

National Bank
National Bank
of Kazakhstan

Inflation Report
third quarter 2008

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Key terms and concepts

For section 1. Inflation development

Consumer price index (CPI) is used to calculate **inflation** rate in the Republic of Kazakhstan. It represents price changes for common commodities and services that are purchased for personal consumption by the population in Astana and Almaty, in all regional centers and in selected list of towns and district centers. Basket of goods, the term that is used for assessment of inflation, is a sum of household expenses and includes 508 commodities and services that represent the main expenses of the population.

Core inflation is a type of inflation, which does not take into account short-term, irregular price changes that occur under the influence of some factors of administrative, casual and seasonal nature.

Since 2004 the Statistical Agency of the Republic of Kazakhstan calculates core inflation according to 5 different methods:

- Core inflation-1: an assessment of inflation does not take into account rise in prices for vegetables, fruit, fuel and coal;
- Core inflation-2: an assessment of inflation does not take into account rise in prices for vegetables, fruit, regulated services and energy resources;
- Core inflation-3: does not take into account 5 maximal and 5 minimum increments of prices;
- Core inflation-4: trimmed mean;
- Core inflation-5: median CPI.

Enterprise monitoring is a program held by the National Bank since 2002 that carries out inflation expectation surveys of the non-financial sector's enterprises. These surveys are characterized by quality ratings given by the directors of the respondent enterprises ("it is going to rise", "it is going to fall", "it is going to remain unchanged"). They concern the enterprises' production activities including demand and prices of the finished outputs and of the raw materials for the previous and next quarter.

A diffusion index is deduced as a sum of the responses "it is going to rise" and a half of the responses "it is going to remain unchanged". This index is a generalized indicator that characterizes an dynamics of changes taking place in the factor under consideration. The value of the index higher than 50 indicates a positive change in the factor, the value lower than 50 indicates a negative change.

For section 2. Tax and budget policy

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.

For section 3. Monetary aggregates

Reserve money (standby money) includes cash issued by the National Bank, except the cash deposited in the bank's offices (cash outside the National Bank). It also includes transferable deposits and other deposits of banks, transferable deposits of non-bank financial organizations and current accounts of government and non-government non-financial organizations stored in tenge currency in the National Bank.

Narrow reserve money represents reserve money which does not include other deposits of banks in the National Bank.

Monetary aggregate M1 is calculated as a sum of circulated cash and transferable deposits of non-bank legal entities and the population in tenge currency.

Monetary aggregate M2 is a monetary aggregate M1 plus other deposits in tenge currency and transferable deposits of the non-bank legal entities and the population in foreign exchange.

Monetary aggregate M3 is determined on the basis of consolidation of the National Bank's and other banks' balance accounts. It consists of circulating cash, transferable and other deposits of resident legal entities and resident households in the national and foreign exchange.

Transferable deposits – all deposits that: 1) can be anytime converted into cash at par without fines and restrictions; 2) are freely transferred with a check, bill or endorsement order; 3) are widely used for payments settling. Transferable deposits are a part of monetary aggregates.

Other deposits are, mainly, saving deposits and deposits with fixed period that can be withdrawn only after a fixed period of time or can have various restrictions, which make them less useful in common commercial operations and, mainly, help them to meet requirements to saving tools. Also, other deposits include non-transferable investments and deposits held in foreign exchange.

Indicator KazPrime represents the weighted average interest rate for interbank deposits in banks that are participants of the Agreement on establishing the KazPrime indicator of Kazakhstan interbank deposits. Each quotation includes a rate of money attraction and placement on the deposit of one of the Agreement's participant, as well as amount of money placed and attracted. The minimum volume of a quotation is 150 million tenge. The minimum spread between quotations is 100 basic points (1.00% of annual income). The unified period of time for an interbank deposit is three months at the start point of the project.

For section 5. Monetary policy instruments and transactions

Participation ratio of the National Bank in currency trade at the Kazakhstan Stock Exchange (KSE) is calculated as a ratio of net-participation of the National Bank (purchase of foreign exchange minus sale of the foreign exchange) to net-volume of trade at the KSE.

Balance of the National Bank's operations in the money-market is calculated as a sum of changes in amount of short-term notes in circulation, bank balances of the deposit and correspondent accounts of the banks in the National Bank, and net operations on purchase and sale of government securities.

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1. Introduction

At the end of the third quarter of 2008 the situation in the world financial markets became less stable. The market of external borrowing closed for the Kazakhstan banks.

However, the macroeconomic situation in Kazakhstan remains relatively stable, although there are risks of deceleration in the economy's growth rate as a result of possible aggravation in the financial market. To neutralize these risks, the National Bank together with the Government and the Finance Control Agency developed several measures to provide financial aid for the bank sector.

At the same time, a reduction in inflation pressure on the consumer market was noted in September, 2008.

Particularly, the situation in the world markets in the second half of 2008, which influenced price policy in the market of Kazakhstan, stabilizes. It is caused by a cut in prices of some types of food and energy resources (wheat, vegetable oil, rice and oil) that is noted at present. Also, the microeconomic development of Kazakhstan takes place along with deceleration of Economic activity followed by stagnation of the loan issuing activity of the bank sector, production slowdown in many industry fields, deceleration of growth rate of money supply in the economy and reduction of the customer demand.

In these conditions the National Bank anticipates that trend in deceleration of annual inflation rates is going to sustain until the end of 2008 and will continue in 2009. Nevertheless, the risks of aggravation of situation in the customer market remain possible.

From July to September, 2008, the National Bank followed a moderately strict monetary policy that was oriented to support stability of prices and financial sector.

In this period of time, the amount of short-term notes issued by the National Bank and their effective profitability, and also amount of banks' deposits were increased.

Besides, the National Bank performed refinancing operations with banks (reverse repurchase agreements, swap). A list of mortgage guarantees was additionally extended while operations of reverse repurchase agreements were performed.

In July, 2008, the norms of minimum reserve requirements were lowered from 6% to 5% for internal liabilities of banks and from 8% to 7% for other liabilities of banks. Since the first of July, 2008, the official rate of refinancing was lowered from 11% to 10.5%, and the rate on deposits attracted from banks was lowered from 5.5% to 5.25%.

In addition, a stable exchange rate helped to sustainability of financial system; it did not grow higher than 121 tenge for one US dollar during the third quarter of 2008 with a little help of the National Bank for the domestic foreign exchange market.

2. Inflation processes

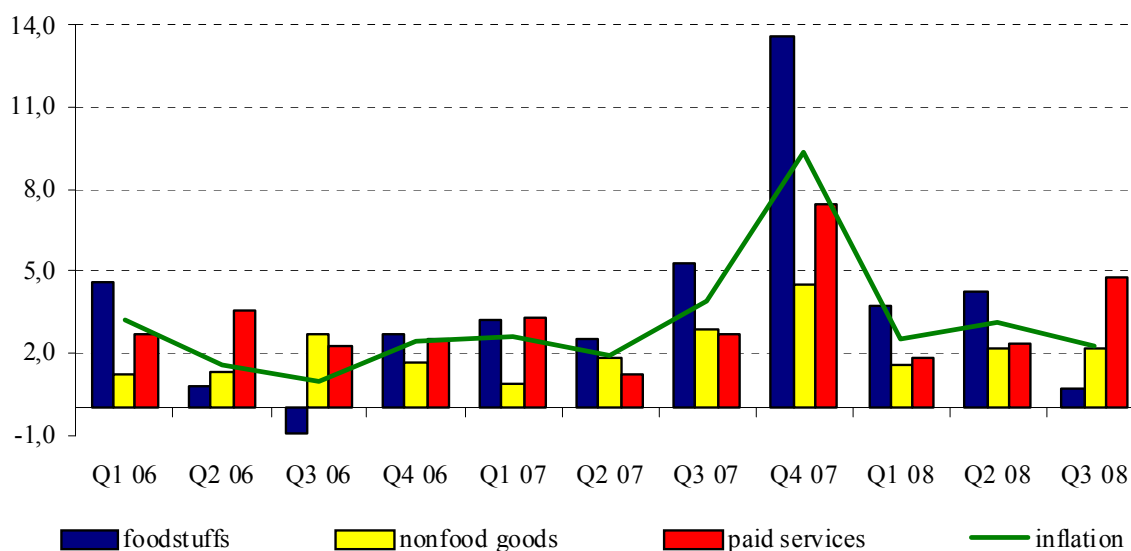
2.1. Consumer prices

In the third quarter of 2008 a reduction of inflation pressure was noted in the economy. Inflation for this period was lower as in comparison with the previous quarter and also in comparison with the same quarter of the previous year. So, from July to September of 2008 the inflation came up to 2.3%.

The rise of prices in the third quarter of 2008 was caused, in the first place, by 4.8% rise of paid services for the population. Prices for food increased by 0.7% and for non-food products by 2.2% (Diagram 1).

Diagram 1

Dynamics of quarterly inflation and its components (% to the previous period)



Source: Statistical Agency of the Republic of Kazakhstan

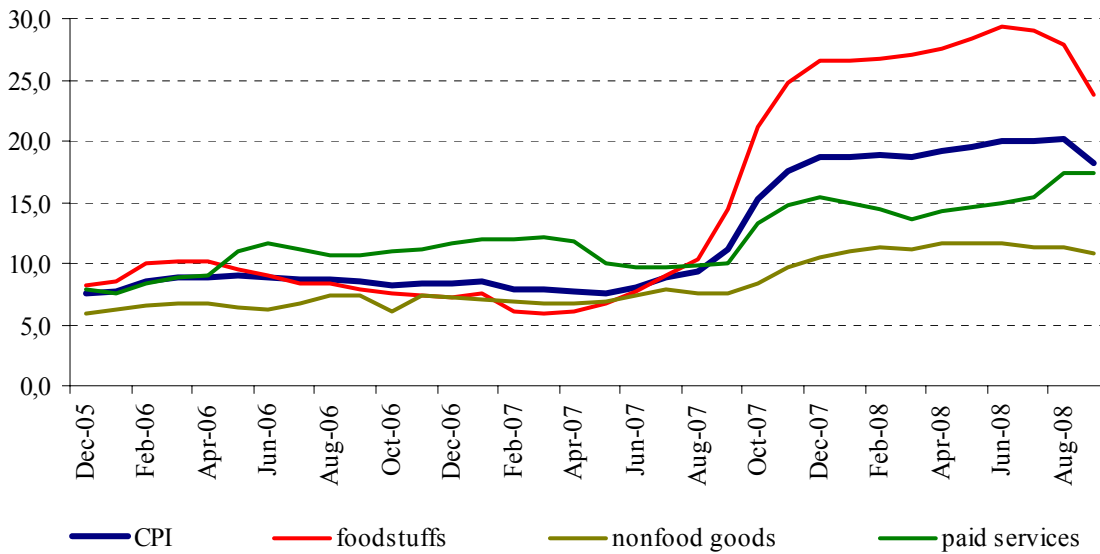
In the third quarter of 2008 the main increase of prices was noted for such products and services as rice – by 12.6%, diesel fuel – by 10.9%, gas – by 6.7%, transport – 8.3%, services of educational institutions – by 6.4%, housing and communal services – by 4.9% including electricity supply – by 13.9% and natural gas supply – by 9.6%.

In September, 2008, the annual inflation was 18.2% (18.8% in December, 2007).

The prices for food products increased by 23.7%, paid services for the population by 17.3%, non-food products by 10.8% (Diagram 2). The highest annual increase in prices was noted for vegetable oil, wheat flour, noodles, rice, dairy products, fruit and vegetables, gas, diesel fuel, transport, and housing and communal services.

Diagram 2

Dynamics of annual inflation and its components
(% to the corresponding month of the previous year)



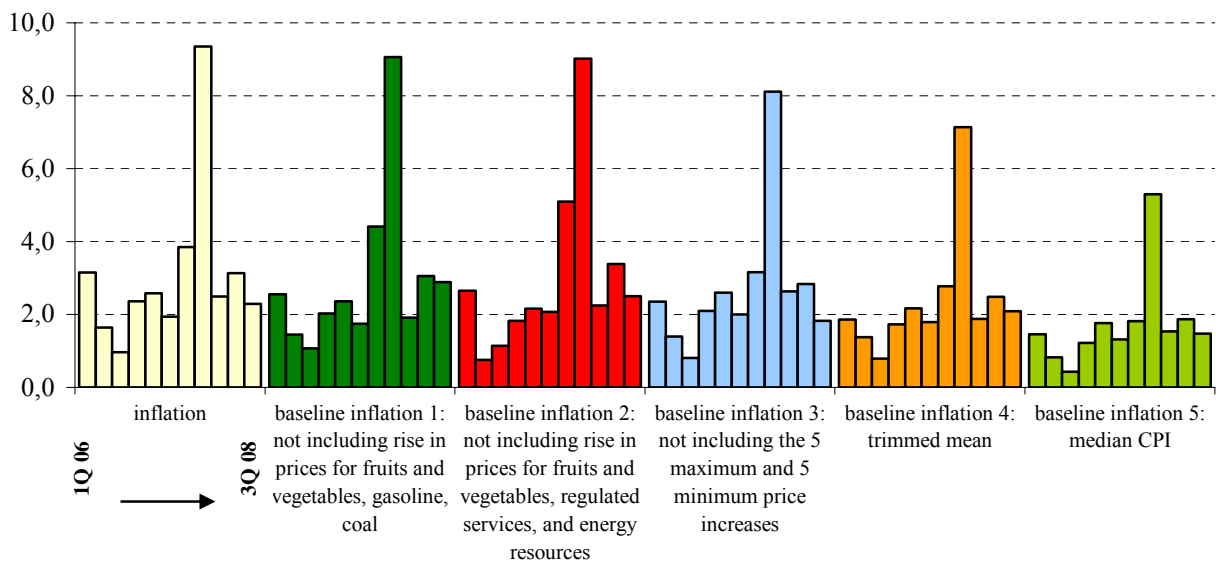
Source of information: Statistical Agency of the Republic of Kazakhstan

2.2. Core inflation

Rates of core inflation also indicate the decrease of inflation pressure in the economy. In the third quarter of 2008, rates of core inflation decelerated as in comparison with the previous quarter, and also in comparison with the third quarter of 2007 (Diagram 3).

Diagram 3

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



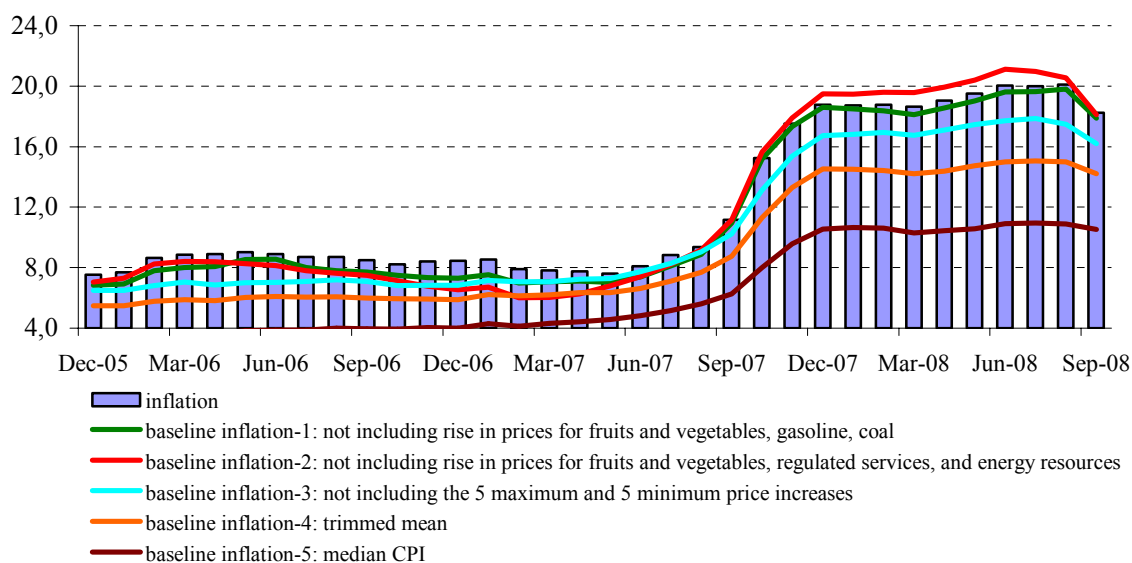
Source: Statistical Agency of the Republic of Kazakhstan

In the period from July to September, 2008, the rates of core inflation-2 and core inflation-3 exceeded the rate of general inflation. This was caused, in the first place, by reduction of prices of the fruit and vegetables production that were not taken into account in estimation of these parameters.

Rates of core inflation in the annual terms, as well as the rate of general inflation show the tendency to decelerate. We see that all rates of core inflation in September, 2008, are on the lower level in comparison with December, 2007. Also, we should note, that by results of September, 2000, rates of core inflation in annual terms did not exceed the rate of general inflation (Diagram 4).

Diagram 4

**Dynamics of annual inflation and core inflation
(% to the corresponding month of the previous year)**



Source: Statistical Agency of the Republic of Kazakhstan

2.3. Prices in the real sector of the economy

2.3.1. Prices in the industry

In the third quarter of 2008, an insignificant decrease of prices of enterprises that are producers of industrial output was noted. Thus, the reduction of prices was 0.9%, though in the third quarter of 2007 the prices increased by 9.0%. The produced output became cheaper by 1.2%, the prices for production resources became higher by 1.3%, consumer goods became more expensive by 2.4%, and production of intermediate consumption became cheaper by 1.5%. The prices for services of enterprises of a production nature that manufacture industrial products became higher by 4.0%.

In the period from July to September, 2008, the prices of enterprises of the extractive industry reduced by 4.0% (for the corresponding period of 2007 – rise by 11.2%). The reduction of prices of the manufacturers was followed by reduction of prices of some energy and raw materials. Thus, the prices of gas condensate reduced by 8.5% (in the third quarter of 2007 – rise by 9.4%), of oil by 5.9% (increase by 13.1%). Thus, the prices of natural gas increased by 7.8% (during the third quarter of 2007 – by 4.0%), by 1.2% for coal (by 3.2%). In whole, during the period from July to September, 2008 the energy resources got cheaper by 4.9%, whereas in the corresponding period of 2007 they were 11.3% more expensive.

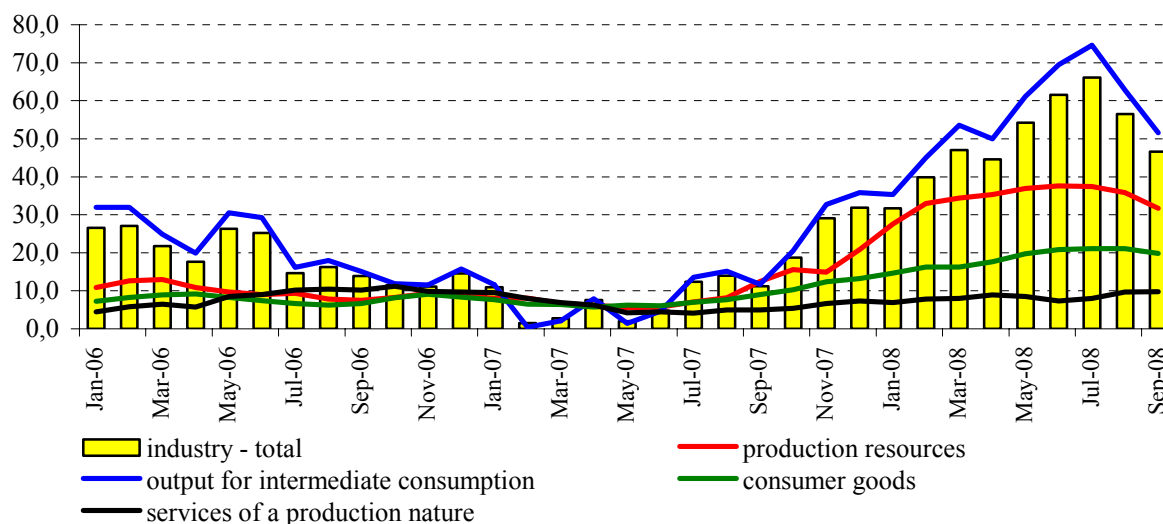
The rise in prices of producers in the processing industry came up to 4.7% under the influence of the situation with prices that developed for raw material resources. Prices for rolled ferrous metals increased by 22.9% (in the third quarter of 2007 – by 8.3%), and prices for non-ferrous metals reduced by 8.1% (reduction by 3.6%). Petroleum products in the third quarter of 2008 got more expensive by 10.0%, whereas in the corresponding period of 2007 – by 7.1%.

Tariffs and prices for the production and distribution of electrical energy, natural gas and water in the third quarter of 2008 grew up by 8.4% (in the third quarter of 2007 – by 1.8%).

In September, 2008, the annual increase in prices for industrial production (from September, 2008, to September, 2007) was 46.6%. The produced output became more expensive by 48.8%, including prices for production resources – by 31.7%, consumer products by 19.8%, products of intermediate consumption – by 51.6%. The annual increase of prices for production type amounted to 9.8% (Diagram 5).

Diagram 5

Dynamics of the price index for enterprises - producers of industrial output (% to the corresponding month of the previous year)



Source: Statistical Agency of the Republic of Kazakhstan

2.3.2. Prices in agriculture

In the third quarter of 2008 selling prices of producers of agricultural output increased by 1.6% (in the third quarter of 2007 – by 5.8%). Dynamics of prices in the agriculture formed on the background of overall increase of prices of livestock products – by 2.5% and for crop output – 1.1%.

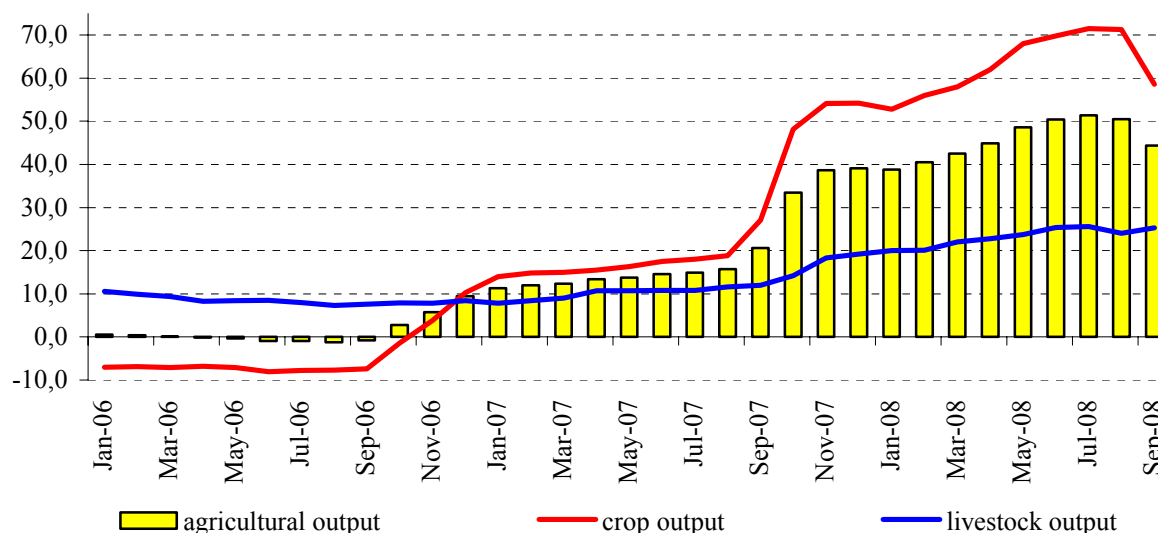
In the livestock production there were increase during July to September 2008 in the prices of livestock and poultry meat by 3.2%, milk by 2.2%, although the prices of eggs reduced by 2.4%.

The increase in prices of products of plant growing industry in the analyzed period of time was caused by rise in prices of corns by 1.8%, including rice – by 8.5% and wheat – by 1.2%.

By the results of September of 2008 the annual increase in prices of the agricultural products came up to 44.4% (in December 2007 – 39.1%). Thus, the for crop output became more expensive by 58.6% (by 54,2%), products of the livestock breeding by 25.3% (by 19.2%) (Diagram 6).

Diagram 6

**Dynamics of price index for agricultural output
(% to the corresponding month of the previous year)**



Source: Statistical Agency of the Republic of Kazakhstan

2.3.3. Enterprise monitoring

In the third quarter of 2008 rate of increase in demand for finished output reduced insignificantly. Thus, an increase in prices of finished outputs was reported by 25.6% of the respondent enterprises (27.4% in the second quarter of 2008). At the same time the share of enterprises with stable demand increased (from 49.0% to 51.4%) and share of enterprises whose demand for output declined reduced insignificantly (from 23.2% to 22.5%). Consequently, the diffusion index for the change in demand for finished output of the sector came up to 51.5 (52.1 in the second quarter of 2008)

In the fourth quarter of 2008, 41.2% of enterprises expect that demand on finished output is going to remain unchanged, and 22% of respondent enterprises expect that demand is going to increase. 16.7% of enterprises expect that demand on finished output is going to fall. Hereupon, the increase of the index to 52.6 is anticipated (diagram 7). Situation with prices for the finished output of respondent enterprises and prices of raw materials that is used in the production process is characterized by some increase of the inflation pressure.

Increase in prices for finished output in the third quarter of 2008 was reported by 31.2% of the enterprises (in the second quarter– 40.5%). The proportion of enterprises suffered reduction in prices of their product decreased by 9.2% (5.0% in the previous quarter). Consequently, a price change diffusion index for the finished output lowered noticeably (to 61.0 point in comparison with 67.8 in the second quarter of 2008).

In the fourth quarter of 2008 further reduction to 59.2% of price change diffusion index for the finished output is anticipated. This reduction is related to reduction to 24.1% in the proportion of the enterprises that expect rise of prices of their production and the proportion of the enterprises that expect decrease of prices of their own finished output to 5.8% (diagram 7).

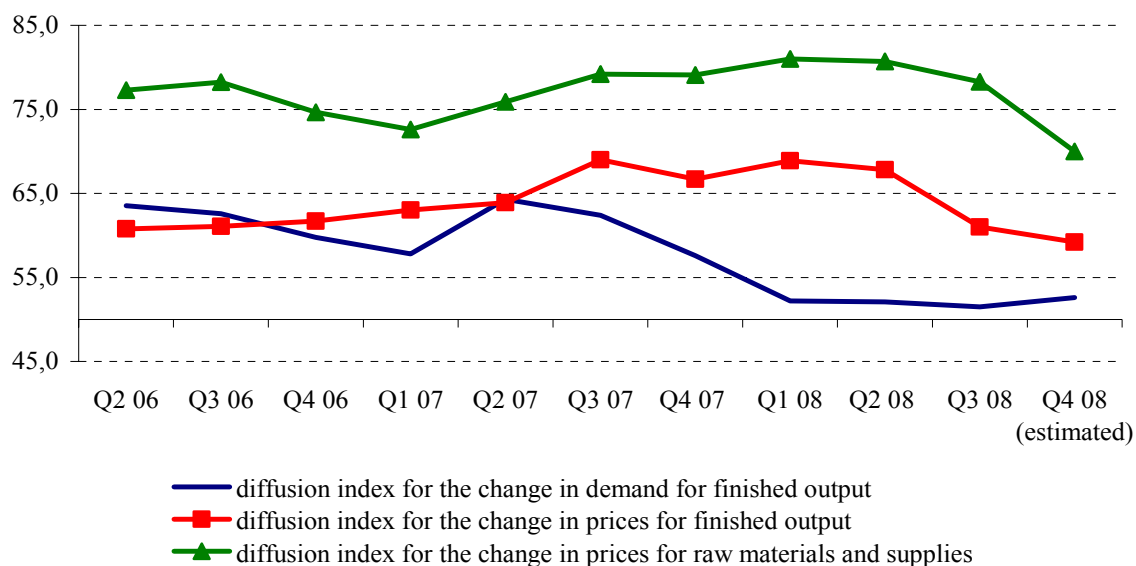
The proportion of enterprises that reported rise in prices of raw material decreased from 70.8% to 65.8%. 24.6% of the responded enterprises reported stability of the prices, whereas the proportion was 19.7% in the previous quarter. The number of enterprises that

reported reduction in the prices of raw materials increased from 1.2% to 2.7%. The price change diffusion index for raw materials decreased from 80.7 to 78.3.

The share of enterprises anticipating an increase in prices for raw materials and supplies in the fourth quarter of 2008 decreased to 49.3%; the proportion of enterprises that expect reduction of prices remained at the level of the second quarter of 2008 (2.7%). Hereupon, the diffusion index decreased to 78.3 (diagram 7).

Diagram 7

Diffusion indices for changes in demand and prices



Source of information: The National Bank of the Republic of Kazakhstan

Thereby, anticipations of the respondent enterprises, concerning the further changes in prices, in spite of the visible improvement are going on to be negative. This is indicated by corresponding diffusion indices, which noticeably exceed level 50, especially in relation to raw materials.

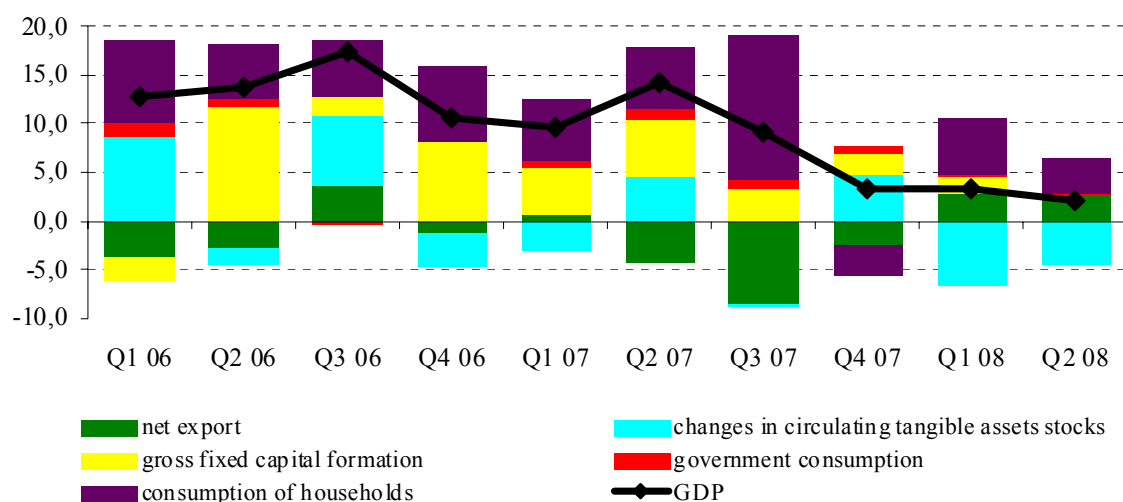
3. Factors of inflation

3.1. Aggregate demand

In the second quarter of 2008 consumption growth rate of gross domestic product amounted, by estimation, to 2% in comparison with corresponding quarter of 2007, that is somewhat lower than the same rate of the previous quarter (3.4%). It is caused by slowdown in rate of growth of expenditures on the final consumption of households and on the gross accumulation of the capital stock (Diagram 8).

Diagram 8

Contribution of components of aggregate demand to the gross domestic product, %



Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

3.1.1. Individual consumption and investment demand

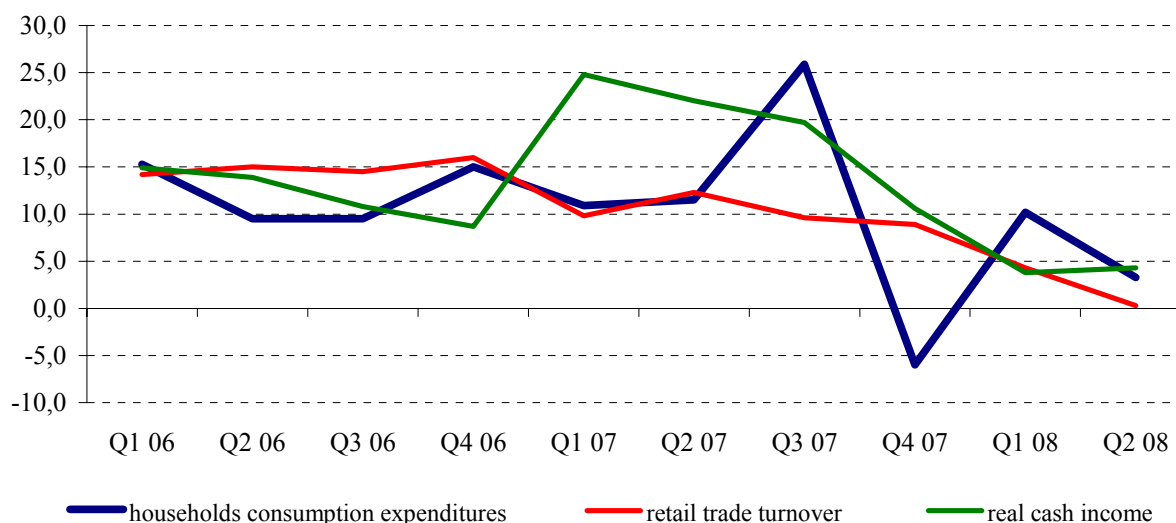
Expenditures on the final consumption of the households grew by 6.4% in the second quarter of 2008 in comparison with the corresponding period of 2007 (by 10.2% in the first quarter).

The continual increase in the population's revenues contributes into rise in consumption by the households. By results of the second quarter of 2008 the average individual nominal money revenue increased by 24.6% in comparison with the second quarter of 2007, and in real terms by 4.3% (in the first quarter of 2008 by 3.8%).

Meanwhile, the retail turnover of commodities from April to June, 2008, raised by only 0.3% in comparison with the corresponding period of 2007 (in the first quarter of 2008 – на 4.3%) (Diagram 9).

Diagram 9

**Dynamics of population's expenditures and income
(% to the corresponding period of the previous year)**

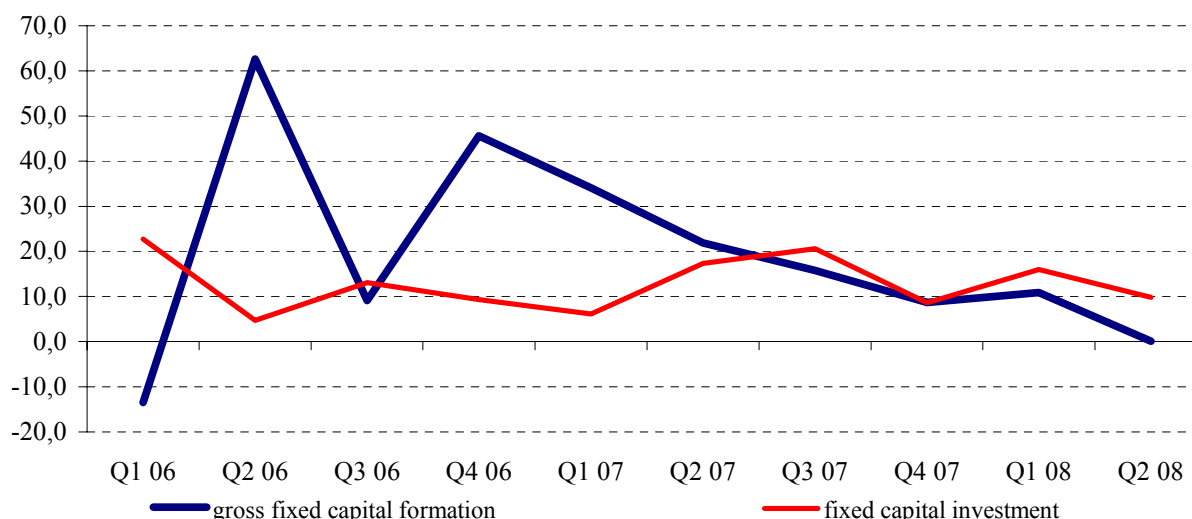


Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

In the second quarter of 2008 expenditures on gross accumulation of the capital stock in the structure of gross domestic product did not practically changed (growth by 0.1%). Herewith, the amount of investments into the capital stock increased by 9.8% in the second quarter of 2008 (Diagram 10).

Diagram 10

**Dynamics of expenditures on capital stock investments
(% to the corresponding period of the previous year)**



Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

3.1.2. Government consumption

Expenditures on the final consumption by government management bodies increased, by estimation, by 7.4% in the second quarter of 2008 in comparison with corresponding period of 2007 (in the first quarter of 2008 – by 2.5%).

As a whole, expenditures for the state budget were financed by the sum of 990.1 billion tenge or 26.5% to the gross domestic product in the second quarter of 2008. In comparison with corresponding period of 2007 there was an increase by 37.6%.

The current expenditures of the state budget came up to 604.7 billion tenge that was by 20.8% higher than in the corresponding period of 2007.

Capital expenditures of the state budget in the second quarter of 2008 increased by 39.5% in comparison with corresponding period of 2007. Budget loans in the second quarter of 2008 increased 1.6 times, expenditures on acquisition of financial assets increased 3.2 times.

During the second quarter of 2008 incomes to the state budget totaled to 854.7 billion tenge or 22.8% to the gross domestic product. In comparison with corresponding period of previous year they increased by 17.7%. The increase of income was provided by increase in amount of tax takings and official transfers.

The main takings to the state budget were tax proceeds (73.2%) and official transfers (23.2%) in the second quarter of 2008.

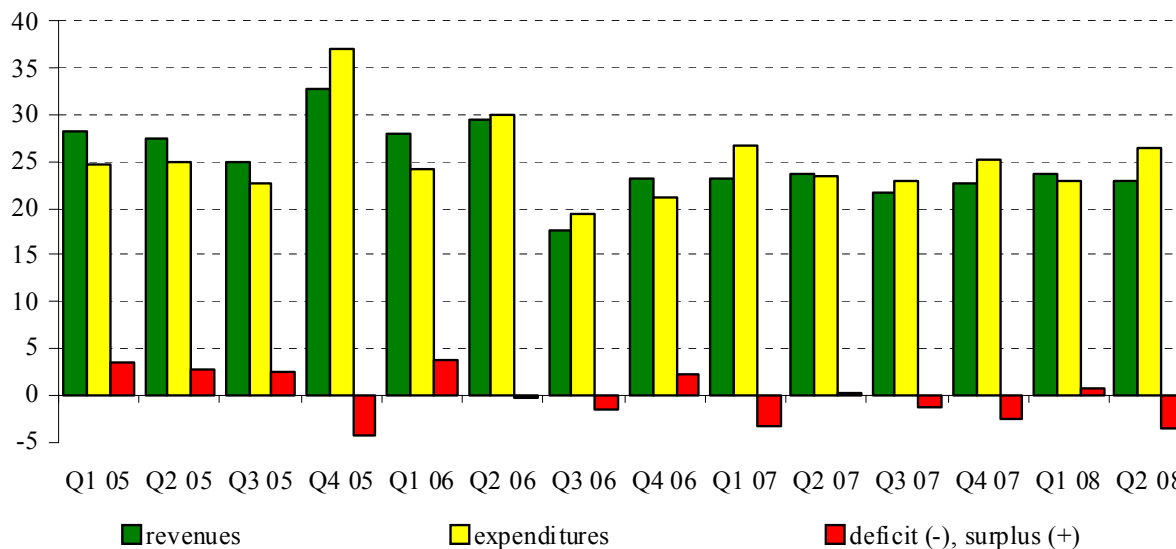
In the structure of tax proceeds the takings through the tax on transport vehicles increased significantly (2.8 times), through the international trade and external operations (2.0 times), proceeds through individual income tax increased by 12.8%, through value-added tax by 6.8%, as well as through excise taxes (by 21.2%), through taxes on business initiatives and professional activities (by 116.3%) and takings for the use of natural and other resources (by 46.9%). Proceeds through the single tax reduced significantly by 47.8%. Also, there are reduction of proceeds through corporate income tax (2.9%) and taxes on properties (5.3%).

In the second quarter of 2008 a guaranteed transfer of 198.4 billion tenge was exempted to a republican budget from the National Fund.

As a result of expenditures exceeding over the income the state budget had a deficit of 135.4 billion tenge in the second quarter of 2008 (-3.6% to the gross domestic product) against the net surplus in the second quarter of 2007 of 6.9 billion tenge (Diagram 11).

Diagram 11

Performance of the state budget, as a percentage against the gross domestic product



Source of information: Ministry of Finance of the Republic of Kazakhstan

The sources of financing were formed as follows: reception of loans – 100.5 billion tenge (repayments of loans came up to 38,8 billion tenge in the accounting quarter), use of free remainders of budget funds – 73,7 billion tenge.

The state domestic debt for the second quarter of 2008 increased to 622.7 billion tenge that is by 11.2% in comparison with the first quarter of 2008 and was supported by emission of long-term treasury bonds.

The external debt of the government reduced by 2.4% to 1.5 billion US dollars in the second quarter of 2008, in comparison with the first quarter of 2008.

3.1.3. External sector

– World prices

In the third quarter of 2008 situation on the world commodity markets was characterized by reduction of prices of main types of food products and raw materials.

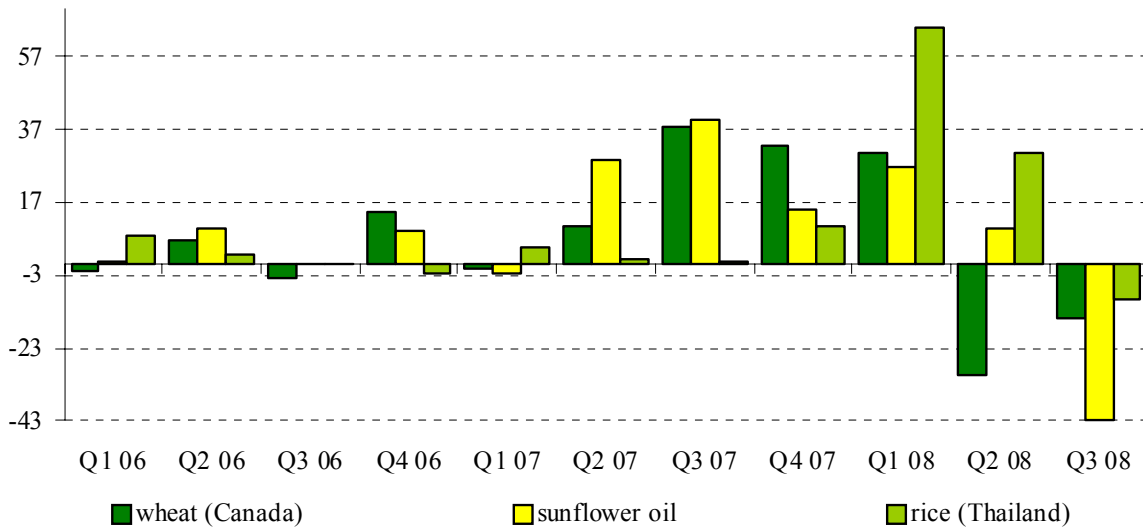
In the period of time from July to September, 2008, the reduction of world prices for wheat, that had began in the March of the same year, continued. Thus, according to data from the World Bank, the world price for wheat (Canada) decreased by 14.5% during the third quarter of 2008. On an average, the price of wheat was 390.2 US dollars for ton in the third quarter.

In the third quarter of 2008 a significant reduction in price of sunflower oil was noted. Thus, in the period from July to September, 2008, according to data of the US Department of Agriculture, prices of sunflower oil reduced by 42.5% and, on an average, was 1395 US dollars for metric ton during this period.

World prices of rice in the third quarter of 2008 also demonstrated reduction. In whole, in the third quarter of 2008 (according to data of the World Bank) the reduction of prices of rice was 9.3% (Diagram 12). However, in comparison with December of 2007 their level remained twice as high.

Diagram 12

Dynamics of world price indices calculated for wheat and sunflower-seed oil (% to the previous period)



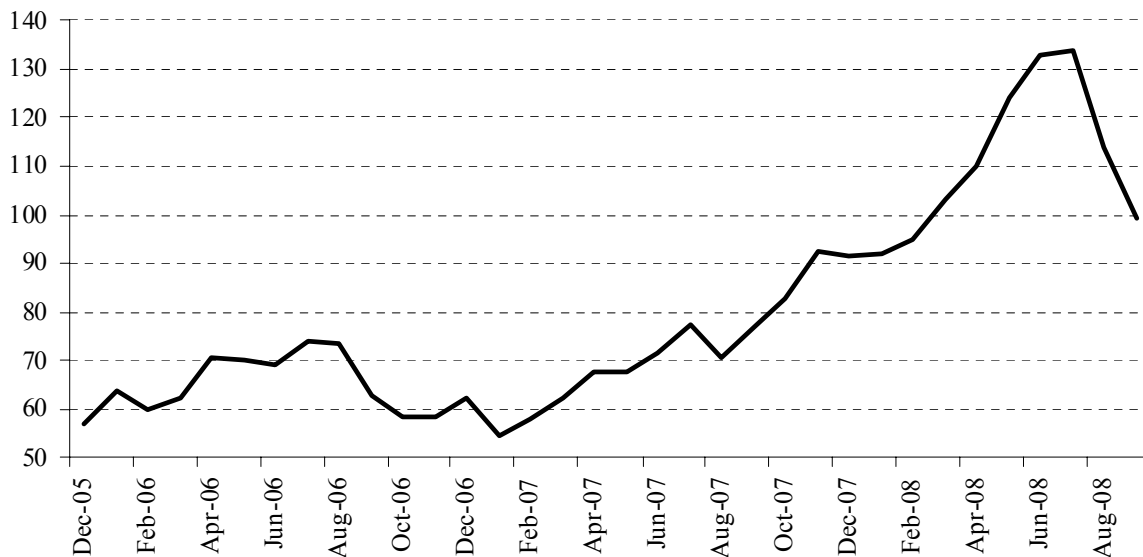
Source of information: The World Bank, US Department of Agriculture

In the period from July to September, 2008, there was a significant fall of prices of the crude oil in world markets.

In the third quarter of 2008 the price of the Brent grade oil, according to data of the World Bank, reduced by 25.5% and in September, 2008, reached 99.1 US dollars for barrel (Diagram 13). Meanwhile, in September, 2008, in comparison with September, 2007 the price increased by 28.4%.

Diagram 13

Dynamics of world prices for Brent grade crude oil, in US dollar for barrel



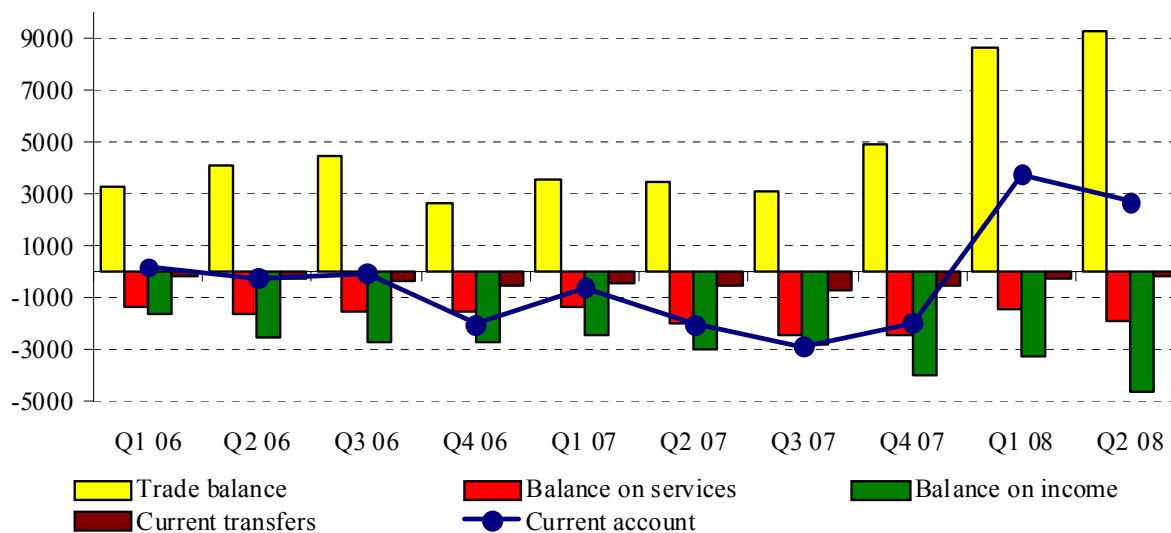
Source: The World Bank

– Balance of payments

By the results of the second quarter of 2008, the current account of the balance of payments made up with a significant positive balance of 2.7 billion US dollar (Diagram 14).

Diagram 14

Balance of current account operations, million US dollars



Source of information: The National Bank of the Republic of Kazakhstan

The build-up of value export was a main contribution into the surplus of the current operations and was caused by high level of world prices of energy resources. Proceeds from the commodity export in the second quarter of 2008 increased by 63.7% in comparison with the second quarter of 2007, whereas the expenditures on the commodity import increased by 20.2%. Thus, the trade balance came to the level of 9.3 billion US dollars, increasing in 2.7 times in comparison with corresponding period of 2007 and compensating net outflow of resources through other components of current operation accounts. Deficit of the service balance in comparison with the second quarter of 2007 decreased insignificantly (by 4.5%) and made up 1.8 billion US dollars, the deficit of income balance increased by 54.0% to 4.6 billion US dollars. The payments to non-residents by the current transfers came up to 145.1 million US dollars, decreasing in 3.7 times in comparison with the second quarter of 2007.

Outflow of the resources by operations of the financial account came up to 1.7 billion US dollars (in the second quarter of 2007 – net income of 4.5 billion US dollars). The foreign assets of the residents (except the reserve assets) increased in the second quarter of 2008 by 4.6 billion US dollars that is 41.0% less than the index of increase of the corresponding period of 2007. External liabilities of the residents increased by 2.9 billion US dollars that is 4.2 times less than the corresponding index for the second quarter of 2007. With increase of income as the direct investments (2.2 billion US dollars) the increase of external liabilities is caused, first of all, by the operations of the bank sector. Thus, in the period under consideration, the external debt liabilities of the bank sector increased by only 0.3 billion US dollars in comparison with increase by 7.5 billion US dollars in the second quarters of 2007.

The positive balance on the operations of the payment balance came up to 2.1 billion US dollars in the second quarter of 2008, that is 2.5 times greater of the same index in the second quarter of 2007.

– **Terms of trade and the real effective exchange rate**

In the second quarter of 2008 the total index of trade terms was 12% higher of the corresponding index for the second quarter of 2007. Here, the terms of trade with the countries of the euro zone got better by 28%, but with Russia – became worse by 8% (Table 1).

Table 1

Changes in price indices and trade conditions
(% to the corresponding period of the previous year)

	1Q 07	2Q 07	3Q 07	4Q 07	1Q 08	2Q 08
Export prices	6	8	8	32	56	61
Import prices	19	18	12	18	28	45
Terms of trade	-10	-8	-4	12	20	12
Including:						
Euro Zone Countries						
Export prices	5	2	-1	32	54	62
Import prices	28	22	2	10	16	12
Terms of trade	-18	-17	-3	19	28	28
Russia						
Export prices	0	19	17	28	30	38
Import prices	15	14	17	17	43	49
Terms of trade	-13	4	0	9	-9	-8

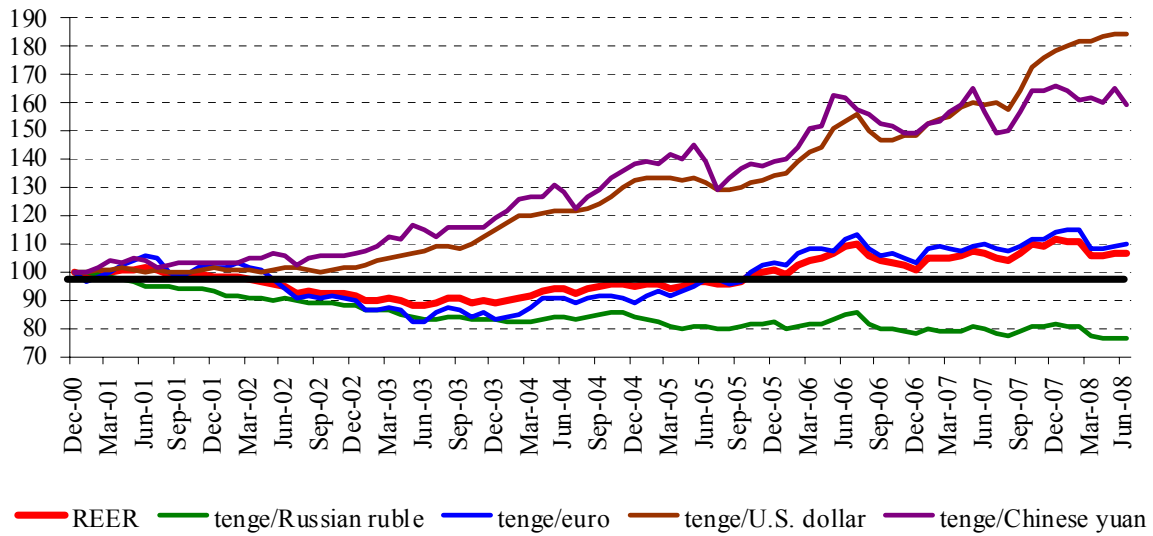
Source of information: The National Bank of the Republic of Kazakhstan

By the results of the 2 quarter of 2008 the index of the real effective exchange rate of tenge weakened by 2.5% in comparison with the previous period. Along with that tenge weakened by 4.1% comparatively to the basket of the CIS countries' currencies and by 1.4% to the basket of the other countries' currencies.

During the second quarter of 2008, in real terms, tenge strengthened comparatively to US dollar by 1.6%, and to euro by 2.4%, although it weakened to the Russian ruble by 3.9% (Diagram 15).

Diagram 15

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



Source of information: The National Bank of the Republic of Kazakhstan

In analysis of influence of the relative change in the tenge exchange rate on the results of trade operations, it is important to draw attention to the country and commodity structure of the external trade. The export of crude oil and other resource products (goods that are less influenced by relative changes of the currency exchange rate) dominates in the trade with the European countries. In the trade with the Russian Federation those commodity groups prevail that are mostly influenced by relative changes of the currency exchange rate, but at the same time an influence of the exchange rate factor on the results of trade with Russia was limited due to improvement of the Russian ruble comparatively to tenge in the accounting period.

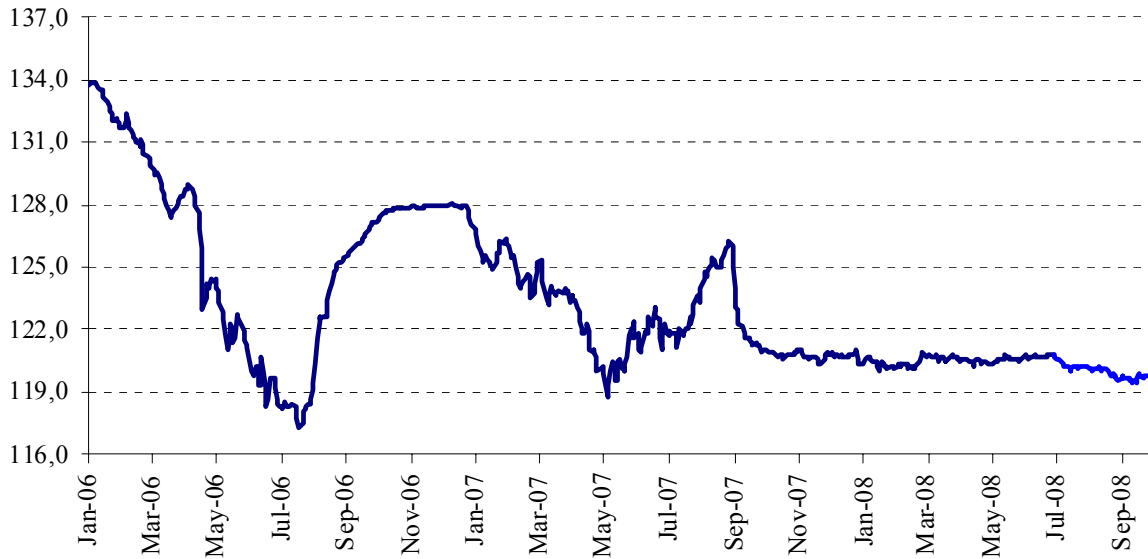
– **Nominal tenge exchange rate**

In the third quarter of 2008 situation in the domestic foreign exchange market remained stable. In whole, by the results of the quarter the tenge rate became stronger comparatively to US dollar by 0.75% – from 120.75 tenge/US dollar to 119.84 tenge/US dollar.

The average weighted tenge exchange rate for the 3 quarter of 2008 amounted to 120.0 tenge for a US dollar, strengthened by 0.5% in comparison with respective index for the 2 quarter of 2008. During the quarter tenge changed relatively to US dollar in the range of 119.48-120.65 tenge for a US dollar (Diagram 16).

Diagram 16

Dynamics of nominal tenge/US dollar exchange rate



Source of information: The National Bank of the Republic of Kazakhstan

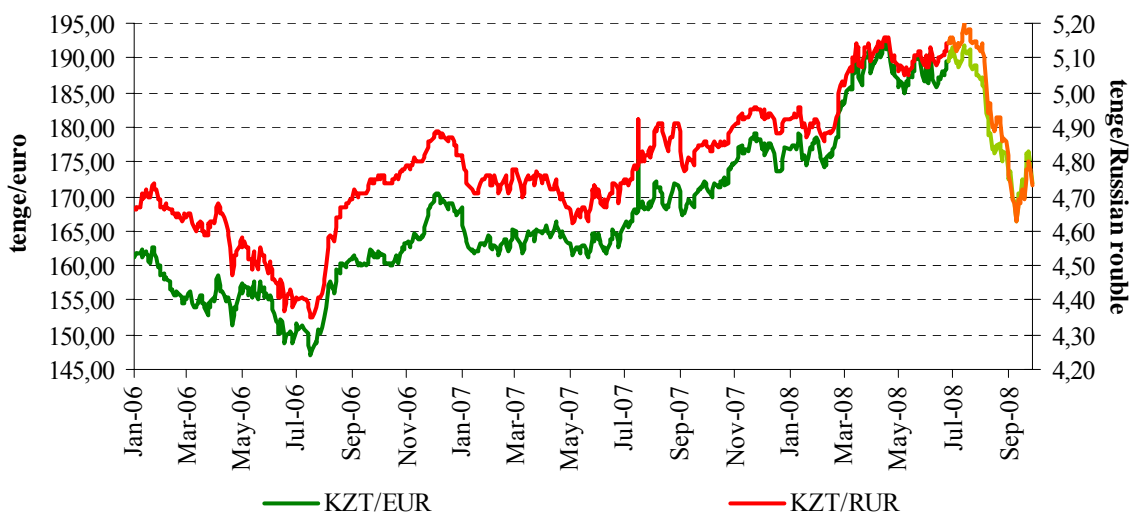
From July to August tenge became stronger relatively to US dollar by 0.5% during a month, and in September it weakened by 0.3%.

Since volume of transactions with euro and Russian rouble in the exchange segment of the domestic foreign exchange market remains insignificant, tenge rate relatively to the other currencies is calculated on basis of cross-rate to US dollar. Thereafter, dynamics of tenge rate to euro and Russian rouble was determined by dynamics of tenge rate to US dollar and by position of unified European currency in the international financial market, and the policy of the Central Bank of Russia relatively to exchange rate of the Russian rouble to the basket of currencies.

During the third quarter of 2008 the official exchange rate of tenge to euro and Russian rouble strengthened by 9.2% and 8.0%, respectively (Diagram 17).

Diagram 17

Dynamics of official exchange rate of tenge relative to euro and russian rouble



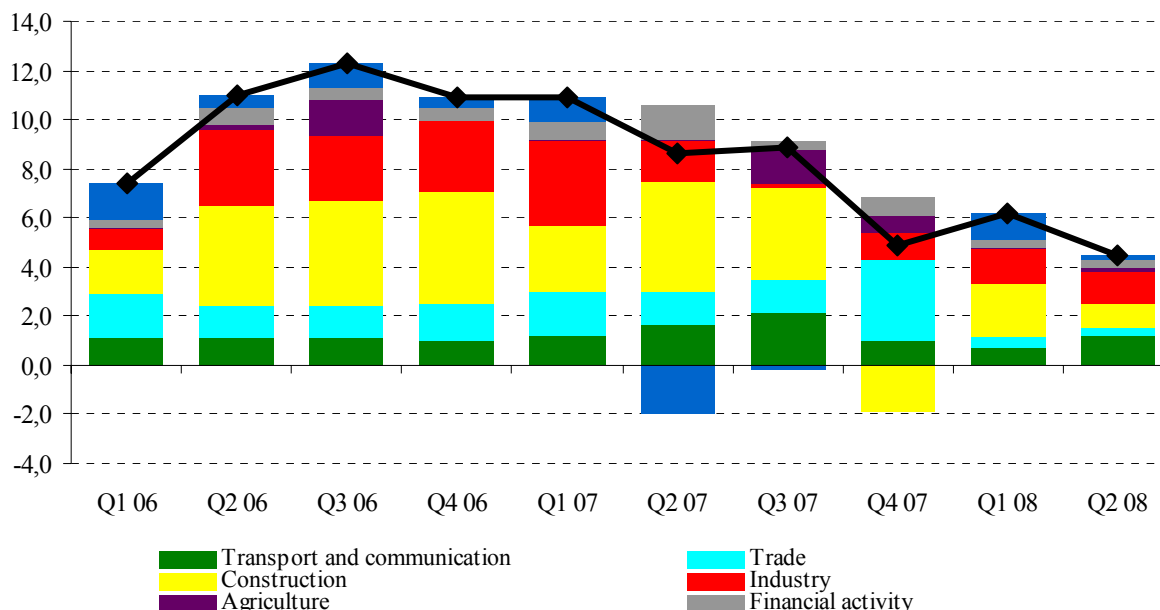
Source of information: The National Bank of the Republic of Kazakhstan

3.2. Production

Output volume of the gross domestic product in the second quarter of 2008 amounted to 3742 billion tenge in the current prices. The growth of the real gross domestic product accelerated in comparison with corresponding period of 2007 and amounted to 4.5%, which was caused, mainly, by contribution from construction activities and industrial production (Diagram 18).

Diagram 18

Increase in the real gross domestic product (% to the corresponding period of the previous year)



Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

3.3. Labor market

3.3.1. Employment and unemployment

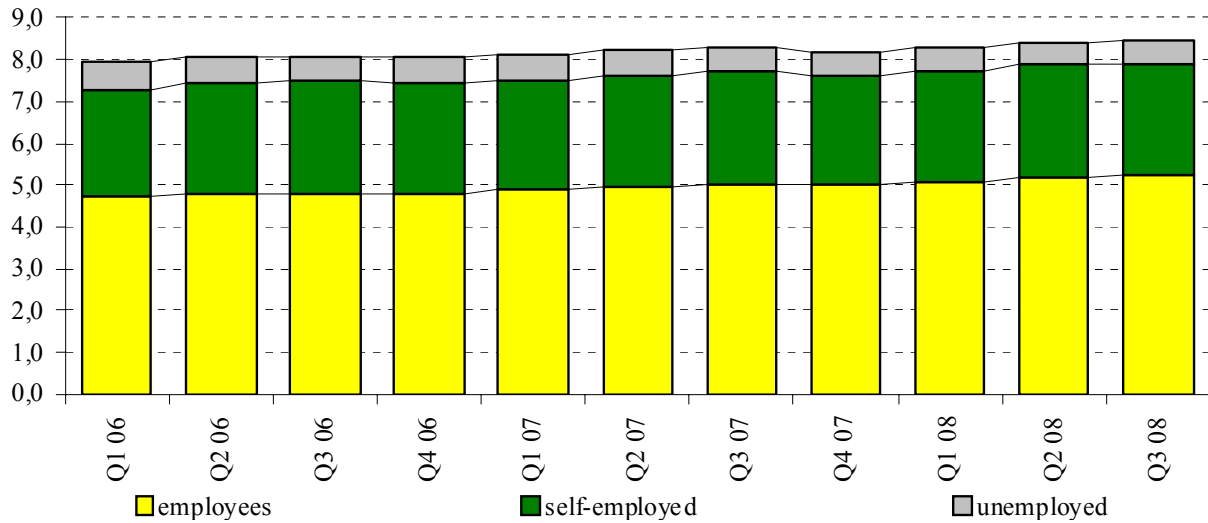
In the third quarter of 2008 the number of the occupied in the economy increased. Their number amounted to 7.9 million people, that is 0.7% higher than that in the previous quarter. The number of employees increased by 1% to 5.2 million of people, and number of the self-employed increased by 0.2% to 2.7 million people.

4.2 million people worked as employees at the state and non-state organizations (80.5% of all, who works as employees), 0.6 million people worked at legal entities (12%), and 0.4 million people worked at farms (7.6%).

In the third quarter of 2008 the number of the unemployed amounted to 540.6 thousand people and reduced by 3.1% in comparison with the previous period of the year (Diagram 19).

Diagram 19

Structure of the economically active population, million people

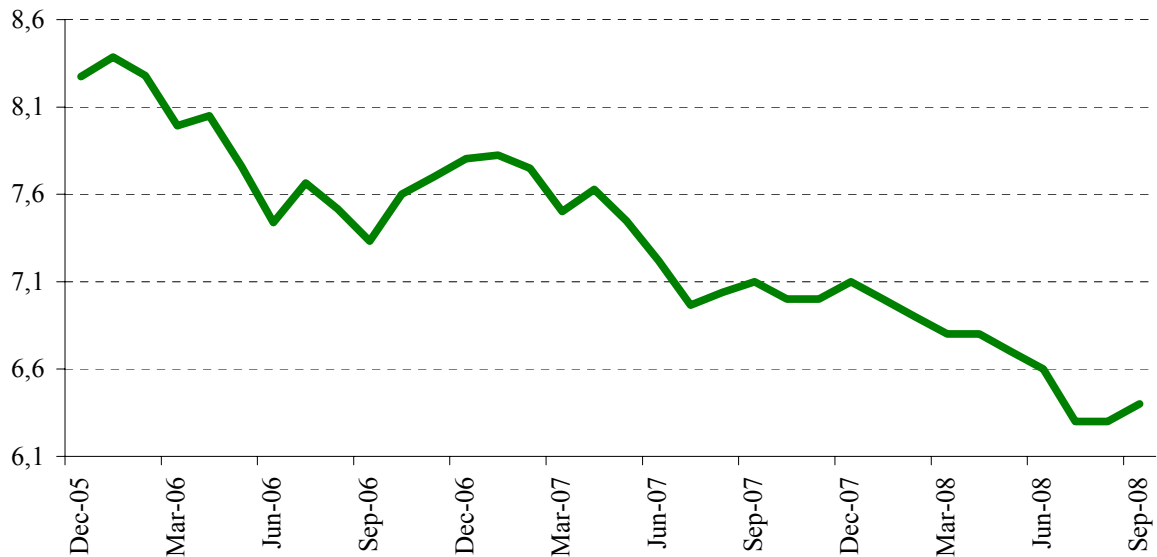


Source of information: Statistical Agency of the Republic of Kazakhstan

In the third quarter of 2008 the rate of unemployment reduced from 6.6% to 6.4% (Diagram 20).

Diagram 20

Rate of the real unemployment, %



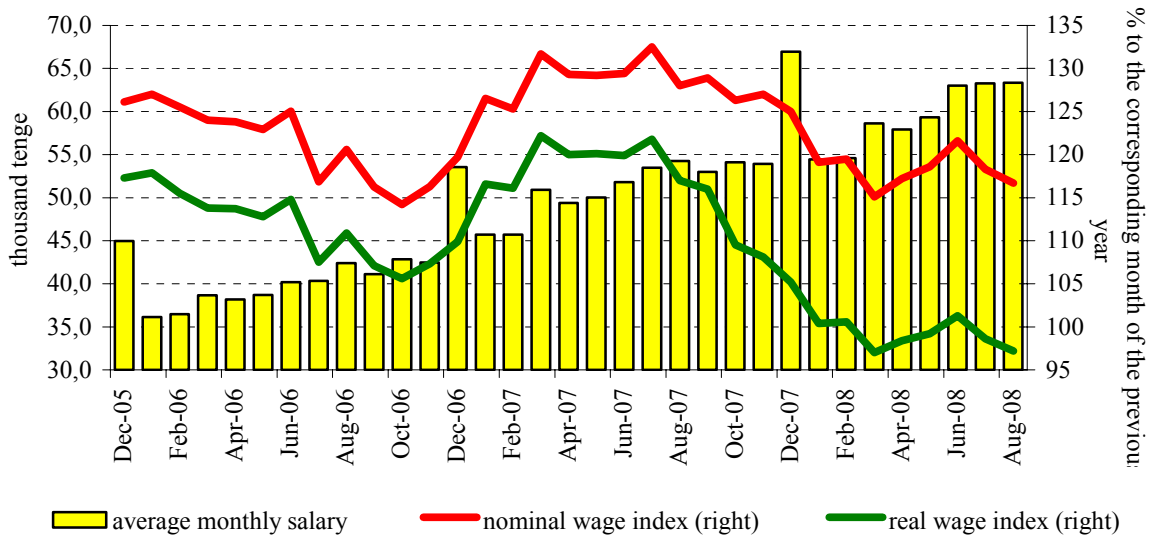
Source of information: Statistical Agency of the Republic of Kazakhstan

3.3.2. Wages and productivity

In the second quarter of 2008 the rise in wages was noted. The average monthly salary increased by 19% in comparison with the corresponding period of 2007. However, the abrupt increase in the annual inflation resulted in reduction in purchasing power of the wages. In real terms, it increased by 0.1% (with 1.3% decrease in the first quarter) (Diagram 21).

Diagram 21

Dynamics of wages

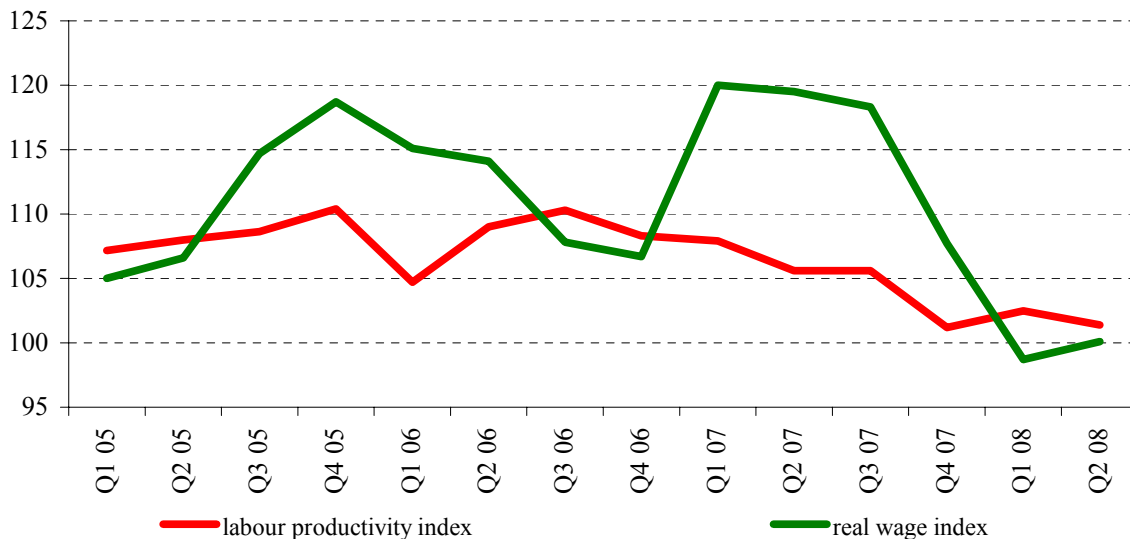


Source of information: Statistical Agency of the Republic of Kazakhstan

In spite of deceleration in the employment growth rates in the economy, even more intensive deceleration in growth rates of the gross domestic product resulted in reduction of the growth rates of productivity by 1.4%. A real wage increased only by 0.1%, and that cannot have negative influence on the inflation background observed in the economy (Diagram 22).

Diagram 22

Dynamics of work efficiency and real wages
(% to the corresponding period of the previous year)



Source of information: Statistical Agency of the Republic of Kazakhstan

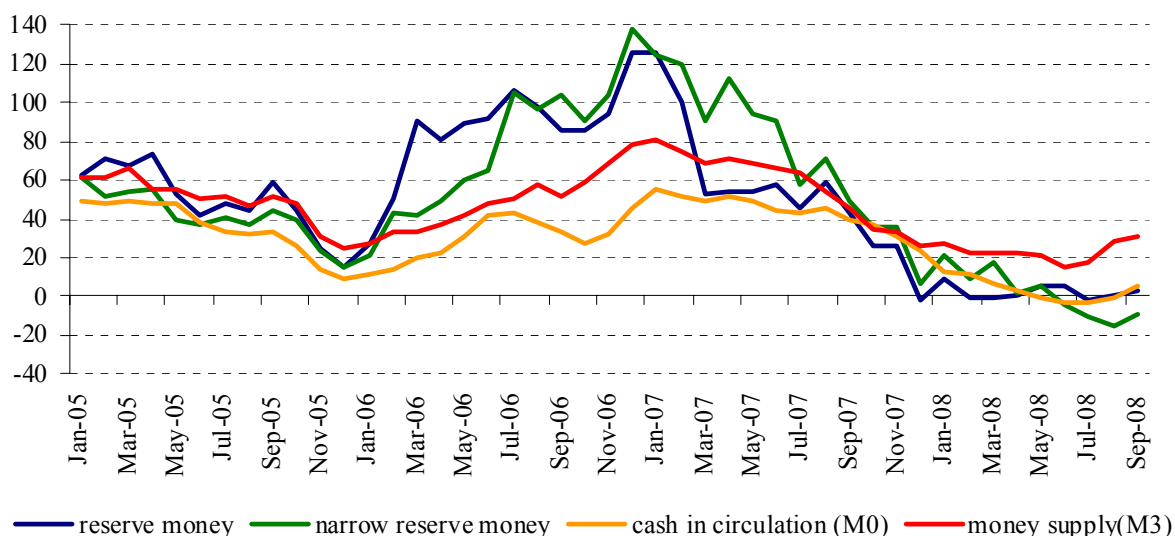
4. Monetary aggregates

4.1. Monetary aggregates

Dynamics of money supply indicators demonstrated low growth rates in the third quarter of 2008. It should be noted that slight exhilaration in dynamics of money supply growth was observed at the end of the third quarter of 2008 (Diagram 23).

Diagram 23

Dynamics of monetary aggregates (% to the corresponding month of the previous year)



Source of information: The National Bank of the Republic of Kazakhstan

4.1.1. Reserve money

Reserve money amounted to 1754.9.0 billion tenge at the end of September, 2008. During the third quarter of 2008 the reserve money increased slightly, by 0.1%, whereas in the third quarter of 2007 – by 2.8%. Narrow reserve money increased by 0.9% in the third quarter of 2008.

In September, 2008, in comparison with September of 2007 the increase of the reserve money came up to 2.4%.

Net international reserves of the National Bank increased by 19.1% to 21.9 billion US dollars in September, 2008, in comparison with September, 2007. Receipt of currency on accounts of the Government in the National Bank and, also, the National Bank's purchase of the currency in the domestic foreign exchange market were partially neutralized by operations of replenishing the assets of the National Fund and the service of the external debt of the Ministry of Finance from accounts of gold and foreign exchange reserves, and reduction of remainder on the correspondent accounts of banks in foreign exchange in the National Bank.

Thus, the net currency reserves (hard currency) increased by 17.6%, and gold assets increased by 36.2% as a result of the conducted operations and increase in price of gold by 18.8% in the world market.

The net internal assets of the National Bank increased due to extension of liabilities to banks, mainly, by short-term notes (see 5. Instruments and operations of monetary policy).

Narrow reserve money, i.e. reserve money not taking into account the banks' deposits with fixed period in the National Bank, contracted by 9.5% in September, 2008 in comparison with September, 2007 (Table 2).

Table 2

Dynamics of changes in assets and liabilities of the National Bank
(% to the corresponding period of the previous year)

	4Q 07	1Q 08	2Q 08	3Q 08
Net international reserves	-7,8	-10,7	-5,5	19,1
Net internal assets	51,0	42,5	40,9	-51,7
Net demands to the government	72,4	-13,7	57,5	63,3
Demands to the financial organizations	75,1	77,0	66,5	-172,5
Demands to the rest of the economy	21,8	13,8	16,7	3,0
Other net internal assets	-81,8	-199,4	-579,8	-26,5
Reserve money	-2,5	-0,3	5,2	2,4
Narrow reserve money	6,2	17,2	-4,1	-9,5

Source of information: The National Bank of the Republic of Kazakhstan

4.1.2. Money supply

During the third quarter of 2008 the increase of money supply was 13.3% to 5885.8 billion tenge. Net external assets of the bank system increased 11.2 times, internal assets – by 0.1%.

In September, 2008, in comparison with September, 2007 the increase in the money supply was 31.4% as the result of considerable increase of net external assets of the bank system (Table 3).

Table 3

Dynamics of changes in monetary aggregates
(% to the corresponding period of the previous year)

	4Q 07	1Q 08	2Q 08	3Q 08
Net external assets	-218,0	-198,6	158,3	212,6
Internal assets	67,1	40,5	14,0	0,2
Demands to the government	247,3	391,0	689,5	2563,3
Demands to the economy	51,4	37,5	11,7	5,9
Other net internal assets	-34,3	-34,9	-14,2	-26,8
Money supply	25,9	22,3	15,7	31,4
Cash in circulation	23,1	6,8	-3,0	4,7
Deposits of the residents	26,4	25,4	19,7	37,0

Source of information: The National Bank of the Republic of Kazakhstan

In the structure of net external assets of the bank system the net international reserves of the National Bank increased by 19.1%, and the net external assets of banks – by 37.5% in September, 2008, in comparison with September, 2007. Increase in the external assets of banks is connected to reduction of liabilities to non-residents (by 10.4%).

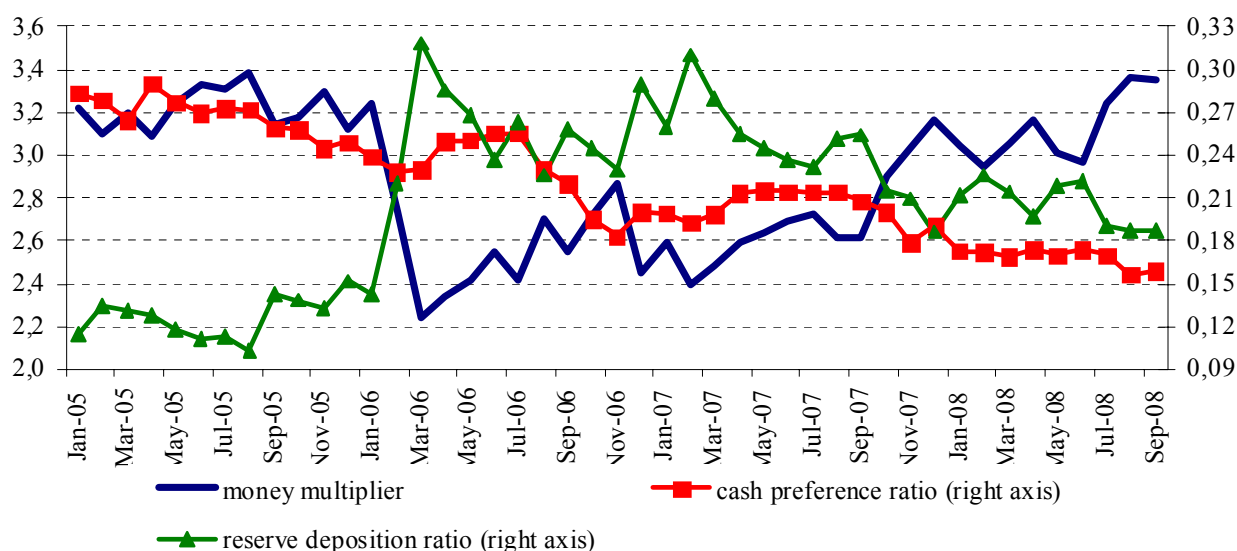
Analysis of the dynamics of main components of the monetary aggregates gives evidences that there were forestalling growth rates of the residents' deposits in the bank

system in comparison with growth rates of the cash money in circulation. Consequently, by the results of September, 2008, the proportion of the residents' deposits, in the structure of monetary aggregates, increased from 82.8% to 86.3% in September, 2007.

Monetary multiplier increased from 2.61 in September, 2007 to 3.35 in September, 2008, as a result of forestalling increase of the monetary aggregates in comparison with extension of the reserve money (Diagram 24).

Diagram 24

Dynamics of monetary multiplier and dynamics of its components



Source of information: The National Bank of the Republic of Kazakhstan

– Cash in circulation

Cash in circulation increased by 4.8% in the third quarter of 2008 and at the end of September amounted to 806.8 billion tenge.

In September, 2008, cash in circulation increased by 4.7% in comparison with September, 2007. This gives evidences that the influence of the factors, which provide growth of the cash in circulation (rise of wages and pensions), prevailed over the influence of the factors that promoted their decrease (increase in sales of the cash foreign exchange by exchange offices, increase in remainder in the deposits, income from sales of production, works and services, etc.)

In the third quarter of 2008 in comparison with the third quarter of 2007 payments of cash from the banks' cash departments increased by 1.3% to 2 723.3 billion tenge, and inpayments into the banks' cash departments increased by 0.4% to 2 650.6 billion tenge. As a result, net payments from the banks' cash departments amounted to 72.7 billion tenge.

– Deposits of the residents

Deposits of the residents amounted to 5 079.0 billion tenge at the end of September, 2008. In the third quarter of 2008 they increased by 14.8%. Deposits of the legal entities increased by 19.6%, deposits of the individual persons increased by 4.8%.

In comparison with September, 2007 deposits of the residents increased by 37.0%. Here, remainders on deposits of non-bank legal entities increased by 53.7%, remainders on deposits of the individual persons increased by 9.3% (Table 4).

Table 4

Dynamics of changes in deposits of the residents
 (% to the corresponding period of the previous year)

	4Q 07	1Q 08	2Q 08	3Q 08
Deposits of residents	26,4	25,4	19,7	37,0
Transferable deposits in tenge of the population	16,5	18,8	8,9	27,7
of non-bank legal entities	33,5	19,9	3,4	13,1
Other deposits in tenge of the population	13,5	18,6	9,9	30,2
of non-bank legal entities	41,1	14,6	0,9	23,9
Transferable deposits in foreign exchange of the population	31,2	8,3	-11,2	7,0
of non-bank legal entities	49,1	20,2	11,7	39,0
Other deposits in foreign exchange of the population	-23,5	40,5	92,6	34,8
of non-bank legal entities	-9,6	-9,7	-17,5	-13,3
Other deposits in foreign exchange of the population	-25,5	50,1	122,2	41,1
of non-bank legal entities	24,7	50,0	67,4	70,2
of the population	65,2	79,3	64,1	13,5
of non-bank legal entities	2,6	33,4	69,5	122,2

Source of information: The National Bank of the Republic of Kazakhstan

4.2. Financial market

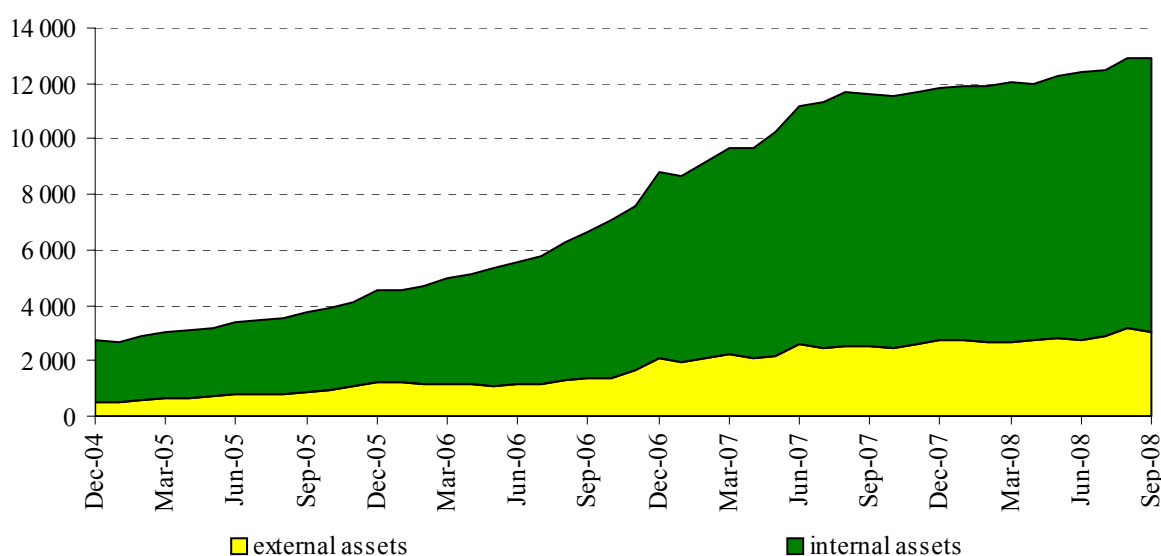
4.2.1. Assets and liabilities of banks

– Assets

In the third quarter of 2008 amount of banks' assets, calculated in accordance to the monetary survey, increased by 3.9% to 12.9 trillion tenge. In annual terms (in September, 2008, in comparison with September, 2007) the assets of banks increased by 11.1% (Diagram 25).

Diagram 25

Dynamics of banks' assets, billion tenge



Source of information: The National Bank of the Republic of Kazakhstan

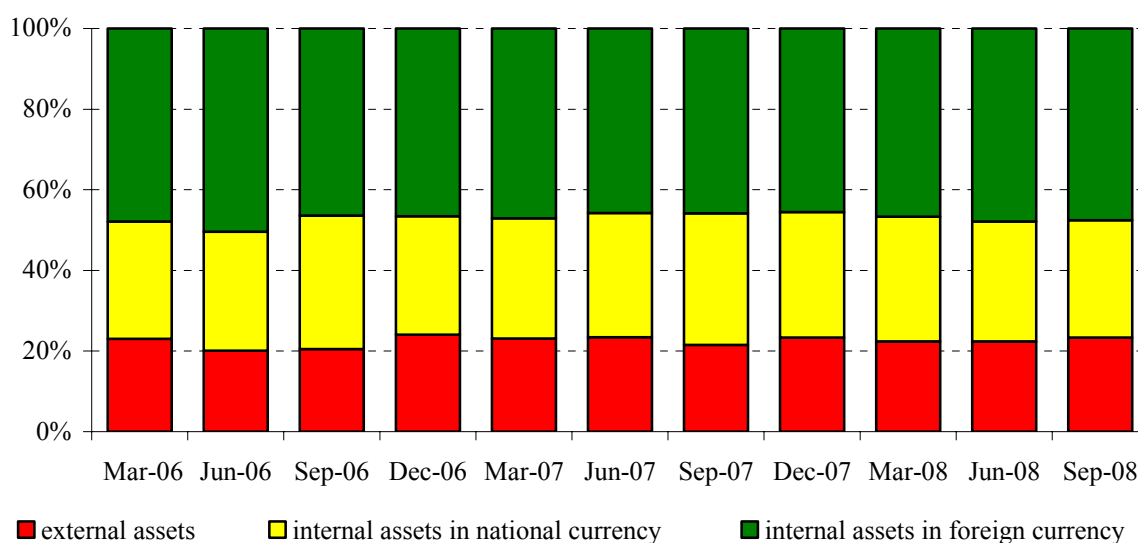
External assets of banks took up 23.4% from the total amount of assets, or 25.1 billion US dollars at the end of the third quarter of 2008. In comparison with July, 2008, they increased by 8.3%, and in comparison with September, 2007 – by 20.3%.

In the structure of external assets the loans that was issued to non-residents, amounted to 54.2%; deposits placed at non-residents, – 26.3%; capital issues of non-residents – 9.3%.

The percentage of the internal assets was 76.6% in September, 2008, or 9.9 trillion tenge, including 47.5% or 6.1 trillion tenge of internal assets in national currency and 29.1% or 31.3 billion US dollars in foreign exchange (Diagram 26). During the third quarter of 2008 the internal assets increased by 2.7%, with 3.2% increase of the assets in national currency and 1.8% increase in foreign exchange. In the annual terms the increase of these number was 8.5%, 15.1% and (-)0.6%, respectively.

Diagram 26

Structure of banks' assets, %



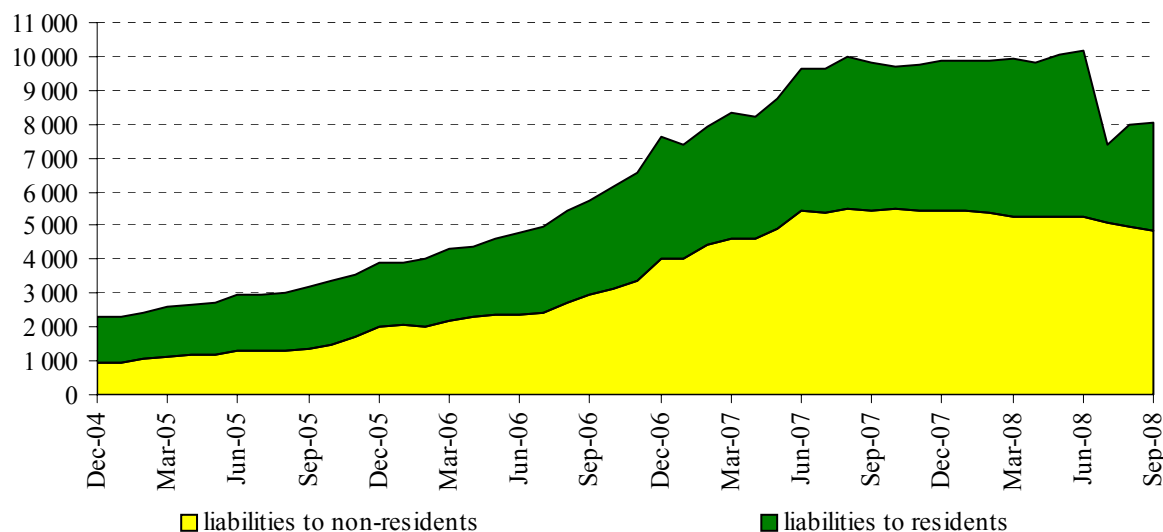
Source of information: The National Bank of the Republic of Kazakhstan

– Liabilities

In the third quarter of 2008 the total sum of banks' liabilities, calculated in accordance with monetary survey, increased by 3.9% and amounted to 12.9 trillion tenge at the end of September. In annual terms (in September, 2008, in comparison with September, 2007) the liabilities of the banks increased by 11.1% (Diagram 27).

Diagram 27

Dynamics of banks' liabilities, billion tenge



Source of information: The National Bank of the Republic of Kazakhstan

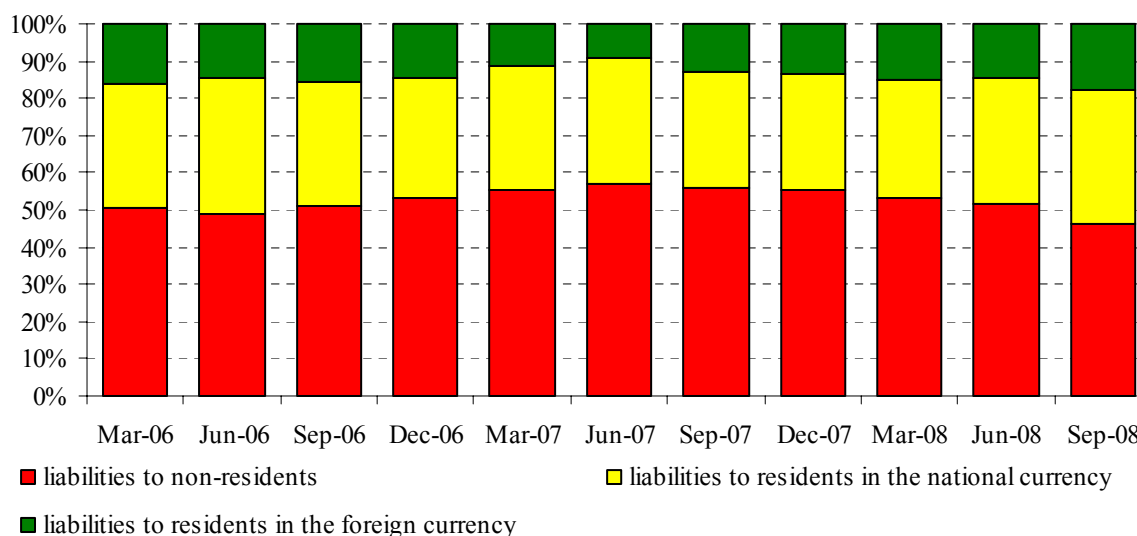
The liabilities of the banks to non-residents reduced by 8.1% to 40.4 billion US dollar in September, 2008, in comparison with July, 2007, and in comparison with September, 2007 – by 11.4%. At the end of the third quarter of 2008 they took up only 37.5% of total liabilities of the banks.

In the structure of banks' liabilities to non-residents the loans, taken from non-residents, amounted to 87.0%, liabilities on the non-residents' deposits – 5.0%, on Securities, except shares, – 6.0%.

In the third quarter of 2008 the liabilities to residents increased by 16.1% to 5.7 trillion tenge, including liabilities in the national currency – by 11.8% до 3.8 trillion tenge, liabilities in the foreign exchange - by 25.8% to 15.6 billion US dollars. In the annual terms, the increase of these parameters 30.8%, 24.8% and 45.2%, (Diagram 28).

Diagram 28

Structure of banks' liabilities, %



Source of information: The National Bank of the Republic of Kazakhstan

4.2.2. Loans to the economy

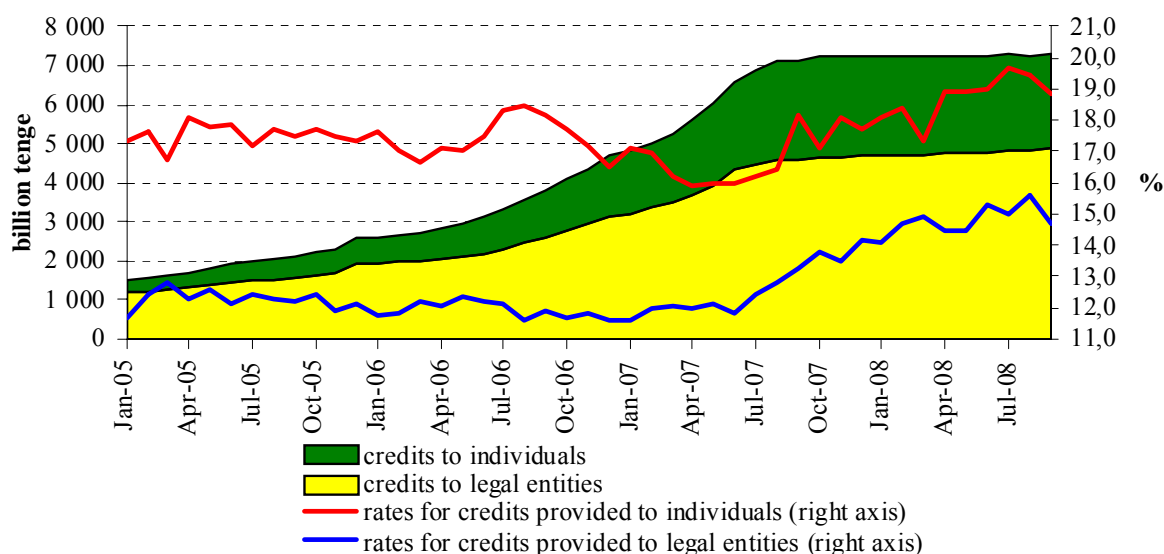
In the third quarter of 2008, a stagnation process was noted in the crediting activity of banks. In this period loans to the economy increased by 0.6% и достигли 7 289.6 billion tenge. Loans issued to the population decreased by 2.6%, but loans to the legal entities increased by 2.2%.

In September, 2008, loans issued to the economy exceeded by 2.4% the amount of loans issued in September, 2007, including loans to the legal entities – by 6.3%, loans issued to individuals decreased by 4.7%.

In the third quarter of 2008 rates of credit rate decreased. An average weighted loan rate for the legal entities decreased from 15.3% in June, 2008, to 14.7% in September, 2008, loan rate for individuals decreased from 19.0% to 18.8%, respectively (Diagram 29).

Diagram 29

Dynamics of loans issued to the economy and interest rates for these loans



Source of information: The National Bank of the Republic of Kazakhstan

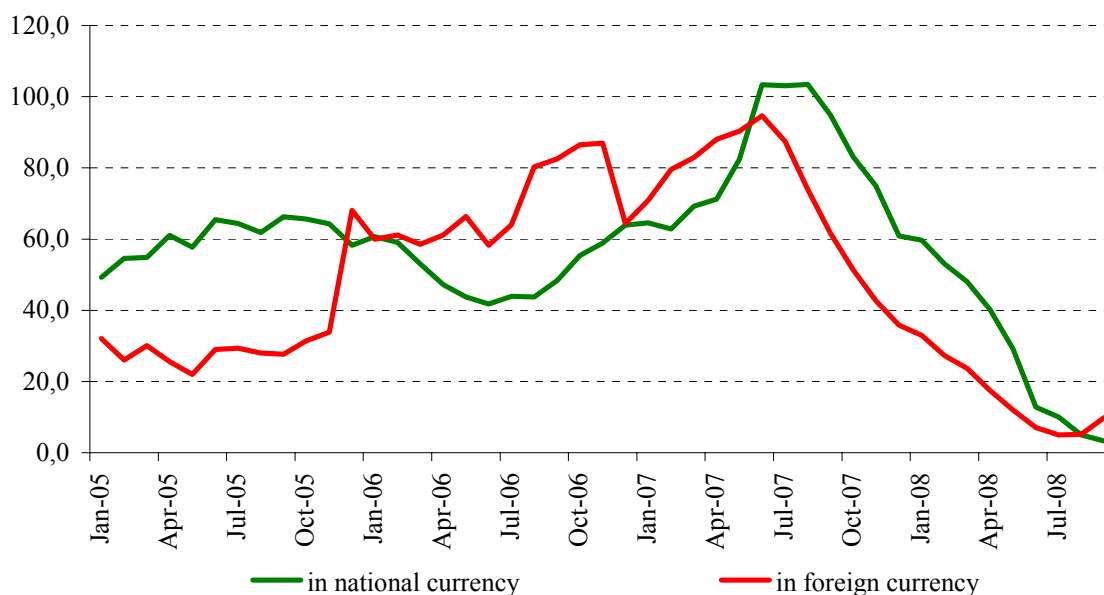
– Loans to legal entities

Loans issued to legal entities in September, 2008, increased by 6.3% in comparison with September, 2007.

In the third quarter of 2008 the annual increase of loans issued in the national currency exceeded the increase of loans issued in the foreign exchange, as before. (Diagram 30).

Diagram 30

Dynamics of loans issued to legal entities
 (% to the corresponding month of the previous year)



Source of information: The National Bank of the Republic of Kazakhstan

The proportion of the medium-term and long-term loans in the amount of loans issued to legal entities amounted to 71.0%.

In the structure of loans to legal entities the loans for acquisition of circulating funds have the largest percentage at the end of September, 2008, (38.7%), the loans for new construction and reconstruction of facilities (19.5%), and, also, for acquisition of fixed assets (16.8%).

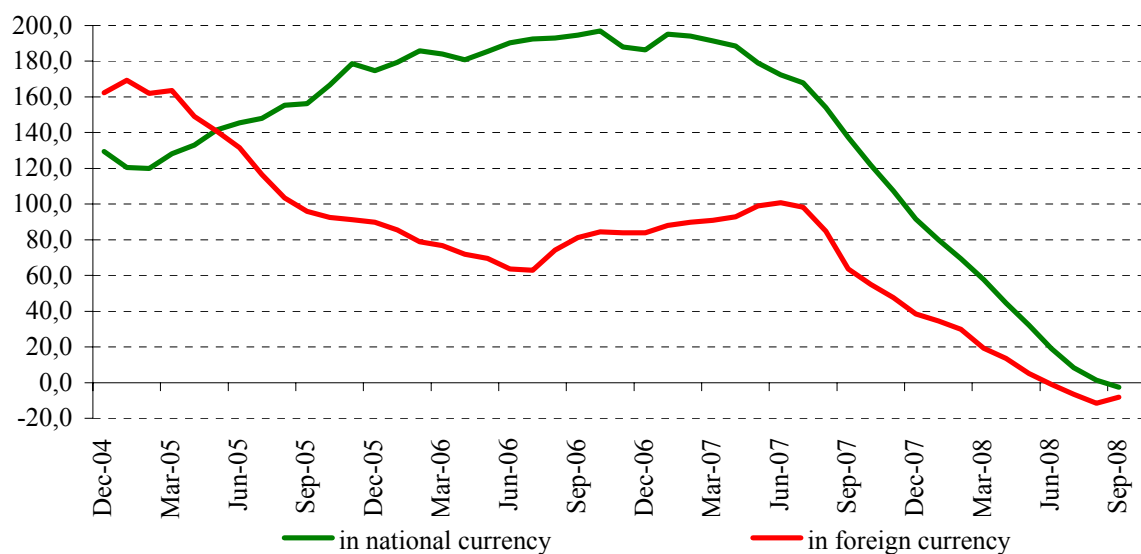
– **Loans to the population**

In the dynamics of loans issued to the population (they decreased by 4.7% during the year), the loans issued in foreign exchange have the highest rates of drawdown.

In September, 2008, in comparison with September, 2007 the loans to the population issued in the national currency decreased by 2.6%, whereas the loans issued in foreign exchange decreased by 8.2% (Diagram 31).

Diagram 31

Dynamics of loans issued to the population (% to the corresponding period of the previous year)



Source of information: The National Bank of the Republic of Kazakhstan

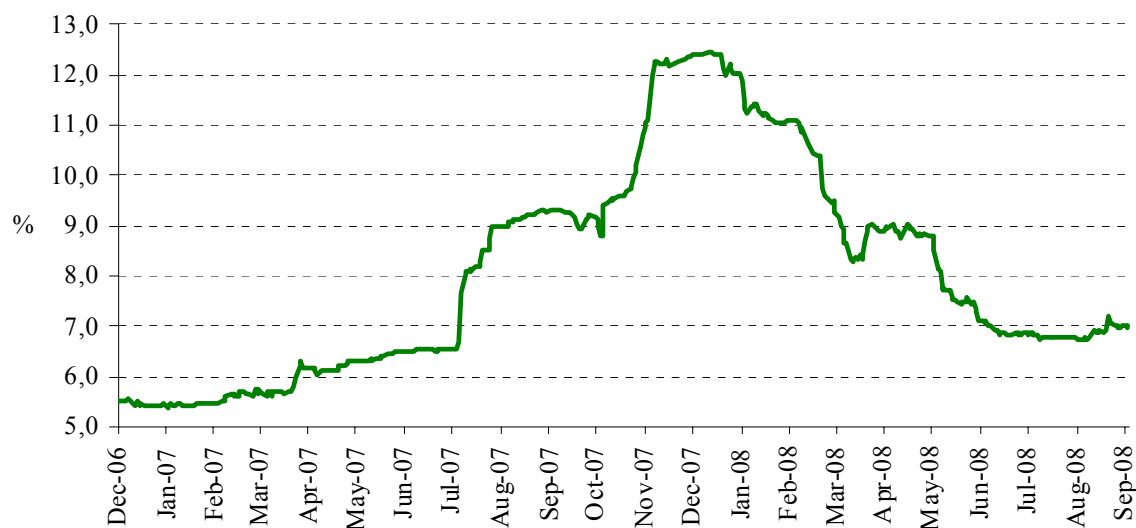
In the structure of credits to the population, loans issued for consumers expenditures took up 47.8% in September, 2008. The proportion of loans issued to the population for construction and acquisition of housing habitations amounted to 33.1% in September, 2008.

4.2.3. Rates in the financial market

In the third quarter of 2008 there was generally reduction in level of rates in the interbank market.

KazPrime indicator decreased from 8.37%, at the average, for the second quarter of 2008 to 6.86% , at the average, for the third quarter of 2008. Herewith, at the end of June, 2008, this indicator was equal to 7.10%, and at the end of September, 2008, it reduced to 6.97% (Diagram 32).

Diagram 32

Dynamics of KazPrime indicator

Source of information: Kazakhstan Stock Exchange

There were differently directed trends in dynamics of rates in REPO operations in the third quarter (Diagram 33).

Average weighted rate of one-day REPO operations increased in the third quarter of 2008 and came up to 3.05% (in the second quarter of 2008 – 2.4%), at the end of September – 2.46% (at the end of June – 1.48%). The maximum level of this rate (average weighted for one day) was reached in the second decade of September (6.57%), and minimum level – in the third decade of August (1.58%).

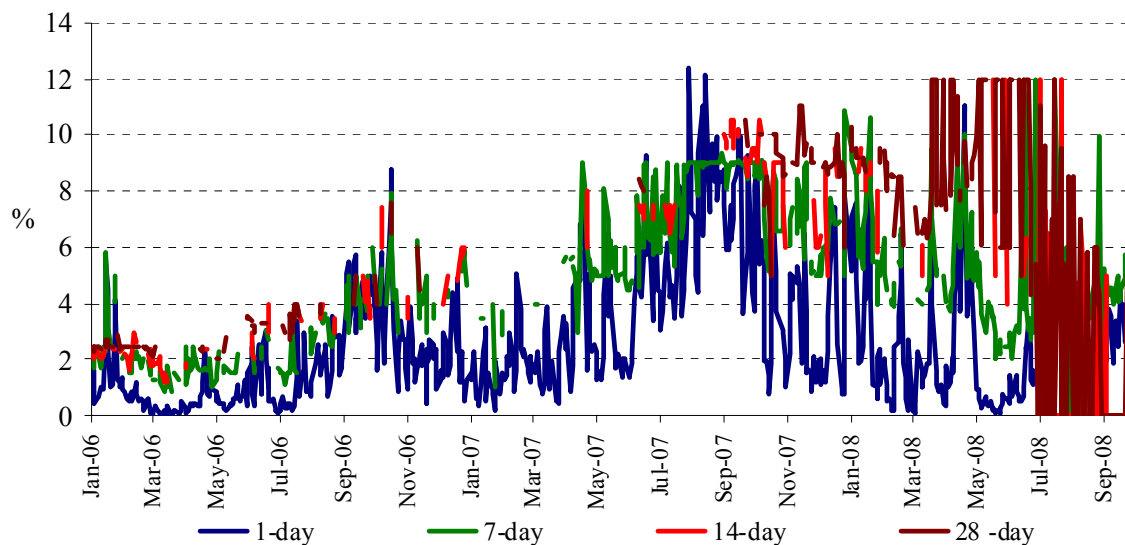
Average weighted rate of seven-day REPO operations declined to 5.52% in the third quarter of 2008 (in the second quarter of 2008 – 5.88%). The minimum level of this rate was reached in the first and third decades of July and in the first decade of September (3.50%), and maximum – also in the third decade of July (9.93%)

Average weighted rate of fourteen-day REPO operations declined to 5.54% in the third quarter of 2008 (in the second quarter of 2008 – 7.90%), and at the end of September reached 5.00% (at the end of June – 12.00%). The maximum level of this rate was reached in the first and third decades of July (12.00%), and minimum level – in the first decade of August (4.00%).

Average weighted rate of twenty-eight-day REPO operations declined to 6.60% in the third quarter of 2008 (in the second quarter of 2008 – 7.89%), and at the end of September reached 6.00% (at the end of June – 5.38%). The maximum level of this rate was reached in the second decade of July (12.00%). Minimum level of this rate was reached in the third decade of August (4.00%).

Diagram 33

Dynamics of rates of REPO operations



Source of information: Kazakhstan Stock Exchange

Volumes of transactions of one-day, seven-day and fourteen-day REPO operations increased, and volumes of transactions of 28-day operations decreased.

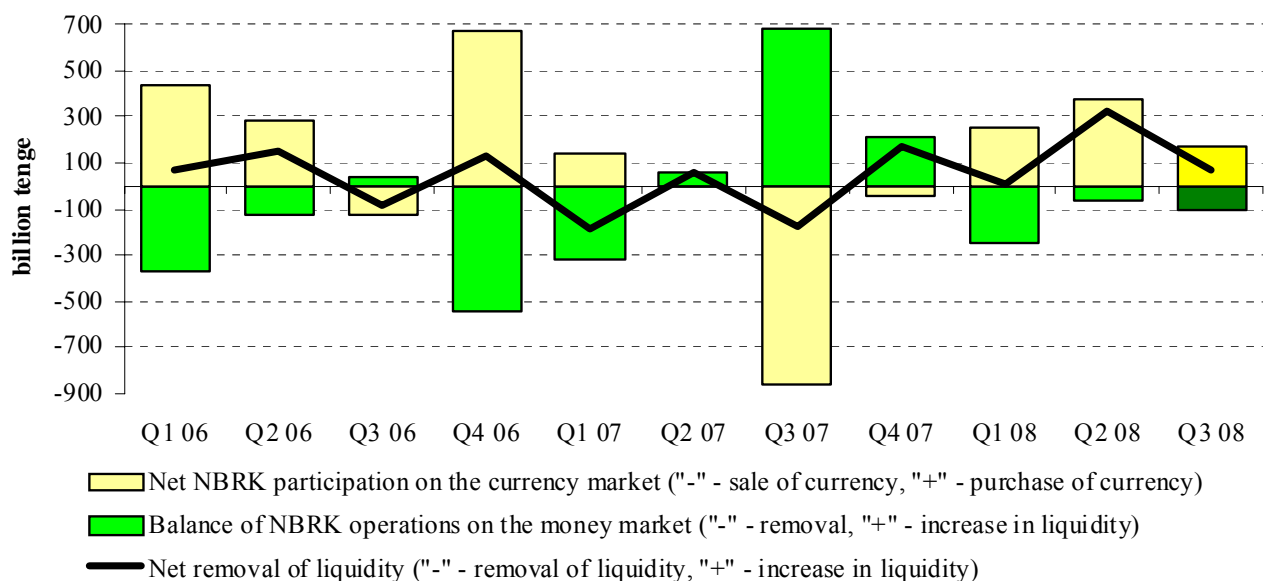
5. Instruments and operations of monetary policy

Restoration of situation with short-term liquidity of banks in the third quarter of 2008 was followed by increase in volume of sterilizing operations of the National Bank, and namely by issue of short-term notes and attraction of deposits from banks.

Nevertheless, because of the purchase of foreign exchange in the internal market in the third quarter of 2008, the operations of the National Bank in the financial market resulted in liquidity providing (Diagram 34).

Diagram 34

Balance of the National Bank's operations in the domestic market



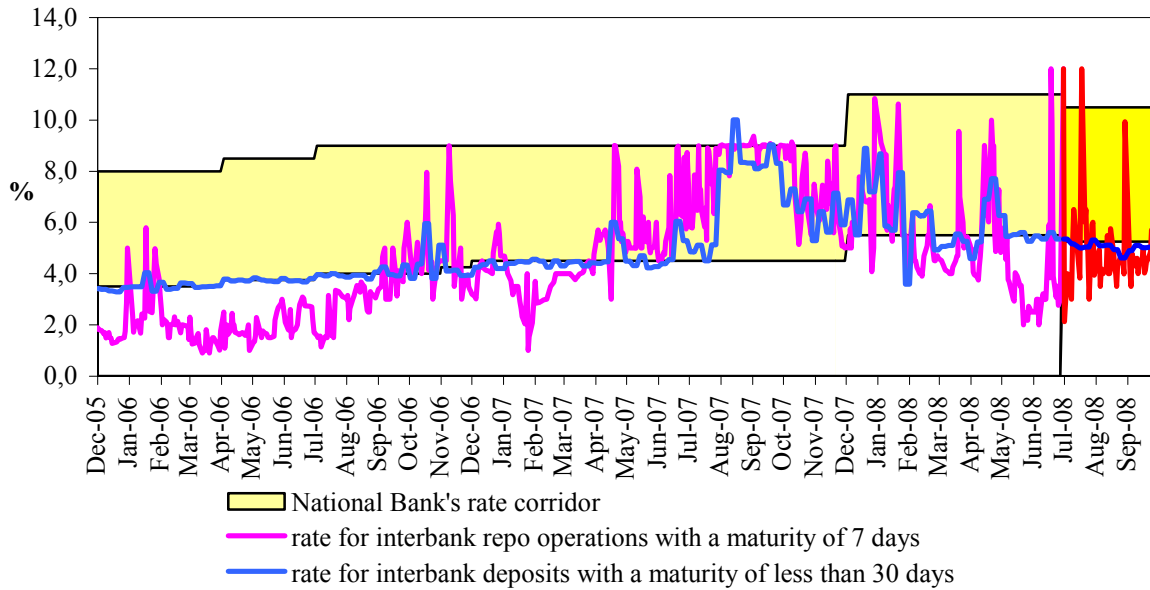
Source of information: The National Bank of the Republic of Kazakhstan

Expecting slowdown in the annual inflation, slowdown in the Economic activity, and stagnation in crediting activity of the bank system, the National Bank decided to lower the official refinancing rate from 11.0% to 10.5% as from the first of July, 2008, and, accordingly, the rates on deposits attracted from banks from 5.5% to 5.25%.

In the third quarter of 2008 some decrease of profitability was noted in the money market for the operations that were comparable by the time constraints. On the average, level of rates during the quarter was nearer to the lowest limit of the rate corridor of the National Bank. Average weighted rate of the interbank deposits for the 30-day period was at the level of 5.05% in the third quarter of 2008. Average weighted rate of the interbank REPO operations for the seven-day term was 5.52% (Diagram 35).

Diagram 35

Limits of the National Bank's corridor of rates

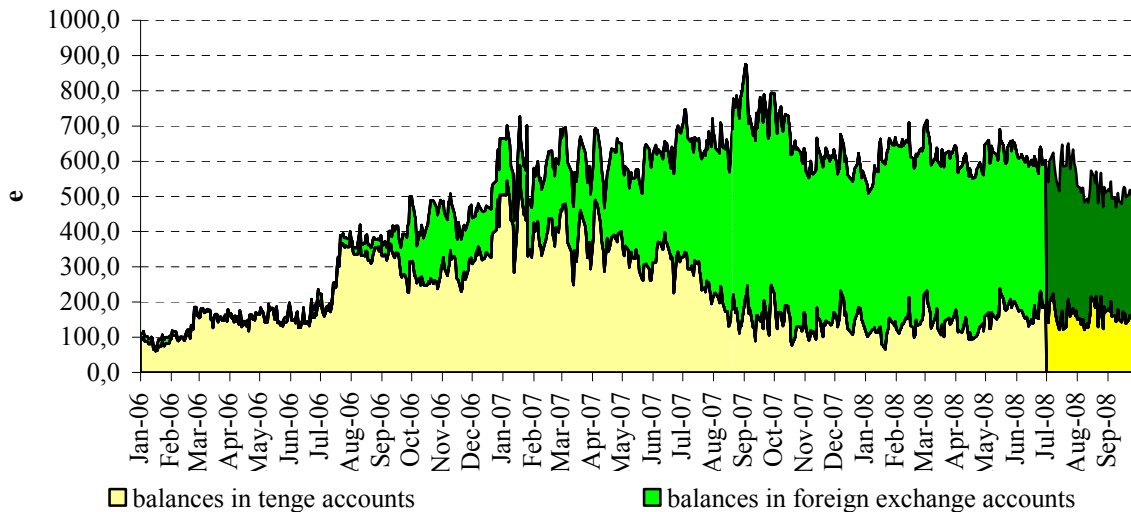


Source of information: The National Bank of the Republic of Kazakhstan

In the third quarter of 2008 balances of the correspondent accounts of banks in the National Bank changed slightly in whole. For the past period the balance accounts in foreign exchange slightly decreased, whereas balance accounts in the national currency remained relatively stable (Diagram 36).

Diagram 36

Balances of the correspondent accounts of banks in the National Bank



Source of information: The National Bank of the Republic of Kazakhstan

5.1. Interventions in the domestic foreign exchange market

The situation in the domestic foreign exchange market formed in conditions of slight excess of foreign exchange supply over the demand.

The main source of foreign exchange inflow was an export currency proceeds. In conditions of limited access of the bank sector to the loan capital in the international capital

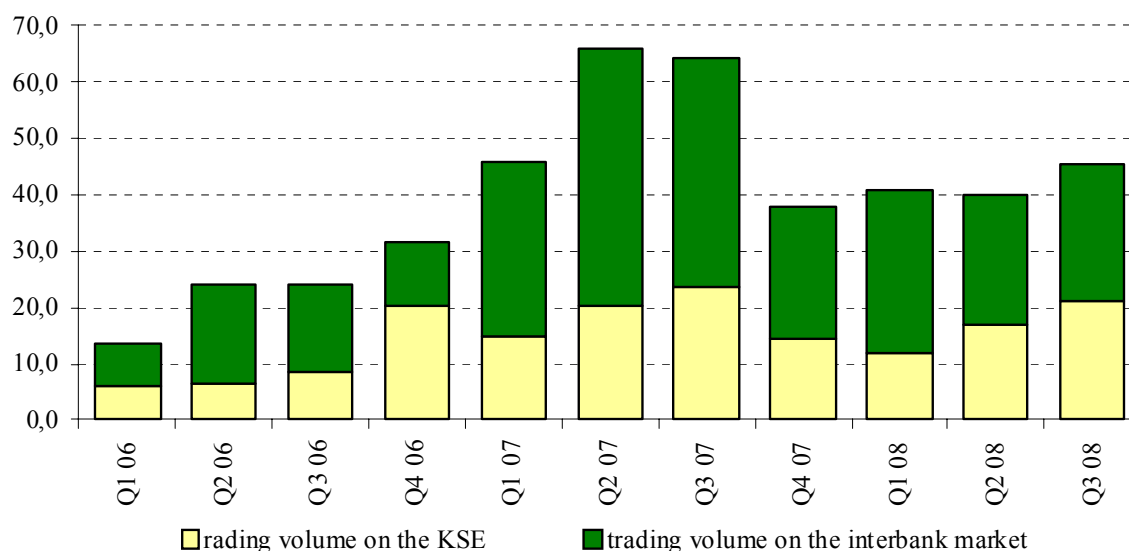
markets there was a net outflow of resources in the third quarter of 2008, whereas in the previous periods they were the main factors of foreign exchange supply in the domestic foreign exchange market. Thus, according to data of monetary survey for the third quarter of 2008 the liability of the banks to non-residents decreased 3.2 billion US dollars (for the second quarter of 2008 – by 209.1 million US dollars).

In the third quarter of 2008 the total trading volume in the currency segment of the Kazakh Stock Exchange and in the interbank foreign exchange market amounted to 45.7 billion US dollars, with increase of 14.0% in comparison with the second quarter of 2008.

The volume of the exchange market in the dollar segment in the Kazakh Stock Exchange increased by 26.4% in comparison with the second quarter of 2008 and came up to 21.2 billion US dollars (net volume of trading in the Kazakh Stock Exchange amounted to more than 70% of gross volume). In the off-exchange foreign exchange market the volume of operation in the third quarter of 2008 increased in comparison with previous quarter by 5.2% and came up to 24.5 billion US dollars (Diagram 37).

Diagram 37

Volume of trade in the domestic foreign exchange market, billion US dollars



Source of information: The National Bank of the Republic of Kazakhstan

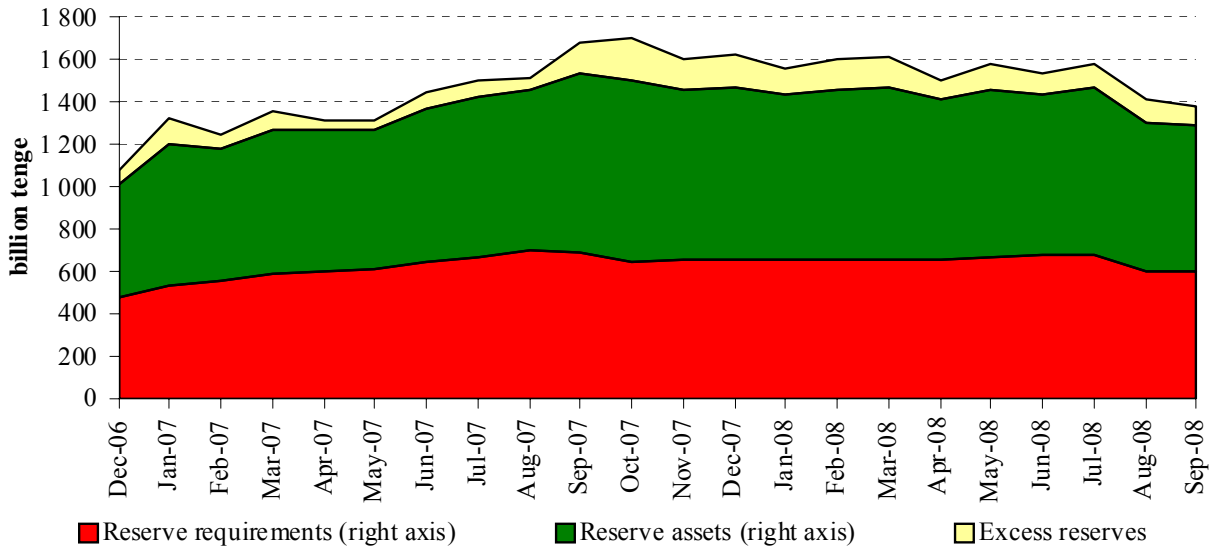
By results of the third quarter of 2008 the coefficient of participation of the National Bank in the Kazakh Stock Exchange was 0.4% (in the second quarter of 2008 – 28.6%). Here, the National Bank mainly was selling foreign exchange, and in August and September was purchasing it. In whole, in the third quarter of 2008 the National Bank was mainly the buyer of foreign exchange in the domestic foreign exchange market.

5.2. Minimum reserve requirements

On the average, during July to September 2008 the reserve assets exceeded by 15% the necessary volume of reservation (in the second quarter of 2008 – by 17%) (Diagram 38).

Diagram 38

Fulfilment of the standard on minimum reserve requirements



Source of information: The National Bank of the Republic of Kazakhstan

In order to regulate the short-term liquidity of banks, as from 29 of July, 2008, the norms for the internal liabilities of a bank were lowered from 6% to 5%, and for other liabilities were lowered from 8% to 7%. Establishment of new norms allowed the banks to release about 90 billion tenge of additional liquidity.

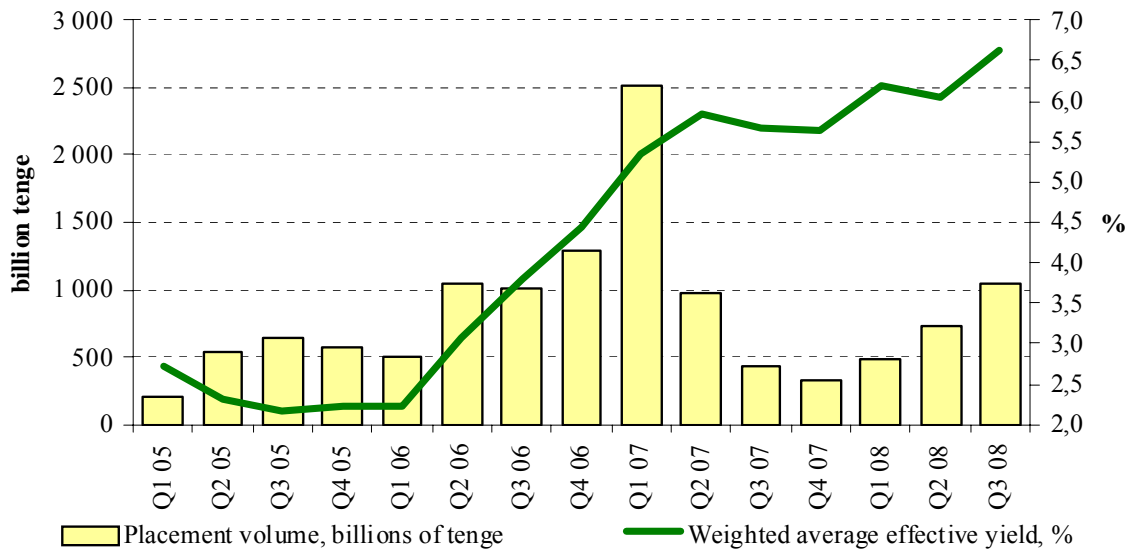
Introduction of new norms canceled the launch in the first of July, 2008, of norms for minimum reserve requirements at the level of 5% for internal liabilities and 10% for the other liabilities.

5.3. Open market operations

In the third quarter of 2008 there was a rise in banks' demands on the short-terms notes and deposits of the National Bank. That gives an evidence of stabilization of situation with short-term liquidity of banks. Thus, the volume of issued short-term notes increased by 43.9% and came up to 1052,4 billion tenge in the period from July to September, 2008. Notes were issued with time to maturity of 28, 91, 182 and 364 days; the preterm redemption of the notes was not carried out. The average weighted yield on notes in circulation increased from 6.05% in the second quarter of 2008 to 6.64% in the third quarter of 2008 (Diagram 39).

Diagram 39

**Extent of placement of short-term notes and their profitability
(for the period)**

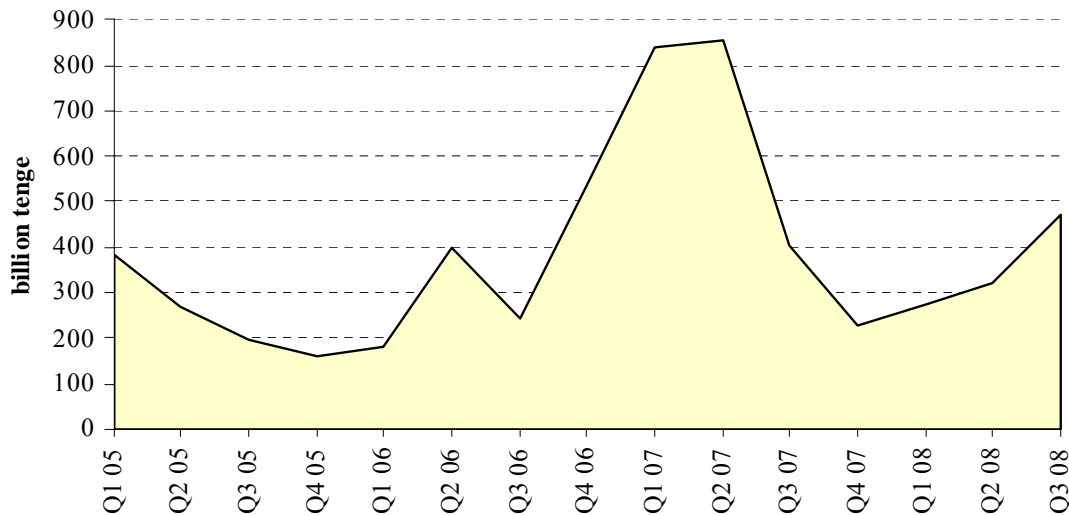


Source of information: The National Bank of the Republic of Kazakhstan

At the end of September 2008 the volume of short-term notes in circulation amounted to 471.8 billion tenge that is 2.1 times more than the volume in the end of December, 2007 (Diagram 40).

Diagram 40

**Short-term notes in circulation
(at the end of the period)**



Source of information: The National Bank of the Republic of Kazakhstan

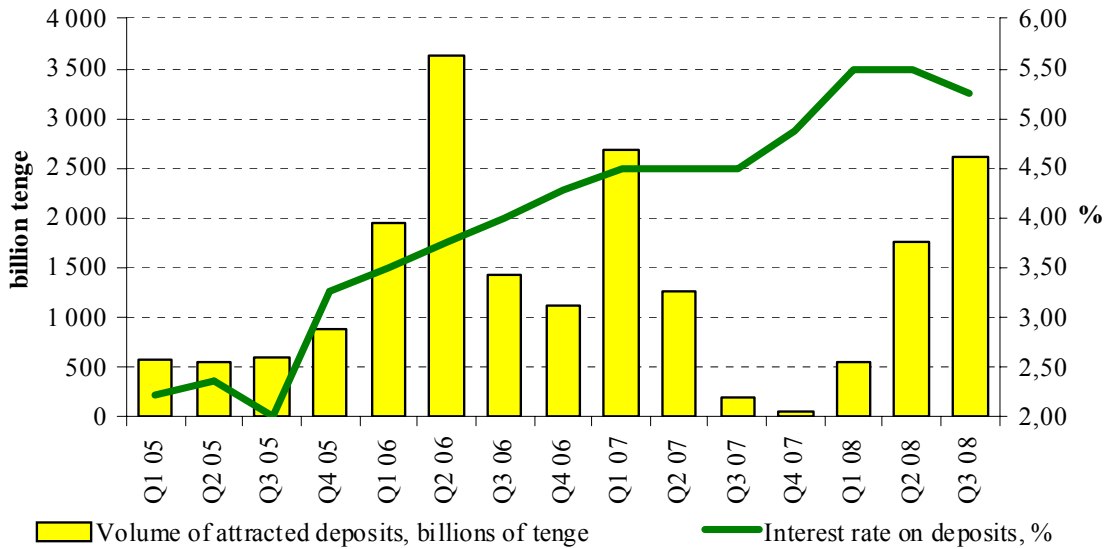
5.4. Standing facilities

In the third quarter of 2008 the volumes of banks' deposits in the National Bank increased considerably and exceeded the same parameter of the corresponding period of 2007. The peak of attraction was in August and September. In whole, during period of July-

September of 2008, 2623.3 billion tenge of deposits were attracted, that is by 48.9% more than the volume of the second quarter of 2008 and 13.8 times as much as in comparison with the third quarter of 2007. Time limits for attraction of deposits were 7 days at the rate of 5.25% (Diagram 41).

Diagram 41

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

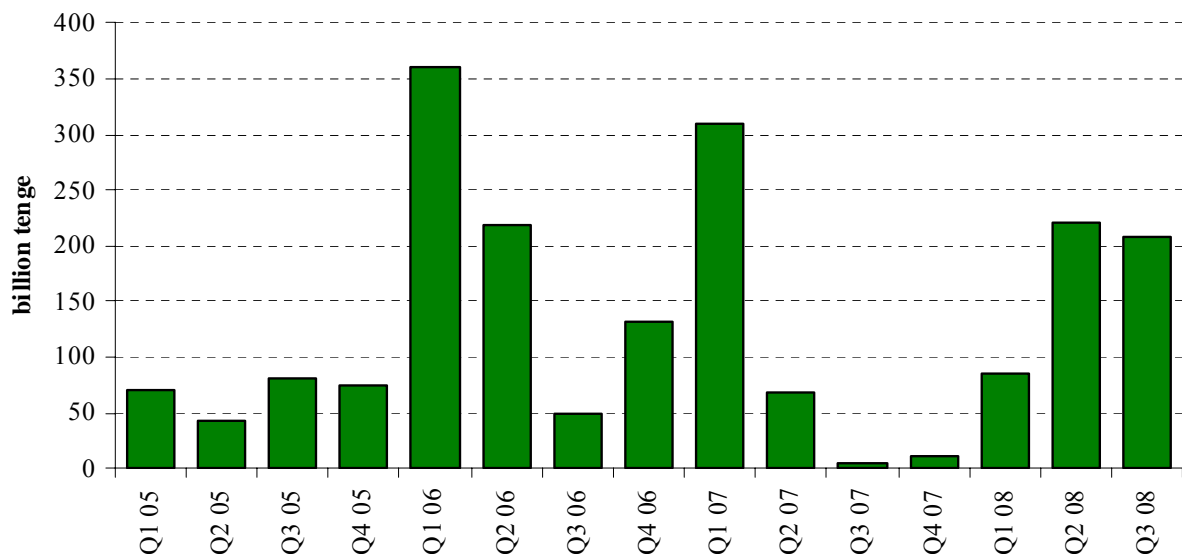


Source of information: The National Bank of the Republic of Kazakhstan

Increase in volumes of attraction of deposits from banks in the third quarter of 2008 was followed by 5,5% decrease to 208,2 billion tenge in the volume of unredeemed liabilities of the National Bank for these deposits in comparison with the previous quarter (Diagram 42).

Diagram 42

Extent of unredeemed liabilities of the National Bank on deposits attracted from banks (at the end of the period)



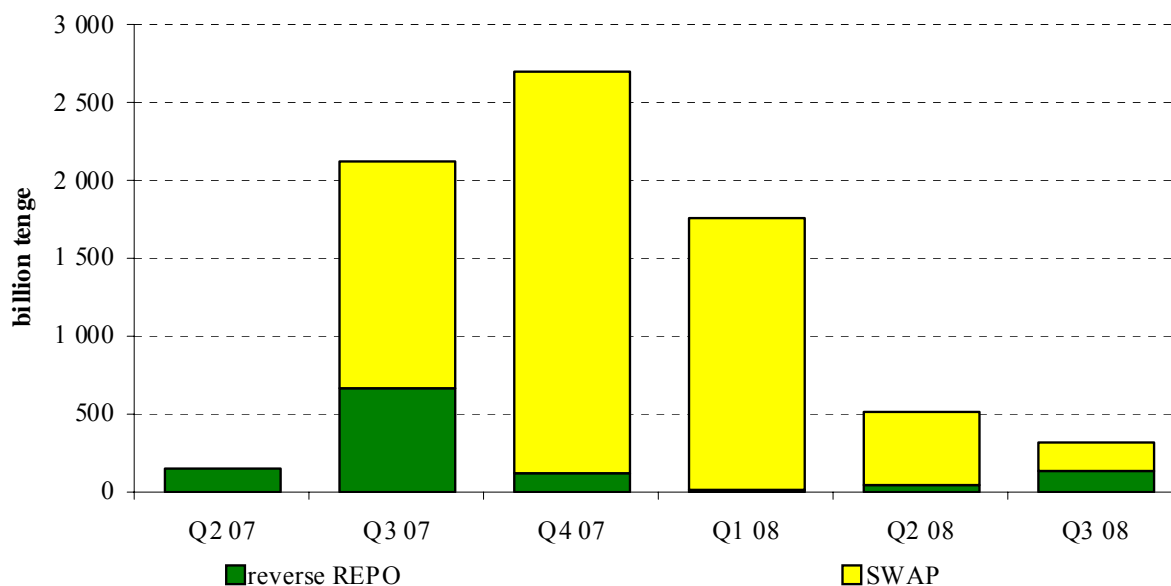
Source of information: The National Bank of the Republic of Kazakhstan

In the third quarter of 2008 situation with the short-term liquidity in the bank sector remained stable. Apart from the scopes of the sterilizing operations of the National Bank there was slight decrease in the volumes of refinancing operations of the National Bank.

In the third quarter of 2008 the National Bank provided refinancing loans to banks through the reverse REPO and swap operations. The volume of the reverse REPO operations totaled to 131.7 billion tenge, swap operations – 188.3 billion tenge (Diagram 43).

Diagram 43

**Extent of refinancing operations of the National Bank
(for the period)**

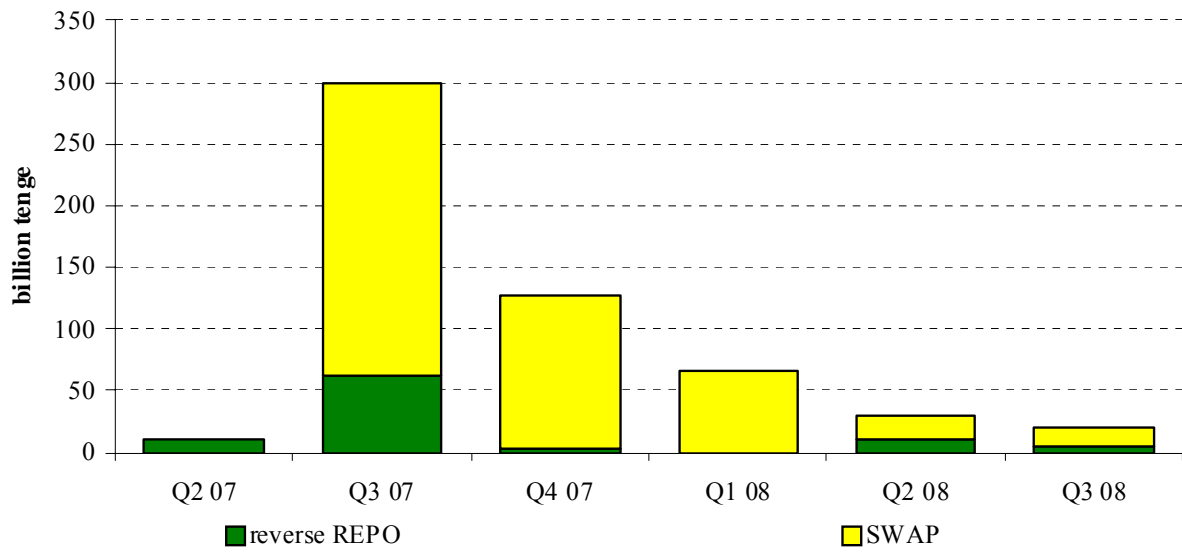


Source of information: The National Bank of the Republic of Kazakhstan

At the end of September, 2008 the volume of unredeemed arrears in the reverse repurchase agreement amounted to 5.4 billion tenge, in swap operations – 15.3 billion tenge (Diagram 44).

Diagram 44

**Extent of unredeemed liabilities of the National Bank on refinancing operations
(at the end of the period)**



Source of information: The National Bank of the Republic of Kazakhstan

6. Inflation forecast

6.1. Assessment of inflation forecast for the third quarter of 2008

The real level of inflation in the third quarter of 2008 (2.3%) was adequate to the forecast for this period (2.1%-2.4%), which was published in the previous issue of the “Inflation Report”. During all this period the inflation did not exceed the anticipated level.

In the third quarter of 2008 the inflation was caused, in the first place, by increase in prices of paid services. The maximum growth of prices in these services was registered for housing and communal services, transport services and educational services.

The main cause of increase in prices of these services is a seasonal factor.

In addition, a rapid increase in prices during this period was noted for such products as gas and diesel fuel because of the growth in world prices of raw materials. However, during August-September, 2008 there was fall in prices of oil in the world markets that promoted further decrease in prices of fuels and lubricants in the republic till the end of the year.

An real level of annual inflation also was adequate to forecast that was published in the previous issue of the “Inflation Report”. Thus, in September, 2008, an annual inflation was at the level of 18.2% while forecast was 18.0%-18.2%.

6.2. Inflation forecast for the fourth quarter of 2008

For the fourth quarter of 2008 the anticipated inflation is in the range of 2.9-3.1% (in the 4 quarter of 2007 – 9.3%), that is adequate to annual inflation of 11.0-11.2% at the end of December, 2008.

The period from October to December is characterized by increase in demand in the consumer market due to forthcoming holidays in this period. Consequently, prices in this period are the highest for the whole year. However, in the current year the consumer demand remains limited. Most probably, this situation will continue till the end of the year and considerable increase in prices is not anticipated.

After the seasonal decrease in prices of fruit and vegetables an increase in prices is anticipated in the third quarter of the current year. Also, a rise in prices of such products as eggs, dairy and meat products is anticipated. Consequently, an increase in prices of food products is anticipated in the fourth quarter.

Some decrease or stability of prices of fuels and lubricants are anticipated in the end of the year. This situation will be promoted by stabilization in the external markets of energy resources, as well as by measures undertaken by the government in the area of price regulation in this segment of the market.

Also, the stabilization of prices in the consumer market will be facilitated by the measures of the government in introduction of temporary ban on export of some types of vegetable oils (rape, soya, sunflower, and cotton) and dried milk.

In 2008 the National Bank adopts a moderately strict monetary policy that is oriented to support stability of prices as well as stability of financial sector.

Particularly, in 2008 volumes of the short-term notes issued by the National Bank and volumes of banks' deposits in the National Bank were increased.

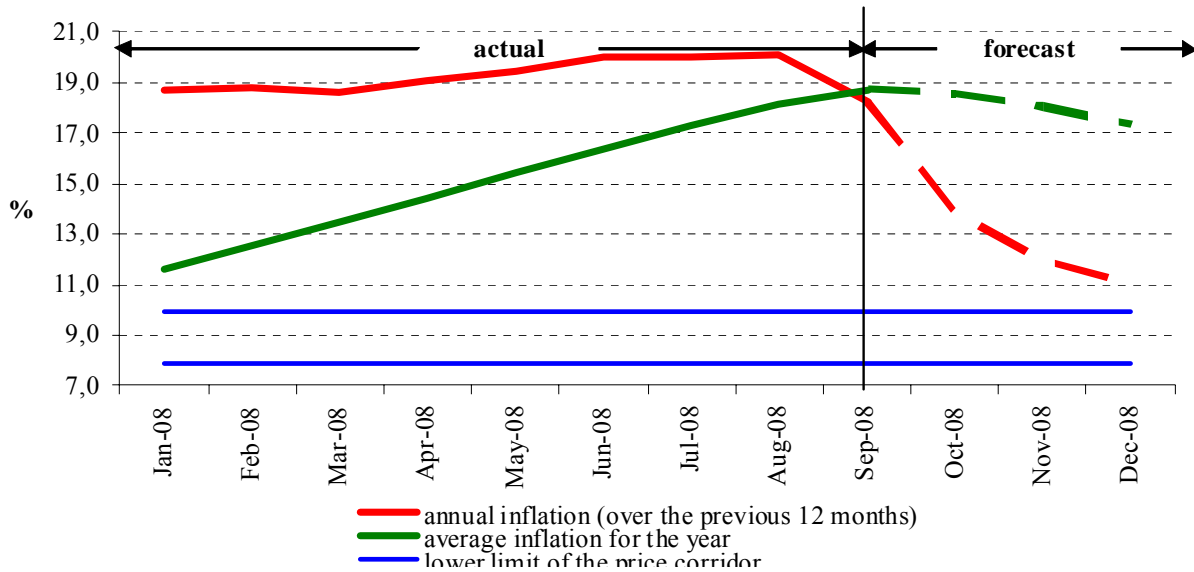
Moreover, the National Bank carries out refinancing operations with banks (reverse repurchase agreement, swap). Also, the list of bid securities for fulfillment of operations of reverse repurchase agreement was extended. The norms of minimum reserve requirements were lowered as well as rates for the operations of the National Bank.

Anti-inflation measures undertaken by the National Bank and the government in 2008 already begin to suppress inflation, which in the annual terms reduced from 20.0% in June of 2008 to 18.2% in September, 2008.

The policy of the National Bank concerning regulation of inflation is carried out in agreement with Monetary Policy Guidelines for 2008-2009. In accordance with this document the main objective of the National Bank is to keep the inflation in the range of 7.9-9.9% at the end of 2008. However, according to the results of 2008, it is anticipated, that this range will be exceeded (Diagram 45).

Diagram 45

Anticipation of inflation in 2008



Source of information: The National Bank of the Republic of Kazakhstan

6.3. Forecast of inflation for 2009

In the fourth quarter of 2008 the National Bank will proceed to development of main direction of monetary policy for the forthcoming medium-term period. This document will include key points for the main parameters of the monetary policy, including inflation rate and monetary aggregates.

In addition, this document will include principal measures of the National Bank concerning achievement of the established key points.

In the conditions of the present macroeconomic situation the priority will be given to measures that provide stability of prices and stability of financial sector. Emission of short-term notes, attraction of banks' deposits and issue of refinancing loans will remain the main operations of the National Bank to regulate interest rates in the financial market, and also regulate the banks' liquidity.

The National Bank will continue its efforts to increase efficiency of monetary regulation instruments and also will broaden their number.

Establishment of the official refinancing rate will be carried out subject to situation in the money market and inflation rate in the way to keep its level positive in real terms.

The National Bank will not permit considerable short-term fluctuation of tenge exchange rate, although key points and corridors for tenge rate fluctuation will not be determined.

The National Bank expects that in 2009 the trend with slowdown of annual inflation rate will remain and that will help to keep it on the level not higher than that of the 2008.

6.3.1. Forecast of inflation in the first quarter of 2009

A forecast of inflation for the first quarter of 2009 is 2.6-2.8%. In whole, this level agrees with inflation trends of a first quarter that are common for the previous years.

These expectations are connected with the fact that, first of all, formation of inflation in the near future will be influenced by seasonal factor. It means that inflation rate will fall in the beginning of the year in comparison with the fourth quarter of the previous year.

Decrease in prices of some types of products and services is anticipated (meat and dairy products, fuel and lubricants, some types of housing and communal services, transport services).

In addition, in the first half of 2009, the consumer demand will, in all probability, remain limited; there is no expectation of dramatic increase in crediting activity of the bank sector and, consequently, the growth rates of the economy will remain at the current level.

By the results of March, 2009, the annual inflation is anticipated to be on the level of 10.8-11.0%.