7.5%), due to the decrease in prices for the major energy resources. In particular, the cost of oil extraction in Q1 2010 decreased by 3.1% (in Q4 2009 – increase by 11.8%), cost of gas condensate – by 4.9% (growth by 1.2%). In general, the cost of energy resources decreased by 1.6% (growth by 9.9%).

Under the impact of pricing environment in the raw commodity segment, the growth rate of prices in the manufacturing industry in Q1 2010 slowed down amounting to 1.1% (in Q1 2009 – decrease by 7.1%). Prices in the metallurgical industry increased by 2.1%, food production including drinks and tobacco decreased by 1.7%, oil refined products increased in price by 6.9%.

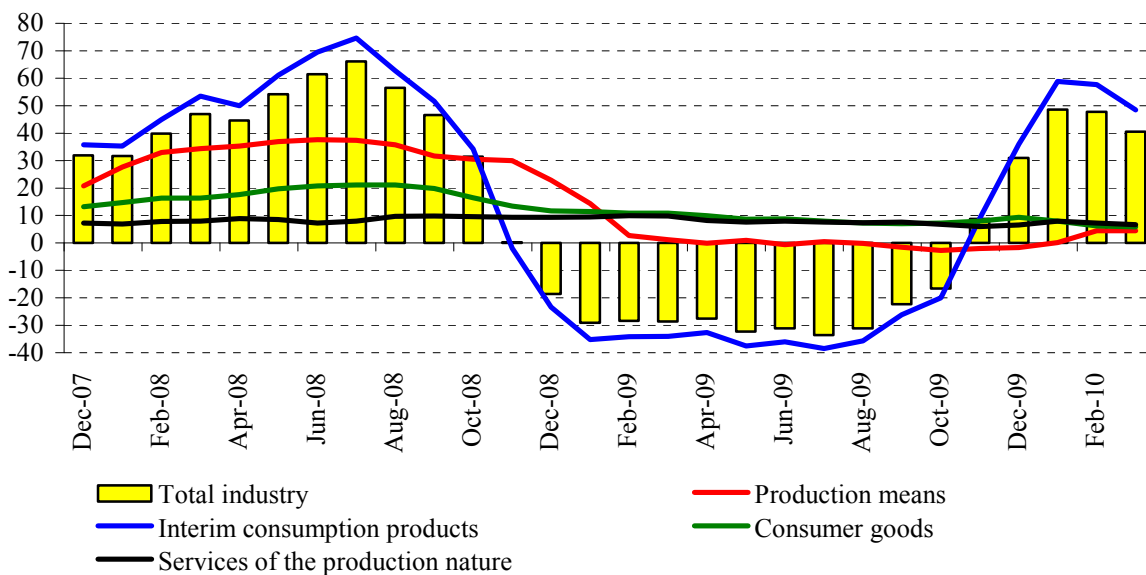
Growth in prices in the production and distribution of electric energy, gas and water in Q1 2010 accelerated amounting to 13.4%, which has been stipulated by the increase in tariffs for electric energy.

In March 2010 the annual (March 2010 to March 2009) growth in prices in the industry was 40.6% (figure 6).

Prices in the industrial production increased by 43.0% in annual terms, including the interim consumption products – by 48.4%, consumer goods – by 5.9%, means of production – by 4.5%. Production services appreciated by 6.7%.

figure 6

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



Source: Statistics Agency of the Of the Republic of Kazakhstan

1.3.2. Prices in Agriculture

In Q1 2010 prices for agricultural production realized across all channels decreased by 0.5% as compared to the previous period (in Q1 2009 – growth by 0.1%). The dynamics of prices in agriculture was impacted by their depreciation for plant production and appreciation in stock-breeding.

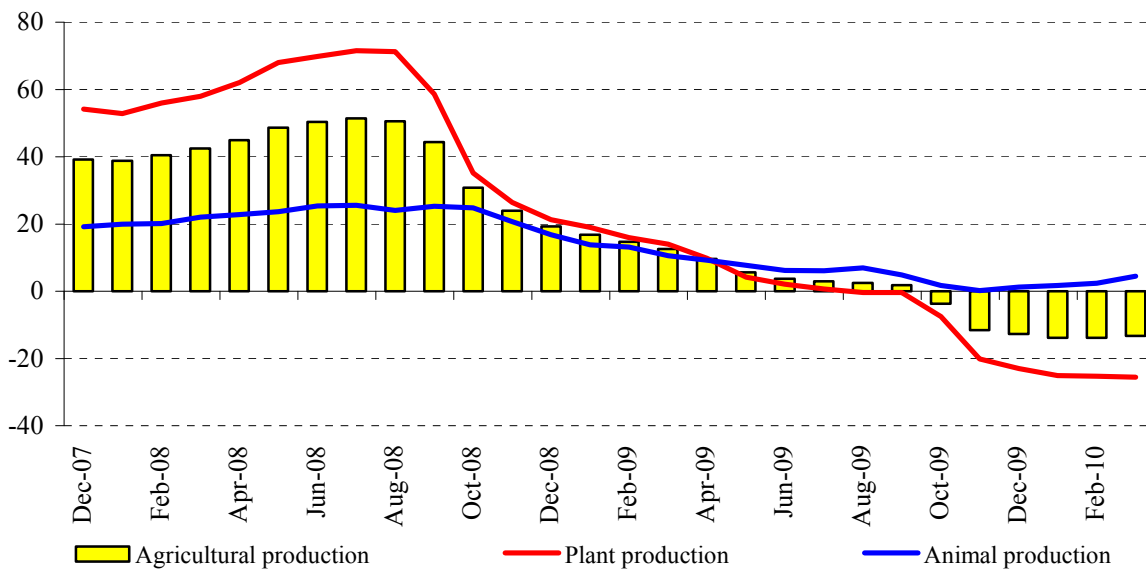
Over January-March, the cost of plant production depreciated by 3.3%, being mainly caused by the decreased prices for grain cultures by 4.2%. Heavy yield in grains in Kazakhstan and the countries importing wheat from Kazakhstan still causes problems with selling grains which results in the drop of prices for wheat and becomes a determining factor in the decreased prices in agriculture.

Influenced by the seasonality factor, the cost of animal products in Q1 2010 appreciated 3.1%, while prices for meat and poultry increased by 2.3%, the price for unpasteurized milk increased by 8.2%, eggs became cheaper by 0.8%.

Based on March 2010, prices for agricultural products in annual terms decreased by 13.3%. At that, the plant production became cheaper by 25.6%, animal products appreciated in price by 4.5% (figure 7).

figure 7

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



Source: Statistics Agency of the Republic of Kazakhstan

1.3.3. Enterprise Monitoring

In Q1 2010 as compared to the previous quarter there was a further decrease in demand for finished products of enterprises. This is evidenced by the change in a generalized indicator – diffusion index of the change in the demand for finished products – to 40.8 from 44.5 in Q4 2009 (figure 8). The decrease in the indicator was noted by 33.3% of interviewed enterprises (in Q4 2009 – 31.4%), the increase – by 15% (in Q4 2009 – 20.5%).

The reduction in the demand occurred virtually in all sectors of the economy except for such industry as “production and distribution of electric energy, gas and water”.

In Q2 2010 as compared to Q1 2009 a notable growth in the demand for finished products in the economy as a whole is anticipated: diffusion index of the change in the demand grew up to 57.3. The increase in the demand for finished products is anticipated by

25.4% of enterprises participating in the survey, and the decrease – by 10.7%. The highest growth of the indicator is anticipated in such sectors as “construction”, “manufacturing industry”, “mining industry” and “transport and communications”.

The situation with prices for finished products of enterprises in Q1 2010 was characterized by the increase in the growth rates of the indicator as compared to the previous quarter: diffusion index of the change in the prices for final products went up to 55.5 (in Q4 2009 – 53.0). The percentage of enterprises with increased prices for their products as compared to the previous quarter increased amounting to 21% (in Q4 2009 – 18.6%), and the percentage of respondents who noted the decrease in the indicator went down to 10% (in Q4 2009 – 12.7%).

The increased rates of growth in prices have occurred in the majority of economic sectors except for industries such as “mining industry”, “public utility services, social and personal services”. In agriculture reduction of prices for finished products slowed down as compared to the previous quarter.

In Q2 2010 the diffusion index of the change in the prices for finished products grew up to 56.9 as compared to the previous quarter. This is primarily associated with a notable decrease in a percentage of enterprises anticipating the decrease in prices – to 4% (in Q1 2010 – 10%). The percentage of enterprises with increased prices for their products amounted to 17.7% (in Q1 2010 – 21%).

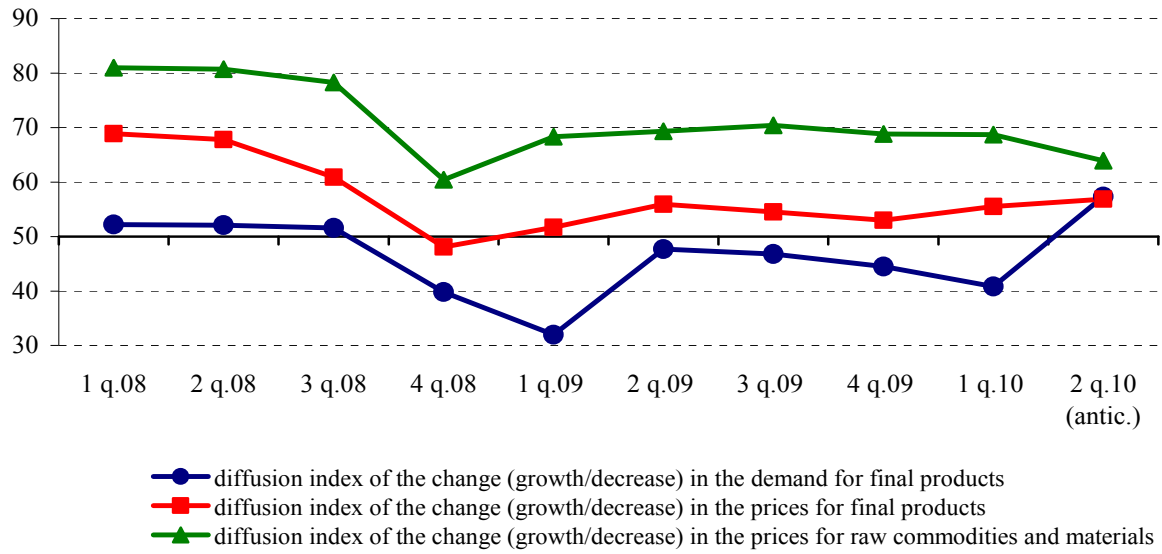
In Q1 2010 the growth rates in prices for raw commodities and materials were virtually unchanged as compared to the previous quarter, remaining at a high level in the economy as a whole: diffusion index of the change in the prices for raw commodities and materials was 68.7. The slowdown in the growth rates of the indicator occurred in industries such as «transport and communications», «hotels and restaurants», «real estate operations», «mining industry». On the whole, the price growth has been observed in the majority of industries except for «trade» where the indicator has reduced further on. Based on the sample as a whole, the number of enterprises which noted the growth in prices for raw commodities and materials remained virtually unchanged as compared to the previous quarter amounting to 47.8% (in Q4 2009 – 47.9%). The percentage of enterprises which have noted the decrease in prices for raw commodities and materials was 3% (in Q4 2009 – 3.1%).

In Q2 2010 the diffusion index of the change in the prices for raw commodities and materials went down to 63.9 meaning that enterprises anticipate a further growth in prices but at lower rates. At the same time, the number of respondents anticipating a growth in prices reduced significantly – to 37%, and the percentage of enterprises which noted the decrease in the indicator was 1.6% (figure 8).

Thus, based on the dynamics of relevant diffusion indices, anticipations of enterprises about the second quarter are primarily associated with the increase in demand and prices for final products and with a notable slowdown in the growth of prices for raw commodities and materials.

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

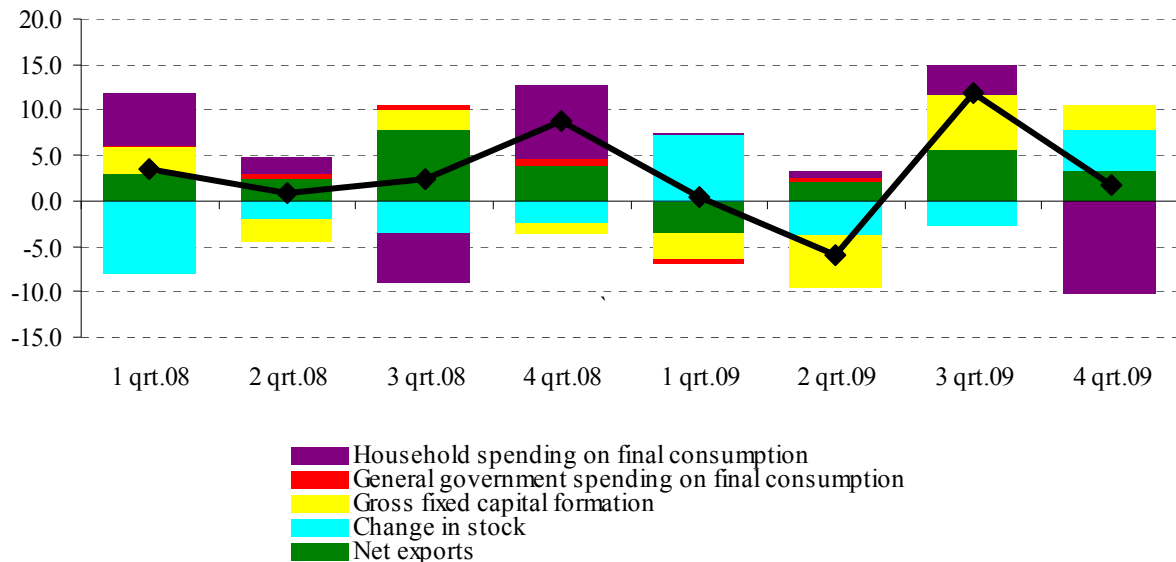
In Q4 2009 the GDP based on the final consumption method according to estimates as compared to the respective quarter of 2008 increased in real terms by 1.7% (in the previous quarter – growth by 11.9%).

The reason for the slowdown in the GDP growth was a significant decrease in one of the three key components of GDP (spending on final consumption which comprises 60.3% in the total volume), despite significant growth in two other components. Spending on final consumption decreased by 13.8%, gross formation increased by 24.0%, net exports increased by 54.6%.

Net exports' contribution to the GDP growth accounted for 3.2%, gross fixed capital formation – 2.7%, households – (-)10.1%, change in the stock – by 4.6% (figure 9).

figure 9

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



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

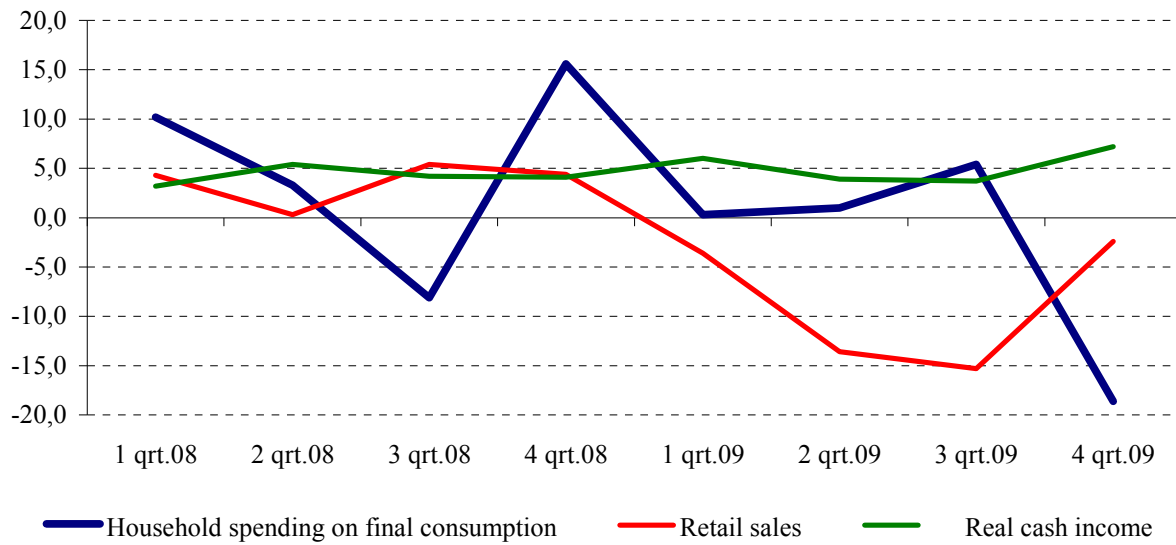
2.1.1. Individual Consumption and Investment Demand

Household spending on final consumption in Q4 2009 decreased as compared to the respective period of 2008 by 18.6% (in Q3 2009 – growth by 5.4%).

The growth of per capita income in real terms has accelerated making 7.2% (in Q3 2009 – growth by 3.7%), and retail sales reduced by 2.4% (in Q3 2009 – decrease by 15.3%) (figure 10).

figure 10

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



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

The decrease in the household spending on final consumption, with the growth in real cash income of the population and the decrease in retail sales may be caused by the following factors:

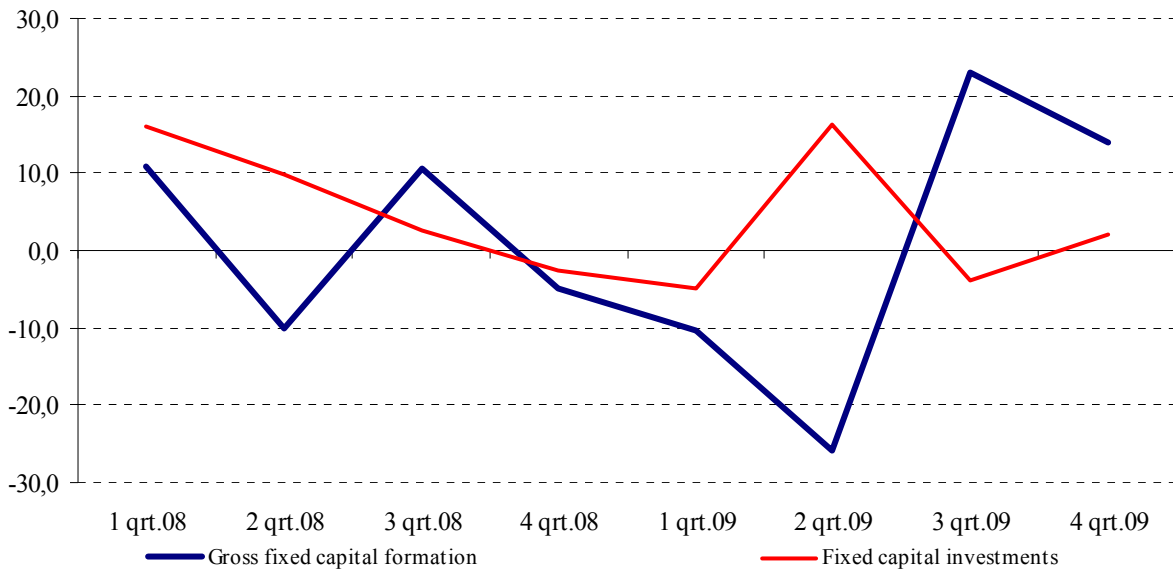
- change in the consuming behavior patterns among the population with regard to the increase in the extent of rationality of purchases and increased significance of a commodity price, due to that preference to a greater extent is made to purchases in the informal sector which is difficult to be accounted for statistically;
- impact of the seasonality factor since the household spending on final consumption also includes consumptions of goods and services in kind produced for own consumption and received as a labor compensation.

In Q4 2009 as compared to the respective period of 2008 a total volume of spending on gross savings in the GDP structure increased by 24.0%, making positive contribution to the GDP growth of 7.3%.

The increase in gross formation was caused by the growth of spending on gross fixed capital formation – by 13.9% (figure 11). A significant role in this process is played by the investment activity of enterprises which increased in Q4 2009 resulting in the increase in the volume of fixed capital investments in real terms, according to estimate, by 2.1% (in Q3 2009 – the decrease by 3.8%) (figure 11). At the same time foreign fixed capital investments in nominal terms increased in Q4 2009 as compared to the same period of 2008 by 55.0%, investments from the budget funds – by 25.2%, from own funds – by 10.3%, from borrowed funds – decreased by 3.0%.

figure 11

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



Source: Information of the Statistics Agency 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 general government in Q4 2009 as compared to the respective period of 2008 increased, according to the estimate, by 0.6% (in Q3 2009 – by 0.5%).

In general, during Q4 2009 the state budget spending totaled to KZT 1 184.8 bln. or 25.3% of GDP. As compared to the indicators for the respective period of 2007, it decreased by 26.7%.

Current state budget expenditures totaled to KZT 735.8 bln., being greater by 22.8% than in Q4 2008. Within the current expenditures costs on service purchases, current transfers to natural persons and costs on wages increased the most. Capital expenditures of the state budget in Q4 2009 increased by 15.1% as compared to the respective period of 2008, mainly because of the growth of expenditures for fixed capital formation. The volumes of domestic budget credits increased by 18.8%, expenditures related to financial asset purchases decreased by 85.8%.

Over October-December 2009 state budget revenues amounted to KZT 932.3 bln. or 19.9% of GDP, being by 38.4% lower than in October-December 2008. The structure of the state budget revenues was as follows: tax revenues accounted for 71.5% (in Q3 2009 – 60.3%), official transfers – 20.4% (35.9%). High percentage of official transfers was secured by the receipt of the guaranteed and targeted transfers from the National Fund of the Republic of Kazakhstan to the republican budget in the amount of KZT 75.1 bln. and KZT 115.0 bln., respectively.

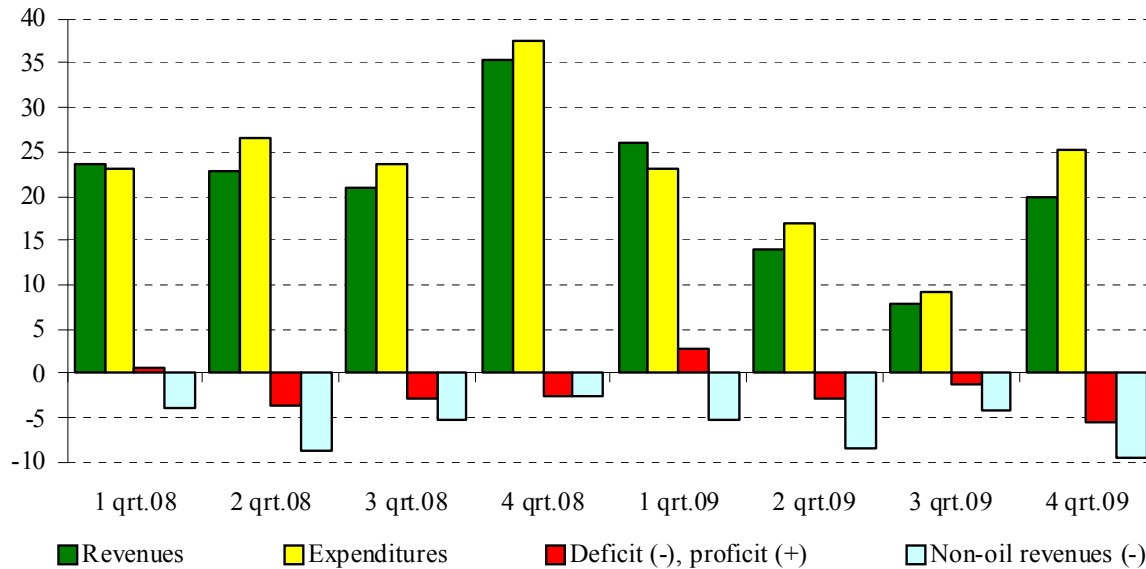
As a whole, in Q4 2009 indicators of tax revenues decreased by 21.7% as compared to Q4 2008, the decrease was due to the reduced revenues from corporate income tax and value-added tax.

In Q4 2009 as compared to Q4 2008, the volume of non-tax revenues decreased by 85.8%, revenues from the fixed capital sales - by 44.8%.

As the expenditures were in excess of revenues to the state budget, in Q4 2009 the deficit of KZT 252.5 bln. (5.4% of GDP) showed up whereas in Q4 2008 the deficit was KZT 101.2 bln. (figure 12). It should be noted that without transfers from the National Fund of KZT 190.1 bln., Q4 2009 would have ended with the non-oil deficit of KZT 442.6 bln.

figure 12

Execution of the state budget, % of GDP



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

During Q4 2009 the Ministry of Finance borrowed KZT 322.9 bln. mainly (by 71.3%) by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier for the amount of KZT 64.0 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank increased by KZT 6.3 bln.

Government domestic debt for Q4 2009 increased to KZT 1 288.97 bln. (8.1% of GDP), i.e. by 15.1% as compared to the performance in Q3 2009 (7.2% of GDP) and was secured by the issue of government short-term treasury obligations (MEKKAM), government long-term saving treasury obligations (MEUZHKAM), government medium-term obligations (MEOKAM) and government long-term treasury obligations. The Government’s external debt in Q4 2009 increased by 35.3% as compared to the indicator in Q3 2009 (1.6% of GDP) and amounted to \$2.2 bln. (2.1% of GDP).

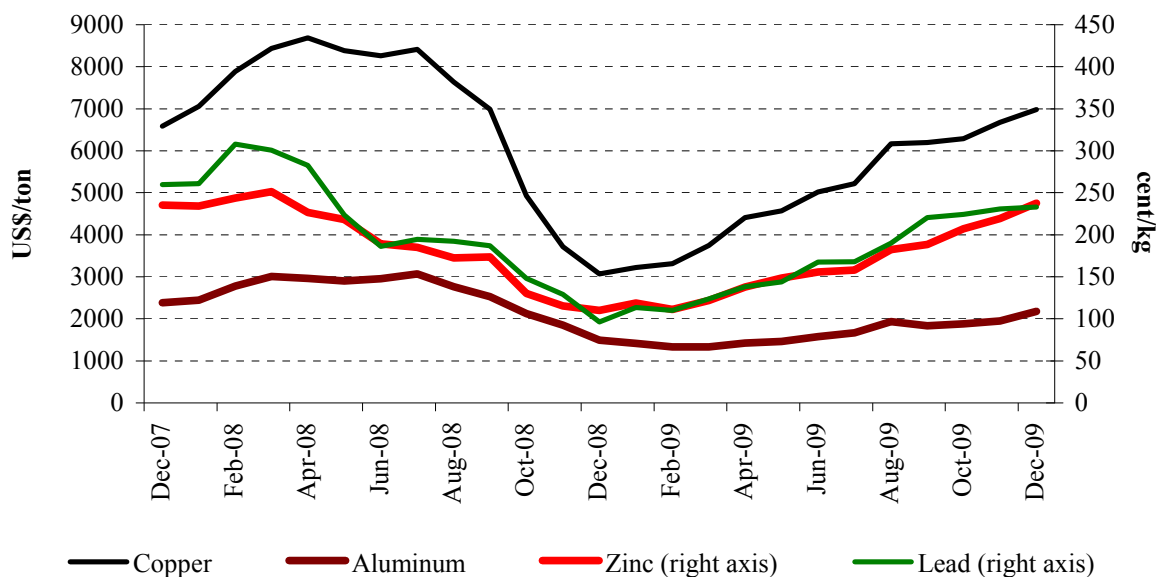
2.1.3. External Sector

– World Prices

In Q4 2009 the situation in the global commodities markets was characterized by the volatility of prices for certain commodities. So, in October-December 2009, world prices for copper increased by 12.7% and were on average at \$US 6648 per ton during the period, for lead – by 5.6% and 229.3 cents per kilo, for zinc – by 26.1% and 221.4 cents per kilo, for aluminum – by 18.9% and \$US 2003 per ton, respectively (figure 13).

figure 13

Dynamics of world prices for metals



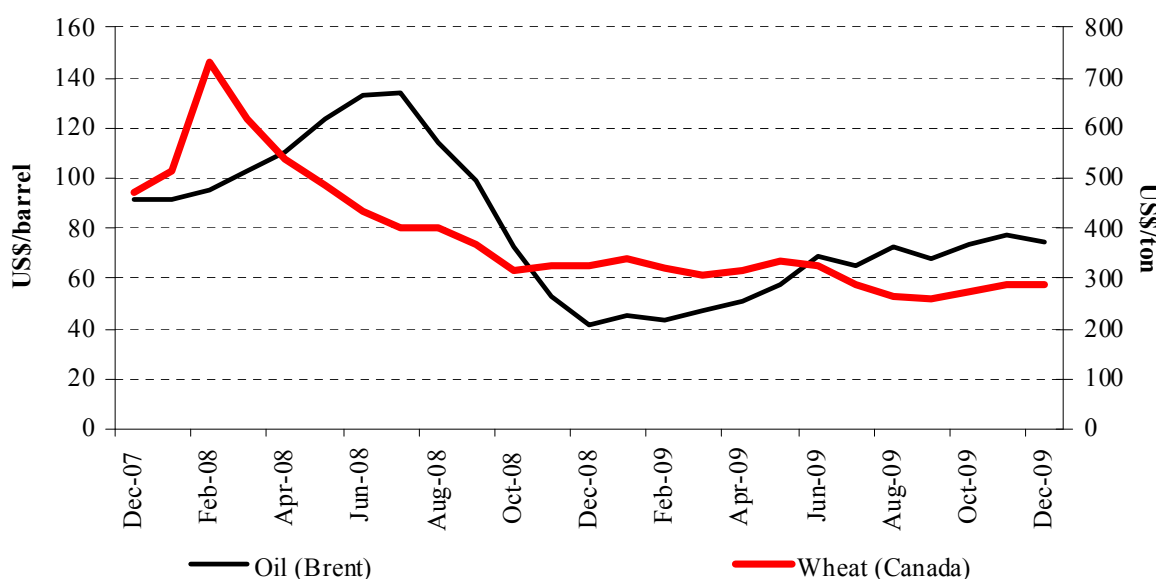
Source: World Bank

In October-December 2009 world oil prices remained volatile without a stable trend. So, in October-November prices grew gradually but in December they somewhat decreased. On the whole, over Q4 2009 oil prices (Brent) increased by 10.3% and were on average at \$75.0 per barrel (figure 14).

World prices for wheat were also unstable. In October and November prices for wheat increased and in December they were virtually unchanged having reduced by 0.4% as compared to the previous month. Generally, the world price for wheat (Canada) increased by 10.8% over October-December 2009 and was on average at \$283.2 per ton (figure 14).

figure 14

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



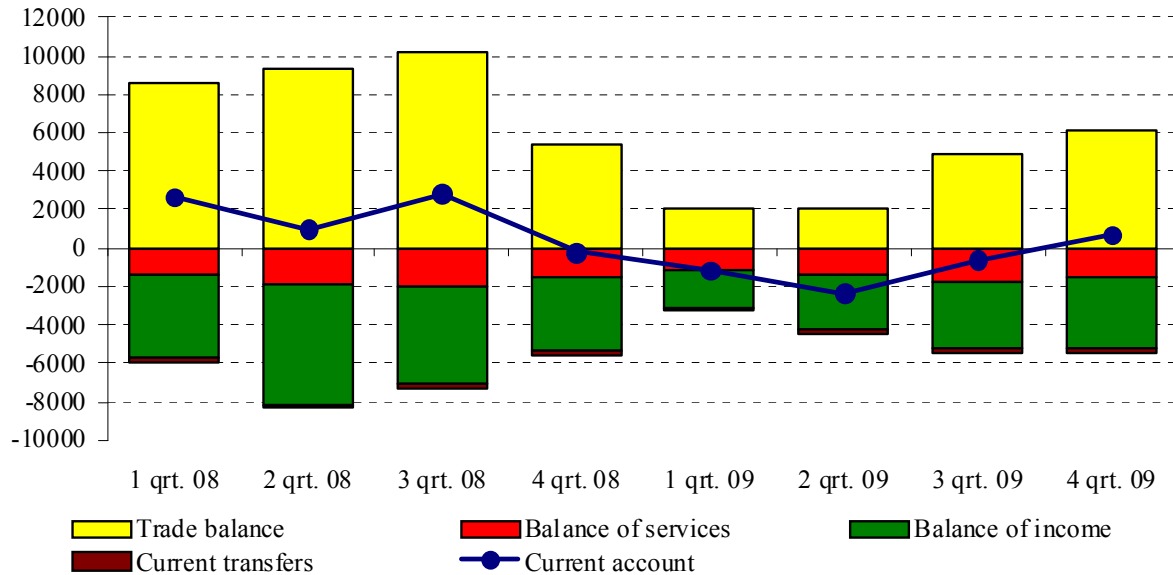
Source: World Bank

– **Balance of Payments**

Based on Q4 2009, the current account balance deficit was positive at the level of US\$ 705.6 mln. (figure 15).

figure 15

Current account balance, US\$ mln



Source: National Bank of the Republic of Kazakhstan

The main contribution to the current account profit was from export proceeds from commodities against the background of relatively low prices for major items of Kazakhstan's export as well as because of the decreased expenditures on commodity imports as a result of the one-time devaluation of the Tenge. Proceeds from commodity exports in Q4 2009 decreased by 8.1%, and expenditures on commodity imports – by 20.7% as compared to Q4 2008. The positive trade balance increased by US\$ 812.7 mln. and amounted to almost US\$ 6.2 bln., completely offsetting net outflow of resources on other components of the current account. The deficit in the balance of services as compared to Q4 2008 increased by 3.4% and amounted to US\$ 1.5 bln., and the deficit in the income balance decreased by 4.0% to US\$ 3.6 bln. Net payments to non-residents under current transfers amounted to US\$ 287.0 mln., remained virtually at the level of Q4 2008.

The net inflow of resources on financial account operations was US\$ 1.1 bln. in Q4 2009 (in Q4 2008 – net inflow of US\$ 4.5 bln). Foreign assets of residents (except for reserve assets) increased by US\$ 1.2 bln. being by 1.9 times greater than in the respective period of 2008. Foreign liabilities of residents increased by US\$2.3 bln. (about 2.2 times less than in Q4 2008).

As a result, the positive balance of payments for Q4 2009 amounted to US\$ 2.2 bln. (in Q4 2008 there was a deficit of US\$ 2.2 bln).

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

In Q4 2009 the aggregate terms of trade index was by 11.3% lower than that for Q4 2008. Alongside with that, the terms of trade with the Euro zone countries deteriorated by 29.0%, and with Russia – by 12.6% (table 1).

table 1

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

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Export prices	56.1	61.1	61.9	8.0	-47.0	-52.5	-44.9	-16.6
Import prices	27.6	44.9	57.1	29.7	-1.2	-15.8	-18.2	-3.4
Terms of trade	20.2	12.0	3.5	-17.0	-45.8	-42.4	-34.4	-11.3
including:								
The Euro zone countries								
Export prices	54.4	62.5	63.5	-0.1	-54.2	-56.5	-49.9	-18.0
Import prices	15.8	29.5	51.9	27.5	17.7	0.1	12.8	32.5
Terms of trade	28.3	27.7	9.5	-22.5	-57.8	-57.9	-59.2	-29.0
Russia								
Export prices	30.1	37.6	34.6	8.6	-28.3	-36.2	-35.8	-14.7
Import prices	42.8	48.9	47.6	22.7	-28.6	-25.5	-23.2	-2.6
Terms of trade	-8.9	-7.9	-9.0	-11.9	0.4	-15.0	-16.4	-12.6

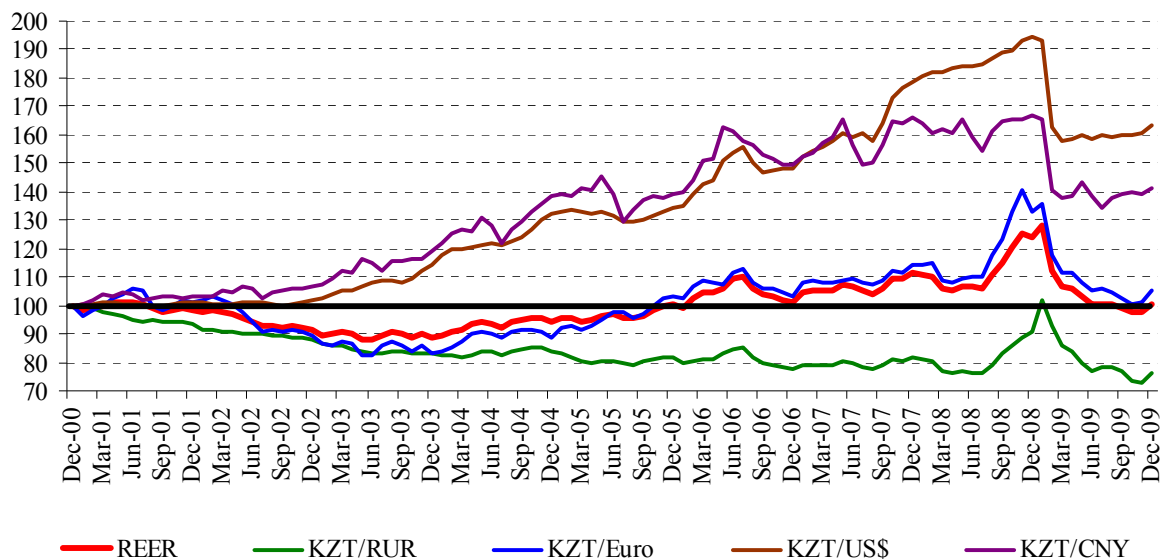
Source: National Bank of the Republic of Kazakhstan

Based on Q4 2009 as compared to the previous period, the index of the real effective exchange rate of the Tenge depreciated by 1.6%. The Tenge has appreciated versus the CIS currencies basket by 3.4%, versus the basket of other currencies – by 1.0%.

Over Q4 2009 the Tenge has appreciated in real terms against the US Dollar by 1.0% as compared to the previous period, it devaluated by 2.0% against the Euro and by 4.5% - against the Russian ruble (figure 16).

figure 16

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



Source: National Bank of the Republic of Kazakhstan

The adjustment of the Tenge exchange rate allowed supporting both domestic producers and exporters reflecting in the trade operations performance based on 2009.

– Nominal Exchange Rate of the Tenge

In February 2010 the National Bank of the Republic of Kazakhstan expanded the foreign currency band asymmetrically. Since February 5 it has been equal to KZT 150/1\$ (+)10% or KZT 15, (-)15% or KZT 22.5.

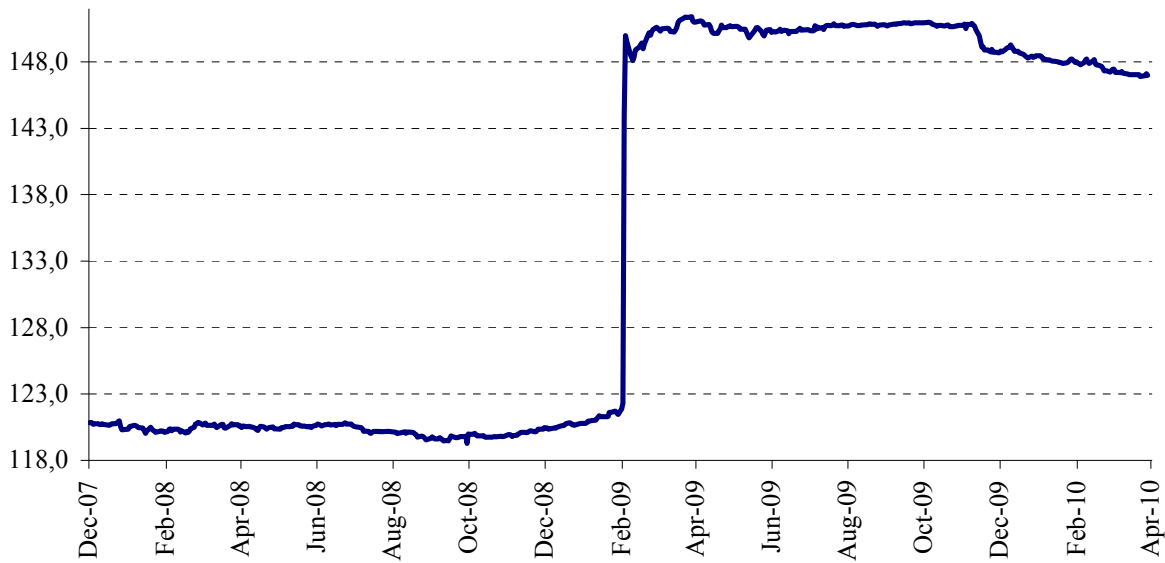
Average weighted exchange rate of the Tenge for Q1 2010 at the stock exchange was KZT147.63/\$1. The stock exchange rate at end-period was KZT 146.98/1 US\$. Since the beginning of the year the Tenge has appreciated against the US Dollar in nominal terms by 1.0% (figure 17).

Since the volumes of transactions in Euro and the Russian ruble in the stock exchange segment of the domestic foreign exchange market remain insignificant, the rate of the Tenge versus those currencies is calculated based on the cross-rate to the US Dollar. Accordingly, the dynamics of the exchange rate of the Tenge versus 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, the official exchange rate of the Tenge in Q1 2010 appreciated against the Euro by 6.7%, and depreciated against the Russian ruble by 1.6% (figure 18).

figure 17

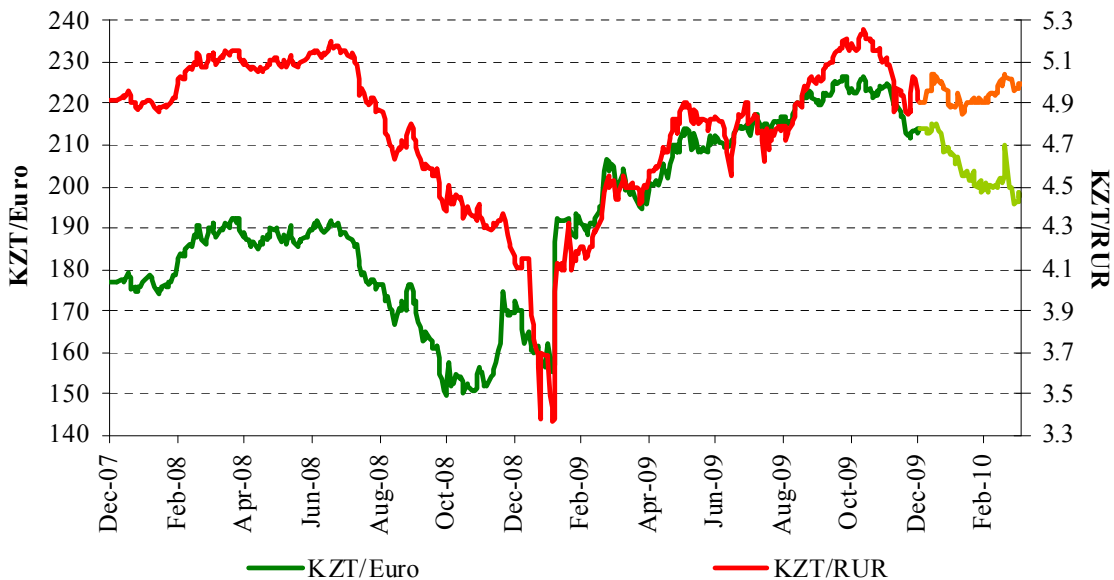
Dynamics of the nominal exchange rate of the Tenge against the U.S. Dollar



Source: National Bank of the Republic of Kazakhstan

figure 18

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



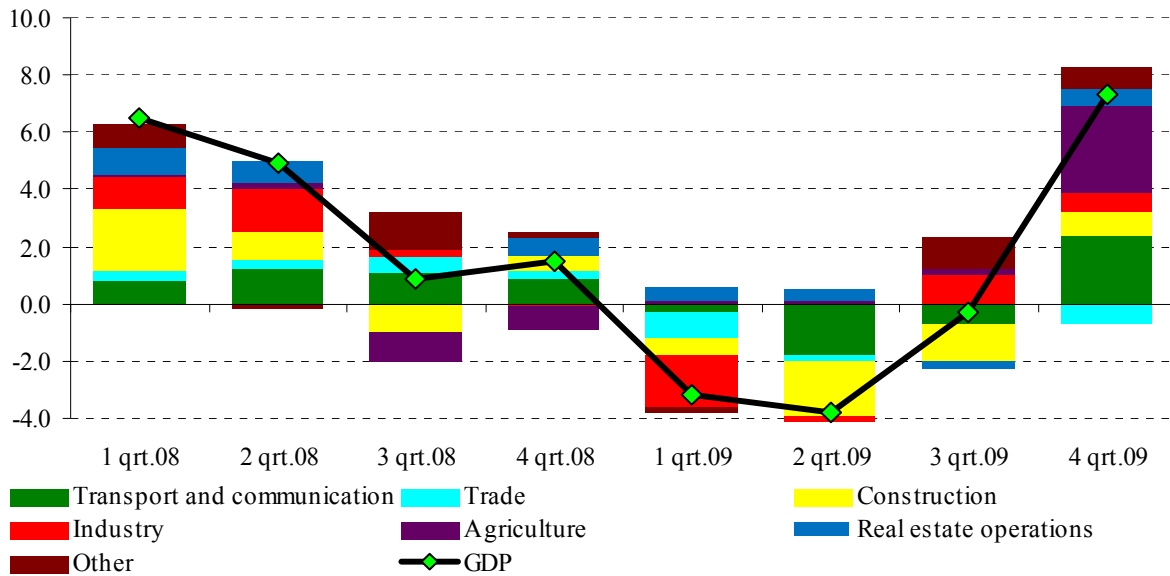
Source: National Bank of the Republic of Kazakhstan

2.2. Production

The GDP output in Q4 2009, according to the National Bank’s estimates, amounted to KZT4892.5 bln. in current prices. Being positively influenced by the growth in production in agriculture, industry, transport, real estate operations, and construction, the GDP in real terms increased, according to estimates, by 7.2% versus Q4 2008 (in Q3 2009 – decrease by 0.3%) (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 from the Statistics Agency of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The GDP growth was caused by the improved situation, both in production of commodities and in production of services, where the growth in physical volume was 8.9% and 4.0%, respectively.

In the first GDP component all three constituents showed growth. The index of physical volume in agriculture was 142.6%, in industry – 102.7%, in construction – 106.2%, bringing a positive contribution to the GDP formation of 4.5%.

In the second component, the slowdown in the trade, hotel business, financial activity, healthcare and other services was neutralized by the growth in transport and communication, public administration, education and real estate operations that resulted in adding up 1.9% more to the GDP growth.

The decrease in Q4 2009 in the volume of financial intermediation services indirectly measured which are used with a negative sign in the total volume of GDP contributed to the GDP formation in the amount of 0.6%, and the growth of net taxes on products and imports increased GDP by 0.2% in addition.

2.3. Labor Market

2.3.1. Employment and Unemployment

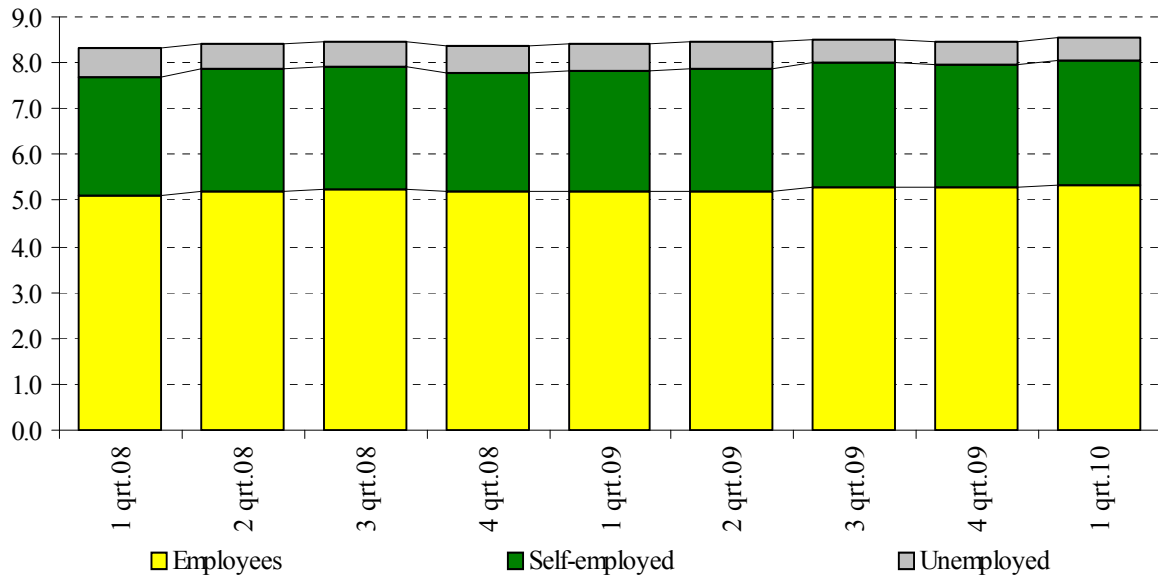
In Q1 2010 the number of people employed in the economy, according to tentative estimates, was 8.0 mln., having increased by 1.2% versus the previous period. At the same time, the number of employees reached 5.3 mln. (growth by 1.2%), the number of self-employed – 2.7 mln. people (growth by 1.1%).

In the structure of employees, 4.4 mln. individuals (81.3% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.8%), at farms – 0.3 mln. individuals (5.8%).

In Q1 2010 the number of unemployed amounted to 526 200 having decreased by 1.1% as compared to the previous period and by 9.8% versus Q1 2009 (figure 20).

figure 20

The structure of economically active population, mln. individuals



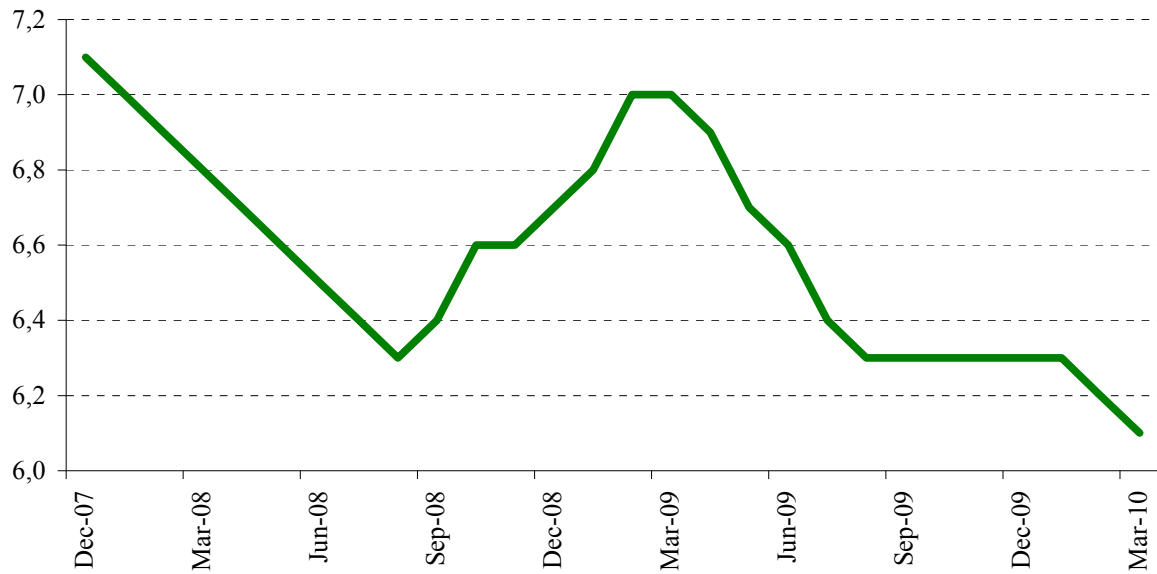
Source: Statistics Agency of the Republic of Kazakhstan

In January and February 2010 structural changes in the composition of employees continued.

The main industries that contributed to the growth in the employment rates, as compared to the respective period of the previous year, were trade, education, public healthcare, production and distribution of electric energy, gas and water, and transport. The largest percentage of outflow of the employed was in the construction, financial sector, manufacturing industry, and public administration.

The decreased number of employed people in some industries was offset by its growth in other industries, which resulted in the decrease of the unemployment rate in Q1 2010, according to preliminary information, by 0.1 percentage point amounting to 6.3% (figure 21).

figure 21

Actual unemployment rate, %

Source: Statistics Agency of the Republic of Kazakhstan

2.3.2. Wages and Productivity

After the slowdown in the growth of nominal wages in Q2 and Q3 2009, the rate accelerated in Q4 2009. The average monthly wages increased in nominal terms by 12.1% (in Q3 2009 – by 8.7%) as compared to the number in the respective period of 2008.

The reduced inflation background as well as traditional growth in payouts in December contributed to the increase in wages in real terms with wages increasing in Q4 2009 by 5.8% versus the respective period of 2008.

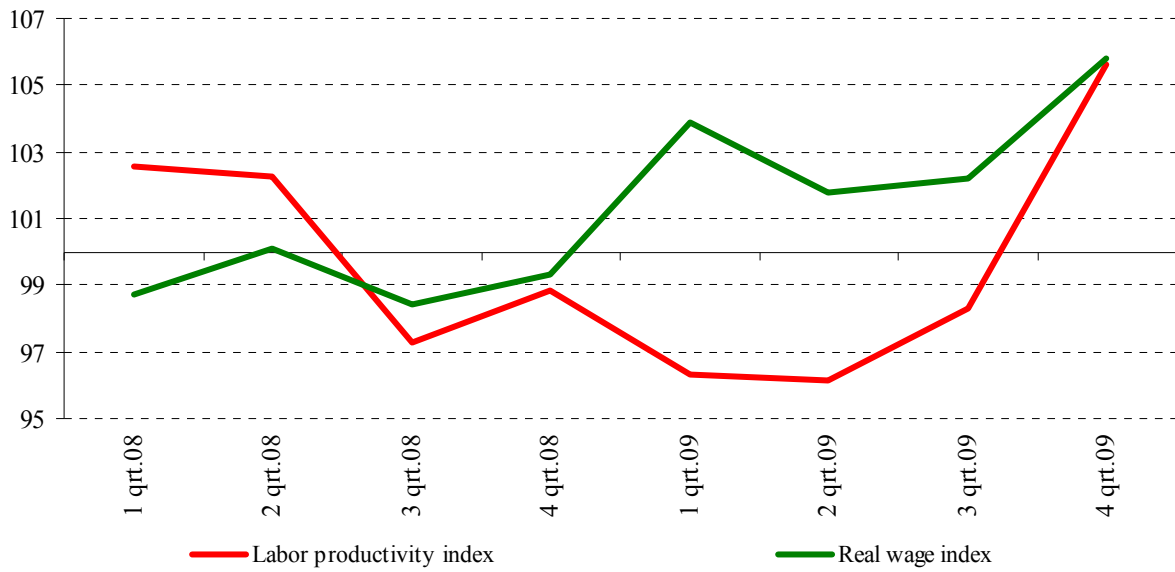
In February 2010 as compared to February 2009, the nominal wages increased by 7.3%. The growth was observed in all sectors of the economy, except for the hotel business, at the same time the highest increase in wages occurred in ex-territorial entities – by 65.2%, in construction – by 15.5%, in professional, scientific and technical activities – by 12.7%, in transport – by 11.3%.

In February 2010 the highest level of wages was observed in the financial and insurance sectors, in professional, scientific and technical activities, and in the mining industry, and the lowest – in agriculture, forestry and fishery, education, arts, recreation and entertainments, and healthcare.

A significant growth in GDP in Q4 2009 as well as the increased number of the employed and decreased unemployment resulted, according to the National Bank's estimate, to the growth in the labor productivity index by 5.6% in Q4 2009 (figure 22).

figure 22

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



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

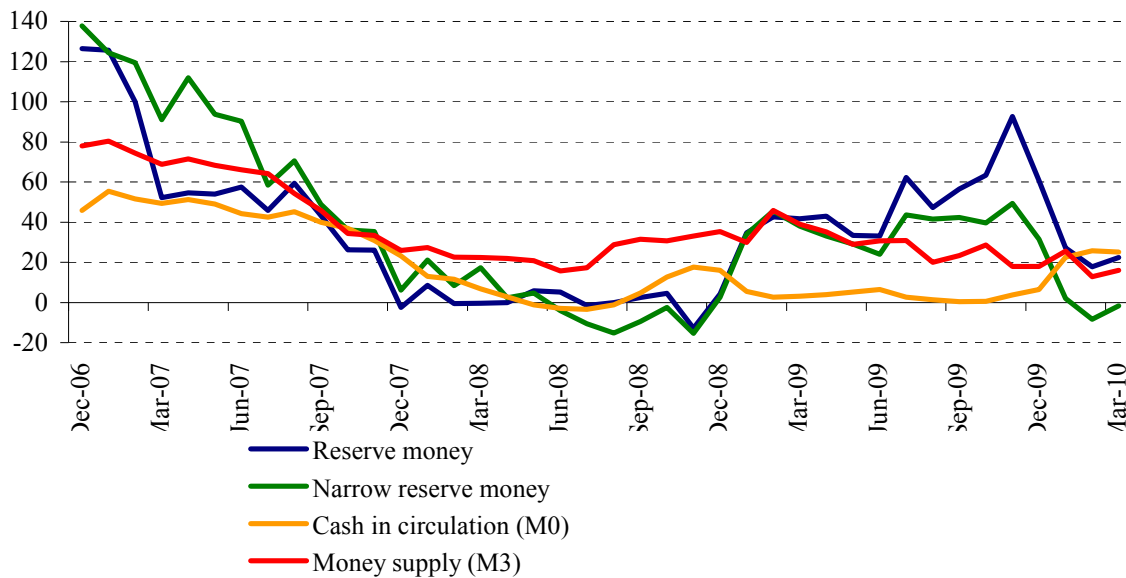
3. Money Supply

3.1. Monetary Aggregates

In Q1 2010 annual dynamics of monetary aggregates (excluding narrow reserve money) demonstrated rather remarkable 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

Reserve money has expanded over Q1 2010 by 11.6% and amounted to KZT 2736.3 bln. at end-March. Narrow money also expanded in Q1 2010 by 3.3% to KZT 2027.1 bln.

In March 2010 as compared to March 2009 reserve money expanded by 22.3%.

Net international reserves of the National Bank increased by 41.1% to US\$ 26.5 bln. in March 2010 as compared to March 2009. Within their structure, despite operations on the servicing of the Government's external debt and reduction of foreign currency balances of banks' correspondent accounts with the National Bank, net currency reserves increased as a result of FX sales in the domestic foreign exchange market and currency proceeds to the Government's accounts with the National Bank. Assets denominated in gold also increased.

In March 2010 as compared to March 2009, net domestic assets of the National Bank decreased, mainly because of the significant increase in claims from banks on short-term notes (see 4. Monetary Policy Instruments and Operations).

Narrow reserve money in March 2010 contracted by 1.7% as compared to March 2009 (table 2).

table 2

**Dynamics of changes in assets and liabilities of the National Bank
(as % of the respective period of the previous year)**

	Q2 09	Q3 09	Q4 09	Q1 10
Net international reserves	-12.3	-8.7	14.2	41.1
Net domestic assets	143.6	153.5	167.0	-634.7
Net claims on the Government	-108.1	-173.2	-902.5	-12.6
Claims on financial institutions	231.8	188.6	184.3	-287.5
Claims on the rest of the economy	-4,1	by 443.4 times	by 459.6 times	by 421,1 times
Other net domestic assets	-122.9	-254.2	-205.7	-7.9
Reserve money	33.1	56.6	60.7	22.3
Narrow reserve money	24.0	42.4	31.5	-1.7

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During Q1 2010, money supply increased by 5.0% to KZT 7758.5 bln. In March 2010, as compared to March 2009, its growth accounted for 16.0% as a result of the increase in net foreign assets of the banking system (table 3).

table 3

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

	Q2 09	Q3 09	Q4 09	Q1 10
Net foreign assets	1439.7	99.4	170.4	121.3
Domestic assets	9.5	10.7	2.1	-10.3
Claims on the Government	-80.9	-75.4	-58.0	506.1
Claims on the economy	17.7	16.7	10.4	5.3
Other net domestic assets	-48.9	-40.5	-42.8	-30.9
Money supply	30.6	23.3	17.9	16.0
Cash in circulation	6.4	0.4	6.5	25.1
Deposits of residents	34.8	26.9	19.7	14.9

Source: National Bank of the Republic of Kazakhstan

In the structure of net foreign assets of the banking system in March 2010 as compared to March 2009 net foreign assets increased, both of banks and the National Bank. The growth of net foreign assets of banks was mainly stipulated by the decreased claims of non-residents on banks.

In March 2010 as compared to March 2009, despite the growth in the volumes of credits to the economy and the net claims on the Government, domestic assets of the banking system decreased on the basis of decreased other net domestic assets of the banking system.

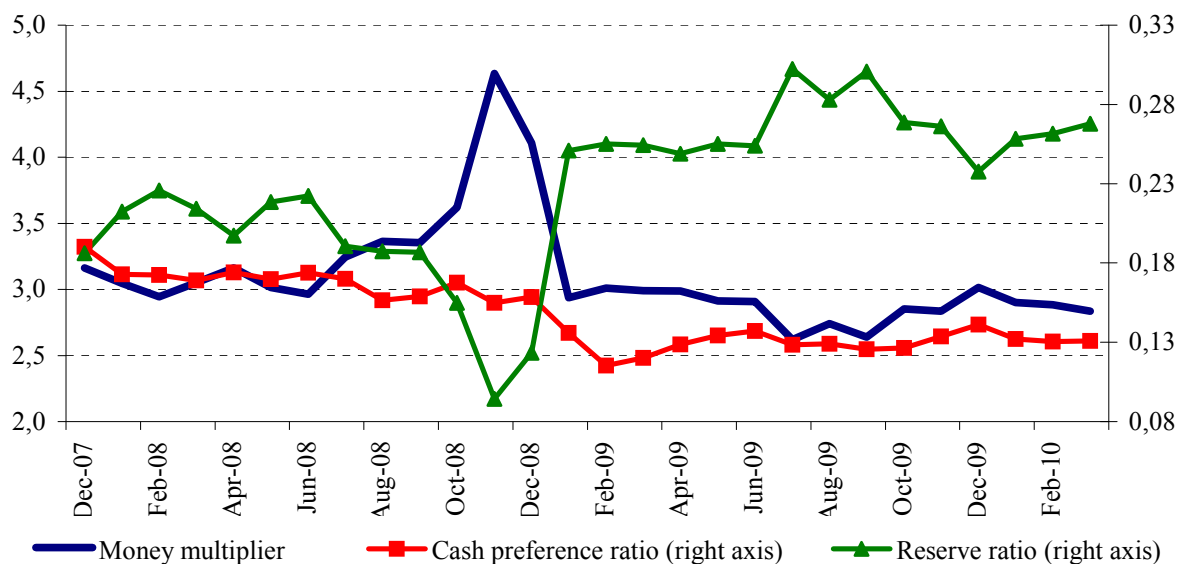
The analysis of the dynamics of the main components of money supply shows that outstripping growth rates of cash in circulation were fixed as compared to the growth rates of residents' deposits in the banking system. As a result, the share of deposits of residents in the structure of the money supply decreased from 89.3% in March 2009 to 88.4% based on March 2010.

The money multiplier decreased from 2.99 in March 2009 to 2.84 in March 2010 as a result of outstripping rates of growth in the money supply. The reasons for that were the

increased reserve ratio due to accumulation of significant excessive reserves by banks despite the increased cash preference ratio due to higher growth rates of cash in circulation as compared to the growth in deposits (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

The volume of cash in circulation in Q1 2010 decreased by 1.7% to KZT 898.2 bln. The main reason for the decrease in the cash in circulation was the growth in net proceeds from the sale of goods, services and performed works, net foreign exchange proceeds, net proceeds from loans to individuals and legal entities, and net proceeds from time deposits of individuals. At the same time, the impact of these factors was not neutralized by the growth in net payouts of wages which occurred in Q1 2010.

In March 2010 as compared to March 2009, cash in circulation increased by 25.1%. This shows that the impact of factors contributing to the growth in cash (payout and the increase in wages, retirement benefits and allowances) was dominating over the impact of factors which contributed to its decrease (increased volumes of foreign cash sold by the exchange offices, increased deposit balances, proceeds from sales of goods, works and services, etc.).

In Q1 2010 as compared to Q1 2009, payouts of cash from bank cashier departments increased by 5.2% to KZT2381.5 bln., cash receipts to bank cashier departments decreased by 2.2% to KZT 2256.4 bln. As a result, net payouts from bank cashier departments amounted to KZT 125.1 bln.

3.2. Financial Market

3.2.1. Deposit of Residents

At end-March 2010 deposits of residents amounted to KZT6 860.3 bln., having increased by 6.0% during Q1 2010. Deposits of legal entities increased by 7.6%, deposits of individuals – by 2.1%.

As compared to the respective month of 2009, total volume of deposits of residents with depository institutions grew up by 14.9% in March 2010. At the same time, deposits of legal entities demonstrated the slowdown in growth whereas the dynamics in deposits of individuals were characterized by the accelerating trend, with some slowdown in Q1 2010. During the entire 2009 foreign currency deposits increased at higher rates as compared to the Tenge deposits, however, this tendency changed for the opposite in Q1 2010 (table 4).

table 4

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

	Q2 09	Q3 09	Q4 09	Q1 10
Deposits of residents	34.8	26.9	19.7	14.9
<i>Deposits of the population</i>	<i>10.6</i>	<i>20.7</i>	<i>28.5</i>	<i>21.8</i>
Transferable deposits	5.4	23.0	36.3	25.3
<i>in the domestic currency</i>	3.7	10.5	14.0	31.0
<i>in foreign currency</i>	17.2	106.6	177.1	-3.0
Other deposits	11.3	20.4	27.5	21.4
<i>in the domestic currency</i>	-30.0	-29.8	-7.2	61.9
<i>in foreign currency</i>	75.7	106.0	70.0	0.3
Deposits of non-bank legal entities	46.7	29.6	16.3	12.4
Transferable deposits	95.4	79.2	64.5	12.7
<i>in the domestic currency</i>	70.7	44.7	41.4	14.5
<i>in foreign currency</i>	195.3	202.9	152.7	8.0
Other deposits	18.9	2.7	-4.4	12.1
<i>in the domestic currency</i>	-2.5	-14.6	-12.3	48.2
<i>in foreign currency</i>	49.7	22.7	8.0	-17.0

Source: National Bank of the Republic of Kazakhstan

Measures taken by the government to ensure financial stability maintain the high level of confidence of the population in the banking system, which serves as the basis for stable growth of the deposit base of natural persons. In its turn, the beginning of a new fiscal year and stabilization of the Kazakh economy stipulated the decrease in the volume of funds coming as part of the anti-crisis actions causing a slowdown effect on the growth of deposits of legal entities.

The average weighted interest rate on the Tenge time deposits of non-bank legal entities was 3.9% in March 2010 (in March 2009 – 5.5%), and on deposits of natural persons – 10.3% (10.0%).

3.2.2. Credits to the Economy

In Q1 2010, the total debt on bank credits to the economy decreased by 0.6% to 7 600.6 bln. Credits to the population decreased by 3.5% and credits to legal entities increased by 0.6%.

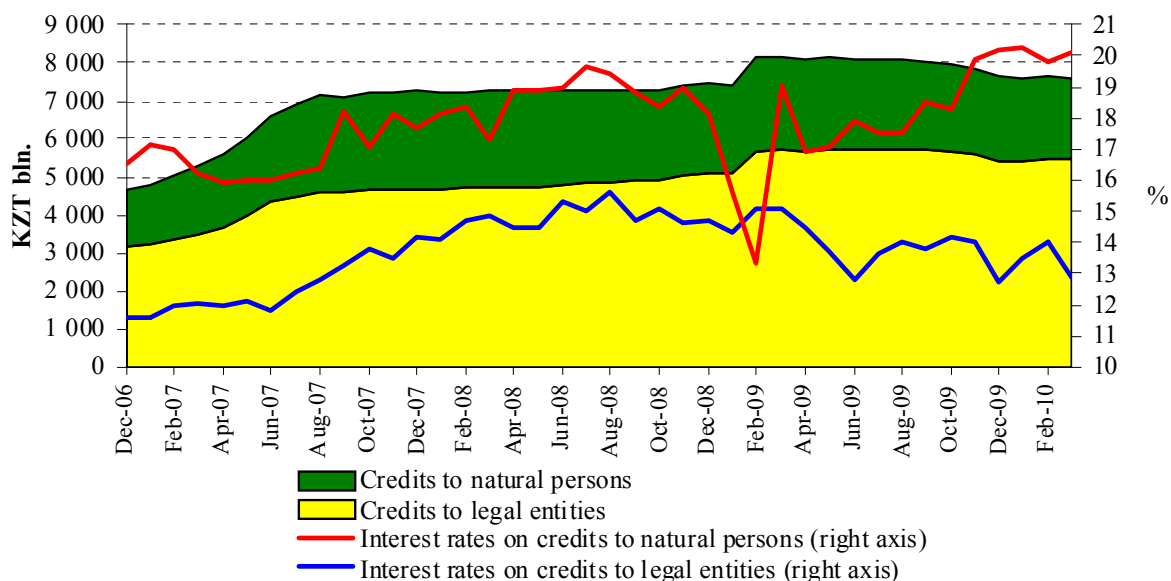
The lending volume decreased by 6.7% versus March 2009, including the decrease in credits to legal entities by 4.3% and natural persons – by 12.1%.

The average weighted rate on credits to legal entities decreased from 15.2% to 12.9% in March 2010 as compared to March 2009, where the decrease in rates was observed both broken down by currencies and by maturities.

The average weighted rate on credits to natural persons increased from 19.0% to 20.1% in March 2010, being caused by the increase in rates on short-term loans made in the domestic and foreign currencies (figure 25).

figure 25

Dynamics of credits to the economy and their interest rates



Source: National Bank of the Republic of Kazakhstan

In the structure of credits the major volume of debt falls on credits provided for the purchase of fixed assets, for new construction and reconstruction as well as for other purposes, mainly for refinancing of earlier loans.

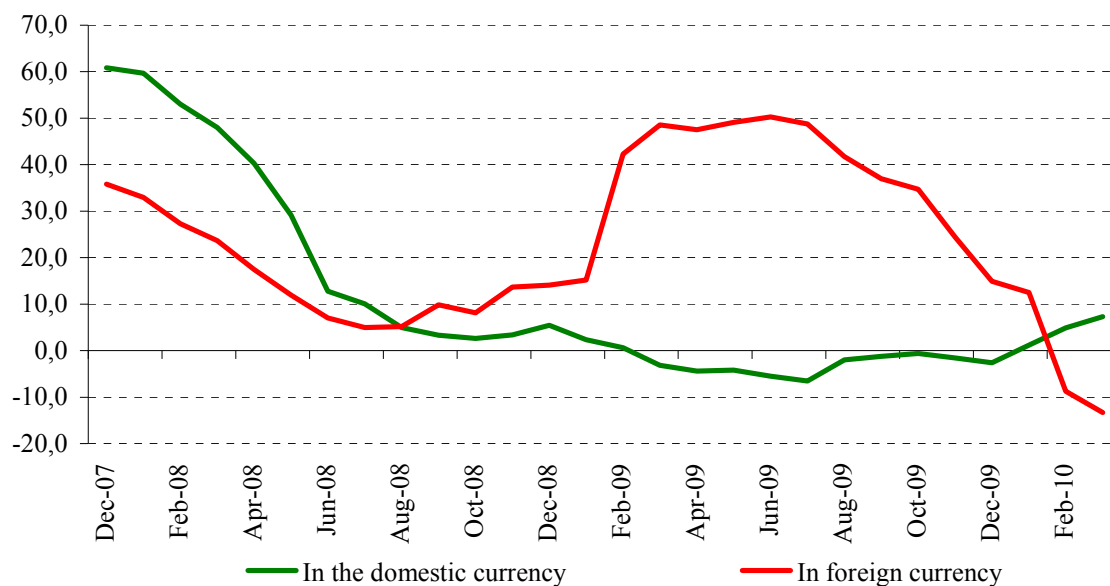
In a sectoral breakdown, the highest debt on bank credits falls on non-production sphere and individual entrepreneurship (40.1%), trade (23.3%), construction (19.5%), industry (9.6%).

– Credits to Legal Entities

The volume of credits to legal entities decreased by 4.3% in March 2010 as compared to the same period of 2009. Credits of legal entities in the domestic currency increased by 7.3% in annual terms, and credits in foreign currency decreased by 13.3% (figure 26).

figure 26

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



Source: National Bank of the Republic of Kazakhstan

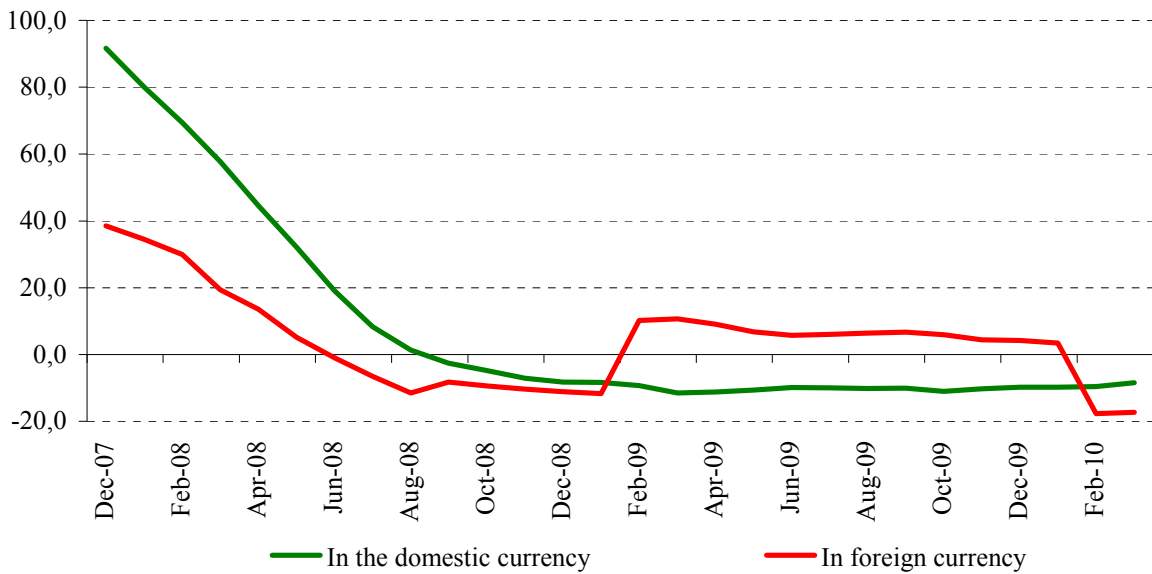
The percentage of medium- and long-term credits at end-March 2010 amounted to 78.7% in the total volume of credits to legal entities (in March 2009 – 73.6%).

– Credits to the Population

The volume of credits to natural persons decreased by 12.1% in March 2010, as compared to the same period of 2009. In the structure of credits to the population, credits in the domestic currency have demonstrated the decrease by 8.4% and in foreign currency – by 17.3% (figure 27).

figure 27

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



Source: National Bank of the Republic of Kazakhstan

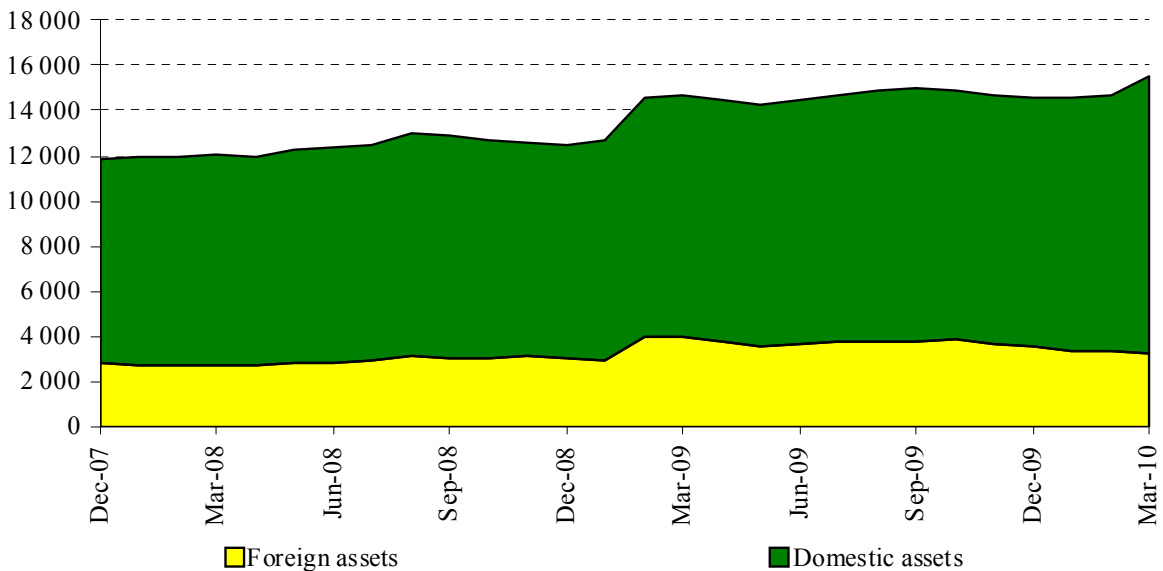
3.2.3. Bank Assets and Liabilities

– **Assets**

In Q1 2010, the amount of bank assets calculated under the Monetary Survey increased by 6.1% to KZT 15.5 tln. Bank assets increased by 5.5% in annual terms (in March 2010 as compared to March 2009). (figure 28).

figure 28

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

Foreign assets of banks at end-March 2010 accounted for 20.6% of the total volume of assets or US\$ 21.7 bln. They have decreased by 10.2% as compared to December 2009 and by 19.2% - as compared to March 2009.

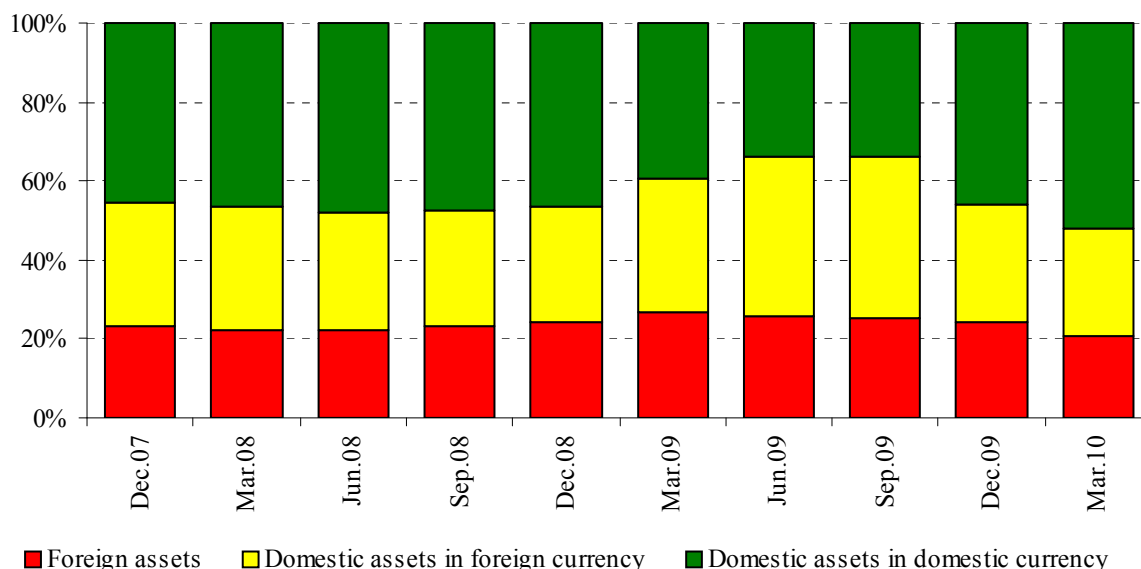
In the structure of foreign assets in March 2010, credits to non-residents reached 57.6% (in December 2009 – 55.5%), deposits placed with non-residents – 21.1% (in December 2009 – 23.2%), securities of non-residents – 3.6% (in December 2009 – 5.1%).

Domestic assets in March 2010 accounted for 79.4% or KZT 12.3 tln., where assets in the domestic currency amounted to 65.4% or KZT 8.0 tln. and assets in foreign currency – 34.6% or KZT 4.3 tln. (figure 29).

During January-March 2010 domestic assets increased by 11.4%, where assets in the domestic currency increased by 19.7% and assets in foreign currency decreased by 1.5%. As compared to March 2009, the growth of these indicators reached 14.6%, 38.8% and -13.7%, respectively.

figure 29

Structure of bank assets, %



Source: National Bank of the Republic of Kazakhstan

During January-March 2010 asset quality of banks continued deteriorating. The percentage of bad assets increased from 20.6% to 21.2%, while the percentage of standard assets and doubtful assets decreased, (from 51.8% to 51.7%) and (from 27.6% to 27.1%), respectively. Moreover, there is a migration of assets in the structure of doubtful assets towards the lower quality assets: the percentage of the 2nd category (from 2.4% to 3.0%) and 4th category (from 1.4% to 1.9%) increased. This is an evidence of the remaining threat of a further reduction in the quality of bank assets.

A high level of credit risk and deteriorating asset quality still represent weak aspects of the Kazakh banking system. The quality of credit portfolio of Kazakh banks deteriorated. At the same time, the major portion of non-performing credits falls on the banks undergoing the restructuring process.

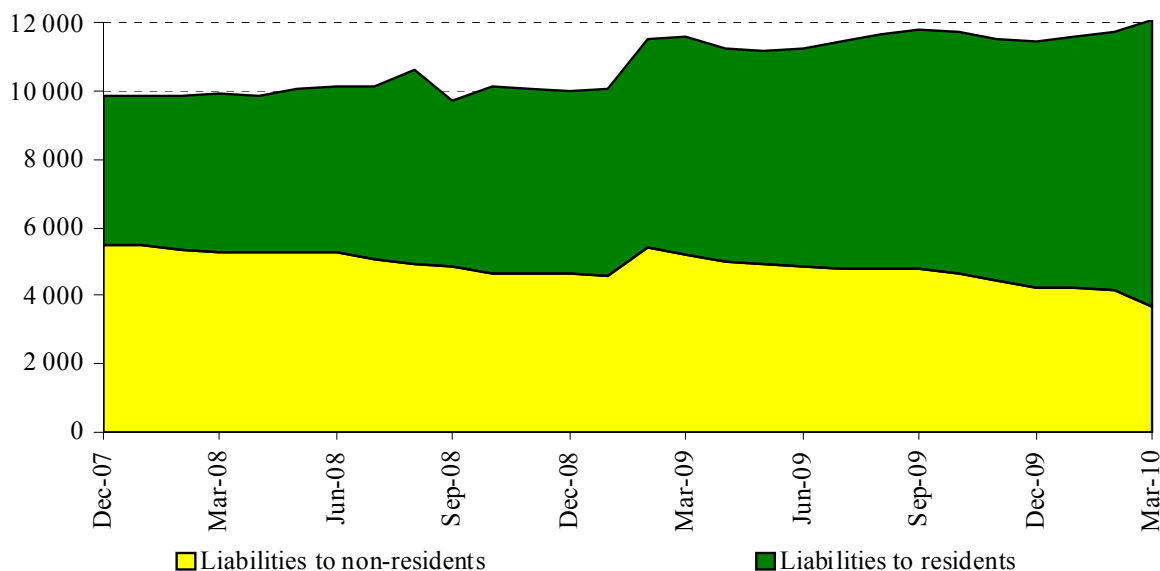
Nonetheless, the opening of the Al-Hilal Islamic Bank in March 2010 appeared to be a positive moment, which contributed to the increase in the total assets of the banking sector.

– Liabilities

In Q1 2010, total bank liabilities calculated in line with the Monetary Survey increased by 5.3% and amounted to KZT 12.1 tln. at end-March 2010. In March 2010 as compared to March 2009, bank liabilities increased by 4.4% (figure 30).

figure 30

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

Bank liabilities to non-residents decreased by 12.5% to US\$ 25.1 bln. in March 2010 as compared to December 2009. Bank liabilities decreased by 29.2% versus the respective month of 2009. At end-March 2010 they accounted for 30.5% of the volume of bank liabilities.

In the structure of bank liabilities to non-residents in March 2010, liabilities on deposits of non-residents increased to 15.3% from 12.0% in December 2009, liabilities on securities – from 9.4% to 29.4%. Credits from non-residents, however, decreased to 52.6% from 75.4% in December 2009.

During January-March 2010, liabilities to residents increased by 15.6% to KZT 8.4 tln., where liabilities in the domestic currency increased by 27.6% to KZT 5.7 tln., foreign liabilities decreased by 3.4% to KZT 2.7 tln.. By the respective month of 2009 growth of these indicators accounted for 32.0%, 60.5% and -3.9%, respectively (figure 31).

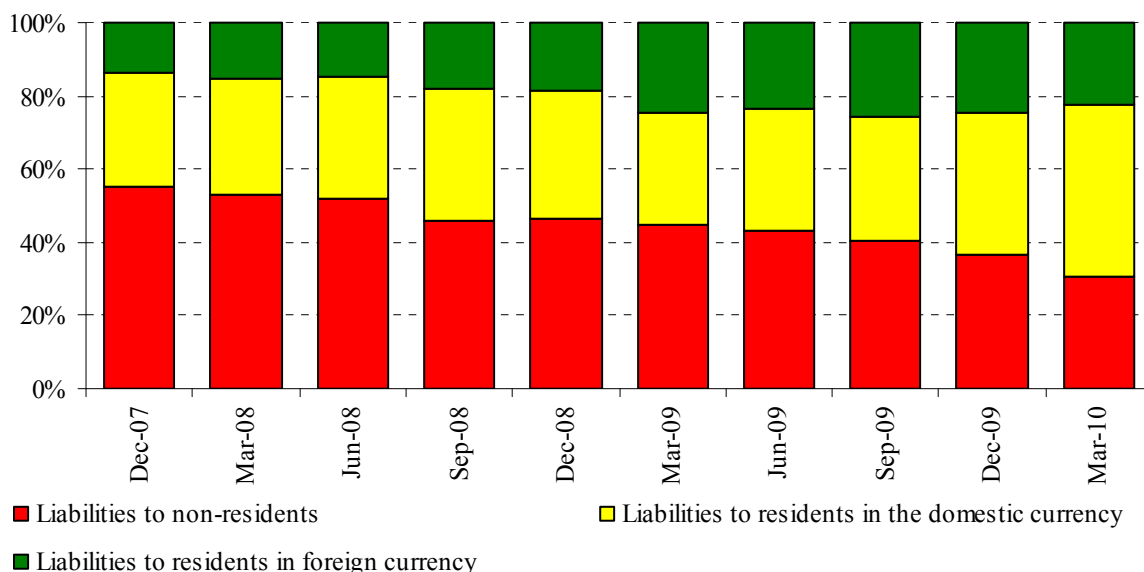
At end-March 2010, the percentage of transferable and other deposits of non-government non-financial institutions in the structure of liabilities to residents decreased to 19.8% (in December 2009 – 21.0%). The percentage of deposits of non-government non-financial institutions decreased over the period from 26.8% to 25.8%, and of households - from 26.1% to 23.3%.

Thus, the global financial and economic instability weakened its negative impact on the banking sector development in Q1 2010.

Generally, because of the implemented set of measures for stabilization of the banking sector, bank liabilities to non-residents have gradually decreased, with their percentage in the total liabilities decreasing from 36.8% at end-2009 to 30.6% at end-March 2010.

figure 31

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

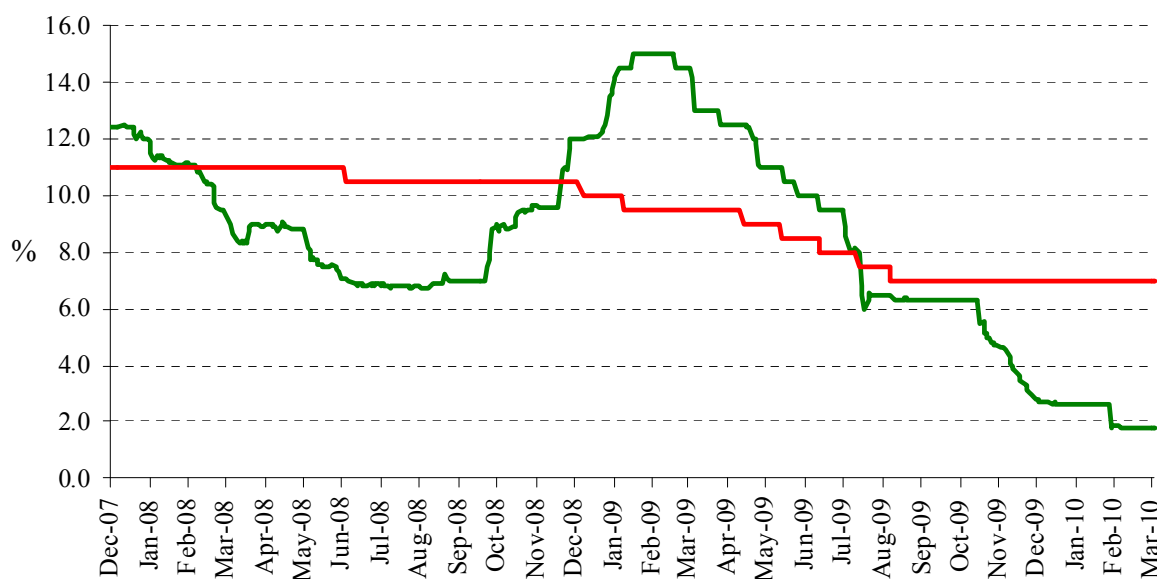
3.2.4. Financial Market Rates

In Q1 2010 there was a decrease in the interbank market interest rates.

The KazPrime indicator decreased from 5.15% on average in Q4 2009 to 2.33% on average in Q1 2010. This indicator was 2.71% at end-December 2009 and 1.76% - at end-March 2010 (figure 32). The main factor for the decrease in the KazPrime rate is the increased volume of liquidity offered in the money market.

figure 32

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



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

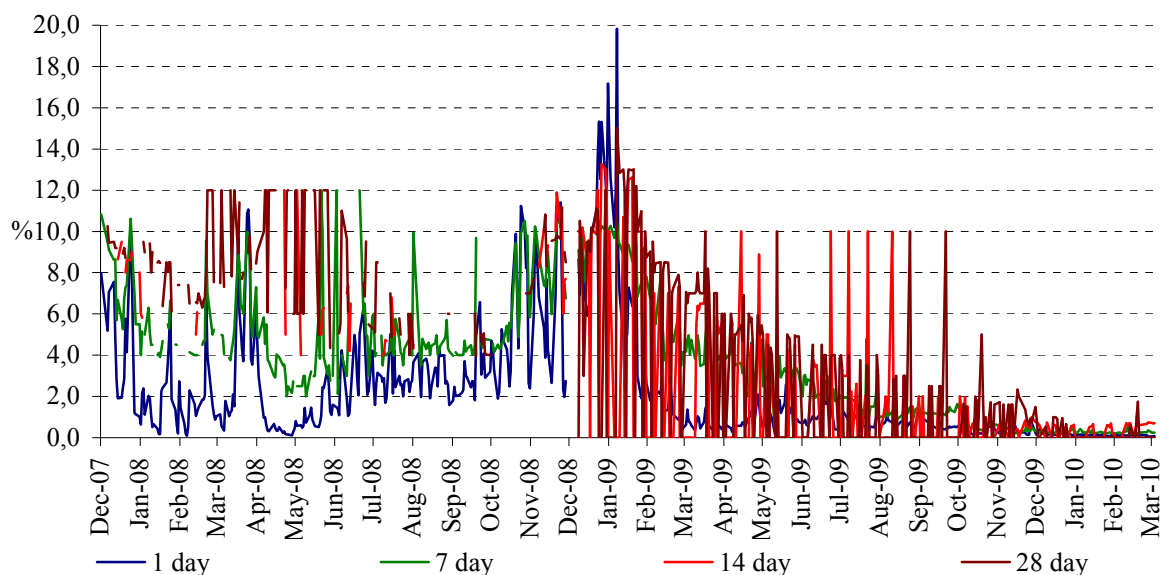
Rates on REPO operations also decrease.

The average weighted rate on 1-day operations in the sector of the automatic REPO in Q1 2010 decreased and was 0.12% (in Q4 2009 – 0.43%). Its maximum level was 0.29% and minimum – 0.04%.

Rate fluctuations on 7-day REPO operations in Q1 2010 were within the range of 0.20% to 0.50% (the average weighted rate was 0.25%), on 14-day REPO operations – from 0.25% to 0.84% (the average weighted rate was 0.44%), and on 28- day REPO operations – from 0.52% to 1.73% (the average weighted rate was 1.38%) (figure 33).

figure 33

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

Though the rate volatility in the money market has been decreasing lately, it still remains high, this fact being related to the small capacity of the market, its insignificant depth, the lack of a sufficient quantity of collateral instruments, and low activity of the market participants. However, the situation with liquidity continues to improve and the decrease in the money market interest rates is a sign of stabilization of a situation in the market.

The transaction volumes in the sector of the automatic REPO increased by 1.5 times as compared to the previous quarter and by 5.0% as compared to Q1 2009. At the same time, the volumes on 7-day and 28-day operations decreased as compared to Q4 2009.

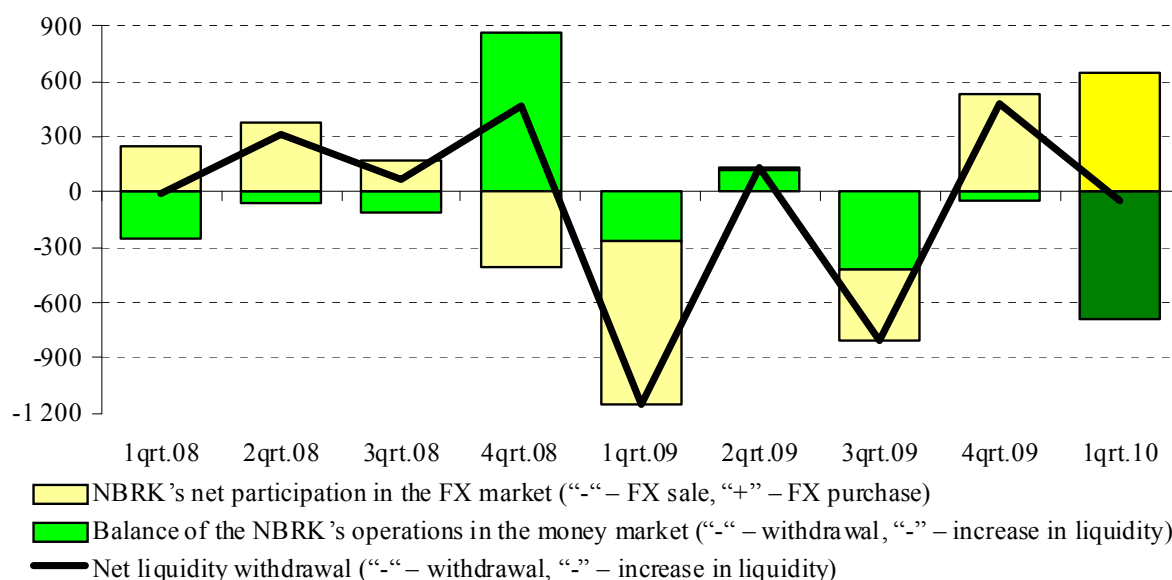
4. Monetary Policy Instruments and Operations

In Q1 2010, the situation in the financial market was stable, banks had sufficient Tenge liquidity.

During Q1 2010 the National Bank's operations in the financial market resulted in the withdrawal of the Tenge liquidity mainly due to the growth in volumes of sterilization operations of the National Bank (figure 34).

figure 34

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



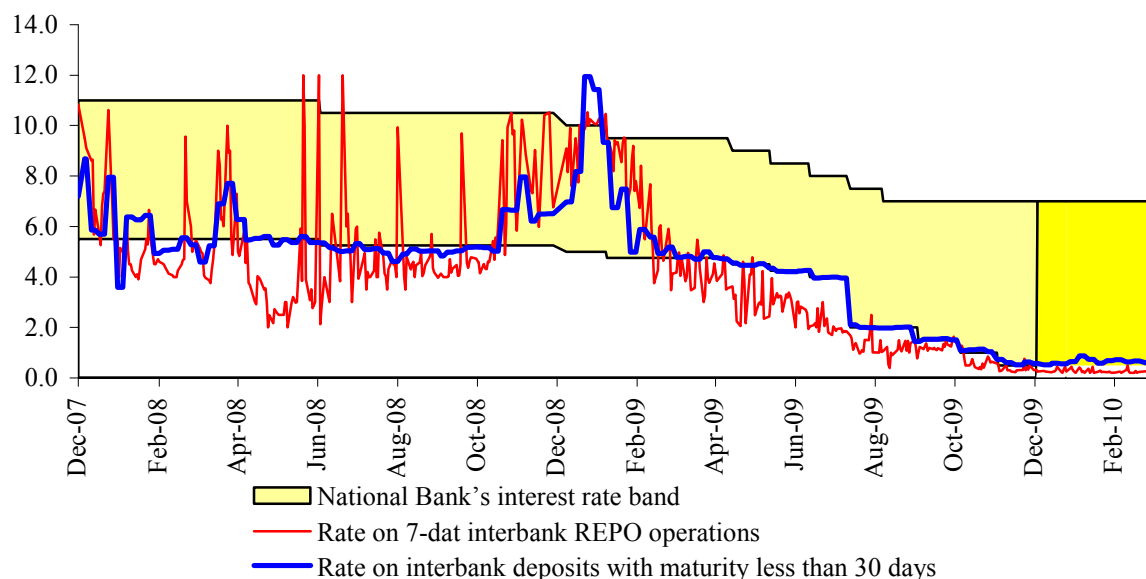
Source: National Bank of the Republic of Kazakhstan

In Q1 2010 the National Bank's rate band remained unchanged. From January 1, 2010, based on the Resolution of the National Bank's management board, the official refinancing rate stayed at the same level – 7.0%. The rates on deposits attracted from banks also didn't change: the rate on 7-day deposits is 0.5%, on 1-month deposits – 1.0%.

Stabilization of situation with liquidity in the financial market was accompanied by gradual decrease in the money market rates. On average, in January-March 2010 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 was at 0.67% in Q1 2010. The average weighted rate on interbank 7-day REPO operations was 0.25% (figure 35).

figure 35

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

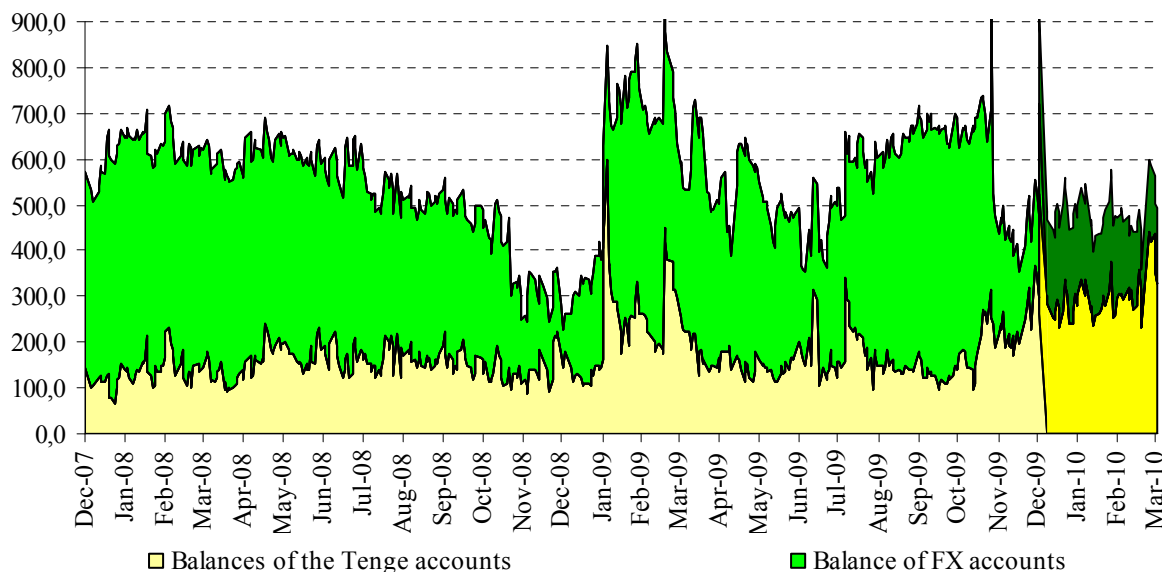


Source: National Bank of the Republic of Kazakhstan

In Q1 2010, there was no stable trend in relation to correspondent account balances of banks with the National Bank. In January 2010 correspondent account balances of banks in the domestic currency increased, in February they gradually decreased and in March the growing trend re-appeared. At the same time, correspondent account balances in foreign currency remained virtually unchanged in January 2010 versus last December, in February their volume increased and they fell below the level of December 2009 in March 2010 (figure 36).

figure 36

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

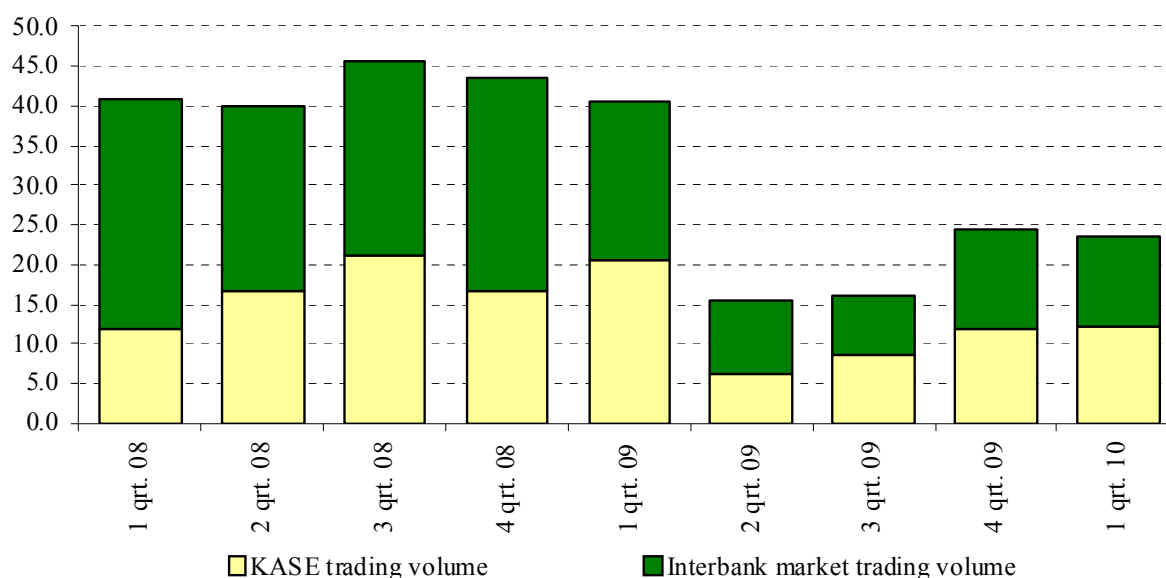
The situation in the domestic foreign exchange market was characterized by the excess of the foreign currency supply over its demand.

In Q1 2010, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank FX market amounted to US\$ 23.7 bln. having decreased (by 2.8%) as compared to Q4 2009.

The volume of trades in Dollar position at the Kazakhstan Stock Exchange increased by 3.6% as compared to Q4 2009 and amounted to US\$ 12.2 bln. (net trades at the Kazakhstan Stock Exchange made up 82% of gross trades). In the off-exchange foreign currency market the volume of transactions in the first quarter of 2010 decreased by 8.8% as compared to the previous quarter and amounted to US\$ 11.5 bln. (figure 37).

figure 37

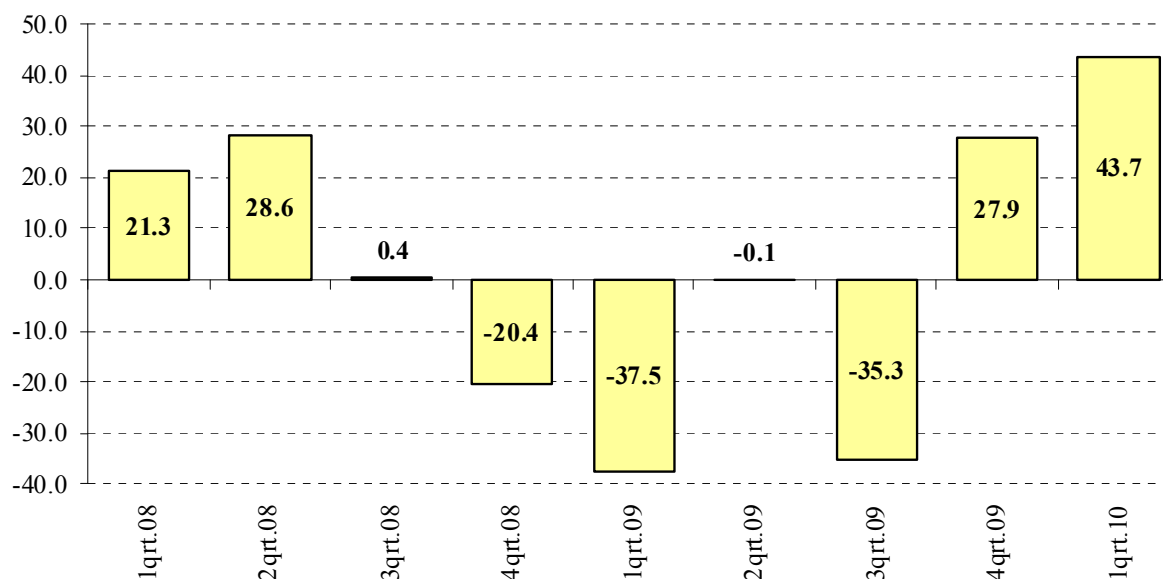
Volume of trading in the domestic exchange market, US\$ bln.



Source: National Bank of the Republic of Kazakhstan

Based on Q1 2010, the National Bank's participation coefficient in the Kazakhstan Stock Exchange was 43.7% (in Q4 2009 it was equal to 27.9%) (figure 38). Thus, in Q1 2010 the National Bank was primarily the buyer of foreign exchange in the domestic foreign exchange market.

figure 38

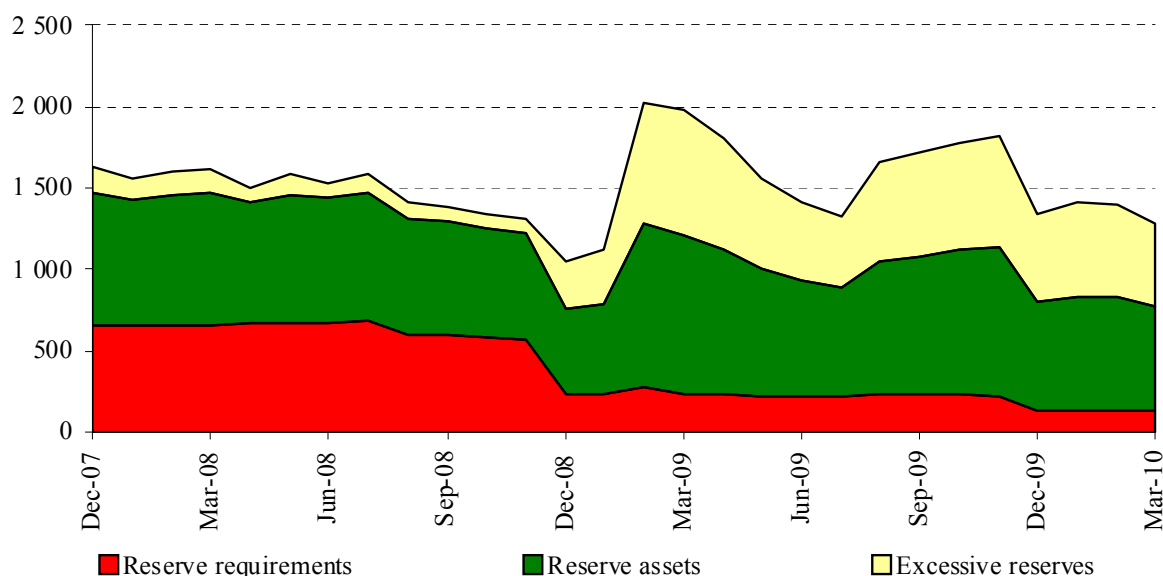
National Bank's participation coefficient in the Kazakhstan Stock Exchange, %


Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

On average during January-March 2010, reserve assets exceeded the required reserving volume by 5.4 times (in Q4 2009 – by 4.5 times) (figure 39).

figure 39

Compliance with minimum reserve requirements, KZT bln.


Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In Q1 2010 the demand of banks for short-term notes of the National Bank remained high. Due to accumulation of a high volume of liquidity in the National Bank's instruments, starting from August 2009, the National Bank has suspended issuing 28-day notes.

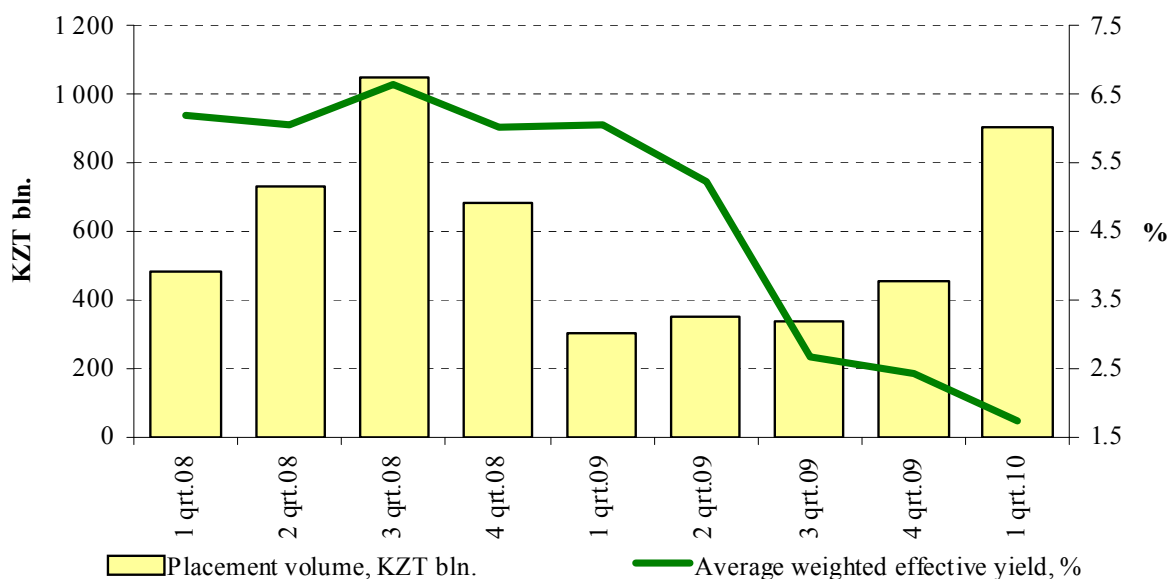
Short-term notes with maturities of 3 and 6 months were issued in January-March 2010.

Volume of short-term notes issued in Q1 2010 doubled as compared to Q4 2009 and amounted to KZT 901.9 bln. This accounted for about 95% of the aggregate demand of the market participants for these types of government securities. The average weighted yield on placed notes decreased from 2.41% in Q4 2009 to 1.73% in Q1 2010 (figure 40).

At end-March 2010 the volume of short-term notes in circulation accounted for KZT 963.3 bln., which is 2.0 times higher than the volume at end-December 2009 (figure 41).

figure 40

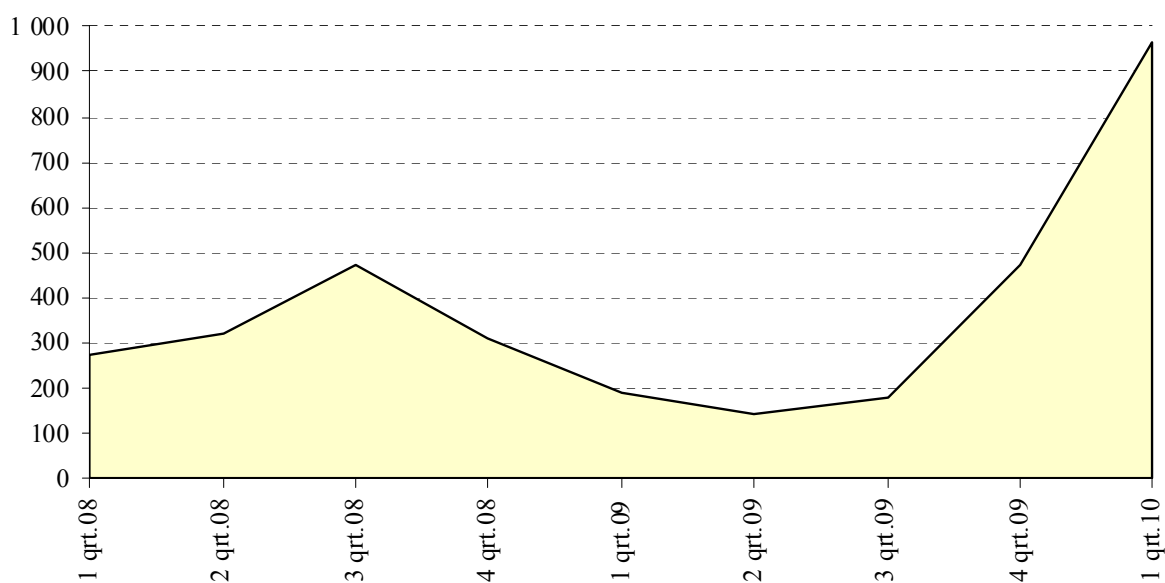
Volume of placed short-term notes and their yield (for the period)



Source: National Bank of the Republic of Kazakhstan

figure 41

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



Source: National Bank of the Republic of Kazakhstan

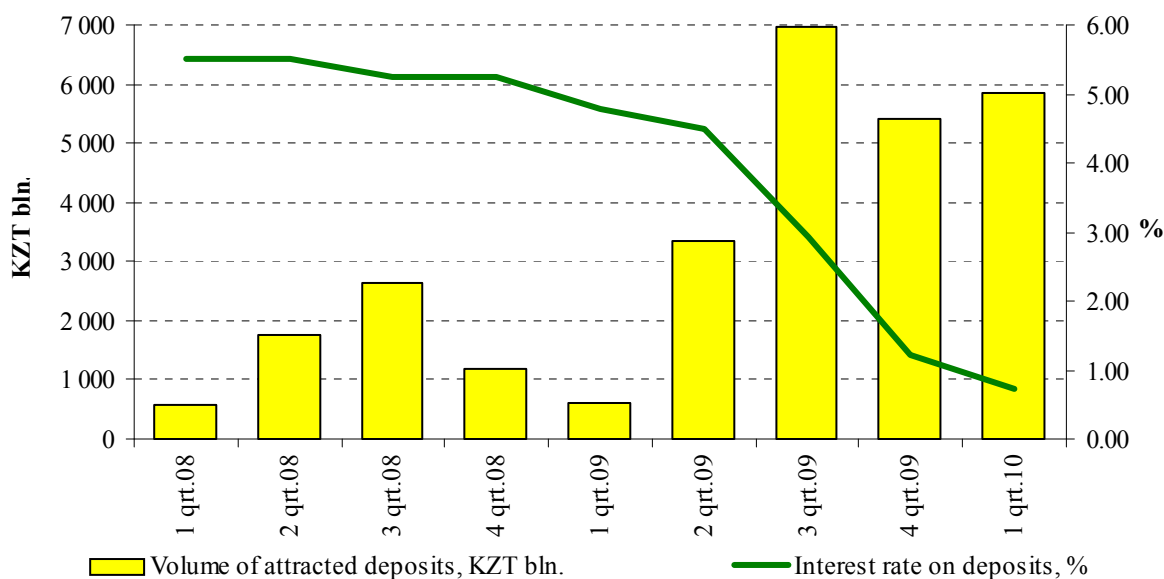
4.4. Standing Facilities

In Q1 2010 the volume of bank deposits with the National Bank increased to some extent as compared to the previous quarter. The volumes of attraction remained high: the average monthly amount of attracted deposits exceeded KZT 1.9 tln. In total, during January-March 2010 KZT 5841.5 bln. of deposits was attracted, which exceeds the volume of Q4 2009 by 8.2% and is greater by 9.4 times than the volume in Q1 2009.

Average interest rate on deposits decreased from 1.21% in Q4 2009 to 0.72% in Q1 2010 (figure 42).

figure 42

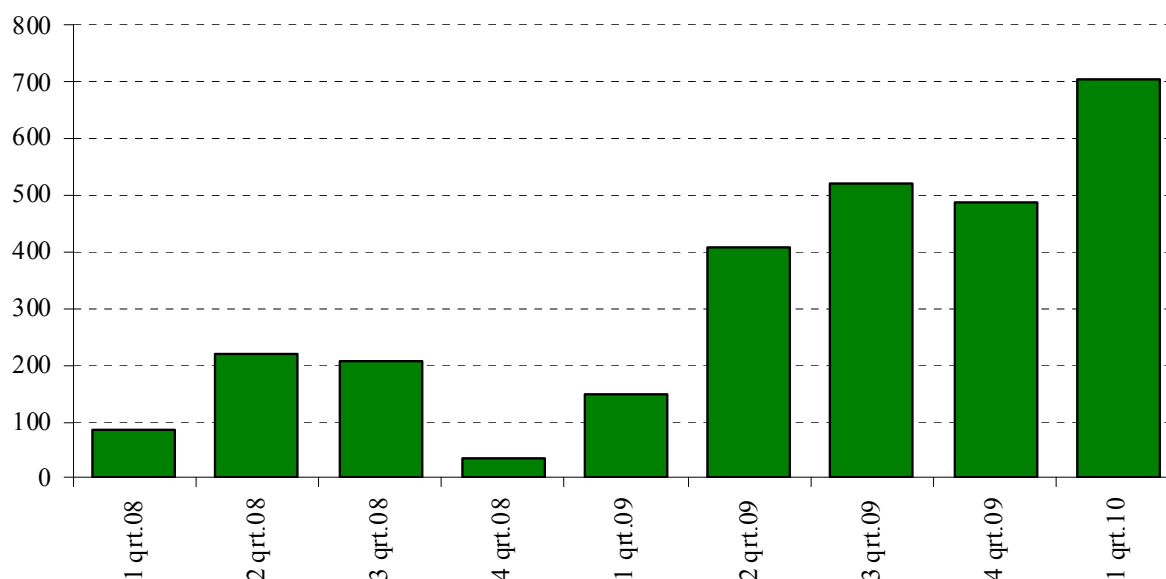
Volume of deposits and interest rates on deposits attracted by the National Bank (for the period)



Source: National Bank of the Republic of Kazakhstan

The growth in the volumes of attracted deposits was accompanied with the increased volume of outstanding liabilities of the National Bank on those deposits by 44.0% to KZT 704.0 bln. in March 2010 as compared to December 2009 (figure 43).

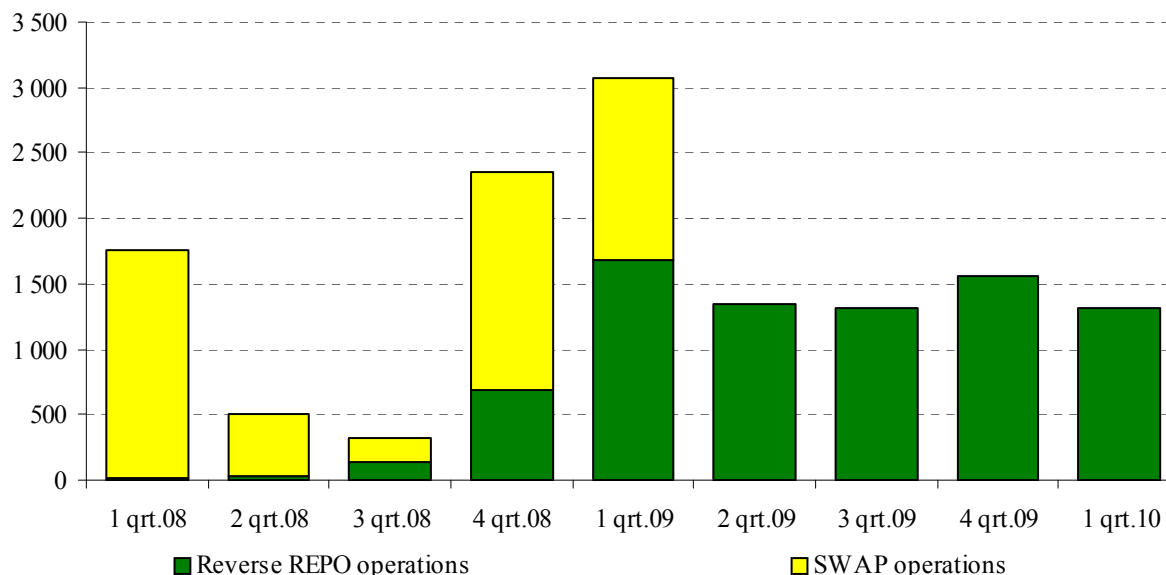
figure 43

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


Source: National Bank of the Republic of Kazakhstan

In addition to sterilization operations, in Q1 2010 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. Total volume of reverse REPO operations in January-March 2010 amounted to KZT 1314.0 bln. (figure 44).

figure 44

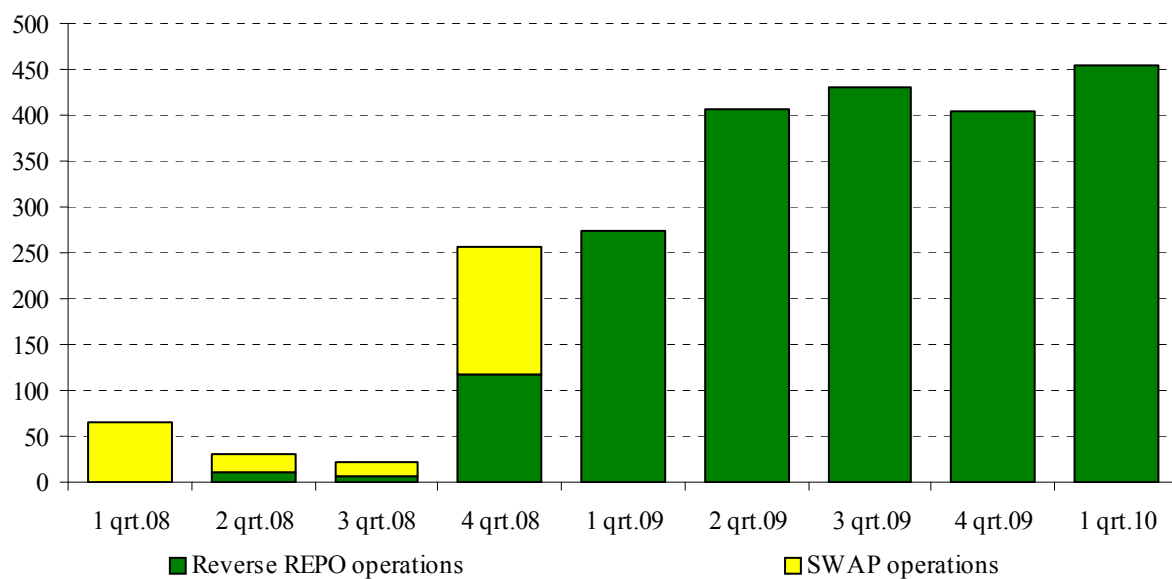
Volume of the National Bank's refinancing operations, KZT billion (for the period)


Source: National Bank of the Republic of Kazakhstan

At end-March 2010 the outstanding debt on reverse REPO operations amounted to KZT 454.8 bln. (figure 45).

figure 45

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



Source: National Bank of the Republic of Kazakhstan