

National Bank
National Bank
of Kazakhstan

Inflation Report
second 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 products and of the raw materials for the preceding and coming quarters.

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 a 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

In the first half of 2008 rate of inflation in the economy remained high. After certain deceleration of inflation in the first quarter of the current year the inflation processes increased in the second quarter. As a result, in the period of time from January to June, 2008 inflation came up to 5.7%, exceeding the rates of the preceding year (4.6% during the 6 months of 2007).

The main inflation factor in 2008 is the increase in the world prices for raw material resources, including food products and crude oil.

For example, in the first half of 2008 the world prices for sunflower oil, rice and Brent grade crude oil keep increasing. The risks of the further increase in prices for food products remain.

The inflation pressure is also caused by increase in production costs. The increase in production prices for the products of intermediate consumption and energy resources is noted.

It should be noted here that increase in inflation processes occurs along with deceleration of economic activity and reduction of employment rate. All these facts give the evidence of low working efficiency that will constrain development of the economy.

However, the influence of the money factor on inflation development in 2008 is low. Thus, by the results of the first half of 2008, the money supply increased by 12.2% (in the first half of 2007 – by 22.1%).

In the second quarter of 2008 the National Bank continued to issue refinancing loans to banks, although volumes of such operations decrease. Consequently, in 2008, a tendency to reduction of rates to the level of 2006 appeared in the interbank market. Thus, the situation with liquidity in the summer of 2008 began to recover. The volumes of withdrawn liquidity increased; the volume of circulated short-term notes increased as well as the volume of remainders on the banks' deposits in the National Bank.

Corridor of rates in the operations of the National Bank remained unchanged in the first half of 2008: with 11.0% upper limit (the official refinancing rate), and 5.5% lower limit (rate for deposits attracted from banks).

In addition, the stability of the financial system was backed up by the stable exchange rate that remained within narrow range of 120-121 tenge for a US dollar during recent 10 months (since October, 2007) with the minimum participation of the National Bank in the domestic foreign exchange market.

2. Inflation processes

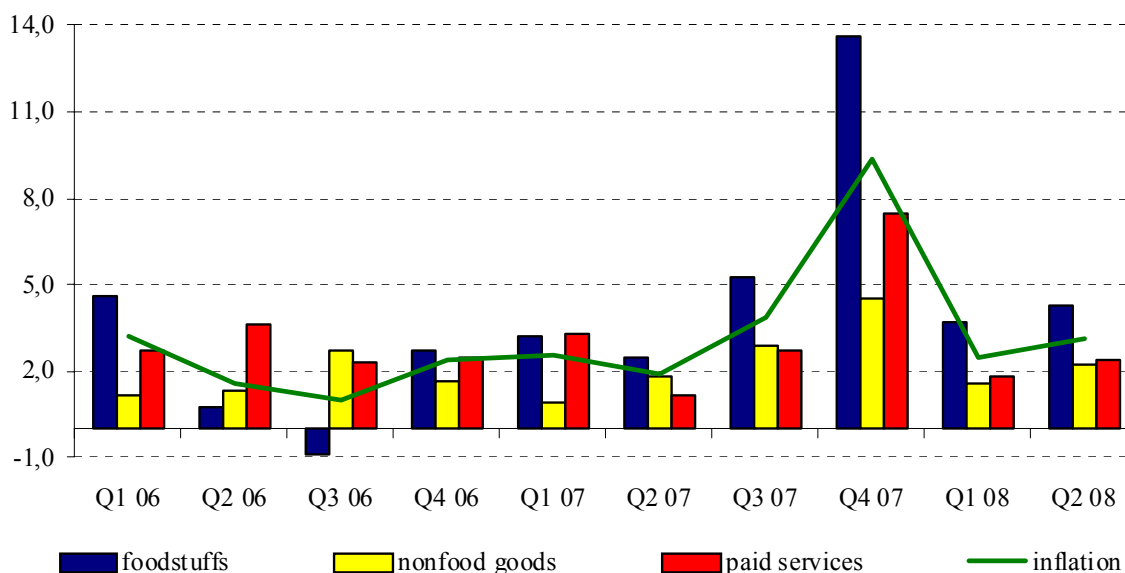
2.1. Consumer prices

In the second quarter of 2008 an increase in inflation processes in the economy began. An increase in prices in this period exceeded both the numbers of the preceding quarter and the numbers of the corresponding period of the preceding year. In whole, inflation during the period of April-June, 2008 reached the level of 3.1%.

The increase in prices in the second quarter of 2008 was caused, first of all, by increase in prices for food products by 4,3%. Prices for paid services for the population increased by 2,4%, 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

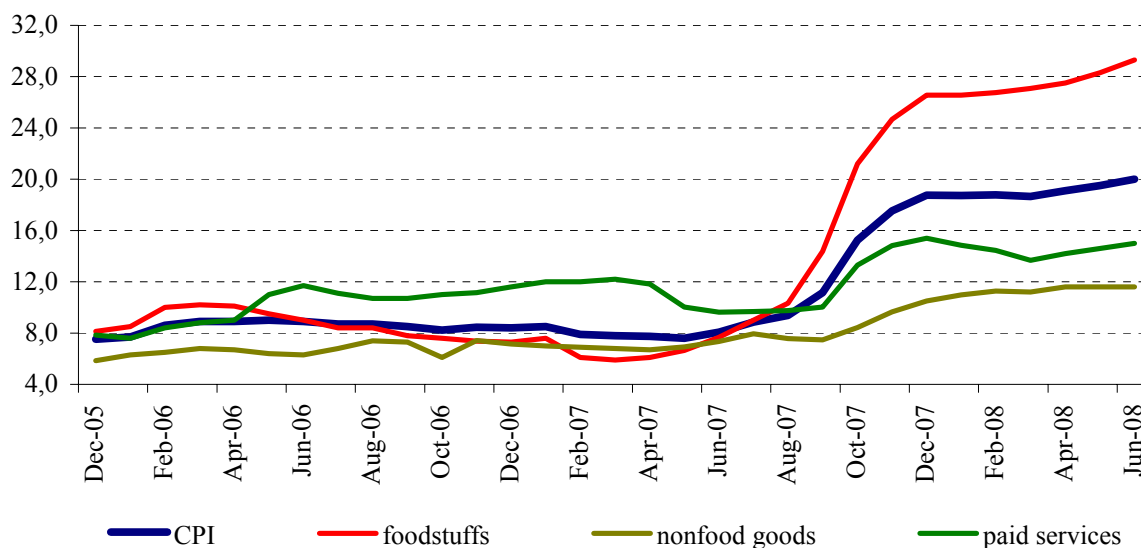
In the second quarter of 2008 the main increase of prices was noted for such products and services as rice - by 49.2%, wheat flower – by 9.2%, sunflower oil - by 8.2%, petrol – by 7.0%, diesel fuel - by 23.1%, railroad transport - by 8.0%, and medical services - by 4.1%.

The highest rise in prices in the second quarter of 2008 was noted for rice and diesel fuel. If these two items were not included, the inflation during the period of April-June, 2008 would be at the level of 2.7% instead of real 3.1%.

In June, 2008, the annual inflation formed at the level of 20.0% (18.8% in December, 2007). The food products became more expensive by 29.3%, paid services for the population - by 15.0%, non-food products- by 11.6% (diagram 2). In the annual terms, the highest increase in prices was noted for sunflower oil, bread, wheat flour, noodles, rice, eggs, dairy products, fruit and vegetables, gas, and diesel fuel.

Diagram 2

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



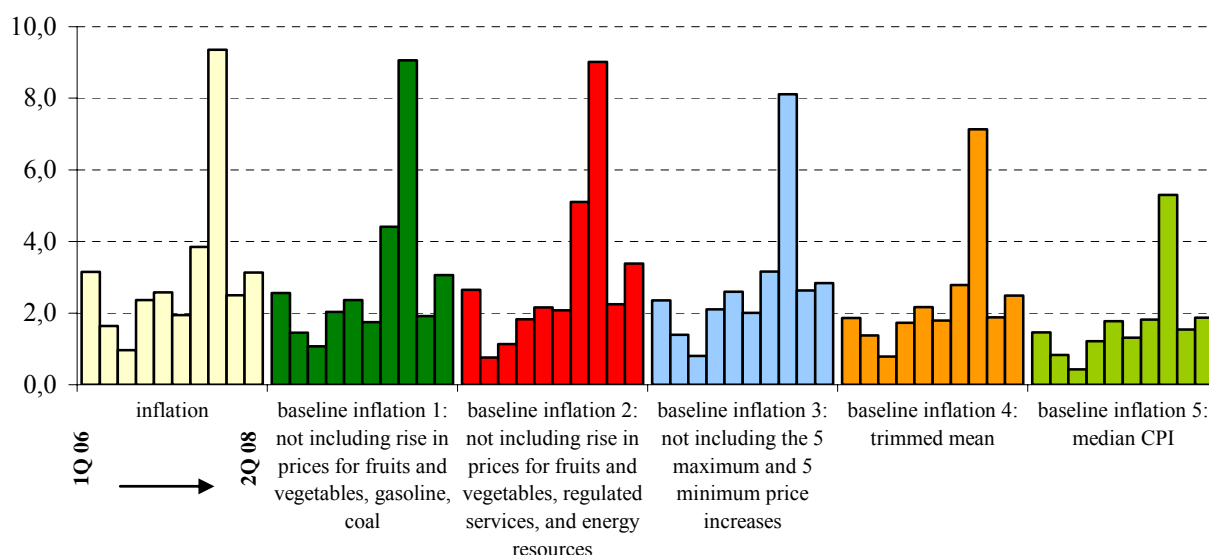
Source: Statistical Agency of the Republic of Kazakhstan

2.2. Core inflation

Rates of core inflation also indicate intensification of inflation processes in the economy. In the second quarter of 2008 rates of core inflation accelerated in comparison with the previous quarter, and also in comparison with the second quarter of 2007 (Diagram 3).

Diagram 3

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



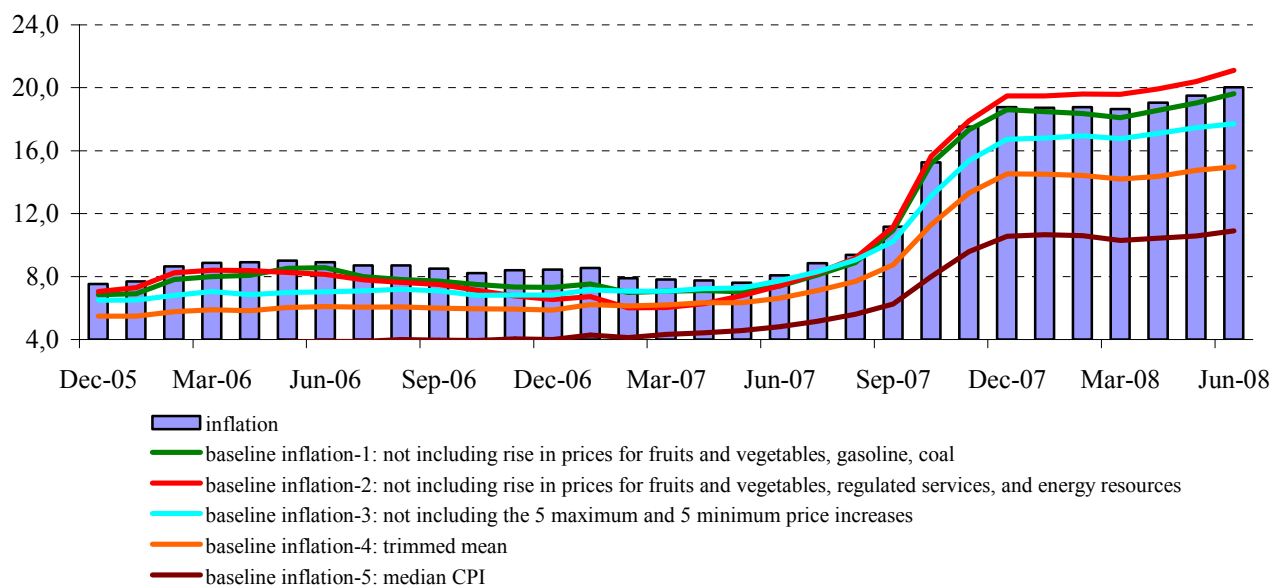
Source: Statistical Agency of the Republic of Kazakhstan

In the period of time from April to June, 2008 only the rates of core inflation-2 exceeded the rate of general inflation, that was the consequence of the stability in prices for certain types of regulated services that are excluded from estimation of this parameter (certain types of housing and communal services).

Rates of the core inflation in the annual terms also show the tendency to growth. Thus, all parameters of core inflation in June of 2008 exceeded the parameter of December, 2007. Nevertheless, only core inflation-2 exceeds the rate of general inflation beginning from September, 2007 (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 second quarter of 2008 there was increase in the growth rate of prices of enterprises that are producers of industrial output. Thus, the increase in prices came up to 22.0%, although in the second quarter of 2007 the prices increased by 10.9%. The produced output became more expensive by 23.0%, including the prices for production resources - by 2.4%, production of intermediate consumption - by 24.7% and consumer goods – by 4.4%. The prices for services of enterprises of a production nature that manufacture industrial products became higher by 1.3%.

In the period of time from April to June, 2008 the prices of enterprises of the extractive industry increased by 27.2% (for corresponding period of 2007 - by 12.5%). One cause of the increase in prices of producers was rise in prices for energy resources and raw materials. Thus, the increase in prices of oil production services in the second quarter of 2008 was 39.7% (for the second quarter of 2007 – reduction by 3.7%), the increase in prices of oil production services – 27.8% (increase by 13.0%), the prices for gas condensate increased by 29.9% (by 11.0%), for natural gas by 7.0% (на 1.9%). In whole, in the period of time from

April to June, 2008, the energy resources became more expensive by 26.1%, although in corresponding period of 2007 they increased by 10.6%.

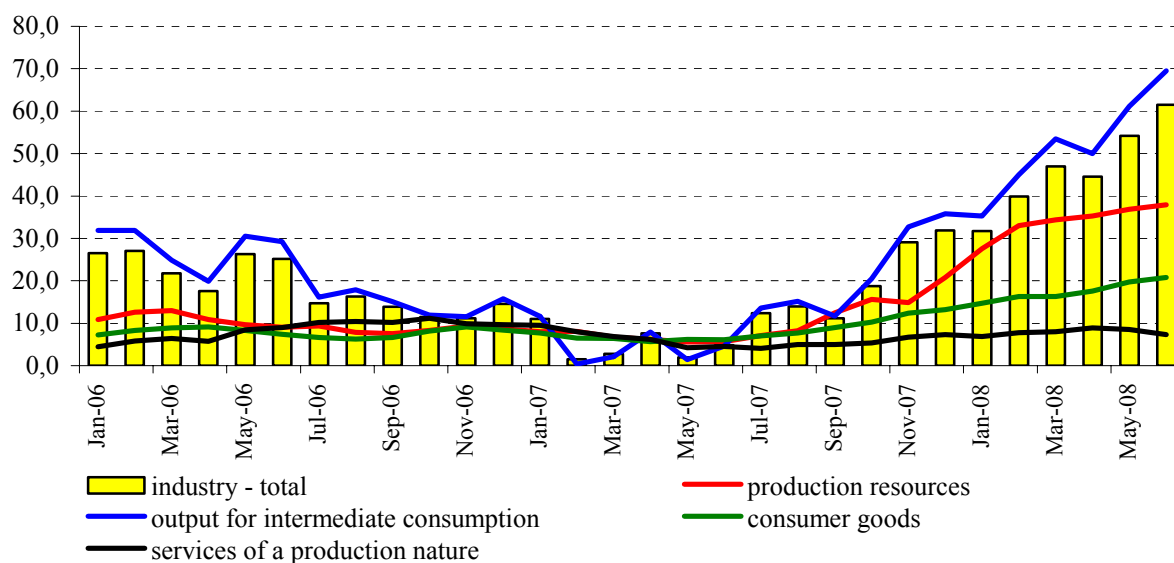
The rise in prices in the processing industry came up to 13.4% also under the influence of the situation with prices that developed for energy resources. Prices for rolled ferrous metals increased by 43.4% (in the second quarter of 2007 – by 42.5%), for rolled non-ferrous metals - by 1.6% (19.1%). Oil products in the second quarter of 2008 became more expensive by 11.0%, although in the corresponding period of 2007 there was a reduction by 2.1%.

Tariffs and prices for the production and distribution of electrical energy, natural gas and water in the second quarter of 2008 increased by 3.6% (in the second quarter of 2007 – by 1.6%).

In June, 2008 the annual increase in prices for industrial production (June, 2008 to June, 2007) was 61.5%, coming up from 31.9% in December, 2007. The output produced during recent 12 months became more expensive by 65.0%, including prices for production resources – by 37.6%, products of intermediate consumption – by 69.5%, and the consumer products - by 20.8%. The annual increase of prices for production type services amounted to 7.3% (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 second quarter of 2008 selling prices of producers of agricultural output increased by 6.2% (in the second quarter of 2007 – by 0.7%). Dynamics of prices in the agriculture formed on the background of the increase in prices for crop output – by 10.4%. The livestock products became more expensive by 0.6%.

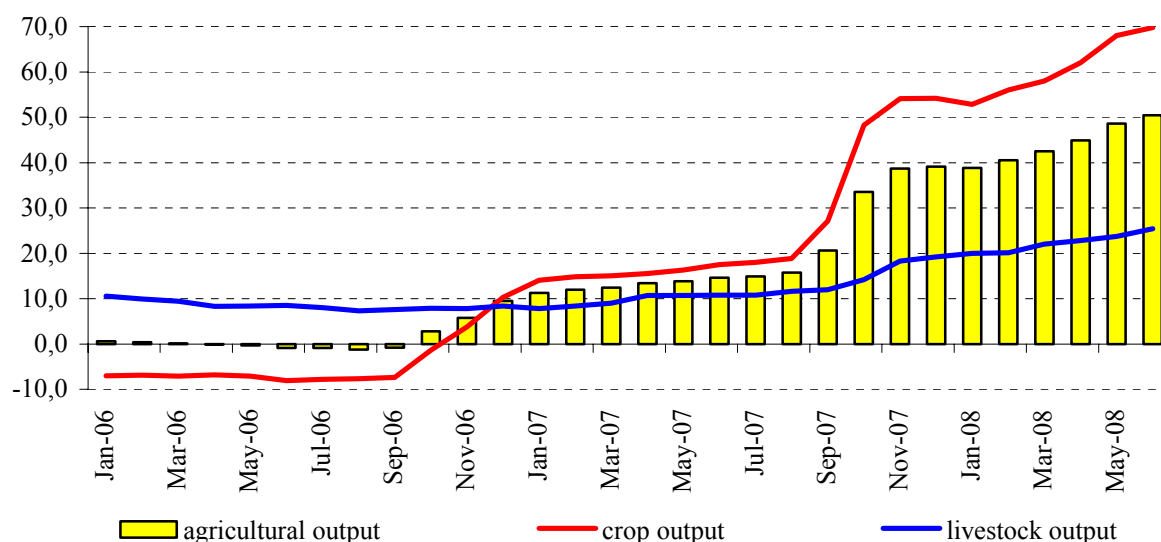
The increase in prices of products of plant growing industry in the analyzed period of time was caused by rise in prices for grain crops by 11.3%, the increase in prices for vegetables was 9.7%.

For livestock products in the period of time from April to June, 2008 prices for cattle and poultry meat increased by 5.7%, prices for milk and eggs decreased by 7.8% and 10.3%, respectively.

The tendency of prices for agricultural products to increase, beginning in 2007, accelerated in the second quarter of 2008. According to the results of June, 2008 increase in prices came up to 50.4% (in December, 2007, by 39.1%). So, the prices for products of crop sector became higher by 69.8% (by 54.2%), livestock products - by 25.4% (by 19.2%) (Diagram 6).

Diagram 6

**Dynamics of price indices for agricultural products
(% to the corresponding month of the previous year)**



Source: Statistical Agency of the Republic of Kazakhstan

2.3.3. Enterprise monitoring

In the second quarter of 2008 the growth of demand for finished output remained on the same level. Thus, an increase in demand for finished output was noted by 27.4% of the respondent enterprises (in the first quarter of 2008 – 25.7%). At the same time, the number of enterprises with stable demand reduced from 51.9% to 49.0%; the number of enterprises that reported decline in demand increased from 21.3% to 23.1%; and the number of enterprises that reported rise in demand increased from 25.7% to 27.4%. As a result, the diffusion index of the change in demand for finished output in the sector did not change in comparison with the first quarter of 2008 and was 52.2.

In the third quarter of 2008, 34.4% of respondent enterprises anticipate that demand for finished output will not change. At the same time 8.7% of the enterprises anticipate increase in demand for finished output and only 10.0% of the enterprises anticipate decrease in demand. As a result, in the third quarter of 2008 an increase of the index to the level 58.7 is anticipated (Diagram 7).

Situation with prices for the finished output of respondent enterprises and prices of raw materials and supplies that is used in the production process is characterized by some decrease of the inflation pressure.

Increase in prices for finished output in the second quarter of 2008 was reported by 40.6% of the enterprises (in the first quarter – 41.3%). The share of enterprises suffered reduction in prices of their product decreased by 5.0% (3.5% in the preceding quarter). Consequently, a decrease in the diffusion index of price change for the finished output was observed up to 67.8 in comparison with 68.9 in the first quarter of 2008.

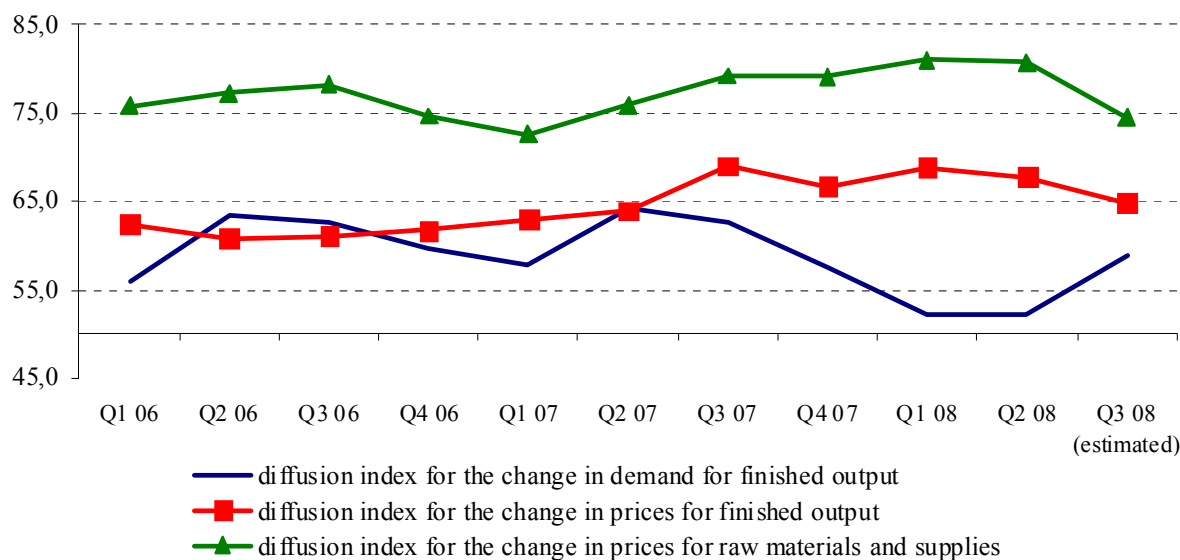
In the third quarter of 2008 some reduction of diffusion index of price change to 64.9 for the finished output is anticipated. This reduction is related to 32.1% reduction in the share of the enterprises that anticipate rise in prices for their production and the proportion of the enterprises that anticipate decrease in prices for their own finished output to 2.4% (diagram 7).

The share of enterprises that reported an increase in prices for raw materials and supplies slightly decreased from 70.9% to 70.8%. 19.6% of the respondent enterprises reported stability of prices, although their share in the previous quarter was 20.0%. The share of enterprises that noted a decrease in prices for raw materials and supplies increased from 0.8% to 1.2%. Diffusion indices for changes in prices for raw materials and supplies decreased from 81.1 to 80.7.

The share of enterprises anticipating an increase in prices for raw materials and supplies will decrease to 57.7% in the third quarter of 2008; the share of enterprises anticipating decrease in prices will be 0.7%. Consequently, a decrease to 74.4 in the diffusion index is anticipated (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 increase in prices, remain negative. This is indicated by corresponding diffusion indices, which considerably exceed level 50.

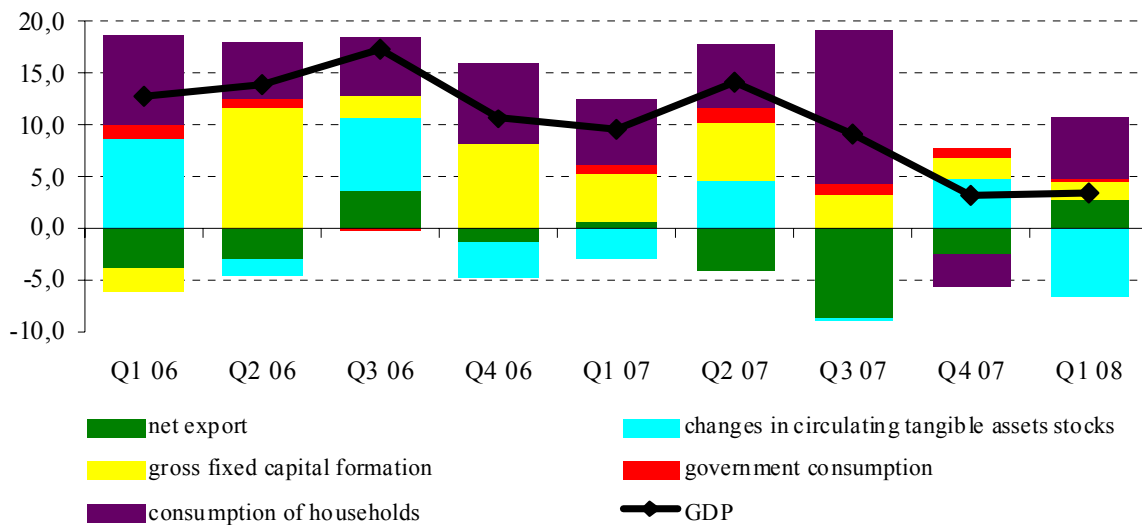
3. Factors of inflation

3.1. Aggregate demand

In the first quarter of 2008 the estimated increase in consumption of gross domestic product was 3.4% in comparison with the corresponding quarter of 2007 and that was somewhat higher of the same parameter of the preceding quarter (3.2%). This increase is caused by increase in final consumption of households and net export; along with that the reserves of circulating assets reduced abruptly. (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

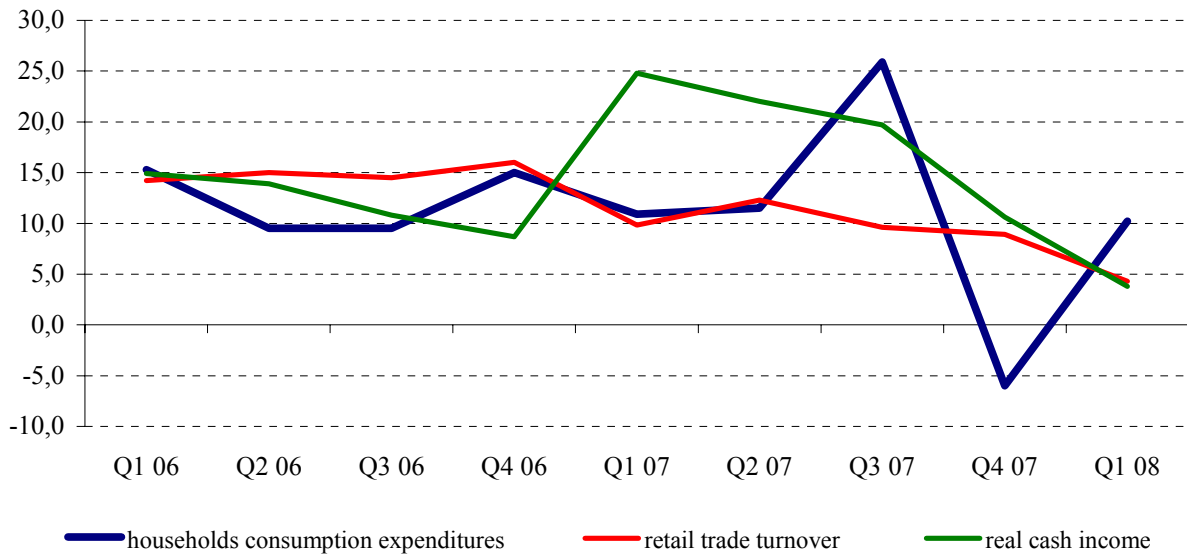
3.1.1. Individual consumption and investment demand

The estimated expenditures for the final consumption by the households increased by 10.2% in the first quarter of 2008 in comparison with the corresponding period of 2007 (in the fourth quarter of 2007 – decrease by 6%).

Expenditures on the final consumption of the households increased in spite of decelerating growth of the population's income. By the results of the first quarter of 2008 per capita nominal money income increased by 29.6% in comparison with the first quarter of 2007, and in the real terms – by 3.8% (in the fourth quarter of 2007 – increase by 10.6%). Meanwhile, the estimated retail turnover of commodities increased from January to March, 2008, by 4.3% in comparison with the corresponding period of 2007 (in the fourth quarter of 2007 – by 8.9%) (Diagram 9).

Diagram 9

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

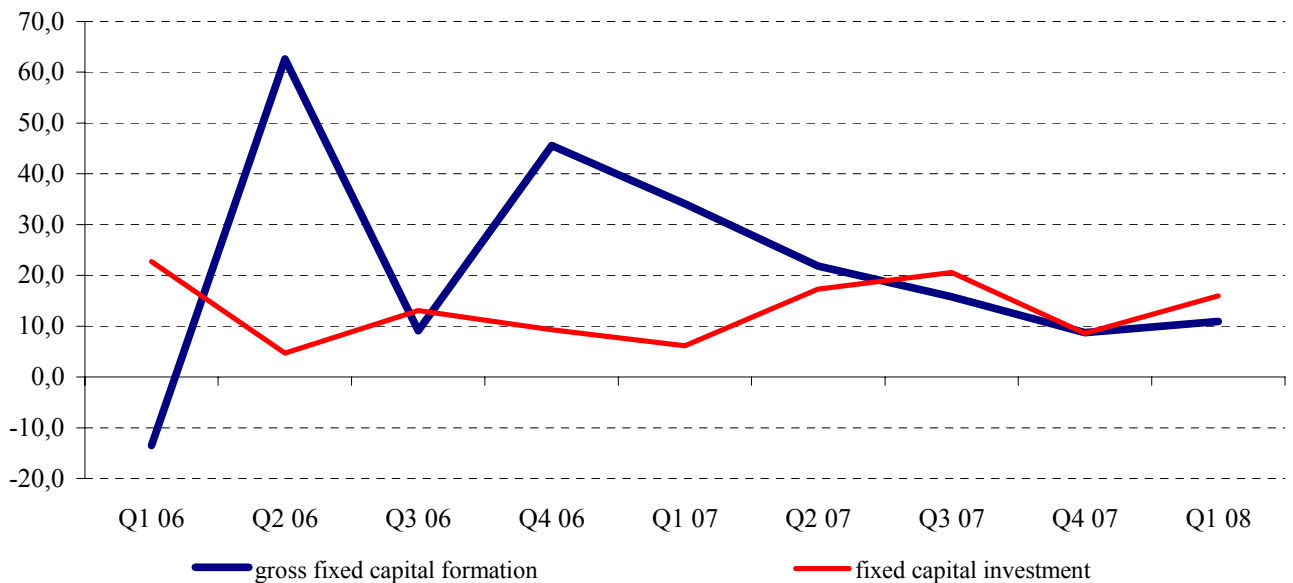


Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

In the first quarter of 2008 the rate of increase in expenditures on gross accumulation of the capital stock in the structure of gross domestic product was 10.9%. Herewith, the amount of investments into the capital stock increased by 16% in the first 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 11.6% in the first quarter of 2008 in comparison with the corresponding period of 2007 (in the fourth quarter of 2007 – by 13,6%).

In whole, during the first quarter of 2008 expenditures for the state budget were financed by the sum of 722.9 billion tenge or 23.0% to the gross domestic product. In comparison with corresponding period of 2007 they increased by 6.8%.

The current expenditures of the state budget were financed by the sum of 490.6 billion tenge that was by 12.4% higher than in the corresponding period of 2007.

Capital expenditures of the state budget in the first quarter of 2008 increased by 56.4% in comparison with the corresponding period of 2007. Budget loans in the first quarter of 2008 increased 7.3 times as much, expenditures on acquisition of financial assets decreased by 54.1%.

During the first quarter of 2008 incomes to the state budget totaled to 746.0 billion tenge or 23.7% to the gross domestic product. In comparison with the corresponding period of preceding year they increased by 26.0%. The increase of income was provided by increase in amount of tax takings, and also by considerable increase in the amount of official transfers.

The main takings to the state budget in the first quarter of 2008 were tax proceeds (73.6%) and official transfers (18.5%).

In the structure of tax proceeds there was increase in takings through individual income tax, property tax, value-added tax, and road tax.

In the fourth quarter of 2007 a guaranteed transfer of 29.0 billion tenge was exempted to a republican budget from the National Fund.

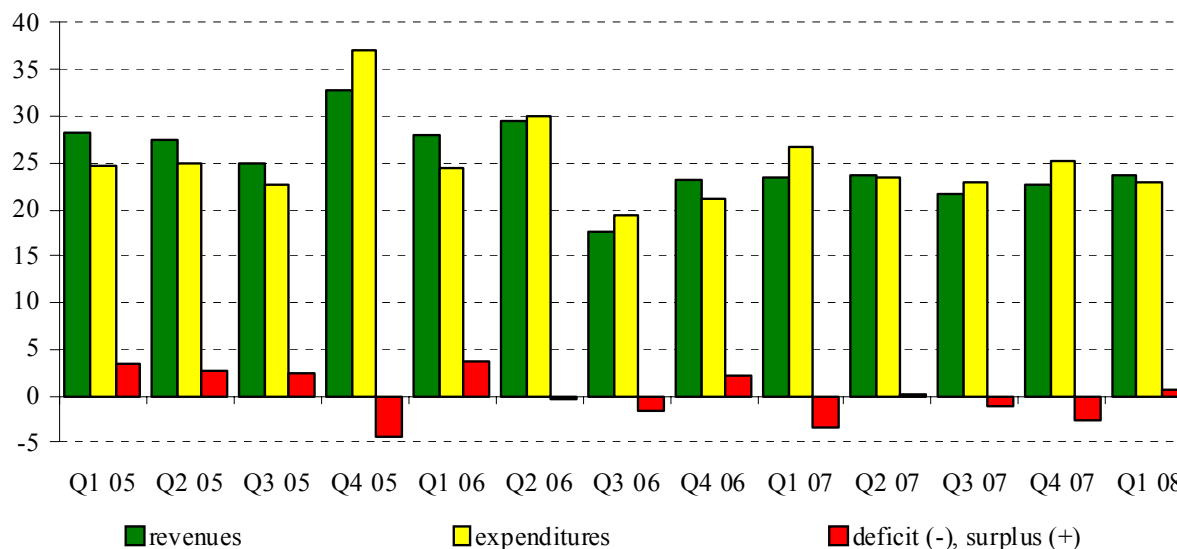
Corporate income tax increased by 15.4% and proceeds for use of natural resources decreased by 0.6%.

In the first quarter of 2008 a guaranteed transfer of 143.0 billion tenge was exempted to the republican budget from the National Fund.

As a result of the income exceeding over the expenditures the state budget had a surplus of 23.2 billion tenge in the first quarter of 2008 (0.7% to the gross domestic product) against the deficit in the first quarter of 2007 of 84.7 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 obtained surplus of the state budget was used for redemption of principal loan debt – 49.2 billion tenge that exceeds the same parameter of the corresponding period of the preceding year 3.1 times as much.

The state domestic debt increased by 40.5% to 560.2 billion tenge in March, 2008, in comparison with March of 2007 and was supported by emission of long-term treasury bonds.

The external debt of the government decreased by 11.5% to 1.5 billion US dollars in the first quarter of 2007.

3.1.3. External sector

– World prices

In the second quarter of 2008 situation in the world commodity markets was characterized by multidirectional tendencies.

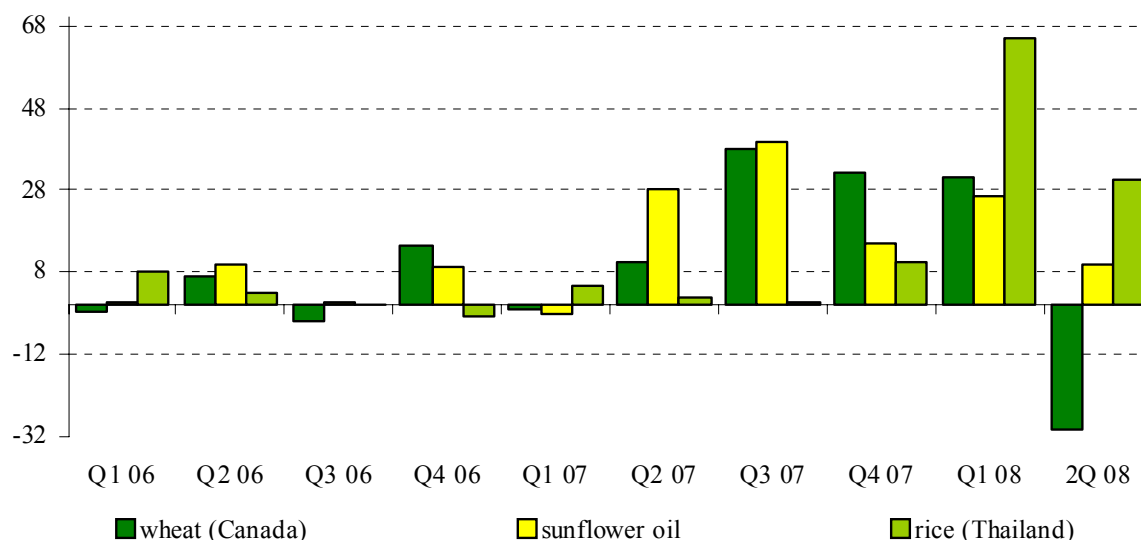
In the period of time from April to June, 2008 there was a decrease in world prices for wheat. Thus, during the second quarter, 2008, the world price for wheat (Canada) decreased by 30.2% according to data of the World Bank. The average price for the second quarter was 484.4 US dollars for a metric ton (Diagram 12).

In the second quarter of 2008 the growth rate of prices for sunflower oil decreased, though their level remains high. Thus, in the period of time from April to June, 2008, according to data of the US Department of Agriculture, prices for sunflower oil increased by 9.8%, and, on average, exceeded 1900 US dollars for a metric ton.

World prices for rice in the second quarter of 2008 demonstrated multidirectional tendencies. The peak of highest prices was in April-May, 2008. In June prices reduced by 16.7%; however they still remain at the high level (an increase in 2.2 times). In whole, during the second quarter, 2008, the increase in prices for rice was 30.5% (according to data of the World Bank) (Diagram 12).

Diagram 12

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



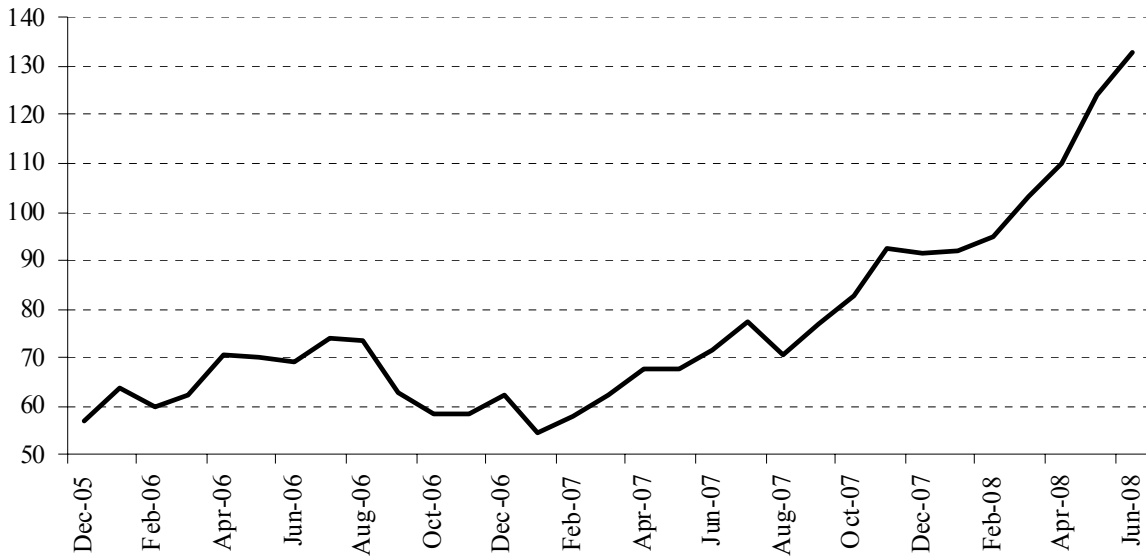
Source of information: the World Bank, US Department of Agriculture

In the period from April to June, 2008, there was considerable increase in prices for energy resources, particularly for crude oil.

In the second quarter of 2008 the price of the Brent grade oil, according to data of the World Bank, increased by 28.8% and, in June, 2008, came to 133.1 US dollars for barrel (Diagram 13). An increase in the price was 86.6% in June of 2008 in comparison with June, 2007.

Diagram 13

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



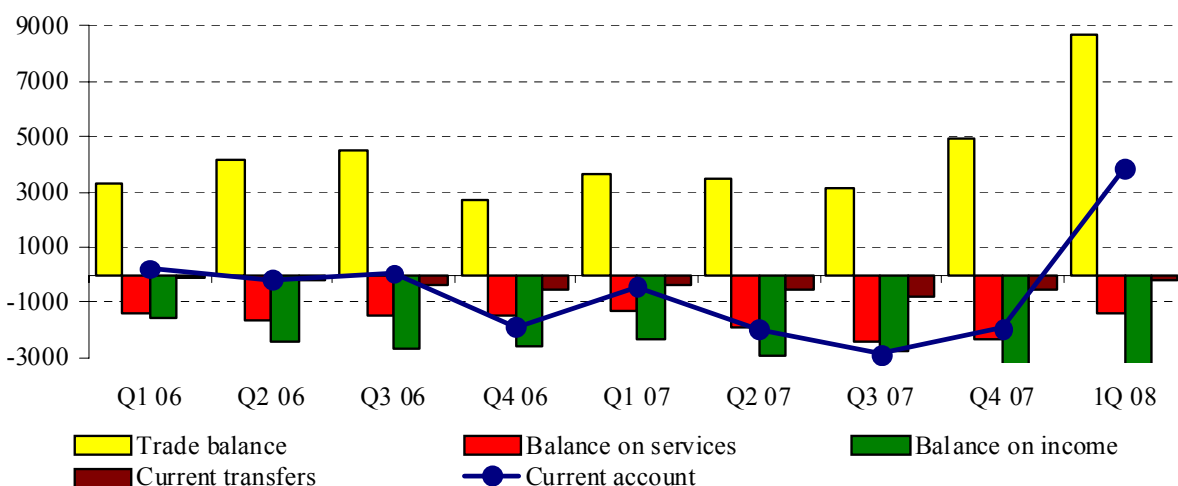
Source of information: the World Bank

– Balance of payments

According to results of the first quarter of 2008, the current account of balance of payments made up with a significant positive balance of 3.9 billion US dollars (Diagram 14).

Diagram 14

Balance of current account operations, million US dollars



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

The main contribution in the surplus of current operations' account was made through increase in value of exports, that was caused by high world prices for energy resources. Proceeds from the commodity export in the first quarter of 2008 increased by 56.7% in

comparison with the corresponding period of 2007, whereas the expenditures on the commodity import increased by 11.6%. Thus, the trade balance amounted to 8.6 billion US dollars, increasing 2.4 as much in comparison with the corresponding period of 2007, and compensated net outflow of resources through other components of current operations' account. In comparison with the first quarter 2007, deficit of the services balance increased slightly by 2.4% and amounted to 1.3 billion US dollars, deficit of income balance increased by 39.0% to 3.3 billion US dollars. The payments to non-residents through the current transfers amounted to 149.5 million US dollars, decreasing by 62.0%.

The net outflow of resources through operations of the financial account amounted to 2.0 billion US dollars (in the first quarter of 2007 the net income is 2.9 billion US dollars). Foreign assets of the residents increased in the first quarter of 2008 by 5.4 billion US dollars that is 26.5% less than the increase in the corresponding period of 2007. The external liabilities of the residents increased by 2.0 billion US dollars, which is 4 times less than the same parameter of the first quarter of 2007.

With the increase in direct investments (1.7 billion US dollars), the decrease in growth of external liabilities is caused, first of all, by operations of the bank sector. Thus, the period under consideration, the external debt liabilities of the bank sector reduced by 1.3 billion US dollars in comparison with increase by 5.04 billion US dollars in the first quarter, 2007.

The positive balance on the operations of the payment balance amounted to 1.4 billion US dollars during the first quarter of 2008 that is 37% less than the corresponding parameter in the first quarter of 2007.

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

In the first quarter of 2008 the total index of trade terms was by 20% higher of the corresponding index for the 1 quarter of 2007. The conditions of trade with the countries of euro zone got better by 28% and with Russia got worse by 9% (table 1).

Table 1

**Changes in price indices and trade conditions
(as a percentage against corresponding period of the previous year)**

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

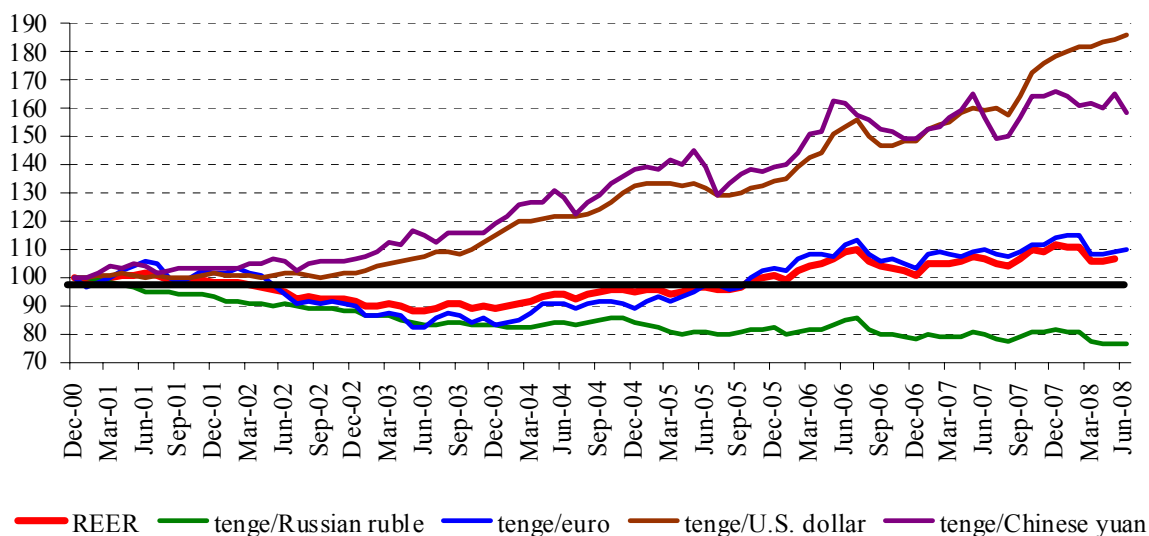
Source of information: The National Bank of the Republic of Kazakhstan

By the results of the 1 quarter of 2008 in comparison with the preceding quarter the index of the real effective exchange rate of tenge weakened by 1.0%. Along with that, tenge got cheaper by 2.0% comparatively to the basket of the CIS countries' currencies and by 0.6% to the basket of the other countries' currencies.

During the 1 quarter of 2008 in real terms, tenge strengthened comparatively to US dollar by 3.2%, to euro – by 0,2%, and to the Russian ruble weakened by 2.0% (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

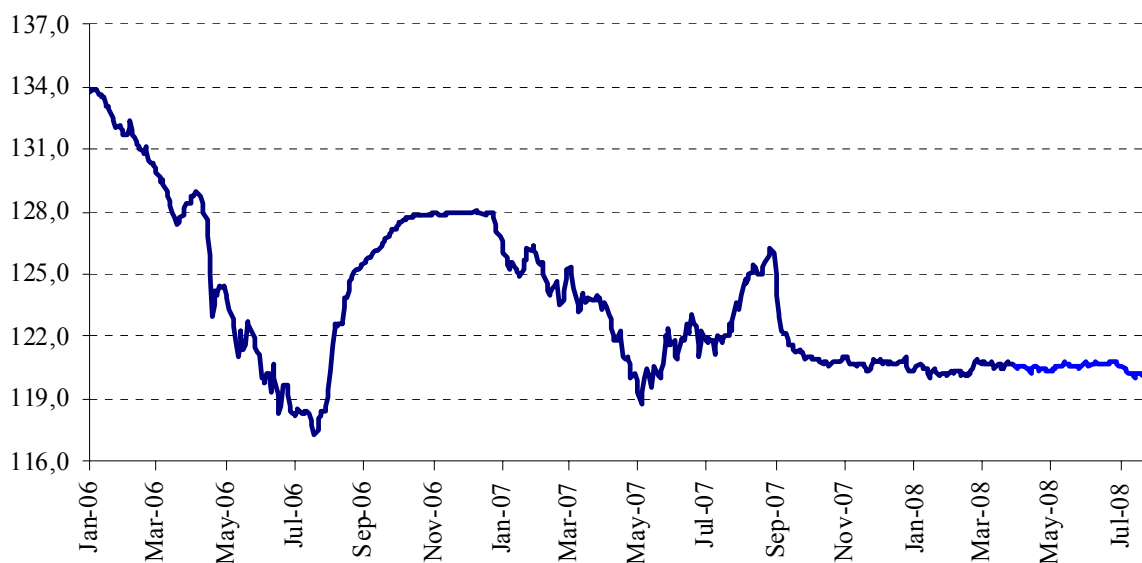
The negative influence of tenge strengthening on the competitiveness of the Kazakhstan producers is limited by prevalence of specialized commodities in the trade turnover between Kazakhstan and the foreign countries excluding the CIS countries. The commodity groups most sensible to relative changes in the exchange rate are in the trade with Russia, which is a main trade partner of the republic. However, preservation of the tendency to consolidation of the Russian rouble relative to main world currencies suppresses the influence of the exchange rate factor on the results of trade with the Russian Federation.

– Nominal tenge exchange rate

In the second quarter of 2008 situation in the domestic foreign exchange market remained stable. In whole, by the results of the quarter the tenge exchange rate depreciated comparatively to US dollar by 0.05% – from 120.69 tenge/US dollar to 120.75 tenge/US dollar.

The average weighted tenge exchange rate for the 2 quarter of 2008 amounted to 120.59 tenge for a US dollar, appreciating by 0.1% in comparison with the respective index for the 1 quarter of 2008. During the quarter, tenge changed relatively to US dollar in the range of 120.05 – 120.87 tenge for a US dollar (Diagram 16).

Diagram 16

Dynamics of nominal tenge/US dollar exchange rate

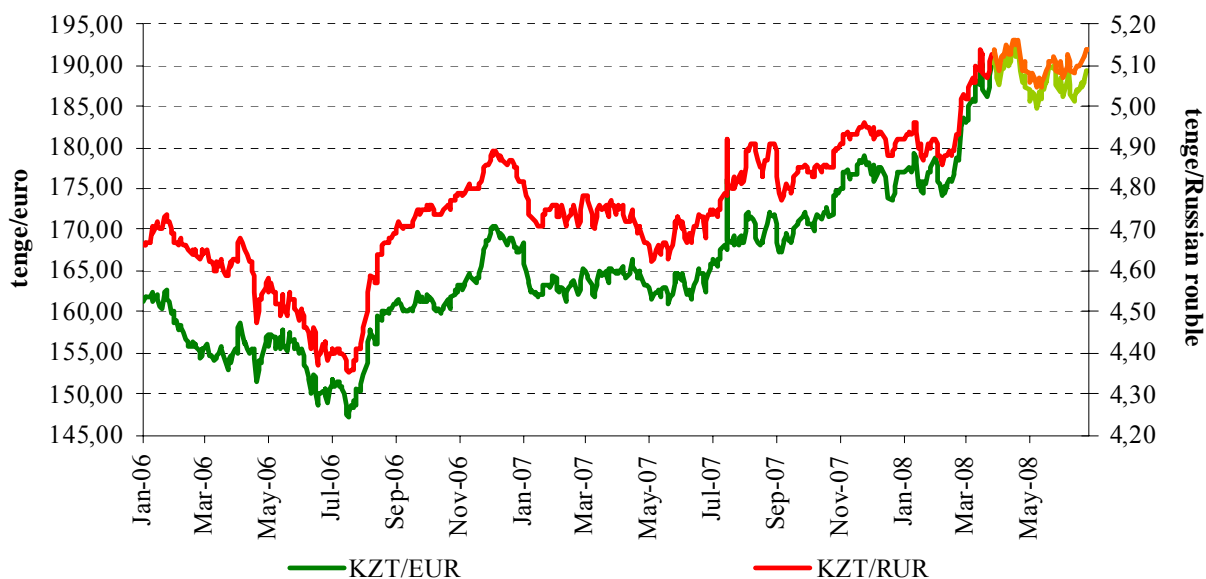
Source of information: The National Bank of the Republic of Kazakhstan

In April tenge became stronger relatively to US dollar by 0.3% and in May and June it depreciated by 0.2% and 0.1%, respectively.

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 2 quarter of 2008 the official exchange rate of tenge to euro strengthened by 0.4% and to Russian rouble depreciated by 0.2% (Diagram 17).

Diagram 17

Dynamics of official exchange rate of tenge relative to euro and the Russian ruble

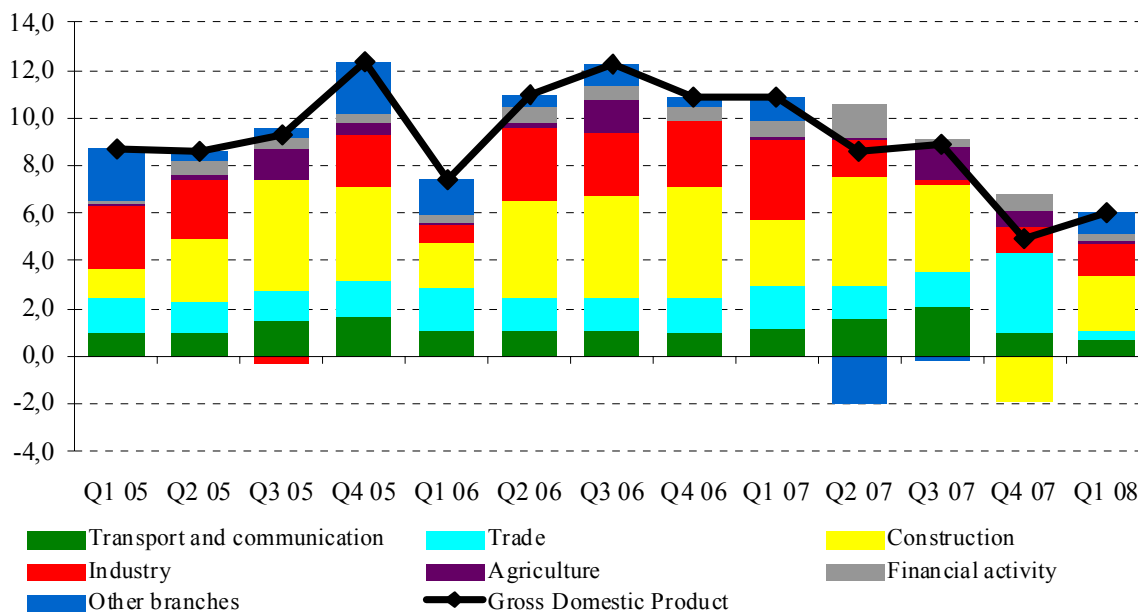
Source of information: The National Bank of the Republic of Kazakhstan

3.2. Production

Output volume of the gross domestic product during the 1 quarter of 2008 amounted to 3144.0 billion tenge in the current prices. The growth of the real gross domestic product accelerated and, in comparison with corresponding period of 2007, amounted to 6.0%, that was caused, in the first place, by contribution from construction and industry sectors (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 second quarter of 2008 the number of the occupied in the economy increased. Their number amounted to 7.9 million people, that is 1.4% higher than the number in the previous quarter. The number of employees increased by 0.9% to 5.2 million of people, and the number of the self-employed - by 2.2% to 2.7 million people.

4.2 million people worked as employees at the state and non-state organizations (80.6% of all, who works as employees), 0.6 million people worked at legal entities (11.9%), and 0.4 million people worked at farms (7.4%).

In the second quarter of 2008 the number of the unemployed amounted to 557.2 thousand people and reduced by 2.9% in comparison with the previous period of the year (Diagram 19).

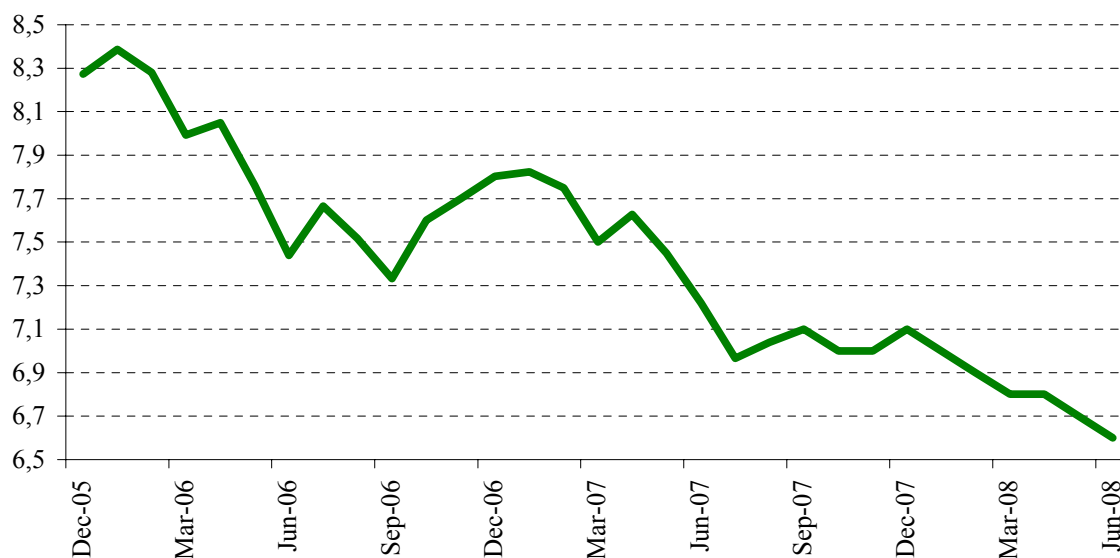
Diagram 19

Structure of the economically active population, million people

Источник: Агентство Республики Казахстан по статистике

In the second quarter of 2008 the rate of unemployment reduced from 7.0% до 6.9% (Diagram 20).

Diagram 20

Rate of the real unemployment, %

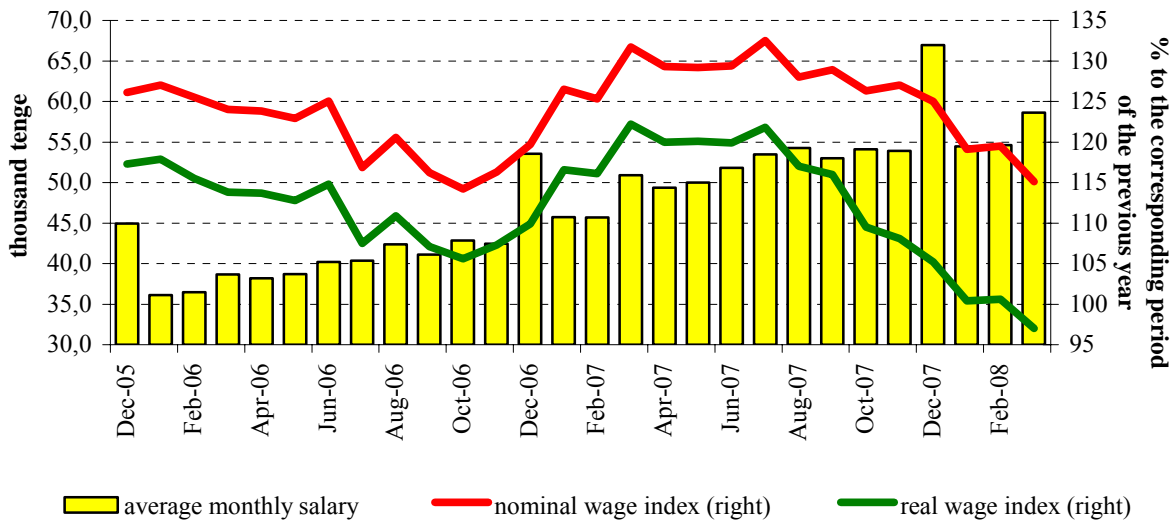
Source of information: Statistical Agency of the Republic of Kazakhstan

3.3.2. Wages and productivity

In the first quarter of 2008 the seasonal decrease in wages was noted in comparison with the rate of the preceding period. However, the average monthly wage increased by 17.2% in comparison with the corresponding period of 2007. Thus, the abrupt increase in the annual inflation resulted in reduction in purchasing power of the wages. In real terms, it decreased by 1.3% (with 7.7% increase in the fourth quarter of 2007) (Diagram 21).

Diagram 21

Dynamics of wages

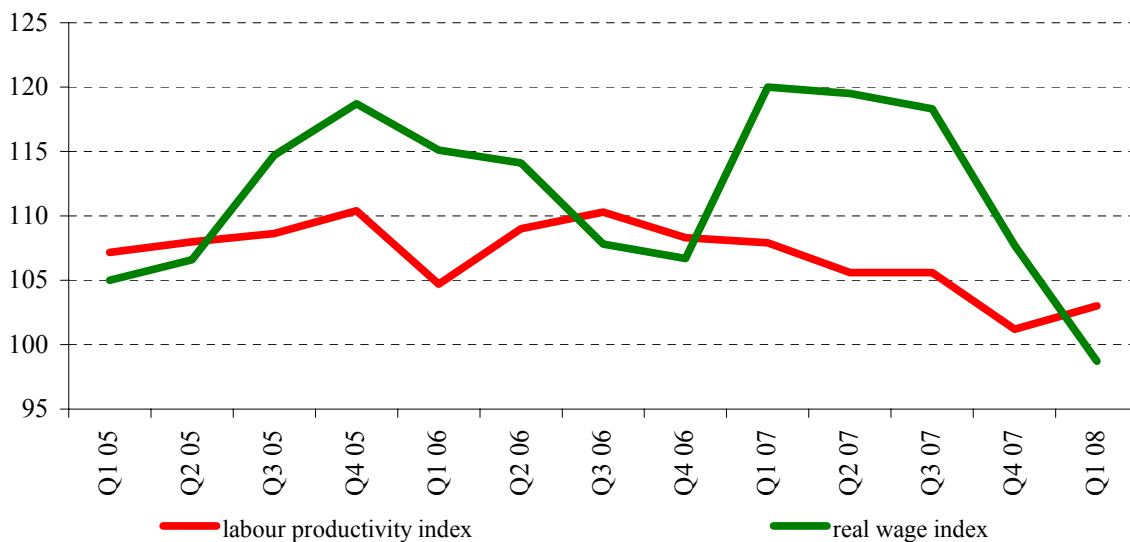


Source of information: Statistical Agency of the Republic of Kazakhstan

After considerable reduction of the growth rates of productivity in the 4 quarter of 2007, there was an increase in productivity by 3.0% in the 1 quarter of 2008 that is connected to increase in real gross domestic products by 6.0% on the background of 3.0% increase in occupation. The real wages decreased by 1.3% that must have positive influence on the inflation background in the economy (Diagram 22).

Diagram 22

Dynamics of labor productivity and the real wages (% to the corresponding period of the previous year)



Source of information: Statistical Agency of the Republic of Kazakhstan

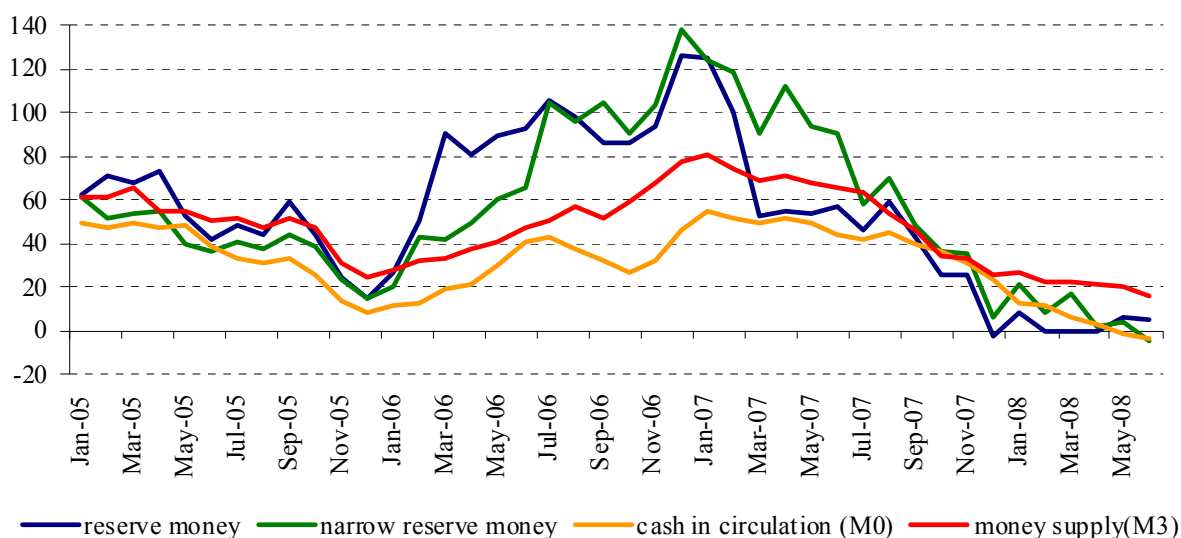
4. Monetary aggregates

4.1. Monetary aggregates

Dynamics of money supply indicators demonstrated low growth rates in the second quarter of 2008 and even negative growth rates in the case of narrow reserve money and cash in circulation. Thus, the lowest dynamics of money supply changes was observed in the quarter under consideration, since 2005 (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 1 753.0 billion tenge at the end of June, 2008. During the 2 quarter of 2008 the reserve money extended by 11.0%, whereas in the 2 quarter of 2007 – 5.2%. Narrow reserve money extended slightly, by 2.8% in the 2 quarter of 2008.

In June, 2008, in comparison with June of 2007 the reserve money extended by 5.2%.

Net international reserves of the National Bank decreased by 5.5% to 21.1 billion US dollars in June of 2008 in comparison with June, 2007.

A receipt of foreign currency on the accounts of the Government in the National Bank, as well as purchase of foreign currency in the domestic currency market by the National Bank were partially neutralized by operations of the National Bank on replenishment of assets of the National Fund and services for the external debt of the Ministry of Finance from accounts of gold and foreign exchange reserves, and slight reduction of remainder on the correspondent accounts of banks in foreign exchange in the National Bank.

Thus, the net foreign exchange reserves decreased by 8.8%, gold reserves increased by 41.3% as a result of performed operations and increase in gold price by 43.8% in the world markets.

The net internal assets of the National Bank decreased due to reduction of liabilities to banks, mainly, by short-term notes (see 3.3. Instruments and operations of monetary policy).

Narrow reserve, i.e. reserve money excluding time deposits of banks in the National Bank, contracted by 4.1% in June, 2008 in comparison with June, 2007 (Table 2).

Table 2

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

	3Q 07	4Q 07	1Q 08	2Q 08
Net international reserves	36,8	-7,8	-10,7	-5,5
Net internal assets	6,5	51,0	42,5	40,9
Net demands to the government	-3,0	72,4	-13,7	57,5
Demands to the financial organizations	35,8	75,1	77,0	66,5
Demands to the rest of the economy	-70,3	21,8	13,8	16,7
Other net internal assets	-49,9	-81,8	-199,4	-579,8
Reserve money	43,2	-2,5	-0,3	5,2
Narrow reserve money	48,8	6,2	17,2	-4,1

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

4.1.2. Money supply

During the second quarter of 2008 the increase of money supply was 7.9% to 5 195.2 billion tenge. Net external assets of the bank system increased by 113.1%, internal assets – by 1.6%.

In June, 2008, in comparison with June, 2007 the increase in the money supply was 15.7% as the result of considerable increase of net external assets of the bank system and their net external assets (Table 3).

Table 3

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

	3Q 07	4Q 07	1Q 08	2Q 08
Net external assets	-666,3	-211,8	-196,1	166,8
Internal assets	77,6	67,1	40,5	14,0
Demands to the government	-125,8	-247,3	391,0	689,5
Demands to the economy	83,6	51,4	37,5	11,7
Other net internal assets	-92,4	-34,3	-34,9	-14,2
Money supply	46,7	25,9	22,3	15,7
Cash in circulation	39,9	23,1	6,8	-3,0
Deposits of the residents	48,2	26,4	25,4	19,7

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 decreased by 5.5%, and the net external assets of banks increased by 3.2%. Increase in the external assets of banks is connected to reduction of liabilities to non-residents (by 2.6%).

The increase of internal assets of the bank system was provided by remaining growth of bank loans to the economy (see 4.2.2. Loans to the economy).

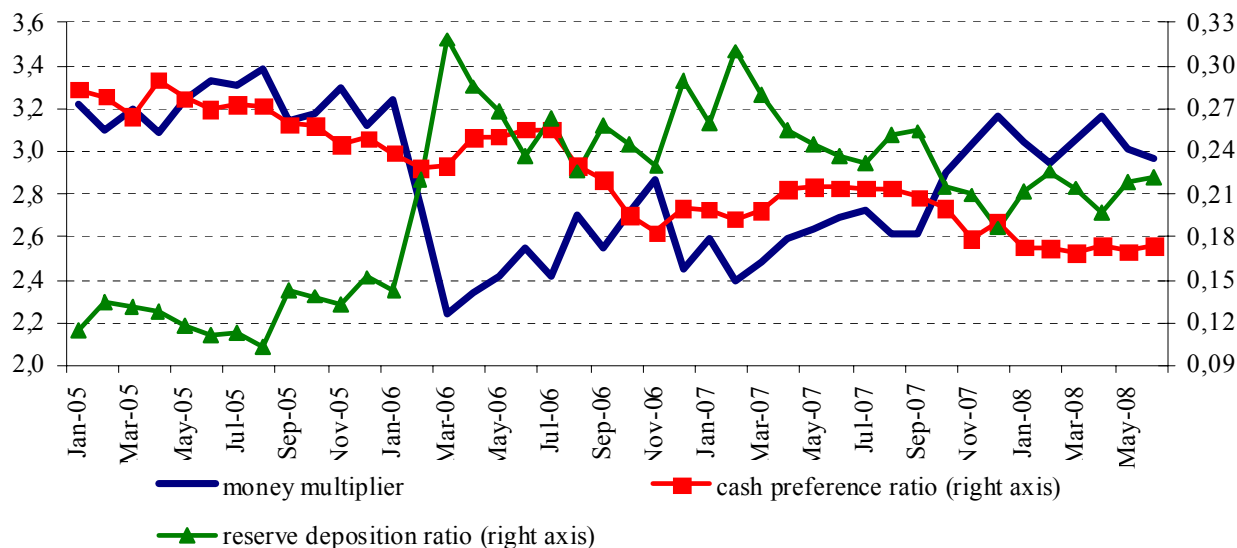
Analysis of the dynamics of main components of the monetary aggregates gives evidences that there was an increase in the residents' deposits in the bank system on the background of decrease in cash money in circulation. Consequently, by the results of the first

quarter of 2008, the share of the residents' deposits in the structure of monetary aggregates increased from 82.3% to 85.2% in June, 2007.

Monetary multiplier increased from 2.69 in June, 2007 to 2.96 in June, 2008, as a result of forestalling increase of the monetary aggregates in comparison with increase in 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 10.5% in the 2 quarter of 2008 and at the end of June amounted to 769.6 billion tenge.

In June, 2008, cash in circulation decreased by 3.0% in comparison with June, 2007. This gives evidences that the influence of the factors, which promote decrease in the cash in circulation (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.) prevailed over the influence of the factors that promoted their increase (rise of wages and pensions)

In the 2 quarter of 2008 in comparison with the 2 quarter of 2007 payments of cash from the banks' cash departments decreased by 2.8% to 2 580.5 billion tenge, and inpayments into the banks' cash departments increased by 0.3% to 2 462.4 billion tenge. As a result, net payments from the banks' cash departments amounted to 118.1 billion tenge.

– Deposits of the residents

Deposits of the residents amounted to 4 425.6 billion tenge at the end of June, 2008. In the 2 quarter of 2008 they increased by 7.4%. Deposits of the legal entities increased by 12.7%; deposits of the individual persons decreased by 1.9%.

In comparison with June, 2007 deposits of the residents increased by 19.7%. Here, remainders on deposits of non-bank legal entities increased by 27.0%, remainders on deposits of the individual persons increased by 7.2% (Table 4).

Table 4

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

	3Q 07	4Q 07	1Q 08	2Q 08
Deposits of residents	48,2	26,4	25,4	19,7
Transferable deposits in tenge of the population	38,2	16,5	18,8	8,9
of non-bank legal entities	55,7	33,5	19,9	3,4
Other deposits in tenge of the population	35,6	13,5	18,6	9,9
of non-bank legal entities	79,1	41,1	14,6	0,9
Transferable deposits in foreign exchange of the population	73,4	31,2	8,3	-11,2
of non-bank legal entities	84,5	49,1	20,2	11,7
Transferable deposits in foreign exchange of the population	27,4	-23,5	40,5	92,6
of non-bank legal entities	16,9	-9,6	-9,7	-17,5
Other deposits in foreign exchange of the population	28,9	-25,5	50,1	122,2
of non-bank legal entities	22,6	24,7	50,0	67,4
of the population	60,5	65,2	79,3	64,1
of non-bank legal entities	0,9	2,6	33,4	69,5

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

4.2. Financial market

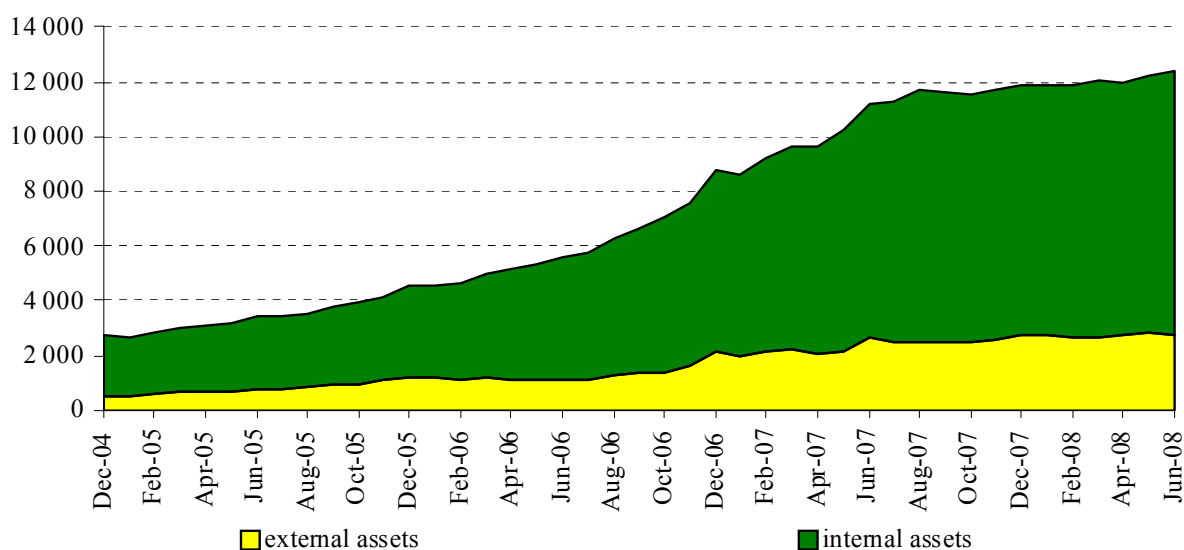
4.2.1. Assets and liabilities of banks

– Assets

In the second quarter of 2008 amount of banks' assets, calculated in accordance to the monetary survey, increased by 2.8% to 12.4 trillion tenge. In annual terms (in June, 2008, in comparison with June, 2007) the assets of banks increased by 10.6% (Diagram 25).

Diagram 25

Dynamics of banks' assets, billion tenge



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

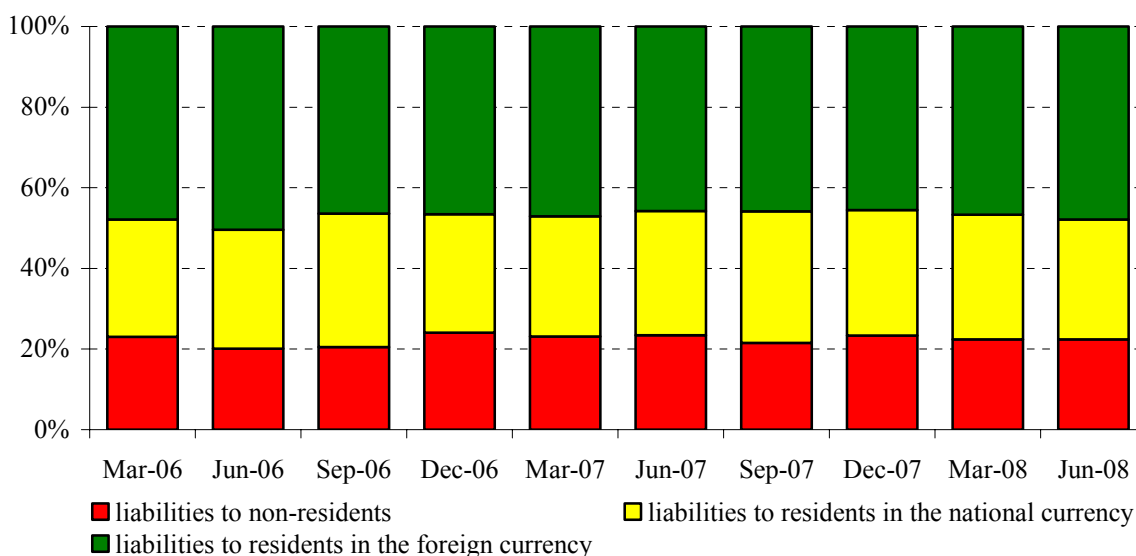
External assets of banks took up 22.4% from the total amount of assets or 23.0 billion US dollars at the end of the second quarter of 2008. In comparison with March, 2008, they increased by 2.7%, and in comparison with June, 2007 – by 6.6%.

In the structure of external assets the loans that was issued to non-residents, amounted to 53.1%; deposits placed at non-residents, – 21.0%; capital issues of non-residents – 11.1%.

The share of the internal assets was 77.6% in June, 2008, or 9.6 trillion tenge, including 47.8% or 5.9 trillion tenge of internal assets in national currency and 29.7% or 30.5 billion US dollars in foreign exchange (Diagram 26). During the 2 quarter of 2008 the internal assets increased by 2.8%, with 5.5% increase of the assets in national currency and 1.2% decrease in foreign exchange. In the annual terms the increase of these numbers was 12.1%, 15.5% and 7.0%, respectively.

Diagram 26

Structure of banks' assets, %



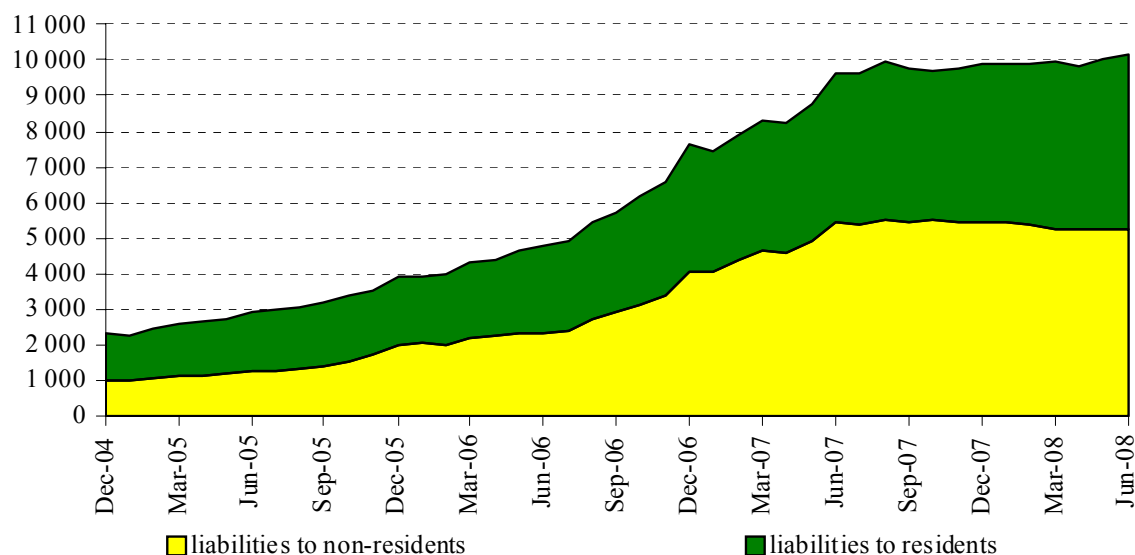
Source of information: The National Bank of the Republic of Kazakhstan

– Liabilities

In the 2 quarter of 2008 the total sum of banks' liabilities, calculated in accordance with monetary survey, increased by 1.8% and amounted to 10.1 trillion tenge at the end of June. In annual terms (in June, 2008, in comparison with June, 2007) the liabilities of the banks increased by 5.4% (Diagram 27).

Diagram 27

Dynamics of banks' liabilities, billion tenge



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

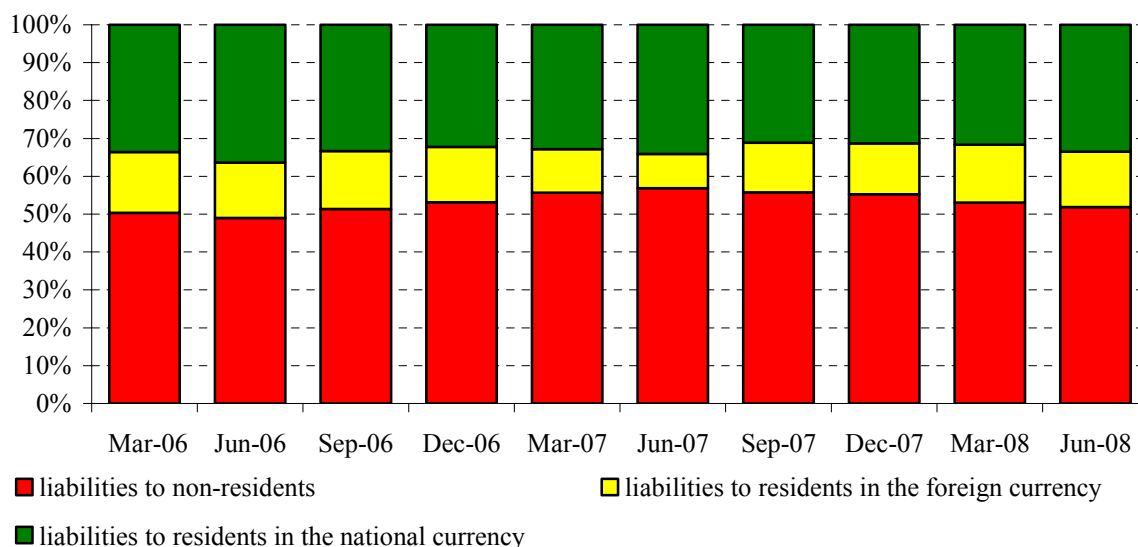
The liabilities of the banks to non-residents reduced by 0.5% to 43.5 billion US dollar in June, 2008, in comparison with March, 2007, and in comparison with June, 2007 – by 3.1%. At the end of the 2 quarter of 2008 they took up only 51.8% of total liabilities of the banks.

In the structure of banks' liabilities to non-residents the loans, taken from non-residents, amounted to 84.4%, liabilities on the non-residents' deposits – 4.6%, on securities, except shares, – 3.9%.

In the 2 quarter of 2008 the liabilities to residents increased by 4.4% to 4.9 trillion tenge, including liabilities in the national currency – by 7.8% до 3.4 trillion tenge, liabilities in the foreign exchange decreased by 2.7% to 12.3 billion US dollars. In the annual terms, the increase of these parameters was 17.5%, 3.7% and 70.7%, respectively (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

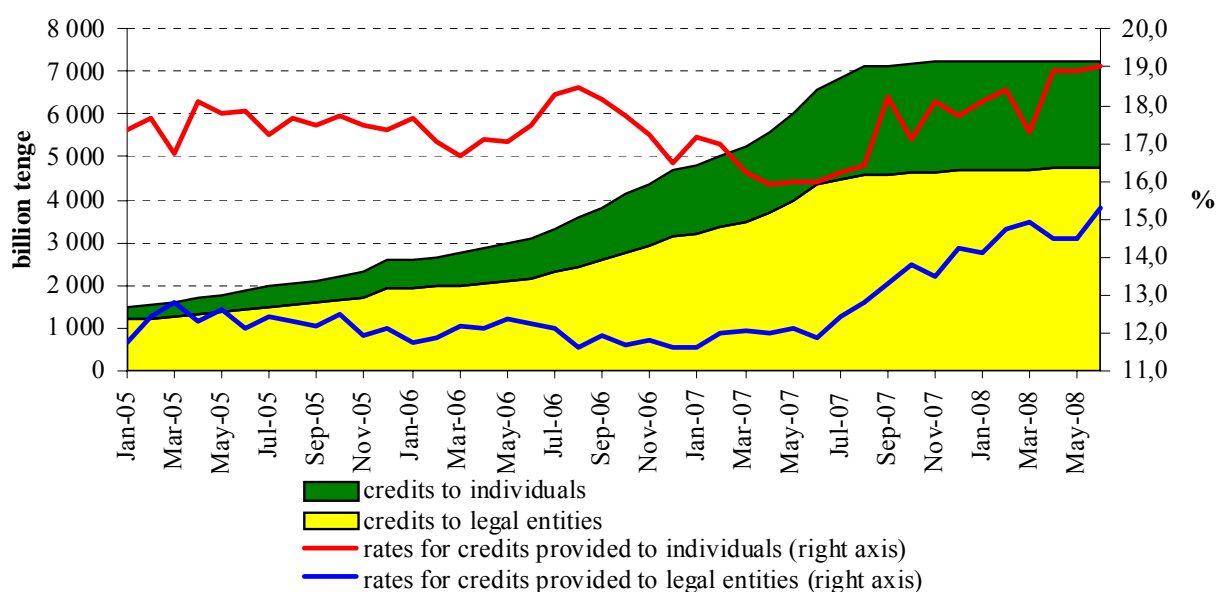
In the second quarter of 2008, a stagnation process was noted in the crediting activity of banks. In this period loans to the economy decreased by 0.1% and amounted to 7 248.2 billion tenge. Loans issued to the population decreased by 2.3%, but loans to the legal entities increased by 1.1%.

In June, 2008, loans issued to the economy exceeded by 10.3% the amount of loans issued in June, 2007, including loans to the legal entities – by 10.0%, loans issued to individuals by 11.0%.

In the second quarter of 2008 rates of credits increased. An average weighted loan rate for the legal entities increased from 14.9% in March, 2008, to 15.3% in June, 2008, loan rate for individuals - from 17.3% to 19.0%, 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

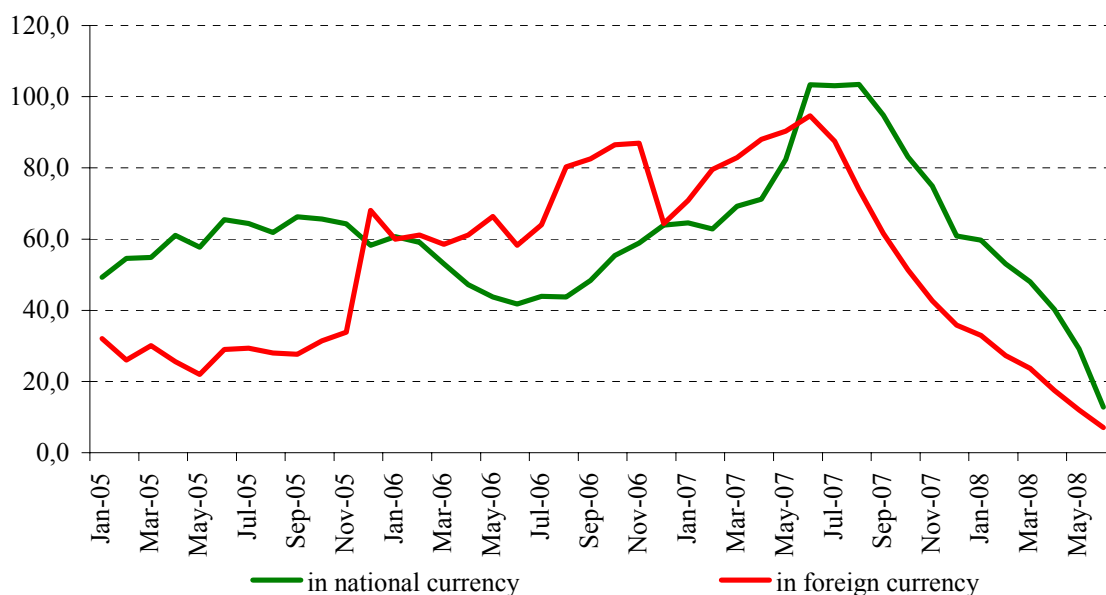
– Loans to legal entities

Loans issued to legal entities in June, 2008, increased by 10.0% in comparison with June, 2007.

In the second 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 share of the medium-term and long-term loans in the amount of loans issued to legal entities amounted to 72.3% at the end of June, 2008.

In the structure of loans to legal entities the loans for acquisition of circulating funds have the largest share at the end of June, 2008, (37.8%), the loans for new construction and reconstruction of facilities (19.7%), and, also, for acquisition of fixed assets (17.4%).

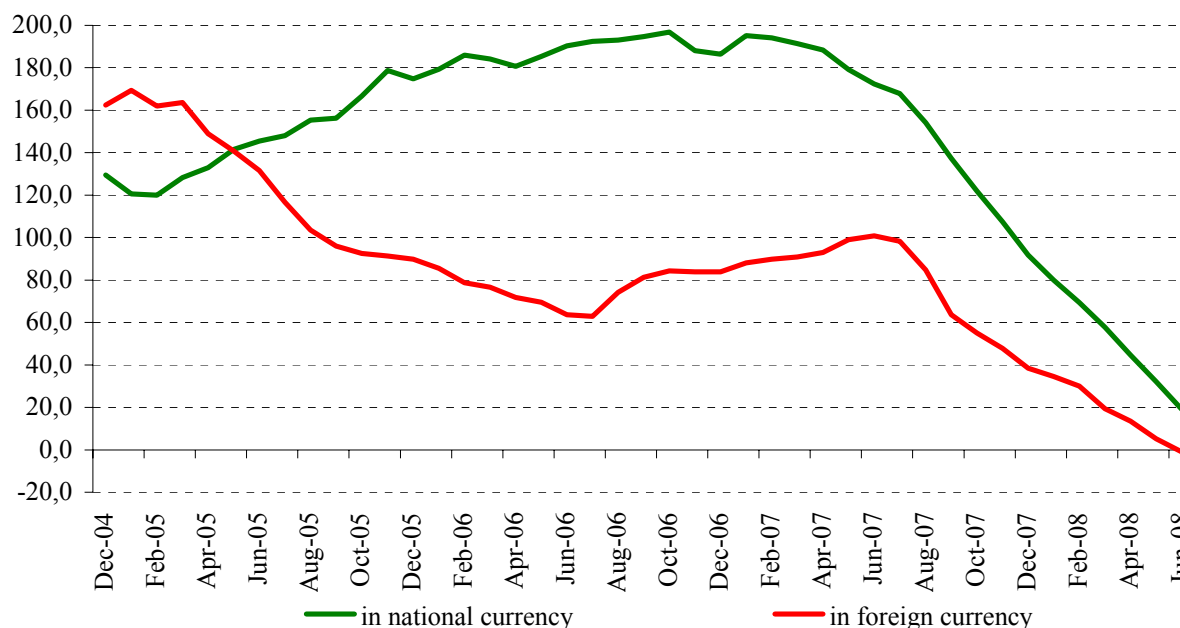
– **Loans to the population**

In the dynamics of loans issued to the population (they increased by 11.0% during the year), the loans issued in foreign exchange have the highest rates of increase.

In June, 2008, in comparison with June, 2007 the loans to the population issued in the national currency increased by 19.1%, whereas the loans issued in foreign exchange decreased by 1.0% (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

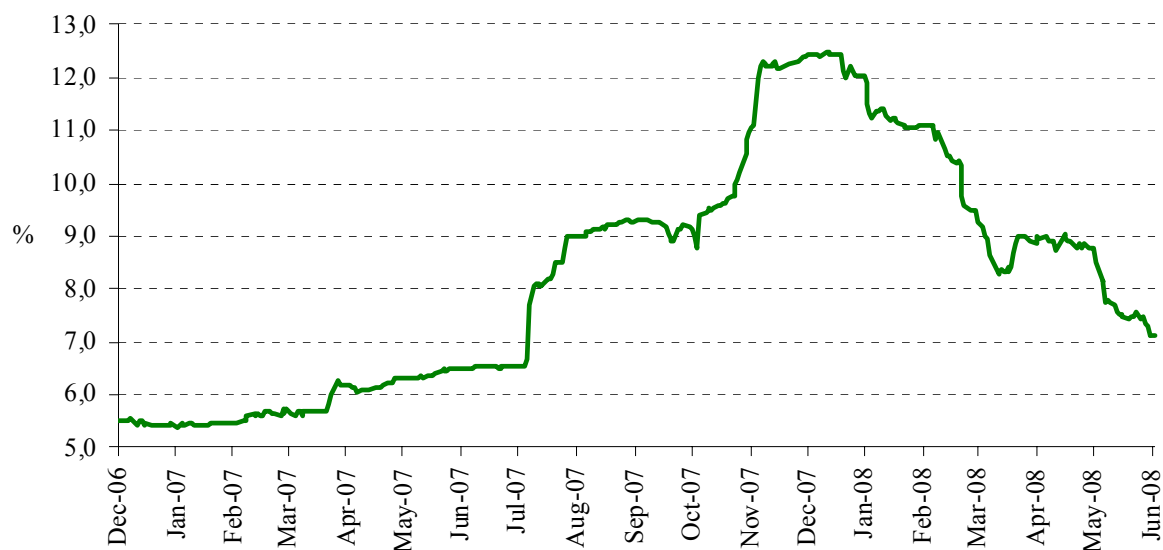
In the structure of credits to the population, loans issued for consumers expenditures took up 48.2% in June, 2008. The share of loans issued to the population for construction and acquisition of housing habitations amounted to 32.7% in June, 2008.

4.2.3. Rates in the financial market

In the second quarter of 2008 there was generally reduction in level of rates in the interbank market. This is caused by gradual recovery of banks' liquidity after the problems, that arose in the second quarter of 2007 as a result of influence of the world crisis of liquidity as well as by banks' increasing possibilities of refinancing in the National Bank due to broadening of collateral list.

KazPrime indicator decreased from 11.21%, at the average, for the 1 quarter of 2008 to 8.37%, at the average, for the 2 quarter of 2008. Herewith, at the end of March, 2008, this indicator was equal to 9.16%, and at the end of June, 2008, it reduced to 7.10% (Diagram 32).

Diagram 32

Dynamics of KazPrime indicator

Source of information: Kazakhstan Stock Exchange

Rates of REPO operations also decreased. (Diagram 33).

Average weighted rate of one-day REPO operations increased in the second quarter of 2008 and came up to 2.41% (in the 1 quarter of 2008 – 3.15%), at the end of June – 1.48% (at the end of March – 1.12%). The maximum level of this rate (average weighted for one day) was reached in the third decade of April (11.06%), and minimum level – in the third decade of May (0.12%).

Average weighted rate of seven-day REPO operations amounted to 5.88% in the second quarter of 2008 (in the first quarter of 2008 – 7.03%). However, in the last day of June its level sprang up to its maximum value for the quarter – 12.00% due to absence of supply for the operation with such duration (there was only one transaction in the 30 of June, 2008). The official refinancing rate that is used by the National Bank to issue loans to banks (for the period of seven days) was 11.0% in the second quarter. Most probably, the borrowing bank had not a security, that is acceptable by the National Bank to issue loans.

The minimum level of this rate in 7-day REPO operations was reached in the third decade of May and in the first decade of June (2.00%) that is much lower than the rate used by the National Bank to accept deposits (for the period of seven days) – 5.5%.

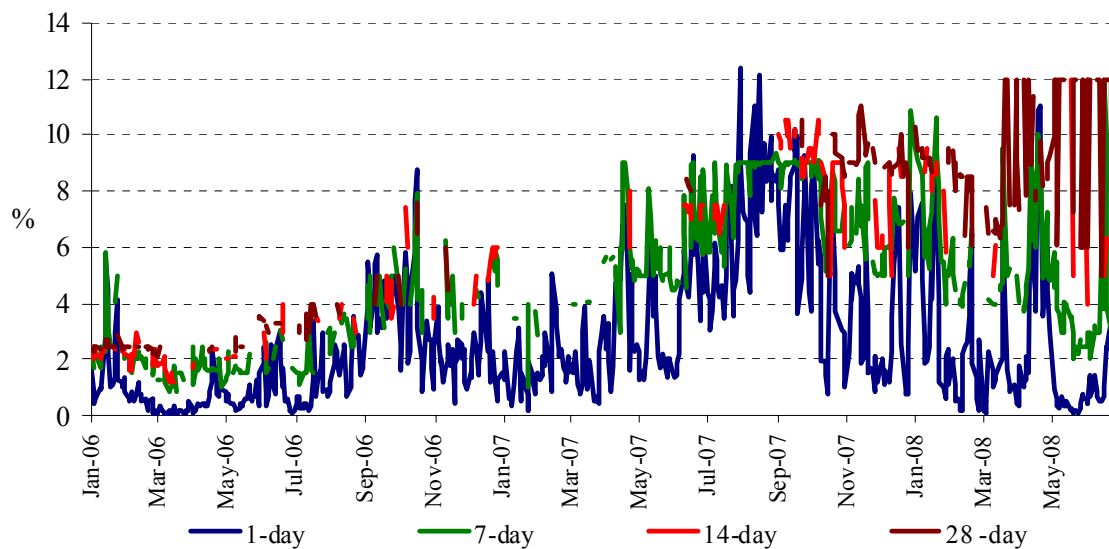
Average weighted rate of fourteen-day REPO operations increased by 7.90% in the second quarter of 2008 (in the 1 quarter of 2008 – 7.32%), and at the end of June reached 11.00% (at the end of March – 5.50%). The maximum level of this rate was reached in the second decade of April and May and in the first decade of June (12.00%), and minimum level – also in the first decade of June (4.00%).

Average weighted rate of twenty-eight-day REPO operations was 7.89% in the second quarter of 2008 (in the 1 quarter of 2008 – 8.15%), and at the end of June reached 5.38% (at the end of March – 7.50%). The maximum level of this rate (12.00%) was reached often enough, although that were sporadic transactions of small volumes. Minimum level of this rate was reached in the third decade of June (4.34%).

Profitability of the issued by the National Bank short-term notes that have time to maturity 28 days, was at low level – 6.05% in the second quarter of 2008 (in the first quarter of 2008 – 6.20%).

Diagram 33

Dynamics of rates of REPO operations



Source of information: Kazakhstan Stock Exchange

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

5. Instruments and operations of monetary policy

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.

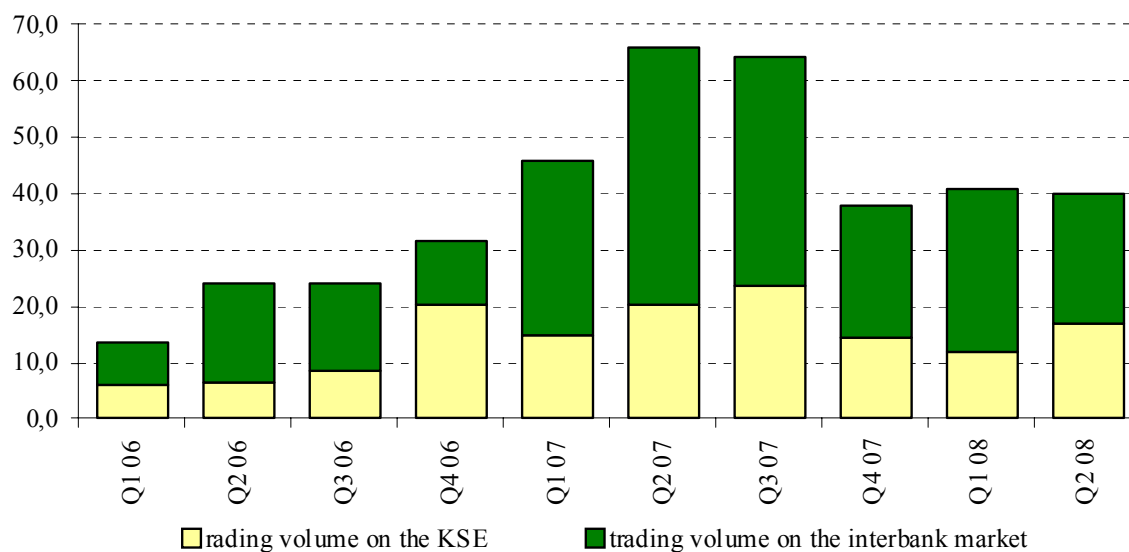
The main source of foreign exchange inflow was an export currency proceeds and, to a lesser extent, the external borrowings of the bank sector. Thus, according to data of monetary survey for the second quarter of 2008 the liabilities of banks to non-residents reduced by 209.1 million US dollars (during the first quarter of 2008 – by 1.4 billion US dollars).

In the second quarter of 2008 the total trading volume in the currency segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to 40.1 billion US dollars, with insignificant decrease of 1.6% in comparison with the first quarter of 2008.

The volume of the exchange trade in the dollar segment in the Kazakhstan Stock Exchange increased by 39.6% in comparison with the first quarter of 2008 and came up to 16.8 billion US dollars (net volume of trading in the Kazakhstan Stock Exchange amounted to 74% of gross volume). In the off-exchange foreign exchange market the volume of operation in the second quarter of 2008 decreased in comparison with previous quarter by 18.9% and amounted to 23.3 billion US dollars (Diagram 34).

Diagram 34

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



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

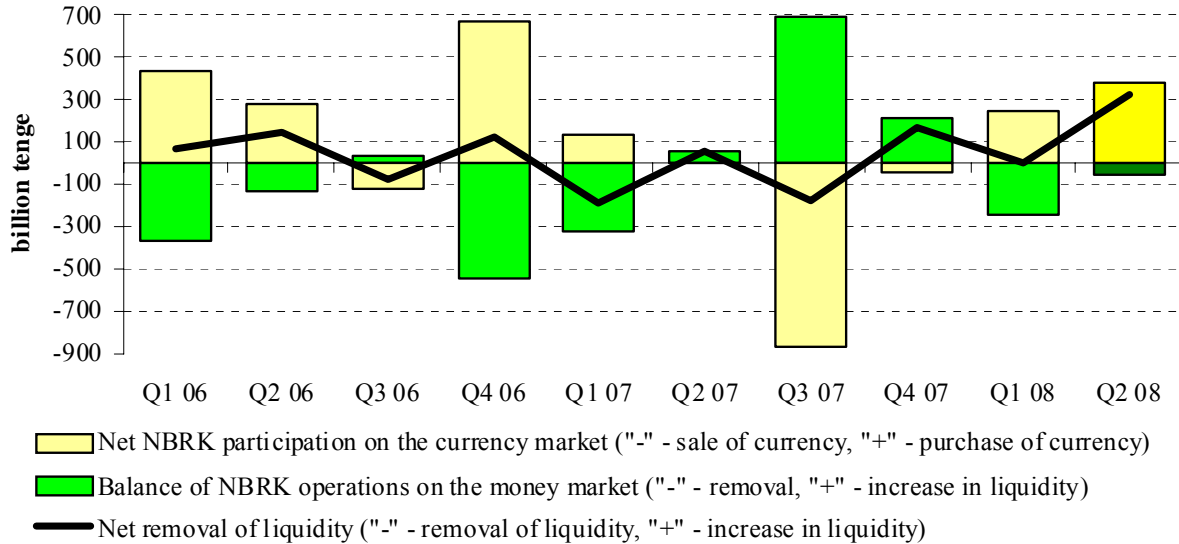
By results of the 2 quarter of 2008 the participation ratio of the National Bank in the Kazakhstan Stock Exchange was 28.6% (in the 1 quarter of 2008 – 21.3%). In the conditions when the supply of foreign exchange exceeded the demand, the National Bank took part in the foreign exchange market mainly as a buyer of the foreign exchange.

Restoration of the situation with short-term liquidity of banks in the second quarter of 2008 was followed by increase in volumes of sterilization operations of the National Bank, and namely, by issuing short-term notes and attracting deposits from banks.

In whole, the result of the National Bank’s operations in the financial market in the 2 quarter of 2008 is providing of liquidity (Diagram 35).

Diagram 35

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



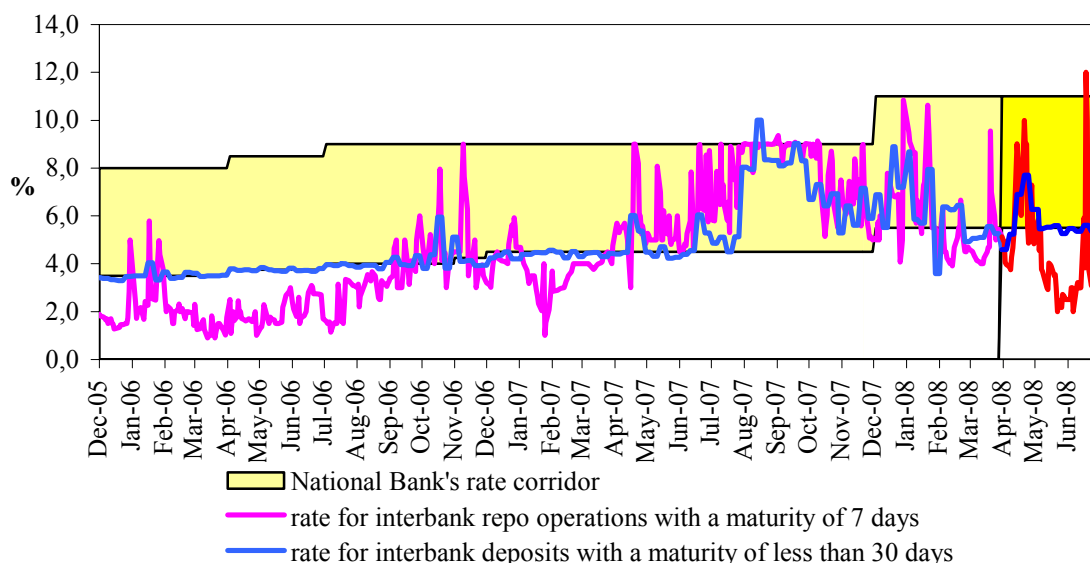
Source of information: The National Bank of the Republic of Kazakhstan

The increase in inflation pressure in the economy with presence of risks in the financial market in the second quarter of 2008 promoted preservation of the rates of the National Bank’s operations on the previous level: 11.0% – the official refinancing rate (the upper limit of rate corridor), 5.5% – the rate of deposits attracted from banks (the lower level of the corridor).

In the 2 quarter of 2008 some decrease in yield in the money-market was noted for operations having the same time limits. In April, 2008, yield was increasing, although in May there was a tendency to reduction. On average, during the quarter its level was closer to the lower limits of the National Bank’s corridor of rates. Average weighted rate of the interbank deposits with the time to maturity up to 30 days was at the level of 5.46% in the 2 quarter of 2008. Average weighted rate of the interbank REPO operations with 7 day time to maturity was 5.88% (Diagram 36).

Diagram 36

Limits of the National Bank's corridor of rates

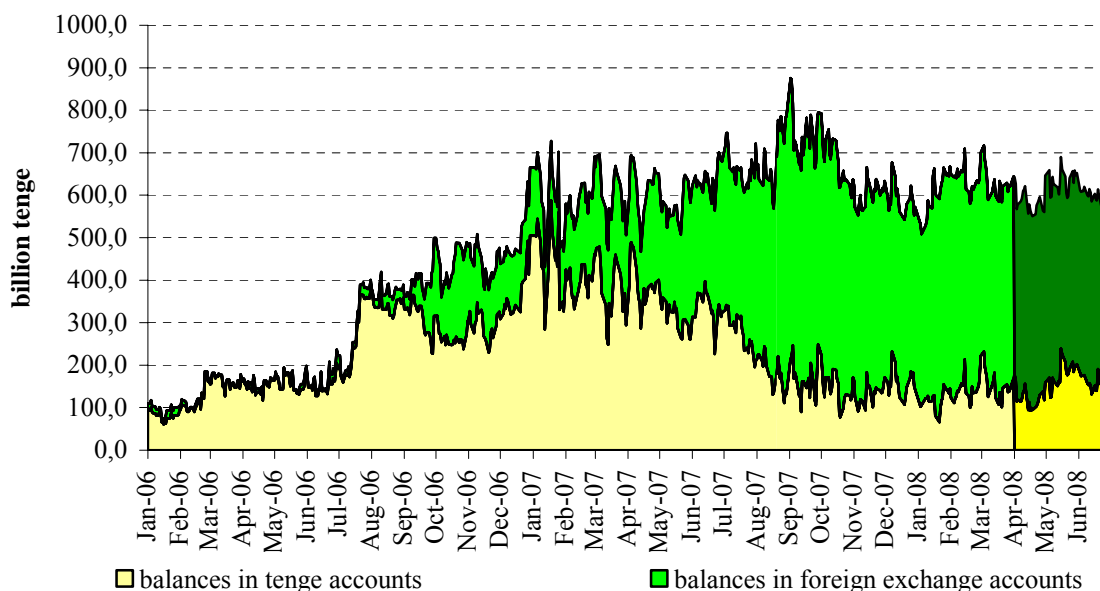


Source of information: The National Bank of the Republic of Kazakhstan

In the 2 quarter of 2008 balances of the correspondent accounts of banks in the National Bank changed slightly in whole. In the last period the balance accounts in foreign exchange remained stable, whereas balance accounts in the national currency somewhat increased, that was related to appreciation of tenge and selling of foreign exchange by the banks (Diagram 37).

Diagram 37

Balances of the correspondent accounts of banks in the National Bank



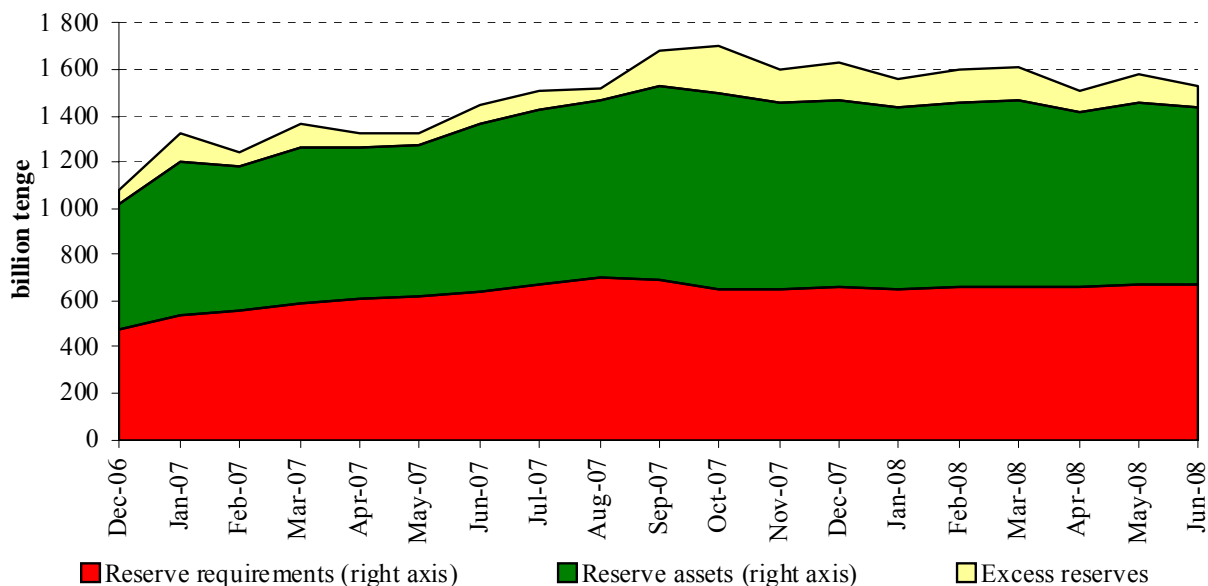
Source of information: The National Bank of the Republic of Kazakhstan

5.2. Minimum reserve requirements

On average, from April to June, 2008, the reserve assets exceeded by 17% a sufficient volume of reservation (in the 1 quarter of 2008 – by 22%) (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, the National Bank decided to change the norms of minimum reserve requirements. Thus, the norms for the internal liabilities of a bank will lower from 6% to 5%, and for other liabilities will lower from 8% to 7%. Establishment of new norms will allow the banks to release about 90 billion tenge of additional liquidity.

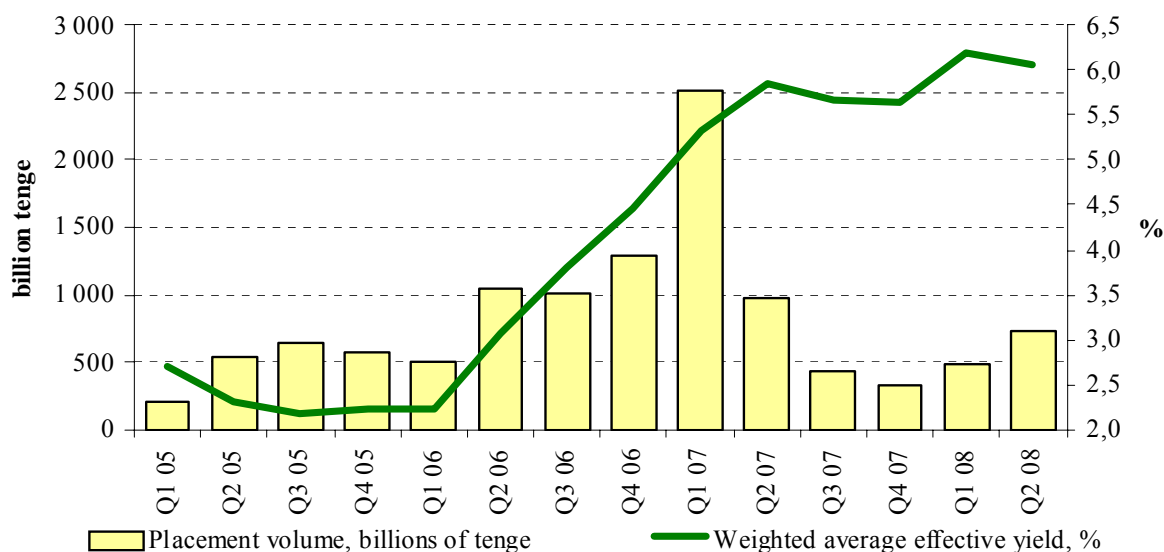
Introduction of new norms canceled the launch in the first of July, 2008, of norms for minimum reserve requirements at the level of 5% for internal liabilities and 10% for the other liabilities.

5.3. Open market operations

In the 2 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 52.1% and came up to 731,1 billion tenge in April-June, 2008. Notes were issued only with time to maturity of 28 days; the preterm redemption of the notes was carried out in April by the sum of 1.9 billion tenge. The average weighted yield on notes in circulation decreased from 6.20% in the 1 quarter of 2008 to 6.05% in the 2 quarter of 2008 (Diagram 39).

Diagram 39

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

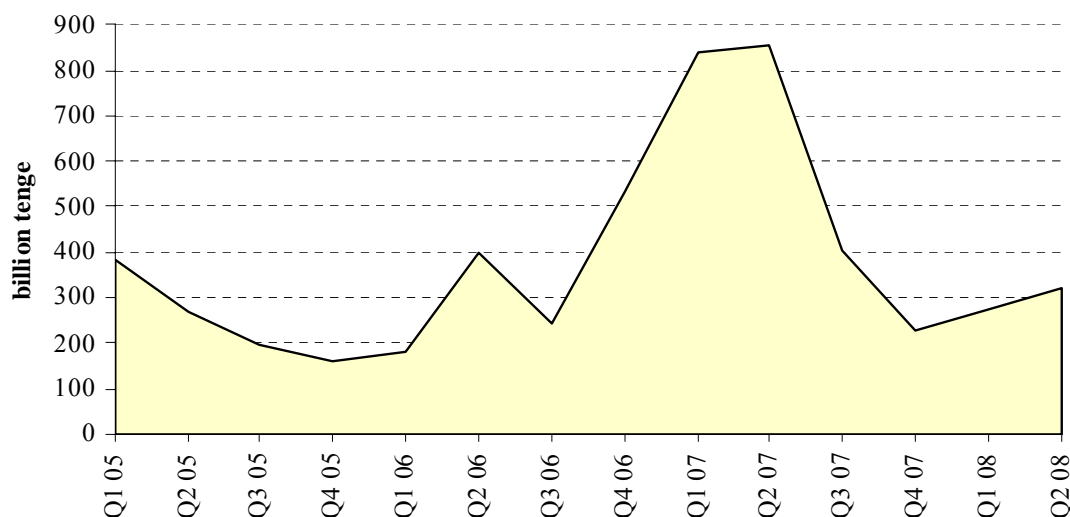


Source of information: The National Bank of the Republic of Kazakhstan

At the end of June 2008 the volume of short-term notes in circulation amounted to 322.7 billion tenge that is 41.0% more than the volume at 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

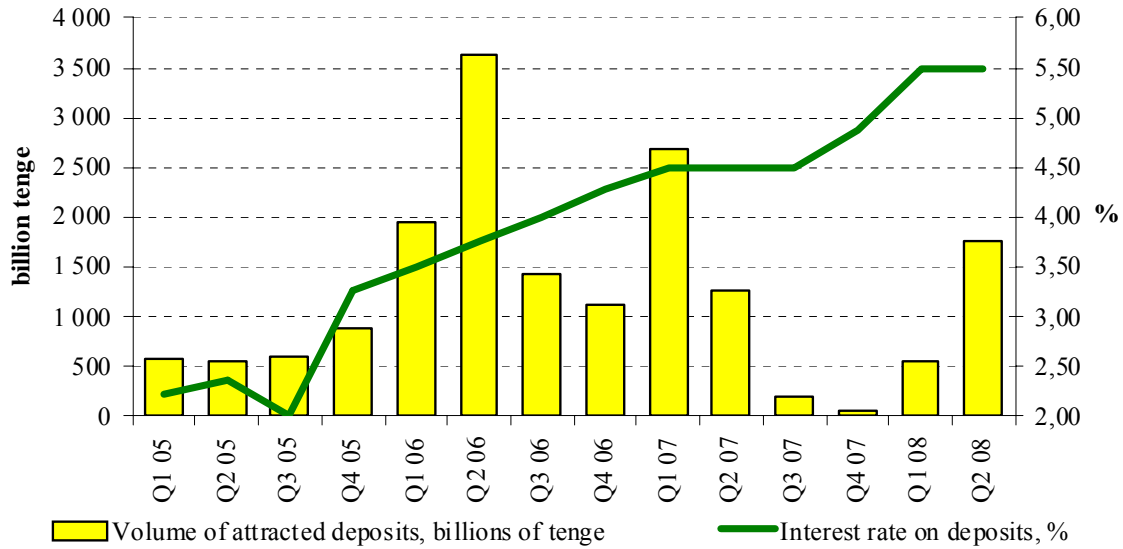
5.4. Standing facilities

In the 2 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 June. In whole, during period of April-June of 2008, 1761.5 billion tenge

of deposits were attracted, that is 3.1 times as much as the volume of the 1 quarter of 2008 and by 39.9% more in comparison with the 2 quarter of 2007. Time limits for attraction of deposits were 7 days at the rate of 5.5% (Diagram 41).

Diagram 41

Extent and interest rates for deposits attracted by the National Bank

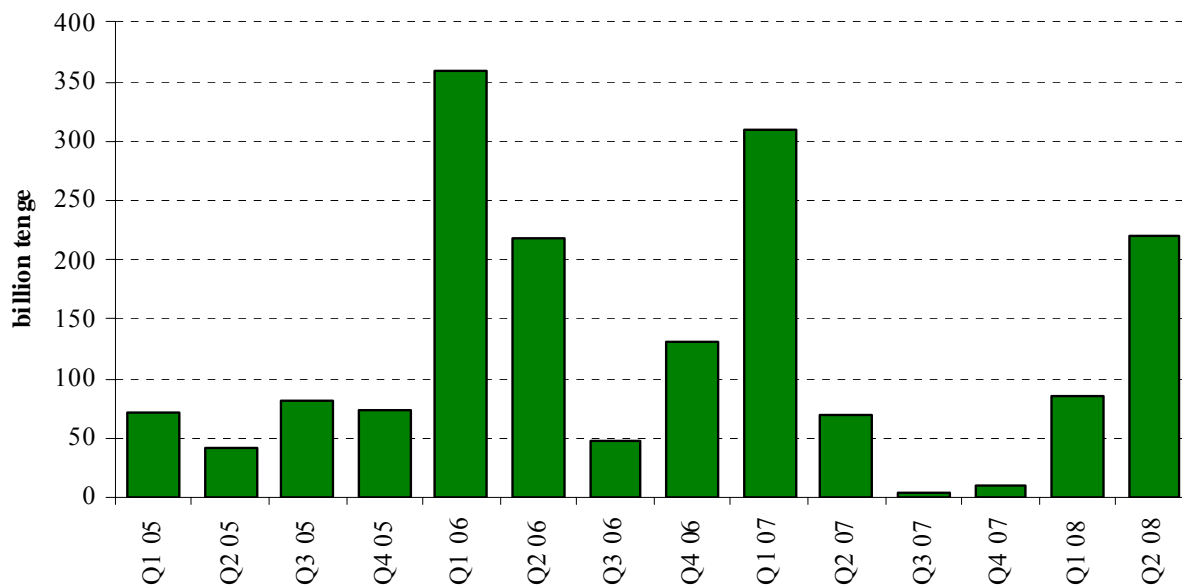


Source of information: The National Bank of the Republic of Kazakhstan

Increase in volumes of attraction of deposits from banks in the 2 quarter of 2008 was followed by 2.6 times as much increase to 220,3 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
(in the end of the period)**



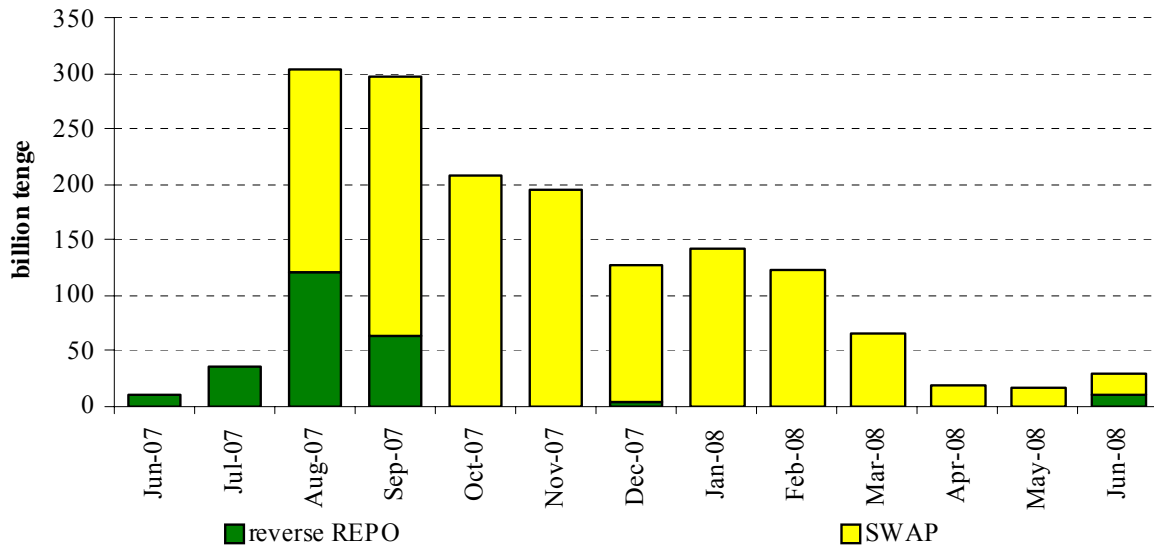
Source of information: The National Bank of the Republic of Kazakhstan

In the second quarter of 2008 situation with the short-term liquidity in the bank sector became to restore. Apart from the scopes of the sterilizing operations of the National Bank it was followed by decrease in the volumes of refinancing operations of the National Bank.

In the second 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 33.2 billion tenge (the operations had been performed only in April and June), swap operations – 474.5 billion tenge. At the end of June, 2008, the volume of unredeemed arrears in reverse REPO operations came up to 11.2 billion tenge, the volume of unredeemed arrears in the swap operations amounted to 19.3 billion tenge (Diagram 43).

Diagram 43

**Volume of unredeemed arrears in refinancing operations of the National Bank
(at the end of the period)**



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

In spite of improvement in situation with banks' liquidity, the National Bank continued the policy of adding to the list of acceptable collaterals for fulfillment of reverse REPO operations in the second quarter of 2008.

Besides the government securities of the Republic of Kazakhstan, securities of foreign states, securities of international financial organizations permitted for purchasing in concordance with requirements of Financial Supervision Agency, this list was supplemented with debt bonds and eurobonds of the domestic banks that were in circulation as of the first May, 2008.

6. Inflation forecast

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

The actual level of inflation in the 2 quarter of 2008 (3.1%) was higher than the forecasted level (2.3%-2.5%), that was published in the previous issue of the “Inflation Report”. During all this period the inflation was higher than anticipated.

In the second quarter of 2008 the inflation was caused, in the first part, by increase in prices for food products. The maximum growth of prices was registered for rice, wheat flour and sunflower oil. It is worth to note high prices for fuel and lubricants.

The main cause of the increase in prices is instability in the world commodity markets.

The shortage in sunflower oil production occurred in 2007 has still its influence on increasing world prices for vegetable oils. Since the supply of sunflower oil in the world markets does not cover the high demand, many consumers shift to the other types of vegetable oils and this, in turn, makes these products more expensive.

In May-June period of 2008, situation with the world prices for wheat, rice and other grain crop somewhat stabilized. However, taking into consideration that Kazakhstan is a wheat exporter, the high world prices for wheat in 2007 have considerable influence on the price-formation policy of the Kazakhstan producers of wheat. As a result, prices for bread raised in the domestic market. This tendency keeps going in 2008.

To stabilize situation in the consumer market the government introduced a ban on the export of wheat corn since April to September, 2008. However, this ban was valid only for wheat corn and the export of wheat and rye flour remained out of control. Another negative moment in view of increase in inflation processes is situation in the market of corns, and namely, rice. With a certain lag in time, an increase in rice prices in the world markets influenced increase of prices in domestic market. Further situation will mostly dependent on measures undertaken by the government to replenish rice stores and saturate the market to completely satisfy the demand for rice.

Despite some stabilization of situation in the world commodity markets, the risks of increase in prices for food products remain high enough. One source of these risks is energy resources.

Particularly, the world prices for oil continue to grow considerably that influence price-formation in the domestic market of the fuel and lubricant materials. Moreover, high prices for energy resources will promote further increase in prices for industrial output of domestic enterprises.

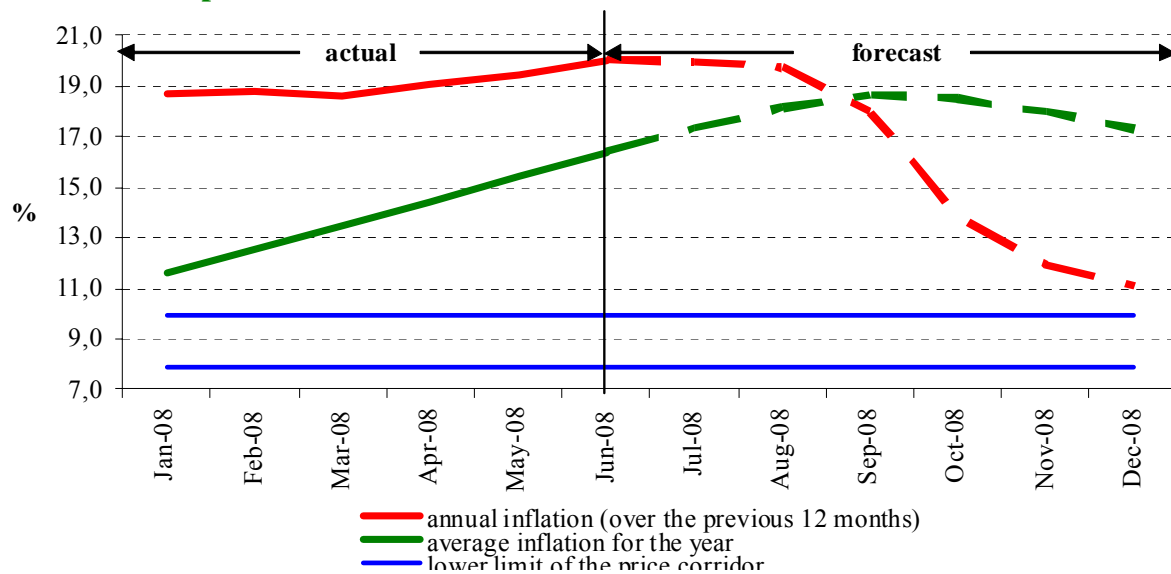
The real level of annual inflation in June of 2008 also exceeded the forecasted level that was published in the preceding issue of the “Inflation Report”. Thus, in June of 2008 annual inflation was at the level of 20.0% while forecasted level was 19.1%-19.3%.

6.2. Inflation forecast for 2008

In 2008 the National Bank anticipates considerable deceleration in the annual inflation in comparison with inflation parameters of 2007. In accordance with Monetary Policy Guidelines for 2008-2009 (approved by resolution of the Board of the National Bank No146 dated 24.12.2007) the annual inflation by the results of 2008 is anticipated to be within the limits of 7.9% to 9.9% (Diagram 44).

Diagram 44

Fact and anticipation of inflation in 2008



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

On the background of stagnation in the crediting activity of the bank sector a deceleration in economic growth is anticipated in 2008 that is caused by deceleration in development of construction industry, financial activity and manufacturing industry.

Slowdown in economic activity as well as a decrease in real wages will affect the aggregate demand.

A decrease in unemployment that gives an evidence of constant low productivity, will affect economic growth in the country.

Nevertheless, the noted tendency of market rates to decrease, including the interbank market, must promote increase in crediting activity of the bank sector through lowering of interest rates and, thereafter, promote the growth of the economy.

In 2008 the National Bank adopts measures that are undertaken to provide stability in prices in Kazakhstan and stability of financial sector.

The main operations for regulation of interest rates in the financial market and also, for regulation of banks' liquidity, will continue to be; issue of short-term notes, attraction of banks' deposits and provision of refinancing loans.

The National Bank will continue to provide refinancing loans to banks in the form of reverse REPO operations and swap operations.

Before long, the National Bank is planning to consider changes in MRR norms. As estimated, this will allow the banks to release additional liquidity in the amount of 90 billion tenge.

In the third quarter of 2008 the National Bank is planning to lower official refinancing rate in order to support the economic activity in the country.

6.2.1. Inflation forecast for the third quarter of 2008

Inflation forecast for the 3 quarter of 2008 is 2.1-2.4% (3.9% in the 3 quarter of 2007).

In the third quarter of 2008 some stabilization in the inflation processes is anticipated and this is influenced, first of all, by seasonal factor. Some decrease in prices for fruit and

vegetable products is anticipated in the period July-September. Formation of prices for meat, dairy, and bread products, as well as prices for vegetable oils and rice (those products that are most suspected to be more expensive in the future) will be affected by the situation in the world market, and also by harvest volume in the domestic agriculture.

Also, at the beginning of a new school year a possible increase in prices for education institutions' services is expected, as well as for clothes and shoes. Situation in the market of fuels and lubricants stays in abeyance. Most probably, there will not any price changes in the fall period.

In whole, the situation in the consumer market can be characterized as stable, although the risks of further increase in prices still remain.

By the results of September, 2008, the annual inflation is forecasted to be 18.0-18.2%.

6.2.2. Inflation forecast for the fourth quarter of 2008

In the fourth quarter of 2008 the inflation is expected within limits of 2.9-3.1% (in the fourth quarter of 2007 – 9.3%), which corresponds to annual inflation of 11.0-11.2% in the end of December, 2008.

Analysis of situation in the consumer market of recent years reveals that in the period of October-December the inflation level exceeds the corresponding levels of the preceding months, as a rule. This is, in turn, connected to influence of the seasonal factor and consumer demand caused by agitation in the eve of New Year and other celebrations at the end of year. For example, in October-December periods of the recent years there was an increase in prices for such commodities and services as: fruit and vegetable products, dairy and meat products, eggs, clothes and shoes, and housing-and-communal services. However, it is misleading to expect that situation of the last year would repeat. Many things are dependent on the situation in the domestic market, as well as foreign market.