

National Bank  
**National Bank**  
of Kazakhstan

Inflation Report  
first 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 anticipation 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 foreign exchange 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

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In the first quarter of 2008 there was a relative stabilization of inflation processes in the Kazakhstan economy. Inflation indicators for this period were completely the same as the inflation indicators for the first quarter of 2007 (2.5% against 2.6%).

Herewith, the dynamics of inflation in 2008 is influenced by increase in prices for food products which, in turn, is a reflection of the general trend in the world economy. Particularly, an increase was noted in prices for grain crops and vegetable oils from January to March. Besides, in March, 2008, an abrupt increase in the world prices for rice was noted.

In addition to high prices of food products the year 2008 is notable for increase in prices for energy resources, and particularly for crude oil.

Inflation in the period of time from January to March, 2008, is also a result of disbursements that arise from high prices for industrial output of domestic producers.

It should be noted here, that growth of aggregate demand decelerated in the current year. Thus, growth rates of the population's income and wages reduced markedly that, in turn, affected the volume of retail sales.

The situation in the financial market of Kazakhstan stabilized a little in 2008. However, the National Bank continued its activity in providing short-term liquidity to banks, having somewhat reduced the volumes of refinancing.

A corridor of rates in the operations of the National Bank remained unchanged from January to March, 2008; the upper level of the official refinancing rate was 11.0%, the lower level was 5.5% (the rate on deposits attracted from banks).

The slowdown of the monetary aggregates' growth rate continued in 2008. Thus, by the results of the first quarter of 2008, the reserve money increased by 7.8%, and money supply increased by 4.0%.

## 2. Inflation processes

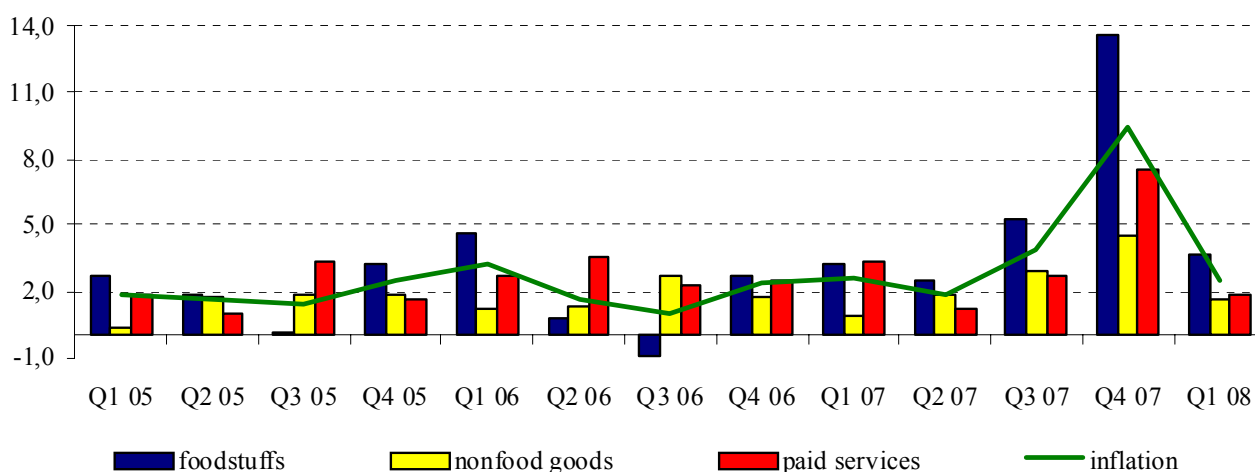
### 2.1. Consumer prices

In the first quarter of 2008 some stabilization was noted in the consumer market. The price growth rates were the same as those of the preceding year. In whole, inflation for the period from January to March, 2008, was 2.5%.

An increase in prices in the first quarter of 2008 was caused, first of all, by increase in prices for food products by 3.7%. Prices for paid services for the population increased by 1.8% and for non-food products by 1.6% (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 first quarter of 2008 the main increase of prices was noted for such products and services as fruit and vegetables – by 14.6%, dairy products – by 6.1%, fish and seafood – by 3.7%, medical services – by 5.6%, and railroad transport – by 4.9%.

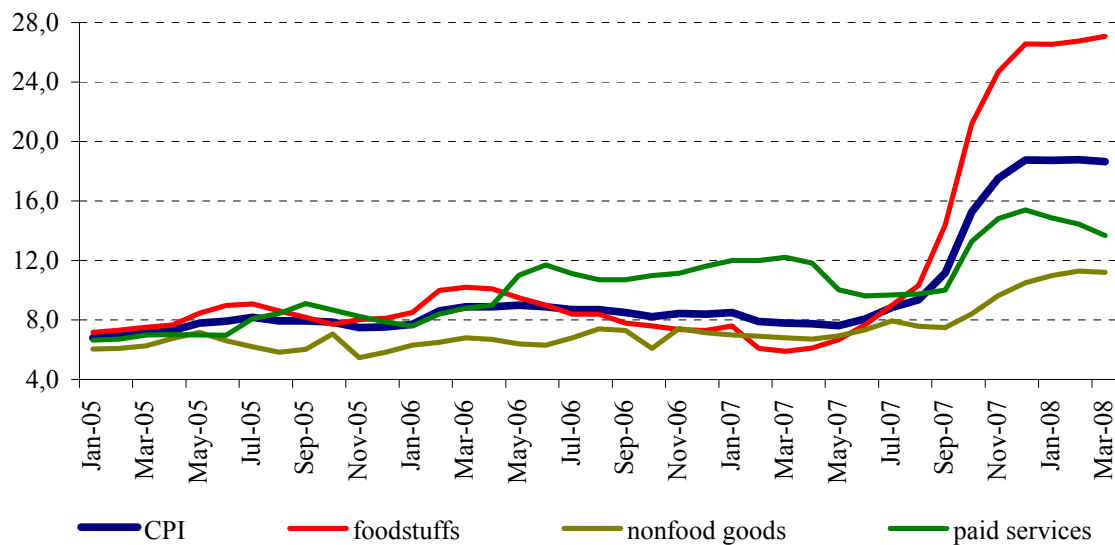
In March, 2008, the annual inflation was 18.7% (18.8% in December, 2007).

The prices for food products increased by 27.1%, paid services for the population by 13.7%, non-food products by 11.2% (Diagram 2). The highest annual increase in prices was noted for sunflower oil, bread, wheat flour, eggs, dairy products, and gas, and it was a consequence of significant increase in prices for these products at the end 2007.



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**

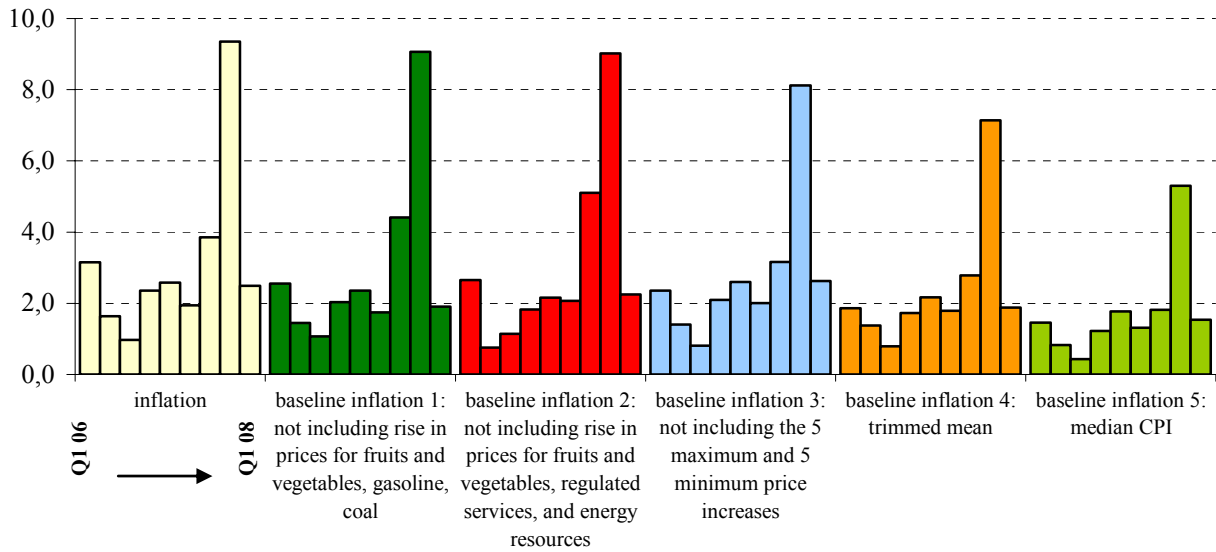
Rates of core inflation also indicate stabilization of inflation processes in Kazakhstan. In the first quarter of 2008 rates of core inflation decelerated significantly in comparison with the previous quarter, and also in comparison with the first quarter of 2007 (Diagram 3).

In the period from January to March, 2008, only the rates of core inflation-3 exceeded the rate of general inflation. This situation was caused by reduction of prices for certain types of products and services that were not taken into account in estimation of this parameter (vegetable oils and butter, eggs, and petrol).

Rates of core inflation in the annual terms also show the tendency to decelerate. At the same time, only the core inflation-2 slightly exceeded both the rate of general inflation and the level of December, 2007 (Diagram 4). Reduction of core inflation indicates the low level of monetary component in formation of inflation processes.

Diagram 3

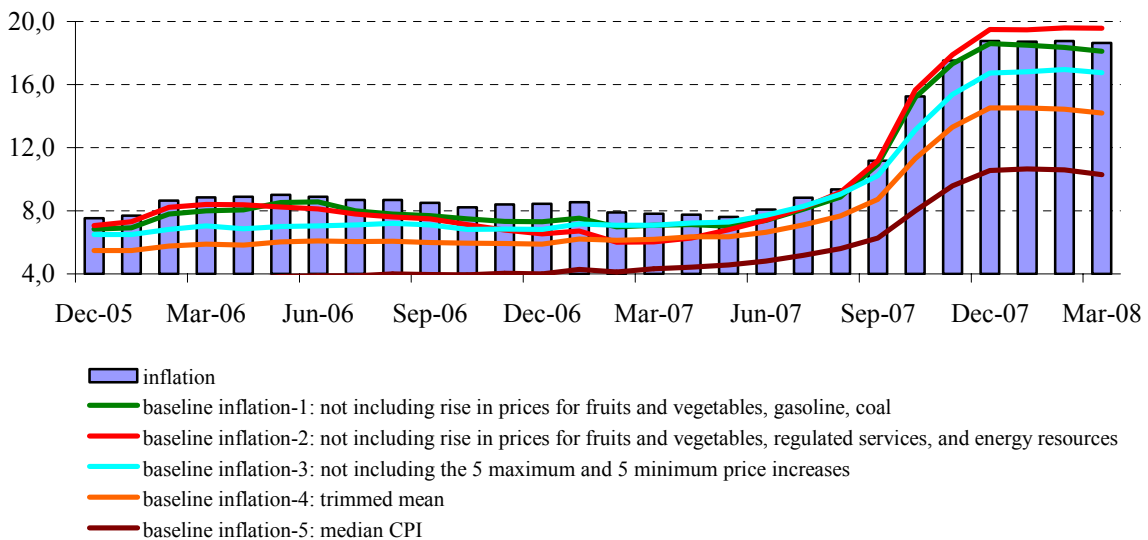
**Dynamics of quarterly inflation and core inflation  
(% to the previous period)**



Source: Statistical Agency of the Republic of Kazakhstan

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**

The data from the Statistics Agency of Republic of Kazakhstan for first quarter of 2008 shows increase in growth rates of industrial products of producers. Thus growth rate was 6.3%, whereas for the first quarter of 2007 the prices fell by 4.6%. Manufactured products get

expensive by 6.6%, including production facilities – by 13.8%, products of intermediate use – by 6.6%, and consumer products – by 4.5%. The services of production nature of industrial products get expensive by 1.4%.

In January-February 2008 the prices of mining entities go up by 6.7% (in the first quarter of 2007 – drop by 3.9%). One of the reasons for increase by producers is the upward of prices of energetic and other raw materials. Thereby increase in oil production cost in the 1<sup>st</sup> quarter of 2008 makes up 6.6% ( in 2007– decline by 4.3%), prices in natural gas condensate increased by 11.0% (growth is 3.1%). On general from January 2008 to March 2008 energy resources got expensive by 5.9%, in the meantime in 2007 they got cheaper by 4.0%.

Increase in prices for manufacturing industry makes 6.4%, due to the impact of current price positions on energy resources. Prices for rolled nonferrous metals go up by 3.9% (in the first quarter of 2007 – decline is by 18.5%) and for oil products – by 3.2% (decline is 3.9%).

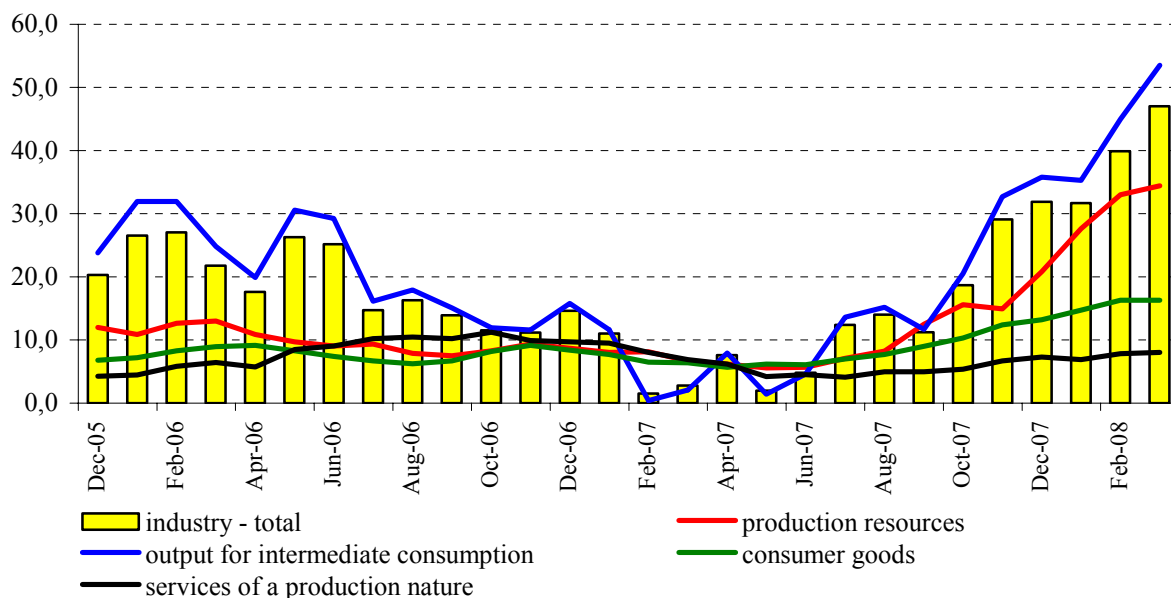
Food products made by the Kazakh entities in the first quarter of 2008 got expensive by 6.0%.

Prices and fees in production and allocation of energy resources, gas and water in the first quarter 2008 went up by 10.0% (in the first quarter of 2007 – by 5.0%).

In March 2008 annual growth in industrial production (March 2008 and March 2007) made 47% and gained 31.9% in March 2007. Products made for the recent 12 months become more expensive by 49.7%, including production facilities – by 34.4%, products of intermediate use – by 53.5%, consumer products – by 16.3%. The annual growth in prices per services of industrial nature makes 8.0% (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 first quarter of 2008 selling prices of producers of agricultural output increased by 6.1% (in the first quarter of 2007 – by 3.6%). Dynamics of prices in the agriculture formed

on the background of the increase in prices for crop output – by 6.6%. The livestock products became more expensive by 5.5%.

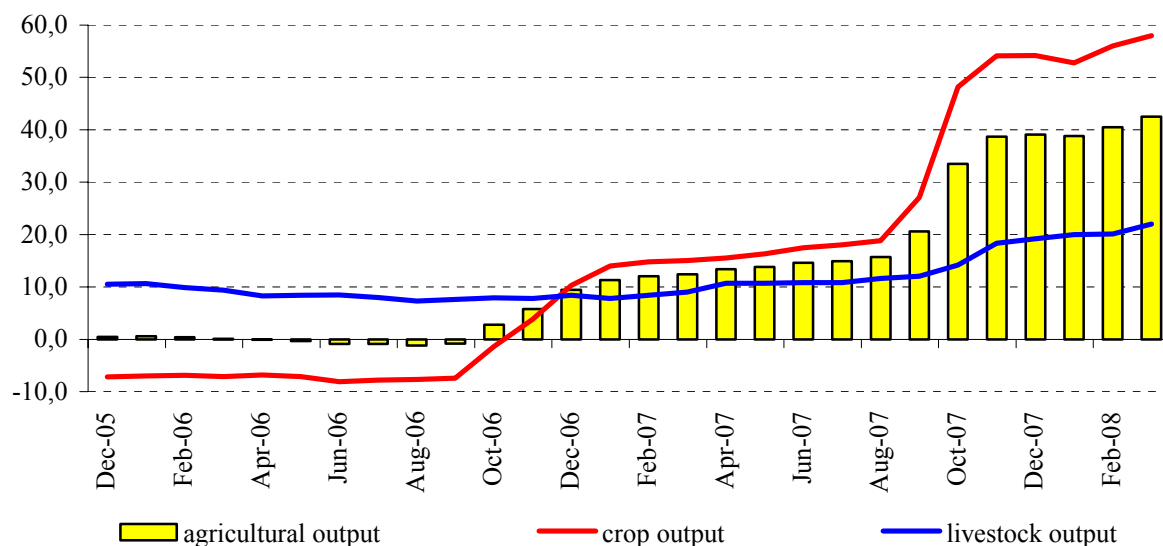
The increase in prices of products of plant growing industry in the analyzed period of time was caused by rise in prices for vegetables - 9.1%, the increase in prices for grain crops was 6.6.

For livestock products in the period from January to March, 2008, an increase in prices was the highest for milk (by 11.1%) and for cattle and poultry meat (by 4.6%).

The tendency of prices for agricultural products to increase has been continuing during all the year, 2007. In the second half of the year this dynamics accelerated. According to the results of March, 2008, the increase in prices came up to 42.5% (in December, 2007 – 39.1%). So, the prices for products of crop sector became higher by 58.0% (by 54.2%), livestock products - by 22.0% (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**

According to the survey carried out in the first quarter of 2008 among enterprises, there is a significant reduction in demand for finished output of the respondent enterprises in comparison with the preceding quarter. Thus, an increase in demand for finished output was noted by 25.6% of the respondent enterprises (in the fourth quarter of 2007 – 30.9%).

At the same time, the number of enterprises with the stable demand reduced slightly (from 52.5% to 52.1%); the number of enterprises that reported decline in demand increased from 15.8% to 21.3%. As a result, the diffusion index of the change in demand for finished output decreased in the sector from 57.6 in the fourth quarter of 2007 to 52.2 in the first quarter of 2008.

In the second quarter of 2008 an increase in demand is anticipated by 34.4% of enterprises, participated in the survey. And the decrease in demand for finished output is anticipated only by 8.7% of the enterprises. As a result, in the second quarter of 2008 an increase of the index is anticipated to be at the level 62.8 (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 increase of the inflation pressure.

Increase in prices for finished output in the first quarter of 2008 was reported by 40.8% of the enterprises (in the fourth quarter of 2007 – 37.7%)

The share of enterprises suffered reduction in prices of their product decreased by 3.5% (4.3% in the fourth quarter of 2007). Consequently, an increase in diffusion index of price change for the finished output was observed up to 68.7 in comparison with 66.7 in the fourth quarter of 2007.

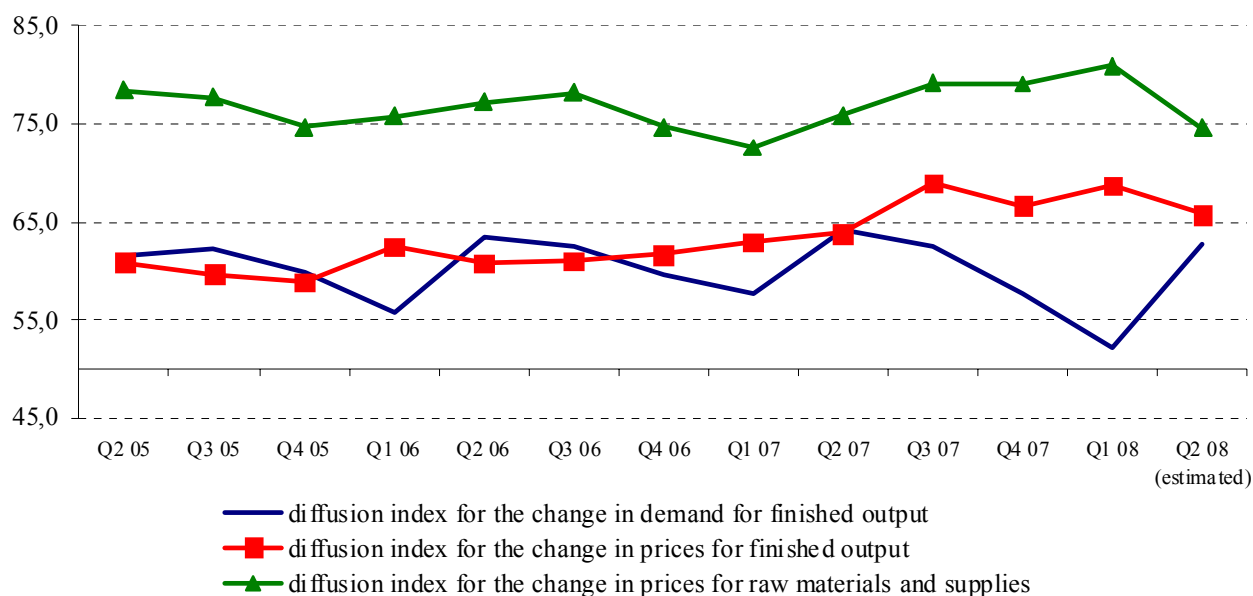
In the second quarter of 2008 some reduction of diffusion index of price change to 65.8 for the finished output is anticipated. This reduction is related to 33.9% reduction in the proportion of the enterprises that anticipate rise in prices for their production and the proportion of the enterprises that anticipate decrease in prices for their own finished output to 2.3% (diagram 7).

The share of enterprises that reported an increase in prices for raw materials and supplies increased from 66.8% to 70.7%. 20.2% of the respondent enterprises reported stability of prices, although their share in the previous quarter was 24.3%. The share of enterprises that noted a decrease in prices for raw materials and supplies reduced from 1.4% to 0.8%. Diffusion indices for changes in prices for raw materials and supplies increased from 79.1 to 80.9.

The share of enterprises anticipating increase in prices for raw materials and supplies will decrease to 57.9% in the second quarter of 2008; the share of enterprises anticipating increase in prices will be 0.7%. Hereupon, a decrease to 74.6 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.

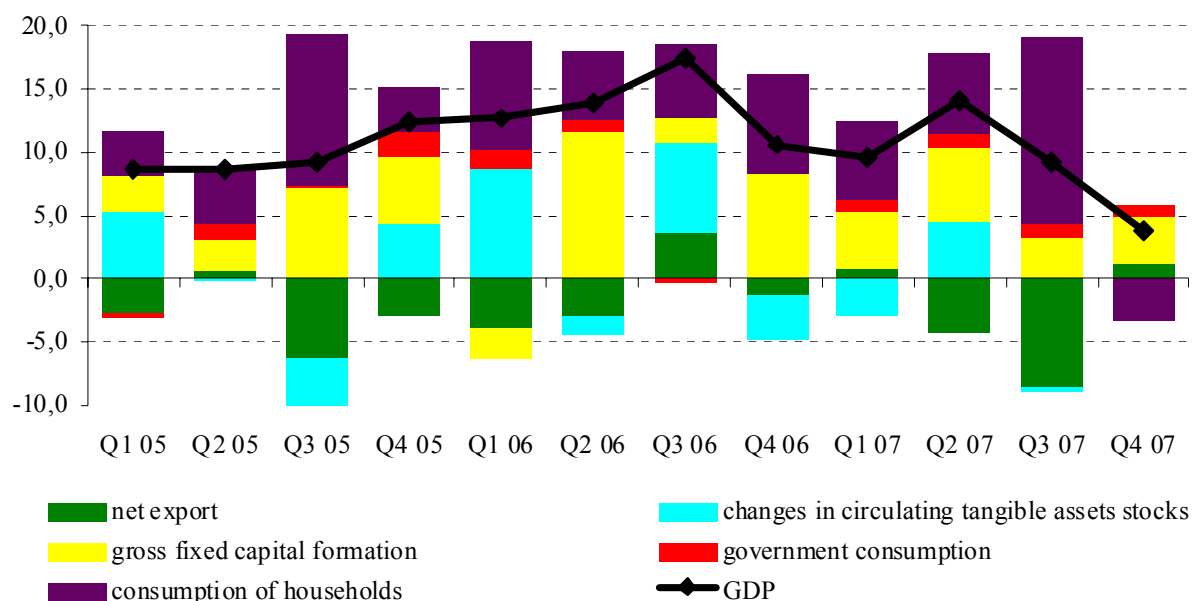
### 3. Factors of inflation

#### 3.1. Aggregate demand

In the fourth quarter of 2007 the level of consumption of gross domestic product decreased abruptly. In comparison with the corresponding quarter of 2007 it was, by estimation, 3.8% (in the third quarter of 2007 – 9.2%). This reduction is caused by decrease in consumption of households that began since the fourth quarter of 2002. Other components of the aggregate demand demonstrated an increase in their levels. (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

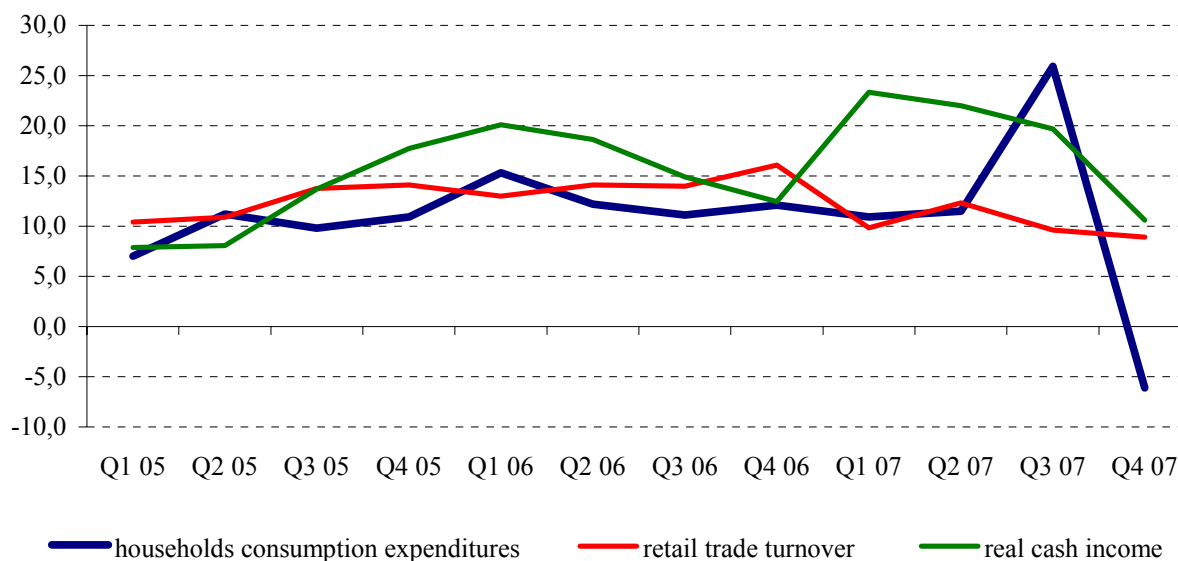
#### 3.1.1. Individual consumption and investment demand

The estimated expenditures for the final consumption by the households reduced by 6.1% in the fourth quarter of 2007 in comparison with the corresponding period of 2006 (in the third quarter of 2007 – an increase by 25.9%).

Expenditures on the final consumption of the households reduced in spite of the continuing, although decelerating, growth of the population's income. By the results of the fourth quarter of 2007 per capita nominal monetary income increased by 29.6% in comparison with the fourth quarter of 2006, and in the real terms – by 10.6% (in the third quarter of 2007 – 19.7%). Meanwhile, the estimated retail turnover of commodities increased from October to December, 2007, by 8.9% in comparison with the corresponding period of 2006 (in the third quarter of 2007 – by 9.6%) (Diagram 9).

Diagram 9

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

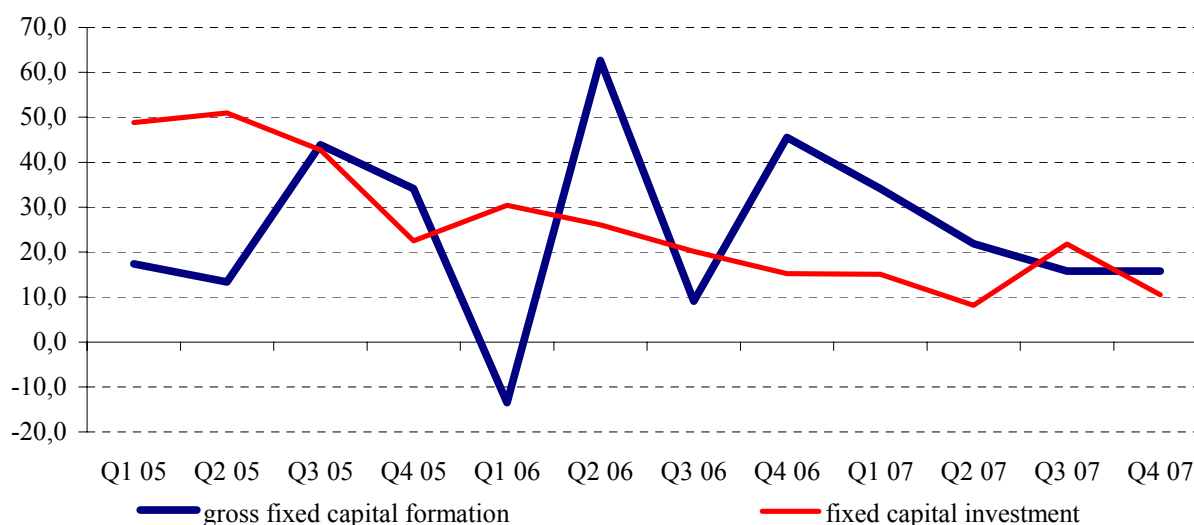


Source of information: Data from Statistical Agency of the Republic of Kazakhstan, calculations of the National Bank of the Republic of Kazakhstan

In the fourth quarter of 2007 the rate of increase in expenditures on gross accumulation of the capital stock in the structure of gross domestic product remained on the same level as that of the preceding quarter – 15.8%. Herewith, the amount of investments into the capital stock increased by 10.5% in the fourth quarter of 2007 in comparison with 21.8% in the third quarter of 2007 (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 fourth quarter of 2007 in comparison with the corresponding period of 2006 (in the third quarter of 2007 – by 18,8%).

In whole, during the fourth quarter of 2007 expenditures for the state budget were financed by the sum of 946.6 billion tenge or 25.2% to the gross domestic product. In comparison with the corresponding period of 2007 they increased by 67.6%.

The current expenditures of the state budget were financed by the sum of 493.5 billion tenge that was by 27.6% higher than in the corresponding period of 2006.

Capital expenditures of the state budget in the fourth quarter of 2007 increased by 49.1% in comparison with the corresponding period of 2006. Budget loans in the fourth quarter of 2007 increased 7.6 times as much, expenditures on acquisition of financial assets increased 21.6 times as much.

During the fourth quarter of 2007 revenues to the state budget totaled to 849.2 billion tenge or 22.6% to the gross domestic product. In comparison with the corresponding period of preceding year they increased by 36.4%. The increase of the revenues was provided by the increase in the amount of non-tax takings, intake from selling of the state’s financial assets, tax takings and official transfers.

The main revenues to the state budget were tax proceeds (87.8%) and non-tax proceeds (5.8%) in the fourth quarter of 2007.

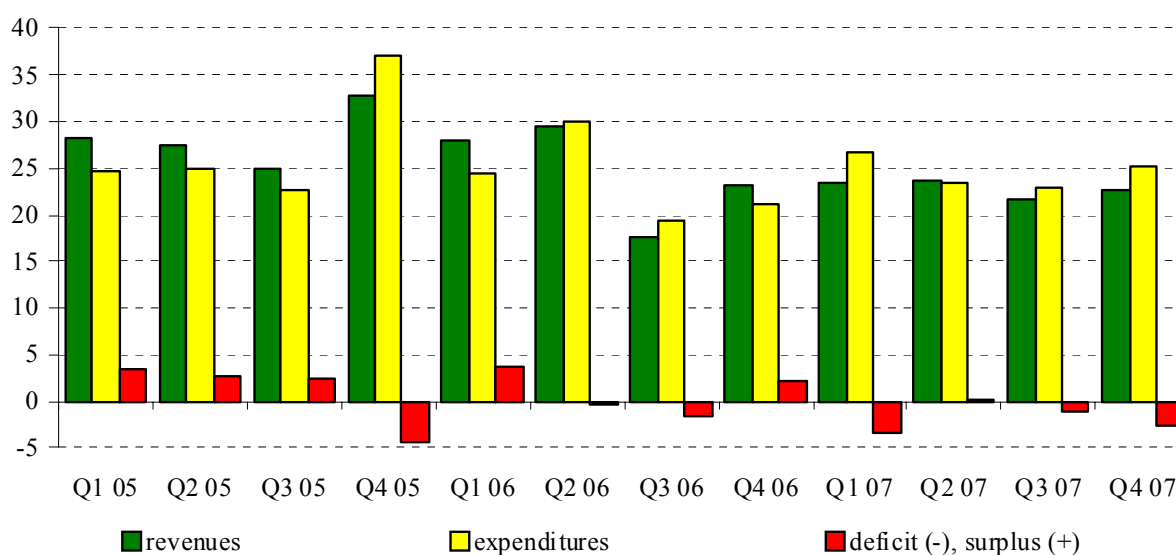
In the structure of tax proceeds there was increase in takings for the use of natural and other resources, through the social tax, individual income tax, corporate income tax, value-added tax, and excise tax.

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

As a result of expenditures exceeding the revenues the state budget had a deficit of 97.4 billion tenge in the fourth quarter of 2007 (-2.6% to the gross domestic product) against the net surplus in the fourth quarter of 2007 of 57.7 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 state domestic debt increased by 6.9% to 511.7 billion tenge in December, 2007, in comparison with September of 2007 and was supported by the emission of long-term treasury bonds.

The external debt of the government increased by 3.0% to 1.4 billion US dollars in the fourth quarter of 2007.

### 3.1.3. External sector

#### – World prices

In the first quarter of 2008 situation in the world commodity markets was characterized by increase in prices for certain types of food products and raw materials.

The increase in prices for grain crops continued. During the period of time from January to March, 2008, the world price for wheat (Canada) increased by 30.8% according to data of the World Bank and averaged to 621.7 US dollars (Diagram 12).

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. Thus, in the first quarter of 2008 along with the high prices for sunflower oil, the prices for soya, cotton and corn oils also increased.

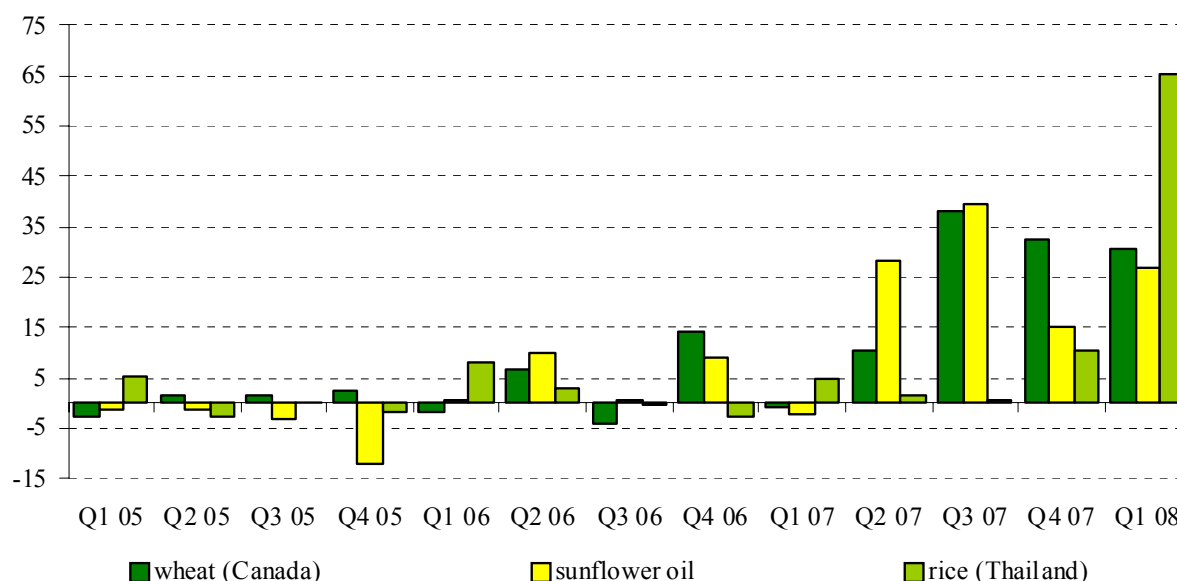
In the first quarter of 2008 the prices for sunflower oil increased by 26.8%, though they had already doubled during 2007 (according to data of the US Department of Agriculture) (Diagram 12).

Also, there was increase in the world prices for rice at the end of the first quarter, 2008, which was a result of reduction in export delivery from the countries that are main producers of rice – China, Vietnam, India and Thailand. The reduction was caused by increase in demand for rice in the internal markets of these countries.

In whole, according to the results of the first quarter of 2008 the world price for the Thai rice increased by 65.2% (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)



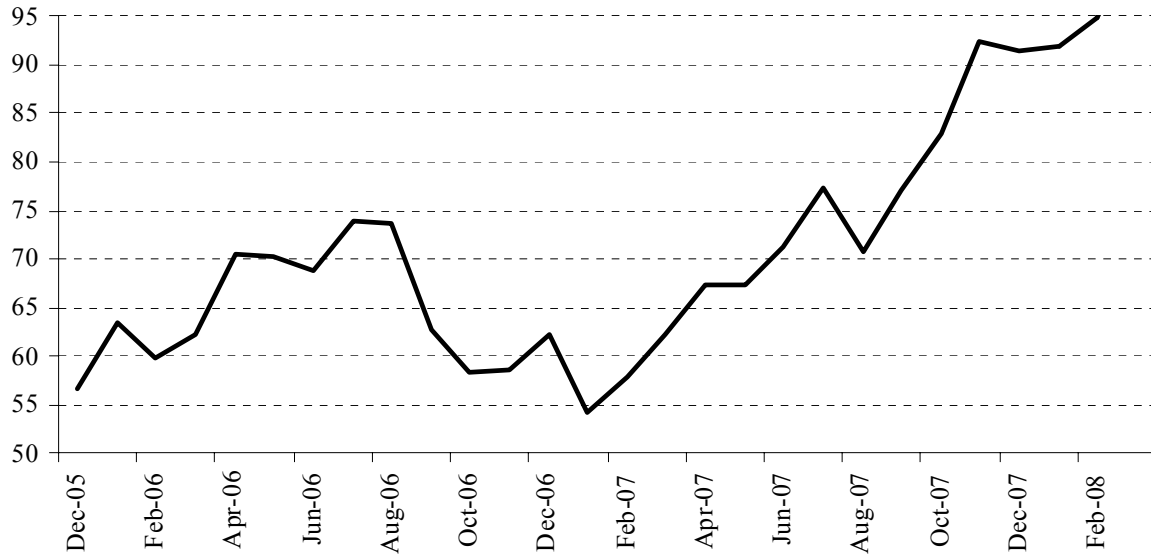
Source of information: the International Monetary Fund, US Department of Agriculture

In the period from January to March, 2008, there was a continuing increase in prices for energy resources, including crude oil.

In the first quarter of 2008 the price of the Brent grade oil, according to data of the World Bank, increased by 12.9% and came to average of 96.7 US dollars for barrel (Diagram 13). An increase in the price was 66.2% in March of 2008 in comparison with March, 2007.

Diagram 13

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



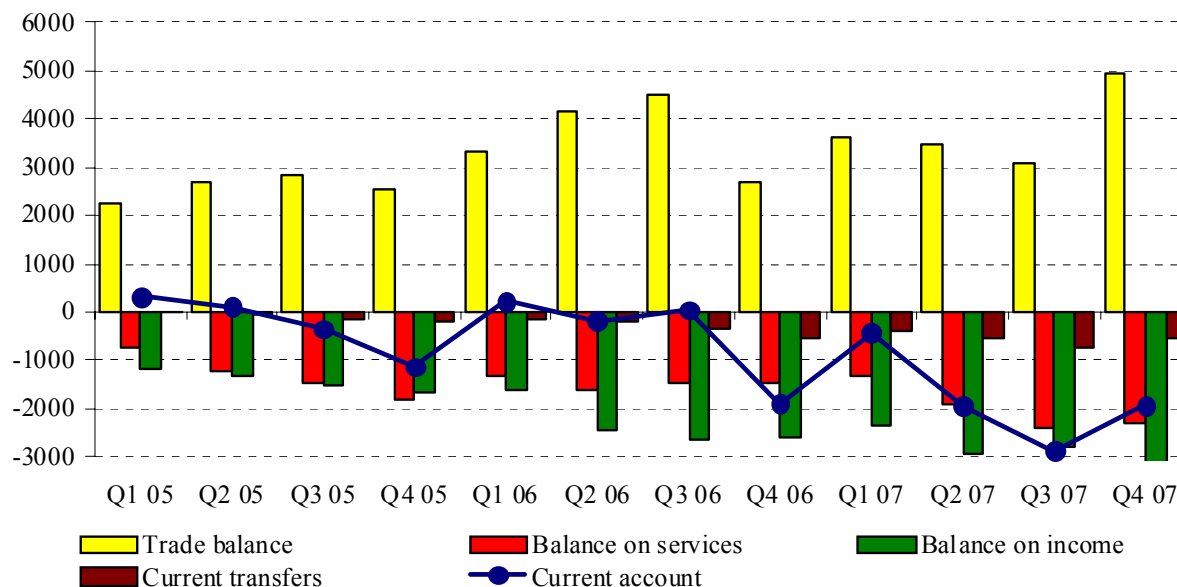
Source of information: the International Monetary Fund

## – Balance of payments

In the fourth quarter of 2007 the current account of balance of payments made up with a deficit of 1.9 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

Growth of current payments exceeds the growth of current inpayments and the significant growth is noted practically for all components of payments. Proceeds from the commodity export in the fourth quarter of 2007 increased by 41.2% in comparison with the corresponding period of 2006, whereas the expenditures on the commodity import increased by 25.9%. The trade balance keeps surplus of 4.9 billion US dollars, increasing by 82.4%. Deficit of the service balance increased by 56.7% to 2.3 billion US dollars, deficit of income balance increased by 52.5% to 4.0 billion US dollars. The payments to non-residents through the current transfers amounted to 0.5 billion US dollars, decreasing by 0.8%.

The financial account also formed negative. In the fourth quarter of 2007 the net outflow of resources through operations of the financial account amounted to 0.6 billion US dollars (in the fourth quarter of 2006 the net income is 7.4 billion US dollars). Along with 11.7 billion US dollar decrease in foreign assets of the residents in comparison with the fourth quarter of 2006, the external liabilities of the residents decreased by 13.0 billion US dollars, including 11.7 billion US dollars of decrease in liabilities of the bank sector.

The negative balance on the operations of the payment balance amounted to 1.6 billion US dollars during the fourth quarter of 2007 (in the fourth quarter of 2006 the positive balance of 5.0 billion US dollars).

– Terms of trade and the real effective exchange rate

In the fourth quarter of 2007 the total index of trade terms was 12% higher of the corresponding index for the fourth quarter of 2006, the index for euro zone – by 19% and for Russia – by 9% (table 1).

Table 1

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

	1Q 06	2Q 06	3Q 06	4Q 06	1Q 07	2Q 07	3Q 07	4Q 07
Export prices	36	27	33	13	6	8	8	32
Import prices	11	15	21	16	19	18	12	18
<b>Terms of trade</b>	<b>22</b>	<b>11</b>	<b>10</b>	<b>-3</b>	<b>-10</b>	<b>-8</b>	<b>-4</b>	<b>12</b>
Including:								
<b>Euro Zone Countries</b>								
Export prices	43	33	40	13	5	2	-1	32
Import prices	12	11	20	20	28	22	2	10
<b>Terms of trade</b>	<b>28</b>	<b>20</b>	<b>17</b>	<b>-6</b>	<b>-18</b>	<b>-17</b>	<b>-3</b>	<b>19</b>
<b>Russia</b>								
Export prices	1	-13	4	0	0	19	17	28
Import prices	9	16	17	16	15	14	17	17
<b>Terms of trade</b>	<b>-7</b>	<b>-25</b>	<b>-11</b>	<b>-13</b>	<b>-13</b>	<b>4</b>	<b>0</b>	<b>9</b>

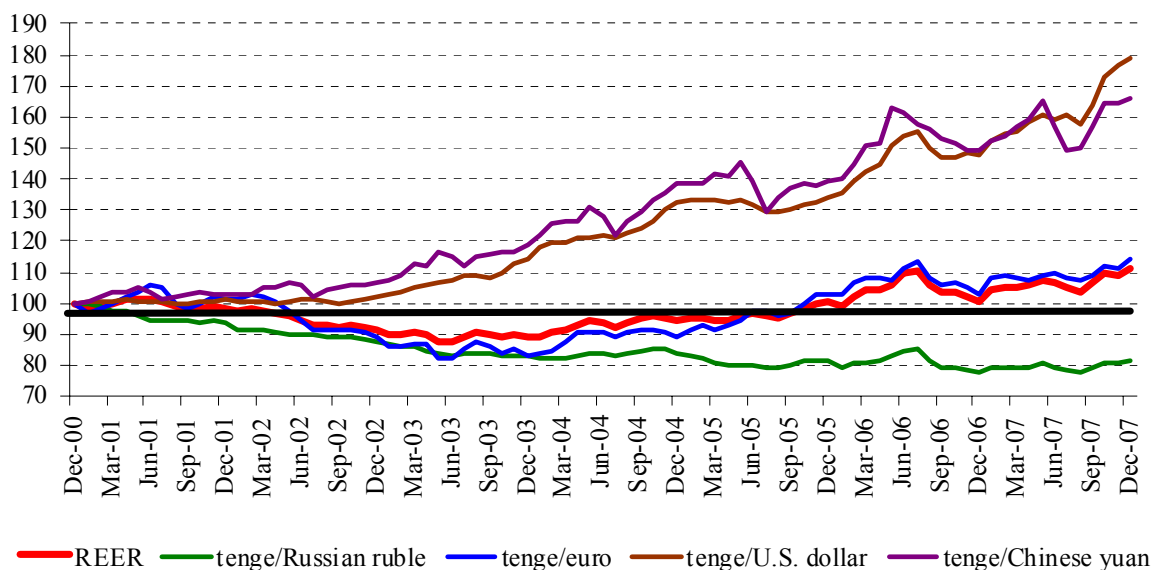
Source of information: The National Bank of the Republic of Kazakhstan

By the results of the fourth quarter of 2007 in comparison with the preceding quarter the index of the real effective exchange rate of tenge strengthened by 4.7%. Along with that, tenge strengthened by 3.4% comparatively to the basket of the CIS countries' currencies and by 5.2% to the basket of the other countries' currencies.

During the fourth quarter of 2007 in real terms, tenge strengthened comparatively to US dollar by 9.6%, to euro – by 3,8%, and to the Russian ruble – by 3.7% (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 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. 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.

The potential of the negative influence of the relative changes in tenge exchange rate on the competitiveness of the Kazakhstan producers and vulnerability of the trade balance to reduction in world prices for energy resources is considerably limited by those components of foreign-trade operations that consider both countries and commodities.

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.

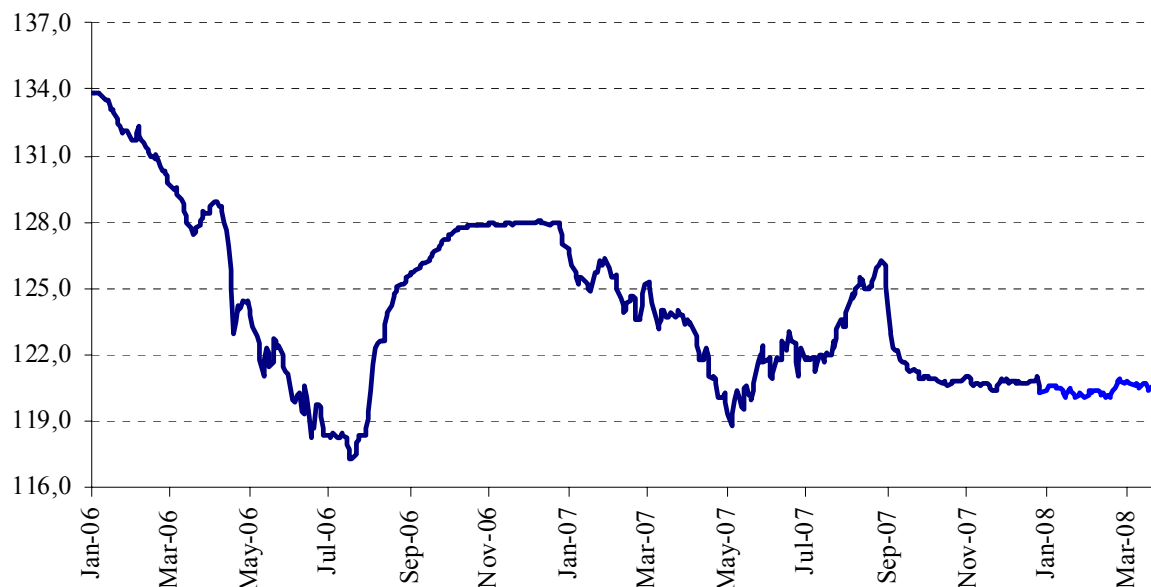
– **Nominal tenge exchange rate**

In the first quarter of 2008 situation in the domestic foreign exchange market remained stable. In whole, by the results of the quarter the tenge exchange rate decreased comparatively to US dollar by 0.3% – from 120.30 tenge/US dollar to 120.69 tenge/US dollar.

The average weighted tenge exchange rate for the 1 quarter of 2008 amounted to 120.45 tenge for a US dollar, strengthening by 0.3% in comparison with respective index for the 4 quarter of 2007. 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

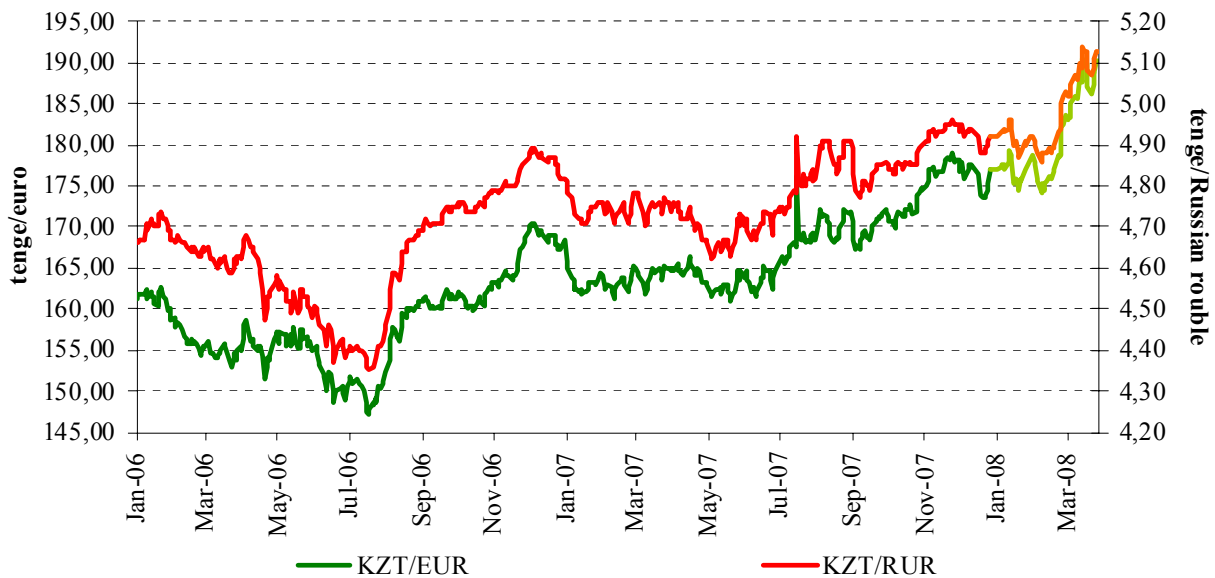
From January to March tenge became stronger relatively to US dollar by 0.1% and in February it weakened by 0.5%.

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 fourth quarter of 2007 the official exchange rate of tenge to euro and Russian rouble weakened by 7.4% and 4.3%, respectively (Diagram 17).

Diagram 17

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



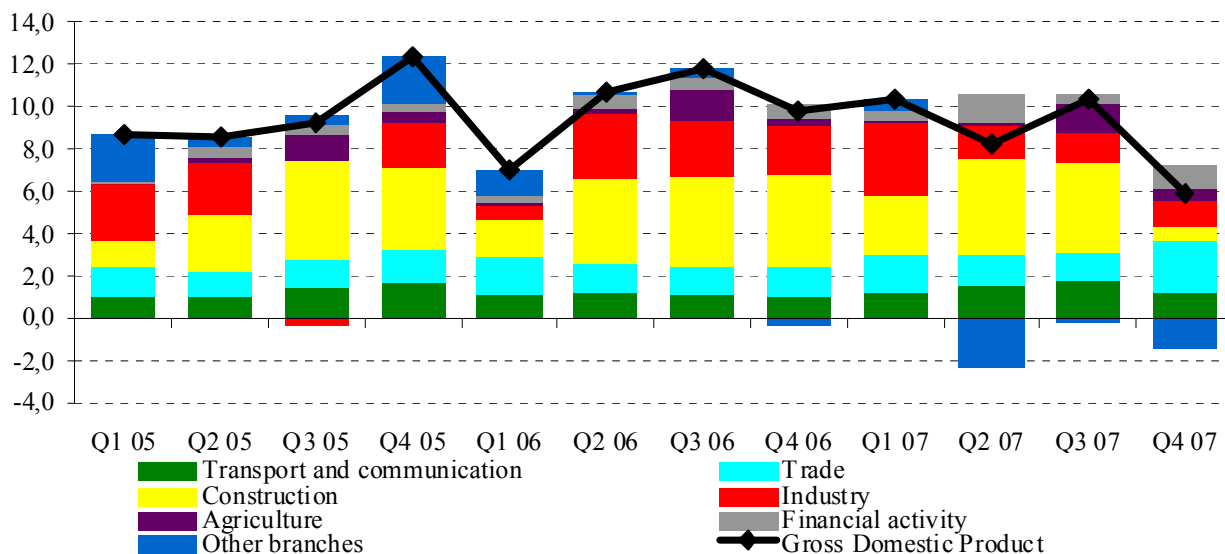
Source of information: The National Bank of the Republic of Kazakhstan

**3.2. Production**

Output volume of the gross domestic product during the fourth quarter of 2007 amounted to 3767.3 billion tenge in the current prices. The growth of the real gross domestic product in comparison with corresponding period of 2006 is estimated to be 5.9%, although in the third quarter of 2007 it reached 10.4%. Slowdown is caused by depression in construction, transport, real estate market, industry and agriculture (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**

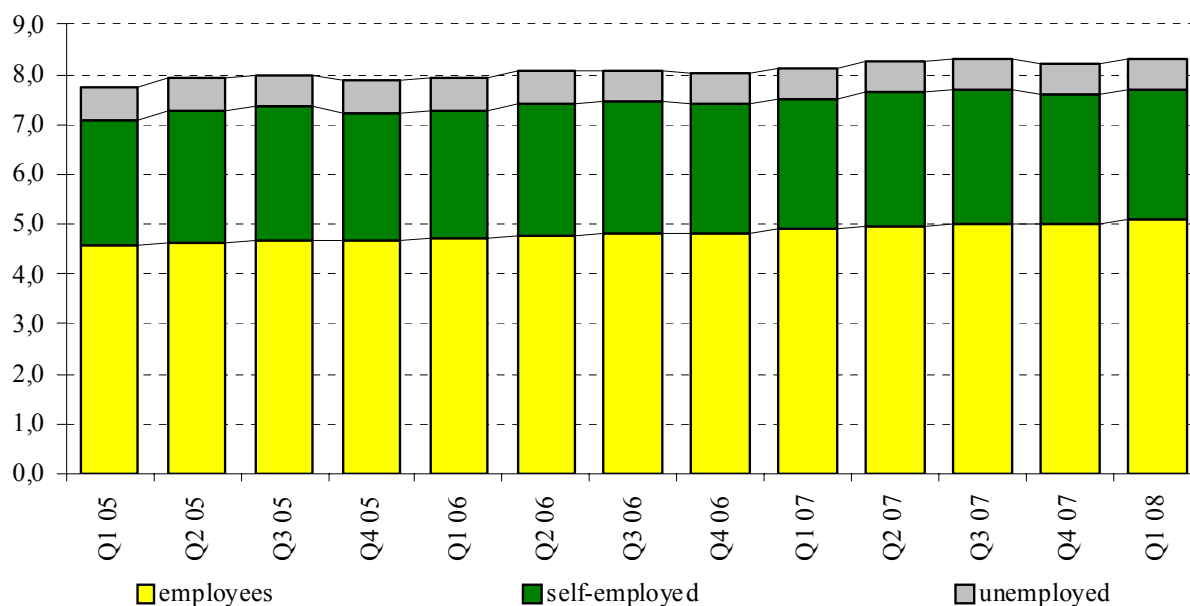
In the first quarter of 2008 the number of the occupied in the economy increased. Their number amounted to 7.8 million people, that is, 1.1% higher than the number in the previous quarter. The number of employees increased by 2% to 5.1 million of people, and number of the self-employed decreased by 0.8% to 2.6 million people.

4.1 million people worked as employees at the state and non-state organizations (80.7% of all, who works as employees), 0.6 million people worked at legal entities (12%), and 0.4 million people worked at farms (7.3%).

In the first quarter of 2008 the number of the unemployed amounted to 573.8 thousand people and reduced by 0.9% in comparison with the previous period of the year (Diagram 19).

Diagram 19

**Structure of the economically active population, million people**

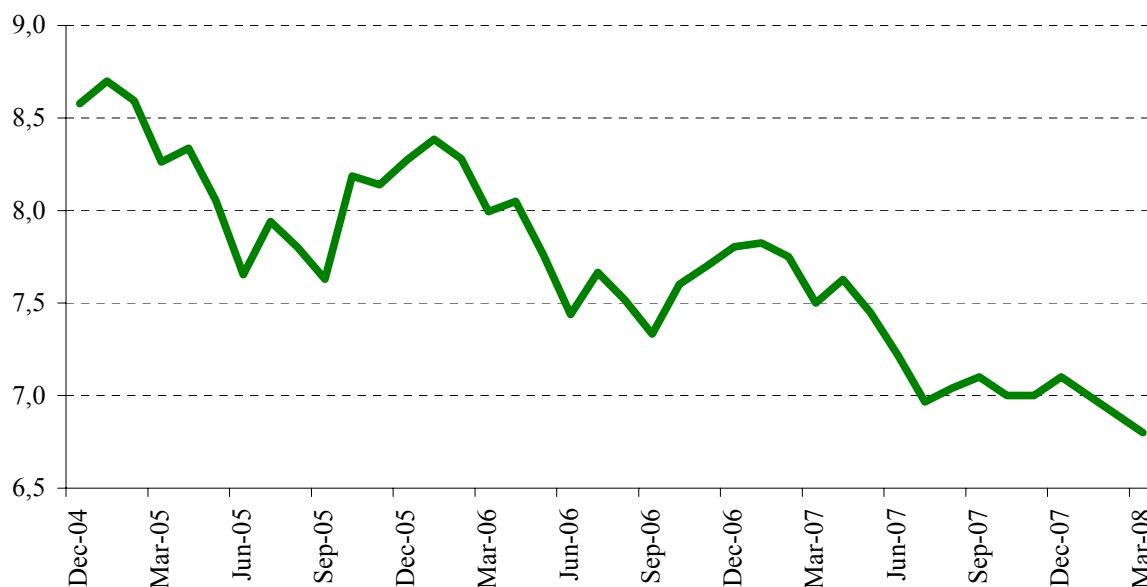


Source of information: Statistical Agency of the Republic of Kazakhstan

In the third quarter of 2007 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**

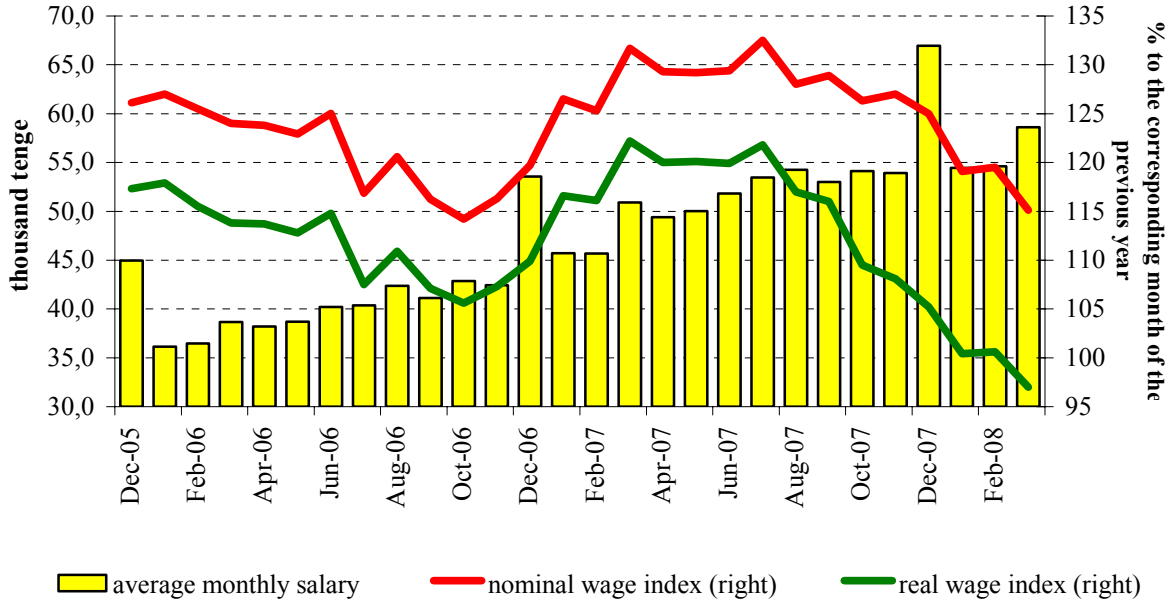
In the first quarter of 2008 the seasonal decrease in wages was noted. However, the average monthly salary increased by 17.2% in comparison with the corresponding period of



2006. 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**

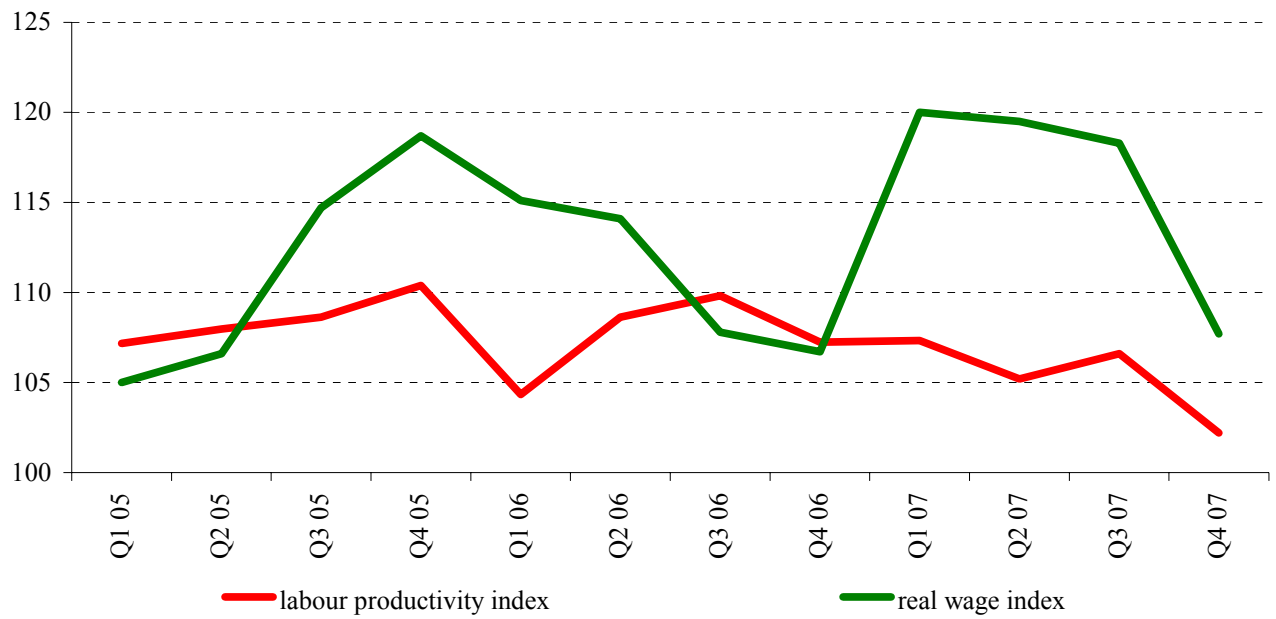


Source of information: Statistical Agency of the Republic of Kazakhstan

Deceleration in growth rates of the gross domestic product along with increase in the rate of occupation resulted in reduction of the growth rates of productivity. However, deceleration in the growth rate of real wages has resulted in considerable reduction of the “gap” between the two parameters (Diagram 22) that will have positive influence on the inflation background in the economy.

Diagram 22

**Dynamics of work efficiency**  
 (% to the corresponding period of the previous year)



Source of information: Statistical Agency of the Republic of Kazakhstan

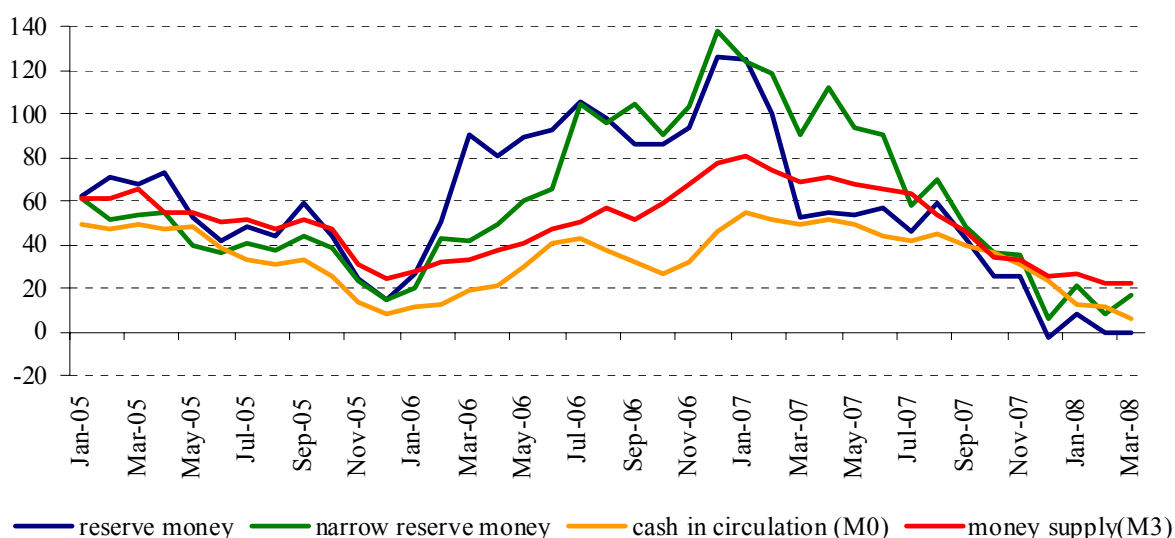
## 4. Monetary aggregates

### 4.1. Monetary aggregates

Dynamics of money supply indicators demonstrated low growth rates in the first quarter of 2008. 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 1 578.9 billion tenge at the end of March, 2008. During the first quarter of 2008 the reserve money increased by 7.8%, whereas in the first quarter of 2007 – 5.5%. Narrow reserve money increased slightly, by 2.8% in the first quarter of 2008.

In March, 2008, in comparison with March of 2007 the reserve money practically remained at the same level. Some contraction of 0.3% was provided by decrease in international reserves of the National Bank.

Net international reserves of the National Bank decreased by 12.9% to 2 324.8 billion tenge (17.4 billion US dollars) in March of 2008 in comparison with March, 2007. Purchase of foreign currency in the domestic foreign exchange market, operations of the National Bank on the services for the external debt of the Ministry of Finance, replenishment of the assets of the National Fund 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, in spite of intake of foreign currency on the accounts of the government in the National Bank, resulted in reduction of net foreign currency reserves by 14.3%. Gold reserves increased by 40.0% as a result of increase in gold prices 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 money increased by 17.2% in March, 2008 in comparison with March, 2007. The share of remainders on the correspondent accounts of banks in the National Bank

increased considerably in the structure of narrow reserve money due to refinancing loans that were issued to banks by the National Bank (Table 2).

Table 2

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

	2Q 07	3Q 07	4Q 07	1Q 08
<b>Net international reserves</b>	<b>75,3</b>	<b>30,4</b>	<b>-12,7</b>	<b>-12,9</b>
<b>Net internal assets</b>	<b>-114,9</b>	<b>6,5</b>	<b>51,0</b>	<b>42,5</b>
Net demands to the government	-2,2	-3,0	72,4	-13,7
Demands to the financial organizations	-119,7	35,8	75,1	77,0
Demands to the rest of the economy	-72,7	-70,3	21,8	13,8
Other net internal assets	-209,6	-49,9	-81,8	-199,4
<b>Reserve money</b>	<b>57,4</b>	<b>43,2</b>	<b>-2,5</b>	<b>-0,3</b>
<b>Narrow reserve money</b>	<b>90,2</b>	<b>48,8</b>	<b>6,2</b>	<b>17,2</b>

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

#### 4.1.2. Money supply

During the first quarter of 2008 the increase of money supply was 4.0% to 4 815.2 billion tenge. Net external assets of the bank system decreased by 55.3%, internal assets – by 4.0%.

In March, 2008, in comparison with March, 2007 the increase in the money supply was 22.3% as the result of increase in internal assets of the bank system, although their net external assets continue to decrease (table 3).

Table 3

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

	2Q 07	3Q 07	4Q 07	1Q 08
<b>Net external assets</b>	<b>-138,3</b>	<b>-666,3</b>	<b>-211,8</b>	<b>-196,1</b>
<b>Internal assets</b>	<b>94,4</b>	<b>77,6</b>	<b>67,1</b>	<b>40,5</b>
Demands to the government	-1 538,8	-125,8	-247,3	391,0
Demands to the economy	108,0	83,6	51,4	37,5
Other net internal assets	-136,6	-92,4	-34,3	-34,9
<b>Money supply</b>	<b>66,0</b>	<b>46,7</b>	<b>25,9</b>	<b>22,3</b>
Cash in circulation	44,2	39,9	23,1	6,8
Deposits of the residents	71,6	48,2	26,4	25,4

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 12.9%, and the net external assets of second level banks decreased by 7.2%. Decrease in the external assets of banks is connected to increase in liabilities to non-residents (by 14.0%).

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).

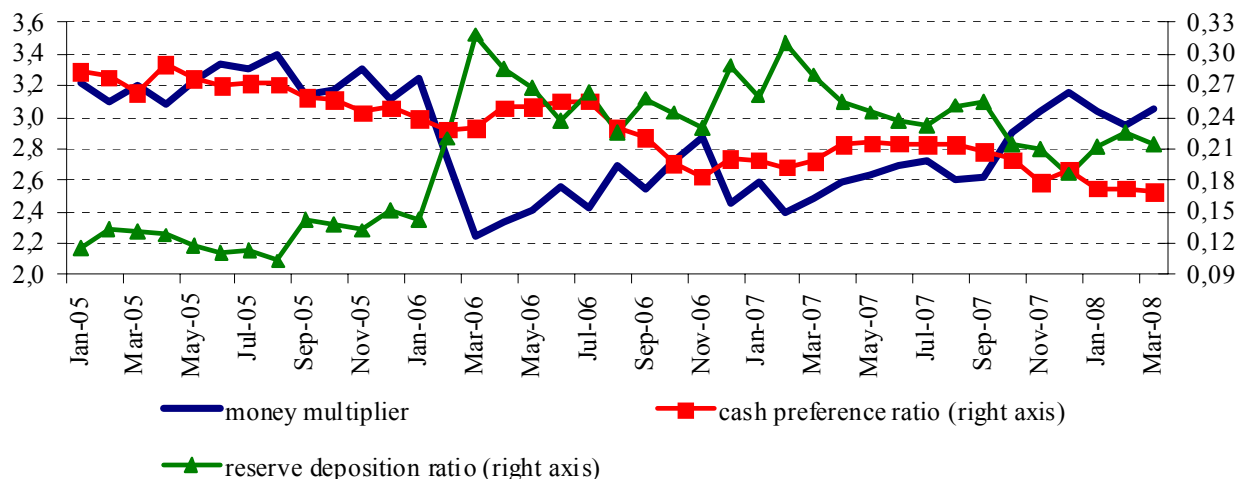
Analysis of the dynamics of main components of the monetary aggregates gives evidences that there were forestalling growth rates of the residents' deposits in the bank system in comparison with growth rates of the cash money in circulation. Consequently, by

the results of the first quarter of 2008, the share of the residents' deposits, in the structure of monetary aggregates, increased from 83.4% to 85.5% in March, 2007.

Monetary multiplier increased from 2.48 in March, 2007 to 3.05 in March, 2008, as a result of increase of the monetary aggregates along with contraction 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 decreased by 5.9% in the first quarter of 2008 and at the end of March amounted to 696.4 billion tenge.

In March, 2008, cash in circulation exceeded by 6.8% its amount in March, 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 commodity, works and services, etc.)

In the first quarter of 2008 in comparison with the first quarter of 2007 payments of cash from the banks' cash departments increased by 6.1% to 2 207 billion tenge, and inpayments into the banks' cash departments increased by 9.3% to 2 193.8 billion tenge. As a result, net payments from the banks' cash departments amounted to 14.0 billion tenge.

#### – Deposits of the residents

Deposits of the residents amounted to 4 118.8 billion tenge at the end of March, 2008. In the first quarter of 2008 they increased by 5.9%. Deposits of the legal entities increased by 19.6%, deposits of the individual persons increased by 3.3%.

In comparison with March, 2007 deposits of the residents increased by 25.4%. During a year (March, 2008, in comparison with March, 2007) remainders on deposits of non-bank legal entities increased by 24.7%, remainders on deposits of the individual persons increased by 26.7% (table 4).

Table 4

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

	2Q 07	3Q 07	4Q 07	1Q 08
<b>Deposits of residents</b>	<b>71,6</b>	<b>48,2</b>	<b>26,4</b>	<b>25,4</b>
Transferable deposits in tenge of the population	75,7	38,2	16,5	18,8
of non-bank legal entities	71,0	55,7	33,5	19,9
Other deposits in tenge of the population	76,5	35,6	13,5	18,6
of non-bank legal entities	110,0	79,1	41,1	14,6
Transferable deposits in foreign exchange of the population	111,7	73,4	31,2	8,3
of non-bank legal entities	108,6	84,5	49,1	20,2
Transferable deposits in foreign exchange of the population	-1,6	27,4	-23,5	40,5
of non-bank legal entities	42,9	16,9	-9,6	-9,7
Other deposits in foreign exchange of the population	-9,2	28,9	-25,5	50,1
of non-bank legal entities	26,3	22,6	24,7	50,0
Transferable deposits in foreign exchange of the population	37,3	60,5	65,2	79,3
of non-bank legal entities	19,8	0,9	2,6	33,4

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

## 4.2. Financial market

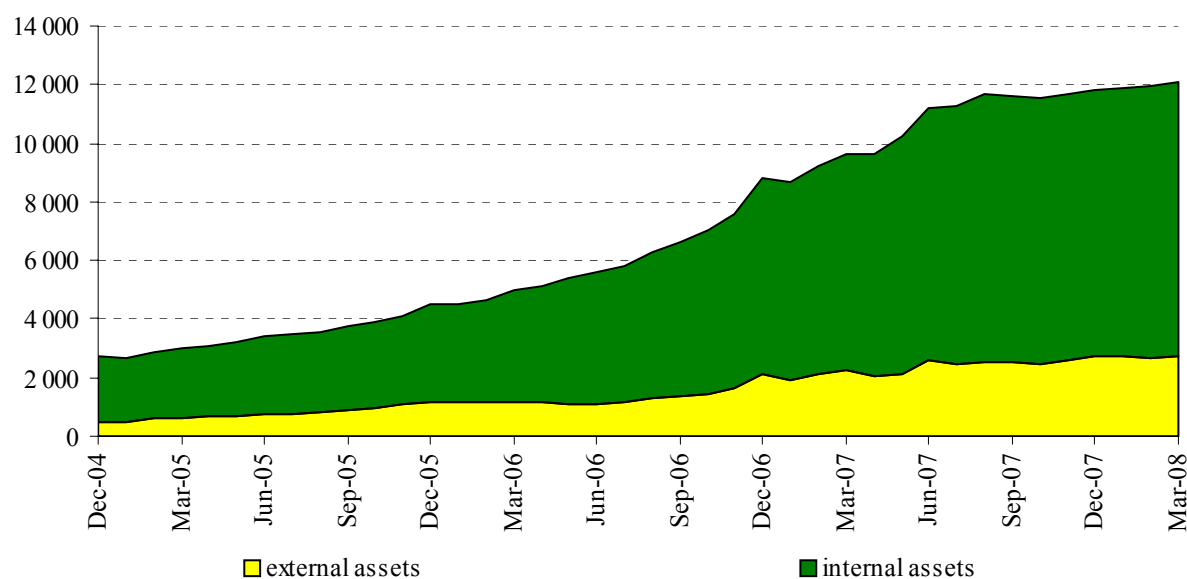
### 4.2.1. Assets and liabilities of banks

#### – Assets

In the first quarter of 2008 amount of banks' assets, calculated in accordance to the monetary survey, increased by 1.9% to 12.1 trillion tenge (90.2% to the gross domestic product). In annual terms (in March, 2008, in comparison with March, 2007) the assets of banks increased by 25.1% (Diagram 25).

Diagram 25

#### Dynamics of banks' assets, billion tenge



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

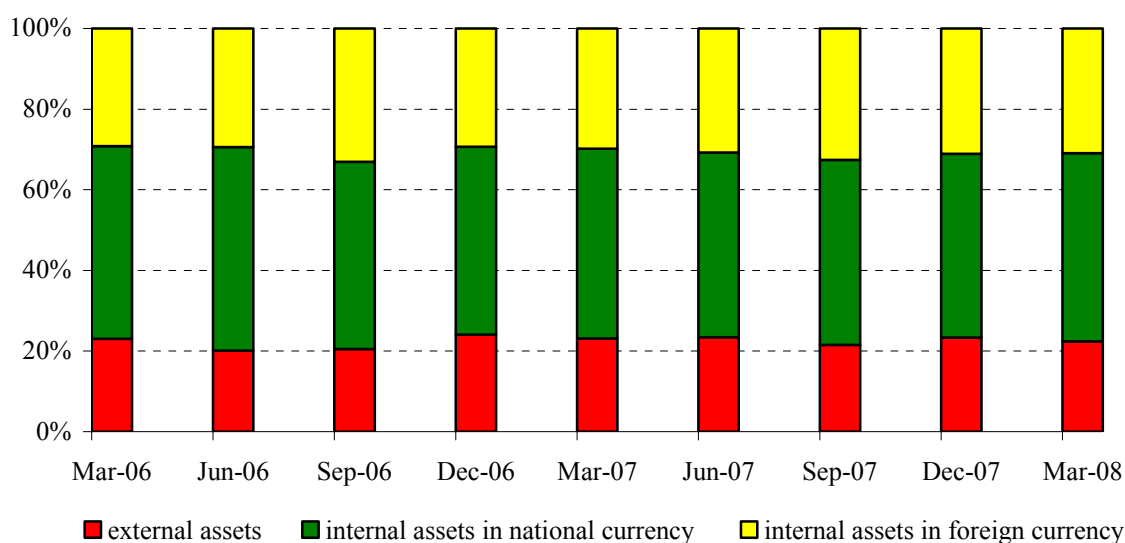
External assets of banks took up 22.4% from the total amount of assets, or 22.4 billion US dollars at the end of the first quarter of 2008. In comparison with December, 2007, they decreased by 2.5%, and in comparison with March, 2007 increased by 24.4%.

In the structure of external assets the loans that was issued to non-residents, amounted to 55.3%; deposits placed at non-residents, – 26.0%; capital issues of non-residents – 8.9%.

The percentage of the internal assets was 77.6% in March, 2008, or 9.4 trillion tenge, including 46.6% or 5.6 trillion tenge of internal assets in national currency and 30.9% or 30.9 billion US dollars in foreign exchange (Diagram 26). During the first quarter of 2008 the internal assets increased by 3.1%, with 4.3% increase of the assets in national currency and 1.1% increase in foreign exchange. In the annual terms the increase of these numbers was 26.3%, 24.0% and 33.1%, respectively.

Diagram 26

**Structure of banks' assets, %**

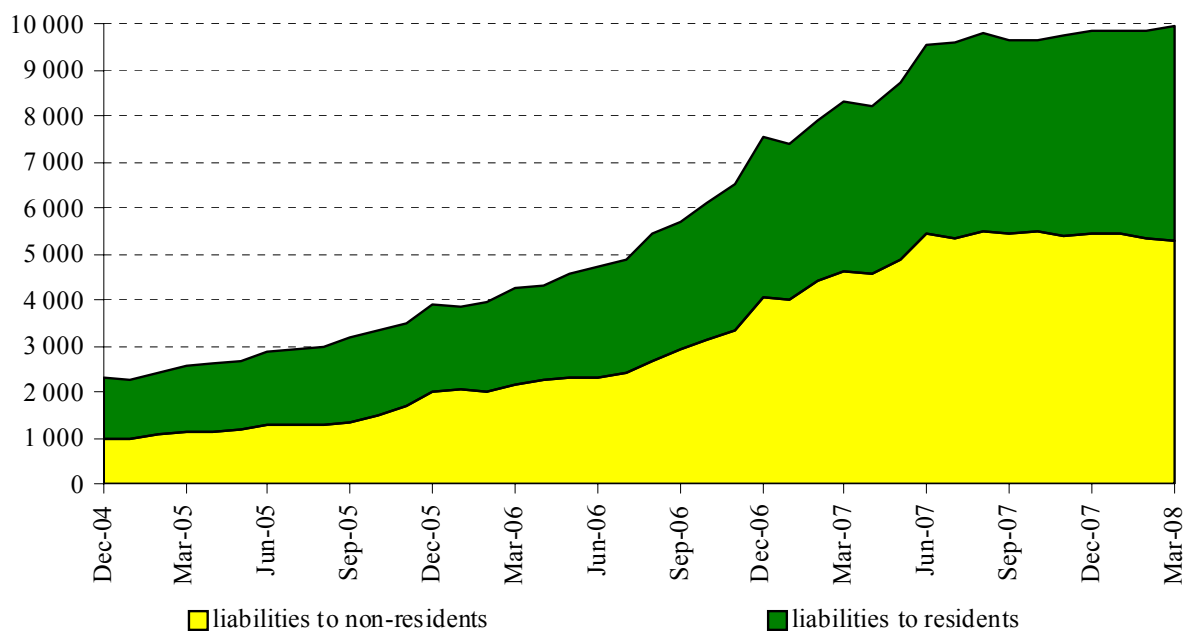


Source of information: The National Bank of the Republic of Kazakhstan

**– Liabilities**

In the first quarter of 2008 the total sum of banks' liabilities, calculated in accordance with monetary survey, increased by 1.0% and amounted to 10.0 trillion tenge at the end of March (74.5% to the gross domestic product). In annual terms (in March, 2008, in comparison with March, 2007) the liabilities of the banks increased by 19.6% (Diagram 27).

Diagram 27

**Dynamics of banks' liabilities, billion tenge**

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

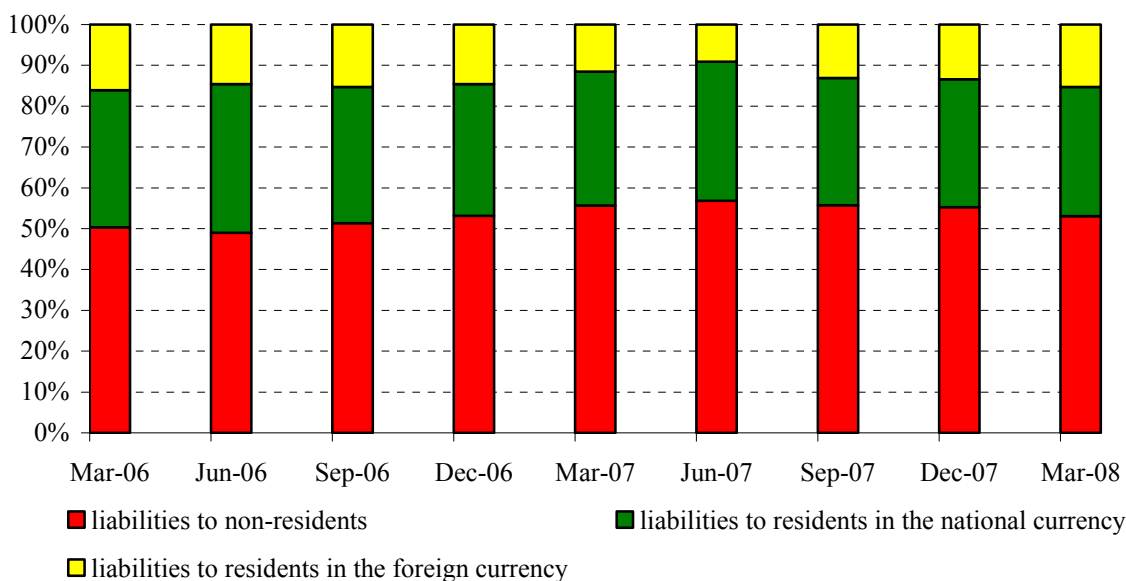
The liabilities of the banks to non-residents reduced by 3.4% to 43.8 billion US dollars in March, 2008, in comparison with December, 2007, and in comparison with March, 2007 increased by 16.9%. At the end of the first quarter of 2008 they took up only 53.0% of total liabilities of the banks.

In the structure of banks' liabilities to non-residents the loans, taken from non-residents, amounted to 85.9%, liabilities on the non-residents' deposits – 7.0%, on securities, except shares, – 5.8%.

In the first quarter of 2008 the liabilities to residents increased by 6.1% to 4.7 trillion tenge, including liabilities in the national currency – by 2.2% to 3.1 trillion tenge, liabilities in the foreign exchange - by 15.0% to 12.6 billion US dollars. In the annual terms, the increase of these parameters was 26.6%, 15.3% and 62.6%, 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**

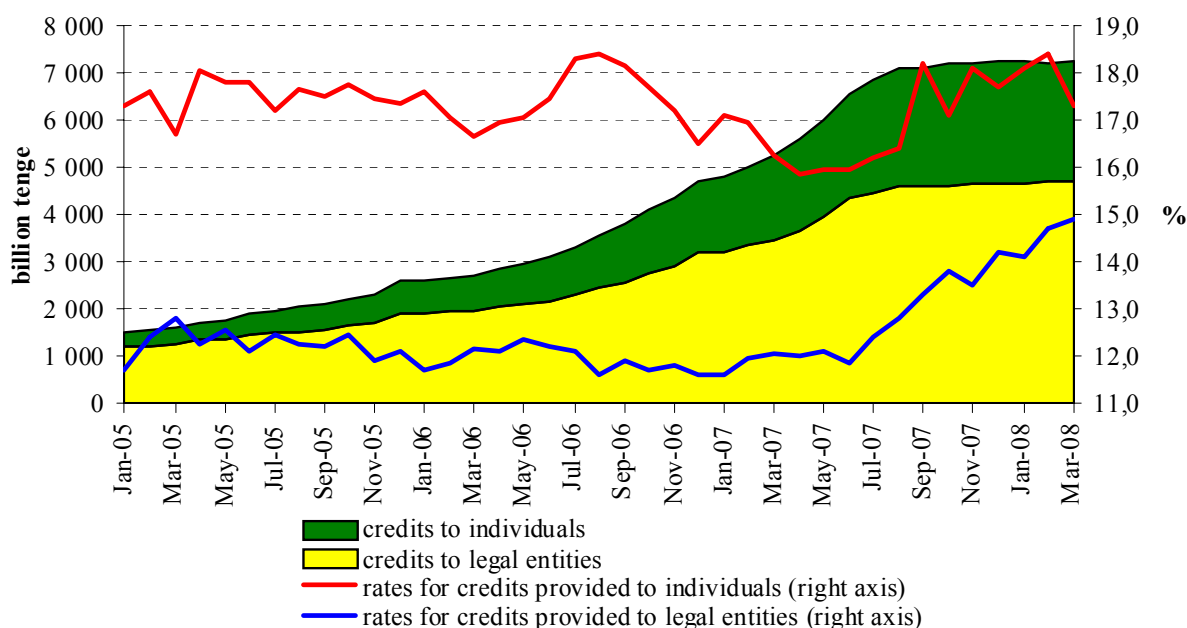
In the first quarter of 2008, slowdown was noted in the crediting expansion of banks. In this period loans to the economy did not practically change and amounted to 7 289.6 billion tenge. Loans issued to the population decreased by 1.8%, but loans to the legal entities increased by 1.0%.

In March, 2008, loans issued to the economy exceeded by 37.6% the amount of loans issued in March, 2007, including loans to the legal entities – by 35.7%, and loans issued to individuals by 41.3%.

In the first quarter of 2008 rates of credit rate increased. An average weighted loan rate for the legal entities increased from 14.2% in December, 2007, to 14.9% in March, 2008, loan rate for individuals decreased from 17.7% to 17.3%, 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

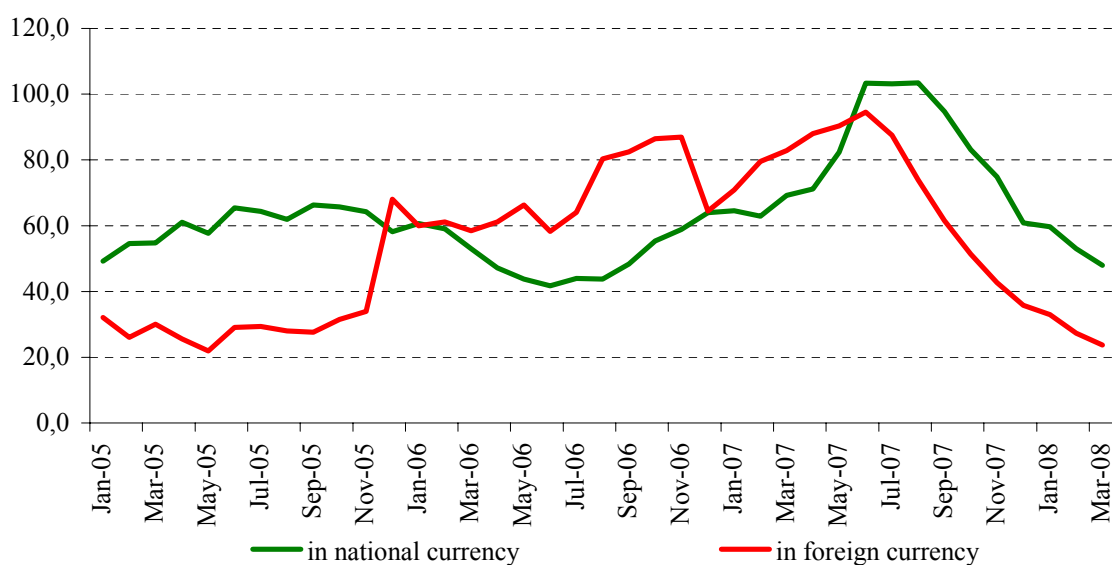
**– Loans to legal entities**

Loans issued to legal entities in March, 2008, increased by 35.7% in comparison with March, 2007.

In the first quarter of 2008 the annual increase of loans issued in the national currency still exceeded the increase of loans issued in the foreign exchange (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 volume of loans issued to legal entities amounted to 72.5% at the end of March, 2008.

In the structure of loans to legal entities the loans for acquisition of circulating funds have the largest percentage at the end of March, 2008, (38.6%), for acquisition of fixed assets (17.6%) and, also, the loans for new construction and reconstruction of facilities (19.6%),.

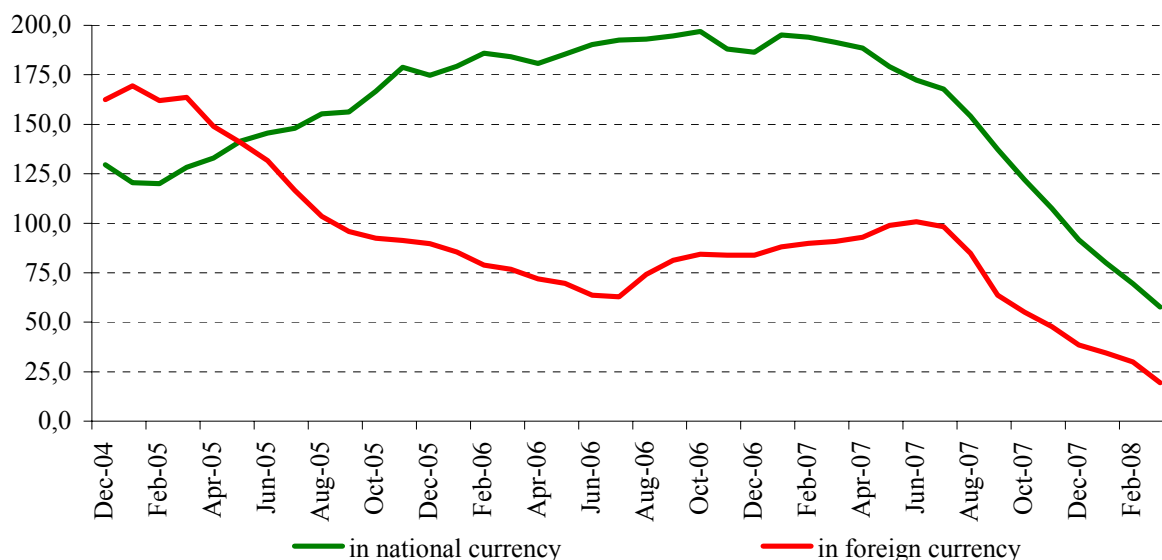
– **Loans to the population**

In the dynamics of loans issued to the population (they increased 1.4 times as much during the year), the loans issued in national currency have higher rates of growth.

In March, 2007, in comparison with March, 2008 the loans to the population issued in the national currency increased 1.6 times as much, whereas the loans issued in foreign exchange increased only by 1.2% (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 48.8% in March, 2008. The share of loans issued to the population for construction and acquisition of housing habitations amounted to 32.3% in March, 2008.

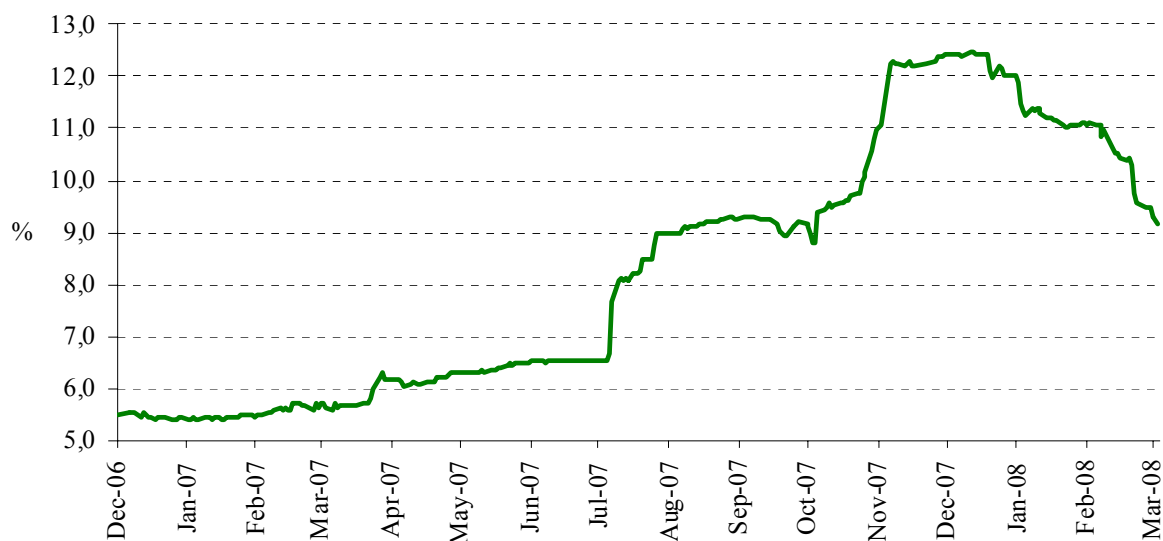
**4.2.3. Rates in the financial market**

In the first quarter of 2008 there was some reduction in level of rates in the interbank market.

KazPrime indicator decreased in 1 quarter of 2008 in comparison with the preceding quarter; by the results of the end of March, 2008, its level was 9.16% (at the end of December, 2007 – 12.43%). Decline of the indicator was caused by somewhat stabilization in the financial market (Diagram 32).

Diagram 32

**Dynamics of KazPrime indicator**

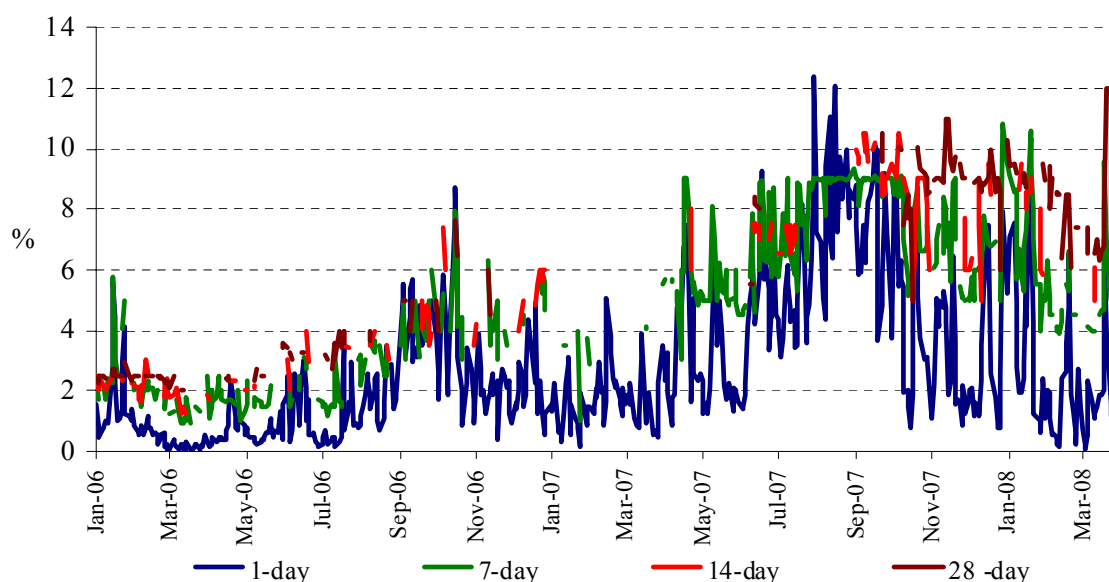


Source of information: Kazakhstan Stock Exchange

Rates of one-day REPO operations decreased from 7.96% at the end of December, 2007, to 1.12% at the end of March, 2008; rates of seven-day REPO operations declined from 10.83% to 5.44%; rates of fourteen-day REPO operations declined from 8.50% to 5.56%; rates of 28-day REPO operations increased from 6.00% to 7.50% (Diagram 33).

Diagram 33

**Dynamics of rates of REPO operations**



Source of information: Kazakhstan Stock Exchange

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

## 5. Monetary policy instruments and operations

### 5.1. Interventions in the domestic foreign exchange market

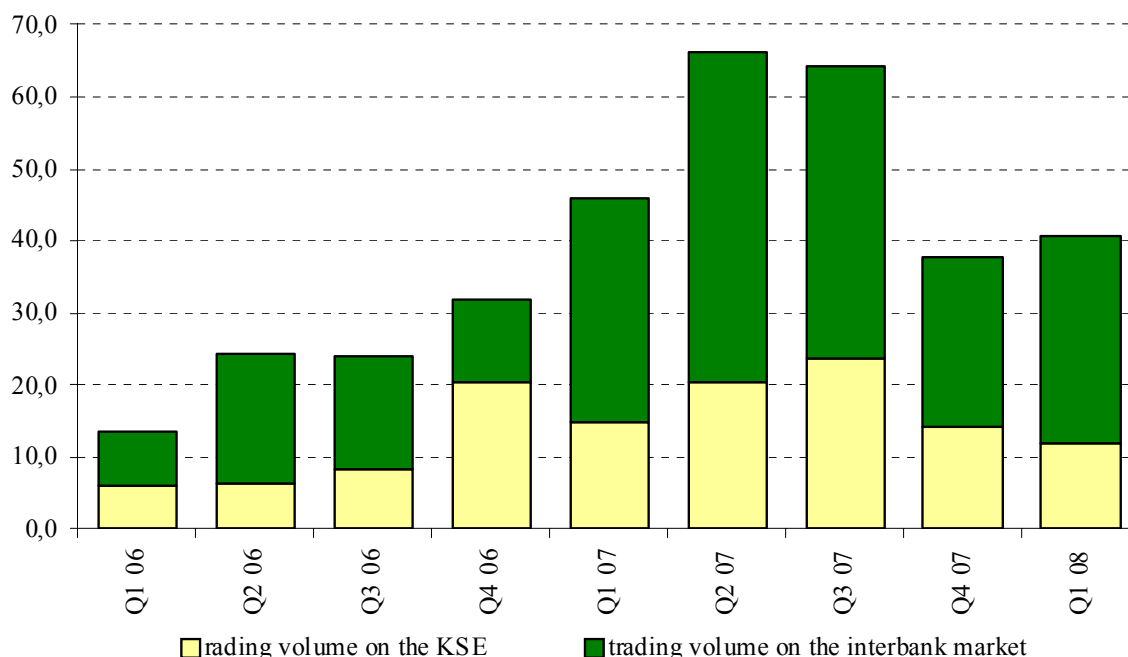
The situation in the domestic foreign exchange market formed in conditions of slight excess of foreign exchange supply over the demand.

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 first quarter of 2008 the liabilities of the second level banks to non-residents reduced by 1.4 billion US dollars (during the fourth quarter of 2007 – by 46.6 million US dollars). In the first 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 40.7 billion US dollars, with increase of 7.9% in comparison with the fourth quarter of 2007.

The volume of the exchange trade in the dollar segment in the Kazakhstan Stock Exchange decreased by 15.8% in comparison with the fourth quarter of 2007 and came up to 12.0 billion US dollars, which is connected with reduction of the speculative component (net volume of trading in the Kazakhstan Stock Exchange amounted to 80% of gross volume). In the off-exchange foreign exchange market the volume of operation in the first quarter of 2008 increased in comparison with previous quarter by 22.3% and came up to 28.7 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

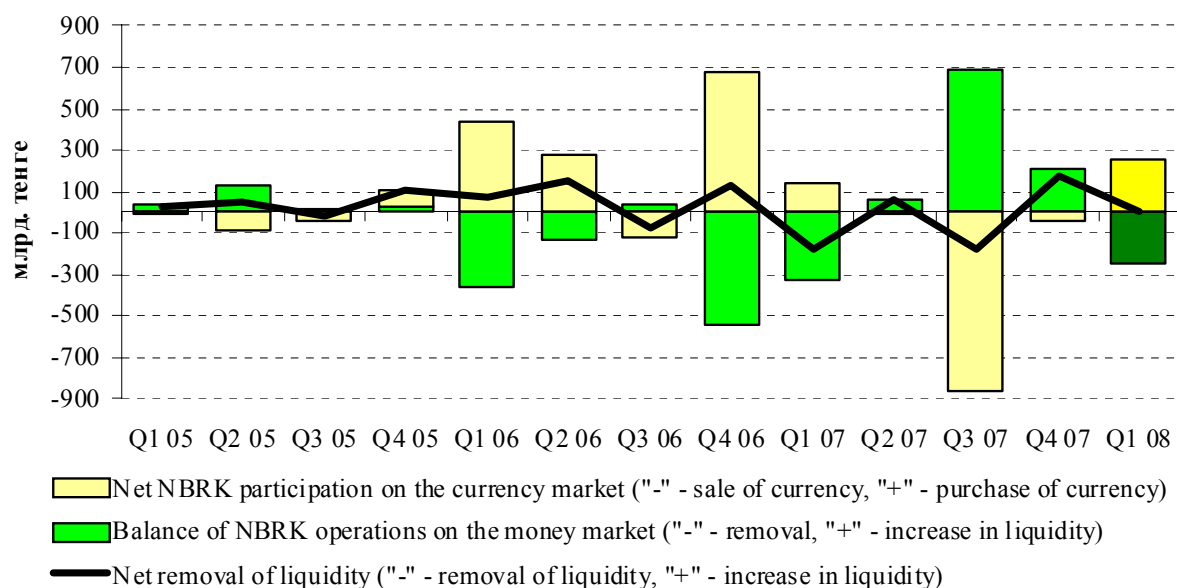
By results of the first quarter of 2008 the coefficient of participation of the National Bank in the Kazakhstan Stock Exchange was 21.3% (in the fourth quarter of 2007 – 5.0%). In the conditions when the supply of foreign exchange exceeded the demand, the National Bank took part in the foreign exchange market mainly as a buyer of the foreign exchange.

In the first quarter of 2008, the National Bank did not carry out purchases of the foreign exchange in the domestic foreign exchange market for the purposes of the National Fund. Since the problem with price stability in Kazakhstan remained actual in the first quarter of 2008, the National Bank was performing operation on withdrawal of tenge short-term liquidity by issuing short-term notes and attracting deposits from banks. In March of 2008, volume of deposits in the National Bank increased and that is an evident of stabilization of situation in the financial market (see 3.3.2. Open market operations and 3.3.3. Standing facilities).

In whole, the result of the National Bank's operations in the financial market in the first quarter of 2008 was provision of liquidity (Diagram 35).

Diagram 35

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



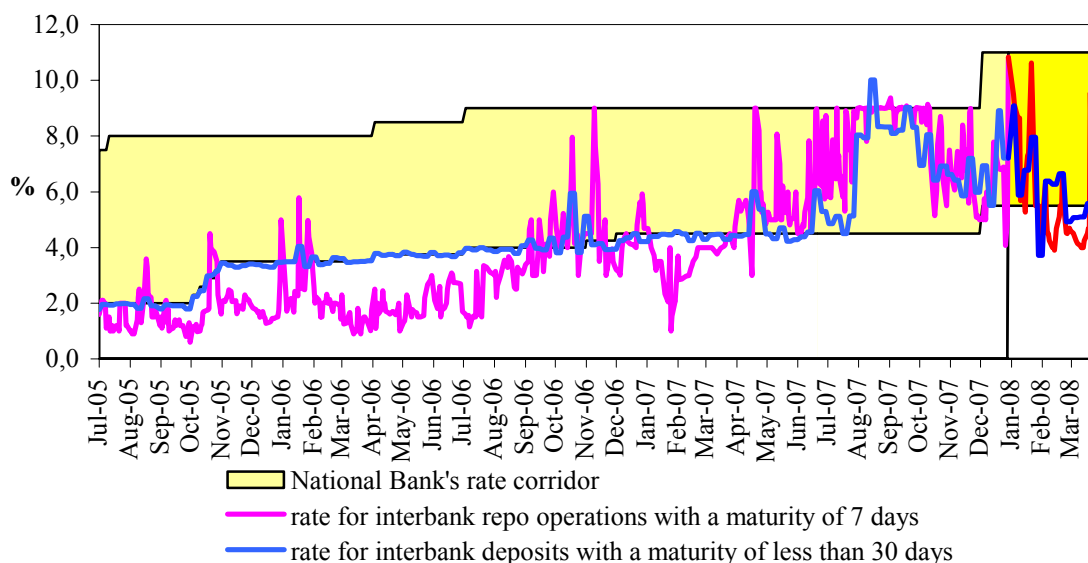
Source of information: The National Bank of the Republic of Kazakhstan

Since December 1, 2007, the National Bank raised the official refinancing rate to 11.0% interest per annum. Accordingly, the interest rate on deposits attracted from banks increased to 5.5%. During the first quarter of 2008 interest rates determining the limits of the corridor of rates of the National Bank's operations, remained unchanged because of conservation of risks in the financial sector.

In the first quarter of 2008 some decrease in profitability in the money-market was noted for operations having the same time limits. On average, during a quarter their level remained within limits of the National Bank's corridor of rates. Average weighted rate of the interbank deposits for the period of time up to 30 days was at the level of 5.63% in the first quarter of 2008 (in the fourth quarter of 2007 – 6.81%). Average weighted rate of the interbank REPO operations for the seven-day term was 7.03% (in the fourth quarter of 2007 – 7.87%) (Diagram 36).

Diagram 36

**Limits of the National Bank's corridor of rates**

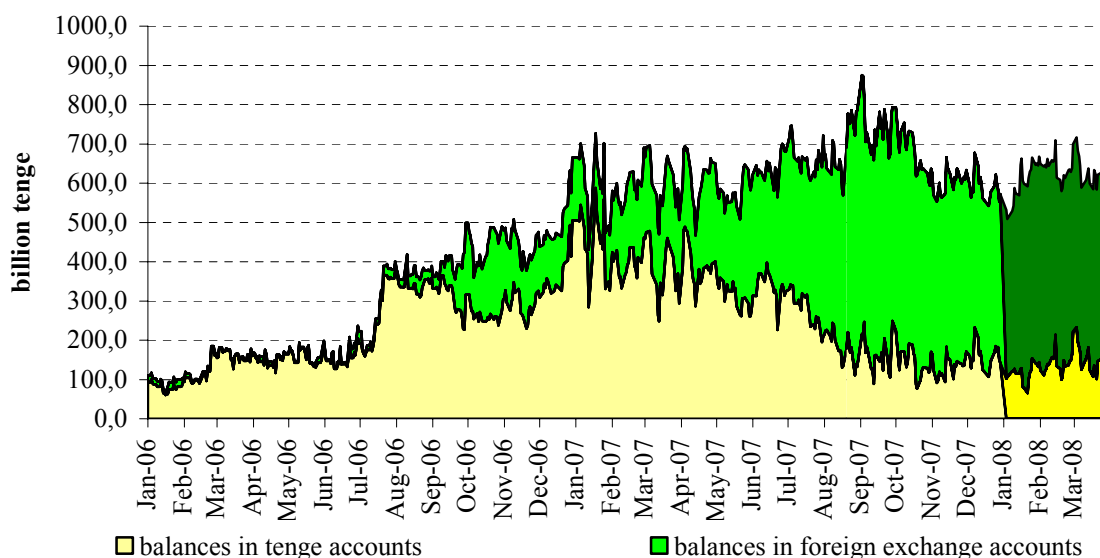


Source of information: The National Bank of the Republic of Kazakhstan

In the first quarter of 2008 balances of the correspondent accounts of banks in the National Bank changed slightly in whole. Beginning from the second half of February, 2008, the balance accounts in foreign exchange stabilized, whereas balance accounts in the national currency somewhat increased, that was related to strengthening in tenge rate 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

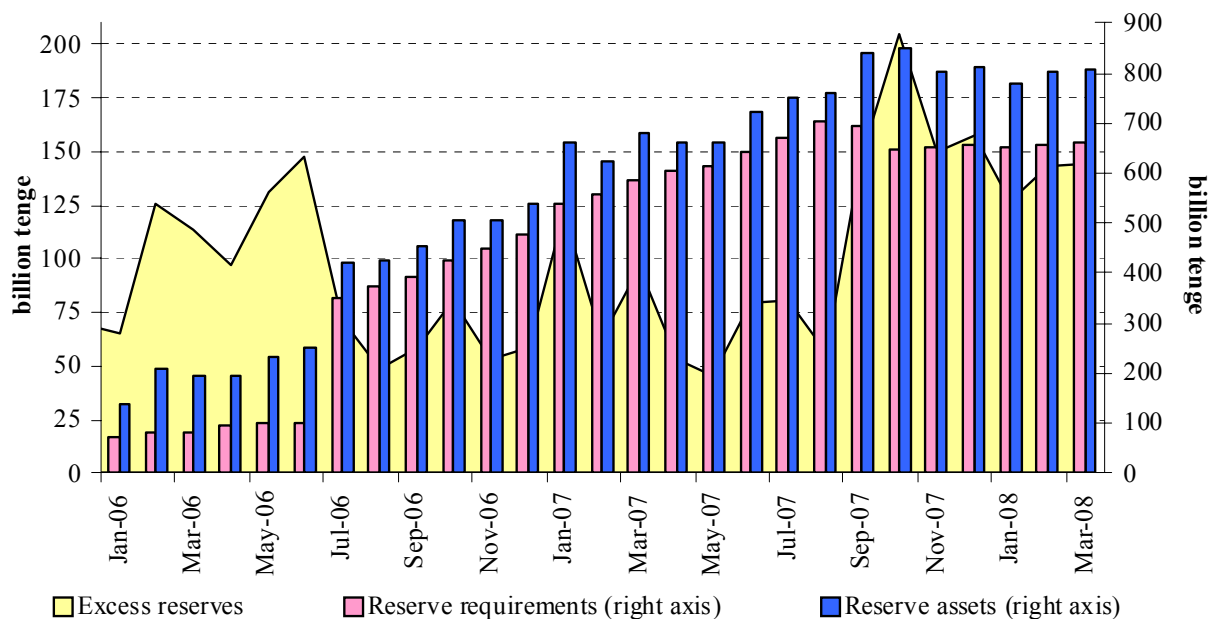
## 5.2. Minimum reserve requirements

In order to regulate short-term liquidity of banks, considering instability in the world financial markets that is a result of mortgage crisis in the USA, the National Bank decided to postpone the deadline for introduction of new norms for MRT (for domestic liabilities – 5% for other liabilities – 10%) for the first of July, 2008.

On average, during January-March, 2008, the reserve assets exceeded by 22% a sufficient volume of reservation (in the fourth quarter of 2007 – by 24%) (Diagram 38).

Diagram 38

### Fulfilment of the standard on minimum reserve requirements



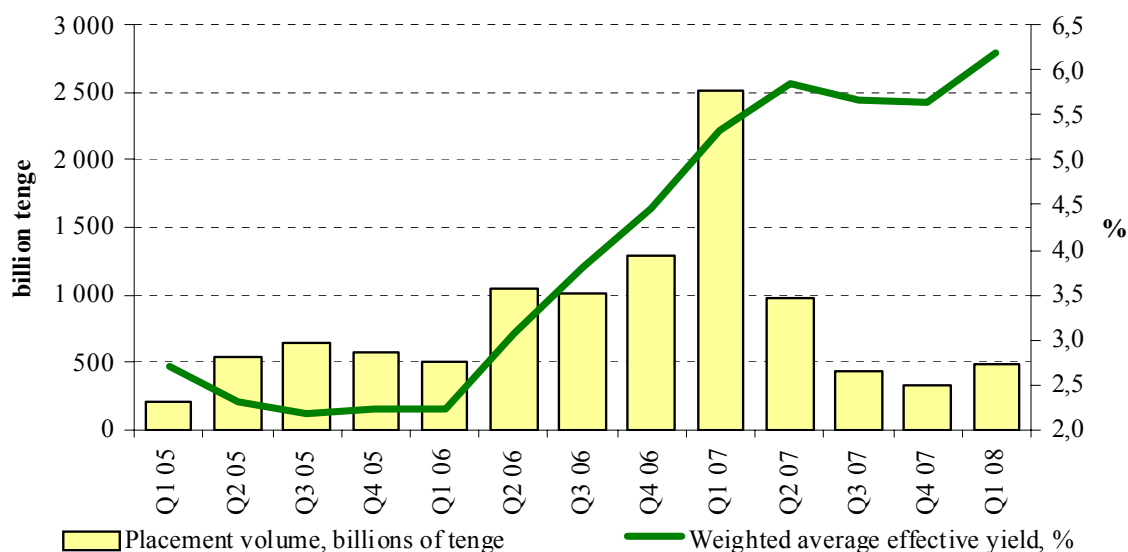
Source of information: The National Bank of the Republic of Kazakhstan

## 5.3. Open market operations

In 2008 the situation in the financial market of Kazakhstan was somewhat stabilized. As a result, there was a rise in banks' demands for the short-term notes of the National Bank. Thus, the volume of issued short-term notes increased by 45.2% and came up 480.7 billion tenge in the first quarter of 2008. Notes were issued with time to maturity of 28 days; there was not any possibility of the preterm redemption of the notes during this period. The average weighted yield on notes in circulation increased from 5.63% in the fourth quarter of 2007 to 6.20% in the first quarter of 2008 (Diagram 39).



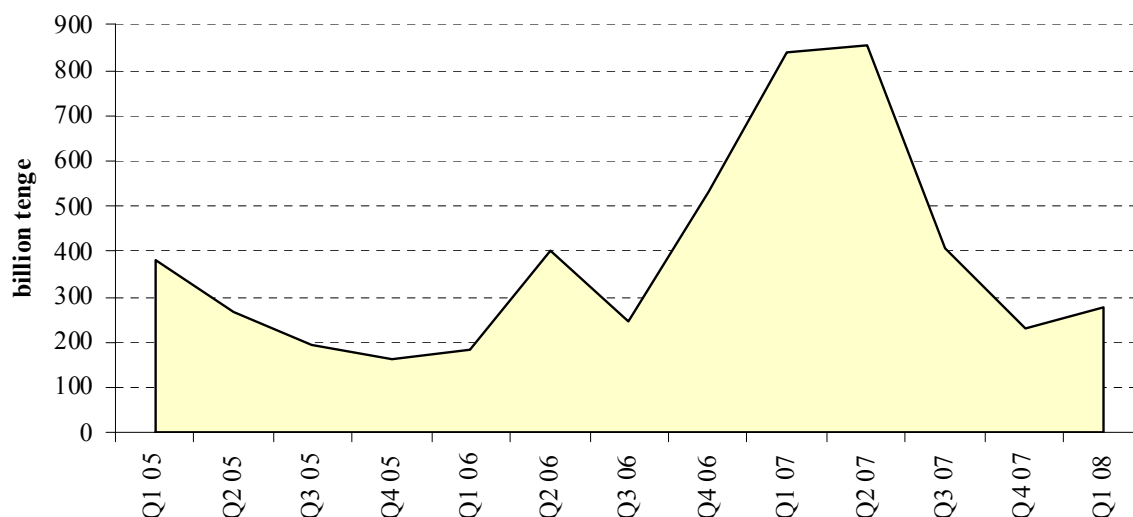
Diagram 39

**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 March, 2008, the volume of short-term notes in circulation amounted to 274.8 billion tenge that is 20.0% 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

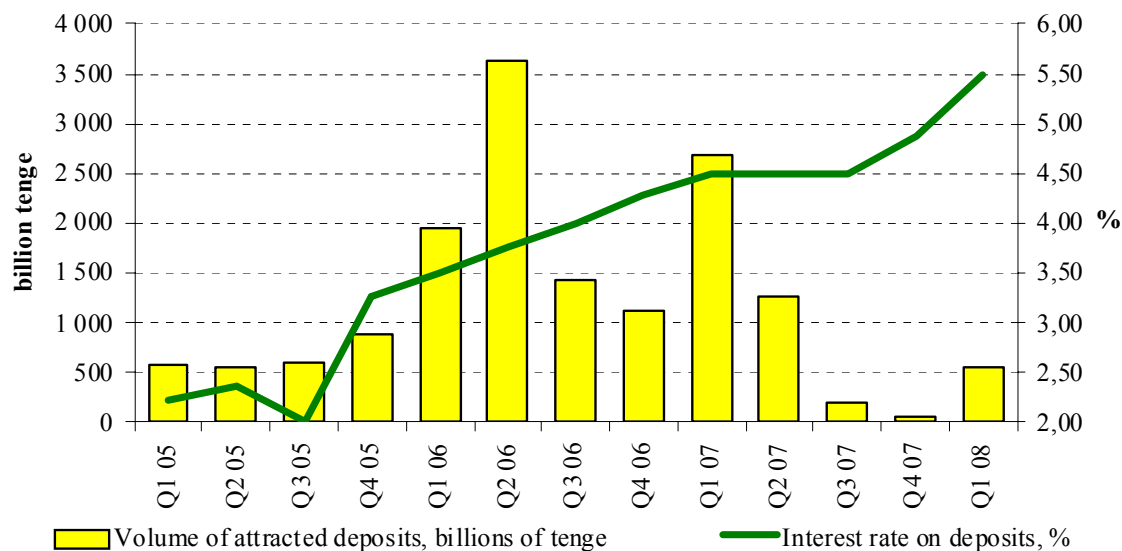
#### 5.4. Standing facilities

In the first quarter of 2008 the volumes of banks' deposits in the National Bank increased in comparison with the preceding quarter. Thus, during this period 560.9 billion

tence of deposits were attracted, that is 8.8 times as much as the volume of the fourth quarter of 2007 and 4.8 times as less as in comparison with the first quarter of 2007. Time limits for attraction of deposits were 7 days at the average weighted rate of 5.5% (Diagram 41).

Diagram 41

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

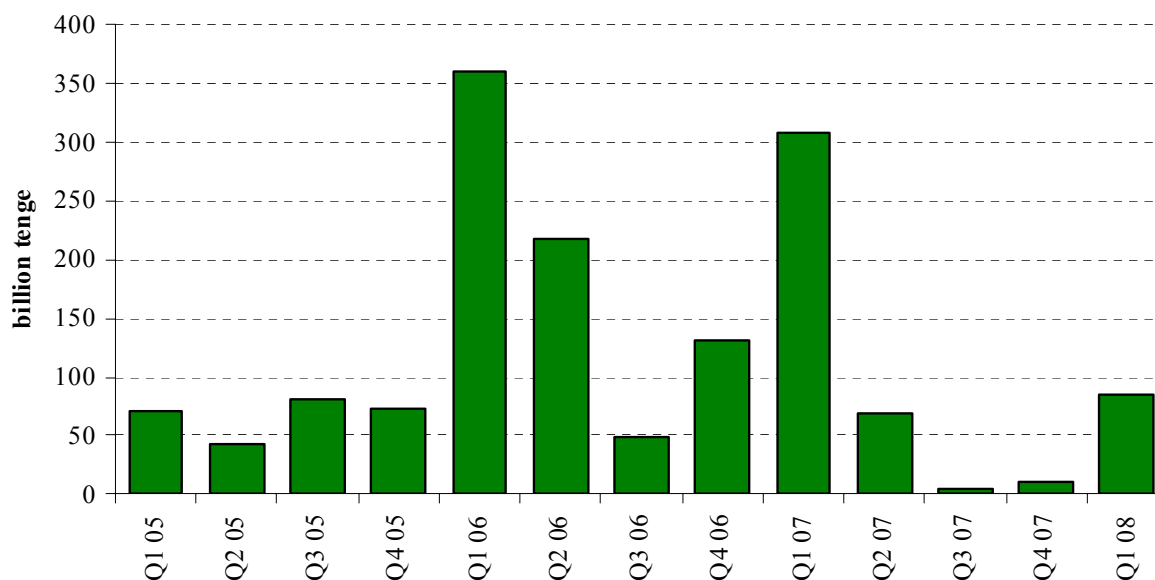


Source of information: The National Bank of the Republic of Kazakhstan

Increase in volumes of attraction of deposits from banks in the first quarter of 2008 was followed by 8.5-fold increase to 84.5 billion tenge in the volume of unredeemed liabilities of the National Bank for these deposits in comparison with the preceding quarter (Diagram 42).

Diagram 42

### Extent of outstanding 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 2008 situation in the bank sector somewhat stabilized. As a result, the banks' demand for the resources of the National Bank decreased.

In the first quarter of 2008 the National Bank provided refinancing loans to banks through reverse REPO and swap operations. The volume of reverse REPO operations totaled to 15.4 billion tenge (the operations had been performed only in January), swap operations – 1742.6 billion tenge. At the end of March, 2008, there were not any unclosed reverse REPO operations, the volume of unredeemed arrears in the swap operations amounted to 65.9 billion tenge.

In February, 2008, there were several additions to the list of collateral securities for performance of reverse REPO operations: capital issues of the national companies of the Republic of Kazakhstan, capital issues of foreign states, capital issues of international financial organizations permitted for purchasing in concordance with requirements of Financial Supervision Agency.

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## 6. Inflation forecast

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### 6.1. Assessment of inflation forecast for the first quarter of 2008

The real level of inflation in the first quarter of 2008 (2,5%) was lower than the forecasted level (3,0%-3,3%), that was published in the previous issue of the “Inflation Report”. During this period the inflation was not higher than anticipated.

In the first quarter of 2008 the inflation was caused by increase in prices for food products and paid services. The maximum growth of prices was registered for fruit and vegetable products, dairy products, medical services and services of cultural facilities.

An increase in prices for fruit and vegetable products is usual and is caused, first of all, by the seasonal factor.

A rise of world demand for food products in the second half of 2007 in conditions of limited possibilities to intensify production of food affected the situation in Kazakhstan. Considerate increase in prices was noted for vegetable oils, bread and dairy products. In spite of some improvement in the situation in the first quarter of 2008 an increase in prices of these products continued.

Increase in prices for products of the domestic producers also contributes into retention of inflation atmosphere in Kazakhstan.

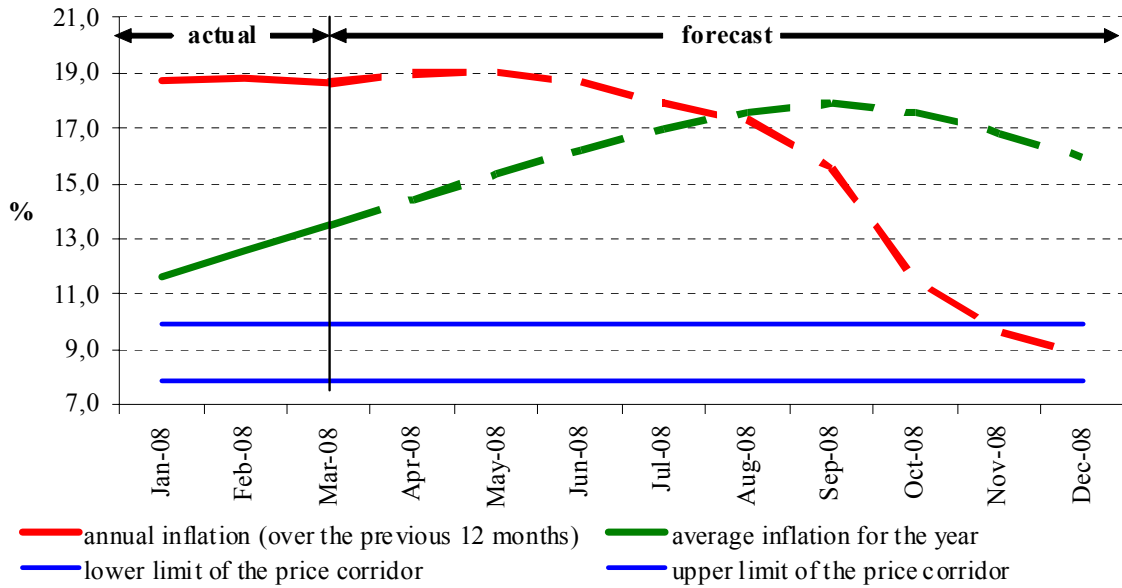
The actual level of annual inflation in March of 2008 also did not exceed a forecast given in the previous issue of the “Inflation Report”. Thus, in March of 2008 annual inflation was at the level of 18,6% while forecasted level was 19,1%-19,3%.

### 6.2. Inflation forecast for 2008

In 2008 the National Bank anticipates considerable deceleration in the annual inflation in comparison with inflation parameters in 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 7.9-9.9% (Diagram 43).

Diagram 43

**Fact and anticipation of inflation in 2008**



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

Instability in the world commodity and financial markets still exerts its influence on the economic development of Kazakhstan. It determines increase in prices for certain types of food (bread, vegetable oil, rice), energy resources (petrol, coal), and also stagnation in the crediting activity of banks.

On this background deceleration in economic growth is anticipated in 2008, including deceleration in development of construction industry, financial activity and processing industry.

In addition, a decrease in real wages is anticipated in 2008 that will affect the aggregate demand and rates of inflation.

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

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 the banks' deposits and provision of refinancing loans.

The National Bank will continue to provide refinancing loans to the banks in the form of reverse REPO operations secured by government and business securities.

Swap operations with foreign exchange as well as provision of short-term loans secured by remainders in the correspondent accounts of banks in the National Bank will be carried out only after the banks conclude an Agreement on Collaboration and Interaction concerning bank loans issued by the National Bank.

Before long, the National Bank is planning to consider a lowering of MRT norms for external (and other) liabilities to 6%. As estimated, this will allow the banks to release additional liquidity in the amount of 100 billion tenge.

In case of need the measures to provide stability will be reinforced. In this case the National Bank will refrain from provision of direct long-term assistance to the banks in considerable amounts.

Within the bounds of measures to provide financial stability, there was developed a system of quick reaction against threats to financial stability and against possible unforeseen situation.

### **6.2.1. Inflation forecast in the second quarter of 2008**

Inflation forecast for the second quarter of 2008 is 2.3-2.5% (1.9% in the second quarter of 2007).

Retention of inflation in the second quarter of 2008 will be stimulated by external factors, increase in costs of production, insufficient level of productivity and low level of competition in certain commodity and services markets.

High rates of growth in demand for certain types of food and raw materials, especially in the quickly developing Asian countries, will promote high costs for these products in the world markets.

Nevertheless, inflation will be restrained by reduction of real wages, deceleration in volume of credits to the economy and, consequently, deceleration of aggregate demand. Also, reduction in growth rates of monetary aggregates in 2007 to the beginning of 2008 with some temporary lag will have positive influence on the inflation.

Deceleration of inflation also will be promoted by measures undertaken by the government in 2008. Particularly, there was a ban imposed on the export of wheat and measures on replenishing store of vegetable oils and fats. To stabilize the situation in the Kazakhstan market of fuels and lubricants, the government introduced custom duty on the export of oil in May, 2008.

By the results of June, 2007, the annual inflation is anticipated to be 19.1-19.3%.

### **6.2.2. Inflation forecast in the third quarter of 2008**

In the third quarter of 2008 inflation is anticipated to remain within limits of 1.1-1.3% (in the third quarter of 2007 – 3.9%), which is adequate to annual inflation of 16.0-16.2% in the end of September, 2008.

The lowest rate of inflation during a whole year is noted usually for the summer time. The situation in the consumer market in the period from July to September is formed mainly under the seasonal factor. This, in turn, leads to reduction of prices for certain food products (fruit and vegetables, meat and dairy products etc.). Also, an increase in prices of certain services for the population is possible (services of the educational institutions).