



**THE NATIONAL BANK
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On the exchange rate of the national currency

According to the Law of the Republic of Kazakhstan “On the National Bank of Kazakhstan” the primary objective of the National Bank is maintaining of price stability in Kazakhstan.

Nevertheless in the condition of growing pressure on the exchange rate of tenge during last years the National Bank made significant efforts to maintain exchange rate stability and to keep an implicit band within 117-123 tenge per USD (120 tenge $\pm 2\%$). This helped to preserve economic and financial stability. However the needs to preserve the current level of international reserves and to support the competitiveness of domestic producers require revision of National Bank’s policy with respect to exchange rate.

From February 4, 2009 National Bank ceases the maintenance of tenge in the previous implicit band and believes that it is necessary to define a new level of exchange rate of the national currency: (150 tenge per USD $\pm 3\%$ or ± 5 tenge).

Main reasons of the band correction:

1. Oil price decrease

Oil amounts for about 60% of Kazakhstani export and serves as a main source of foreign currency receipts on financial market. The decrease of oil price more than 3 times during the last 6 months forces to reconsider the exchange rate level. However if the oil price increases, the exchange rate policy will be adequately changed in the direction of appreciation.

2. Devaluation of the national currencies in trade partner countries and countries-exporters of commodities.

Since the start of 2008 to January 2009 the devaluation of the national currencies with respect to USD consisted: in Russia – 44%, in Byelorussia – 28%, Ukraine – 53%, Great Britain – 38%, Euro zone – 13%, Norway – 28%, Brazil – 31%, Australia – 27%, Canada – 26%.

Over 11 months of 2008 the real effective exchange rate of tenge with respect to currencies of trade partner countries appreciated by 13%, and including preliminary data of January 2009 – by 16%. As compared to 2000 the real appreciation of tenge consisted 30%.

To support the competitiveness of domestic producers an appropriate correction of the exchange rate was needed. The experience of Kazakhstan in 1998-1999 and the experience of other countries facing the problem of competitiveness deterioration show that other producers supporting measures, except for the devaluation of national currency, are inefficient.

The level of single-moment devaluation will not exceed 23% to the previous level, which is lower than the average devaluation level in the region. From one side, it will help to restore the competitiveness, from the other side, it will serve as an additional factor restricting further depreciation of tenge.

3. The banks that have significant burden to serve their external debts in the coming years, get a real government support and are able to function without violating prudential norms.

Moreover, the Government undertakes strong measures aimed at the reduction of external assets of the banking system in order to guarantee the fulfillment of liabilities on external debt of the banking system.

4. Preservation of foreign exchange reserves

Starting from IV quarter of 2008 года until now, the National Bank spent USD 6 bln. (including USD 2.7 bln. in January 2009) to maintain stability on the foreign exchange market and to support the exchange rate of tenge at a current level.

National Bank fairly assesses the situation and believes that a potential of devaluation expectations will be drained by achieving the

declared level. The reason is an availability of tenge liquidity in the financial system, which will not allow maintaining a permanent demand for foreign currency. For example on January 29-30 tenge was appreciating with respect to USD without the NBK participation as a result of anticipatory steps to cut down tenge liquidity. Accordingly, exchange rate changes could occur in both directions - appreciation and depreciation - that will be defined by the situation on tenge liquidity market and on world foreign exchange market (first of all by EURO-USD movements).

The National Bank will sternly suppress the attempts of speculative behavior on the foreign exchange market and will avoid the predictability of the exchange rate movements (obvious trends of gradual depreciation or appreciation of the national currency will not be traced). Moreover, to reduce speculative mood the National Bank reserves the right to overstep the bottom burden of the band, so that the tenge appreciation would lead to the losses of speculators.

The National Bank will not allow exchange rate fluctuations exceeding rational expectations. Currently no restrictions on currency operations regime are foreseen.

The National Bank has undertaken additional measures to provide stability on financial market. As primary measures the following steps will be realized:

- From February 5, 2009 the official refinancing rate will be reduced to 9.5%;
- From March 3, 2009 minimal reserve requirements will be reduced from 2% to 1.5% on domestic liabilities and from 3% to 2.5% on other liabilities, injecting liquidity to banks in the amount of 50 bln. tenge.
- An uninterrupted functioning of payment system will be provided. The National Bank will continue to provide banks with short term liquidity secured by approved collateral instruments;
- Exchange offices will be provided with the sufficient volume of foreign exchange cash. The National Bank regional branches have a significant volume of foreign currency. The National Bank brought additional USD 600 bln. Accordingly, all regions will be provided with foreign currency to meet the demand for cash.

As a result of exchange rate correction, an improvement of competitiveness terms for domestic goods and of financial conditions for the enterprises in export and import-substitution sectors will occur.

As a whole result, a significant improvement of balance of payments and preservation of foreign reserves is anticipated.

Change of exchange rates with respect to US dollar

	In 2008			January 2009	Over 13 months (1.01.08 - 31.01.09)
	total	1half-year 2008	1half-year 2008		
Kazakhstan	0,4	0,4	0,0	0,6	1,0
Russia	19,7	-4,4	25,3	20,5	44,3
Byelorussia	2,3	-1,2	3,5	25,1	28,0
Ukraine	52,5	-4,0	58,8	0,0	52,5
Brazil	32,0	-10,1	46,8	-0,9	30,8
Great Britain	38,5	0,0	38,4	-0,3	38,1
Canada	24,8	3,8	20,2	1,0	26,0
Australia	21,4	-9,2	28,0	7,1	27,0
Norway	29,4	-6,1	37,8	-0,9	28,2
Eurozone	5,5	-7,1	11,7	7,9	12,9

«-» - appreciation of the national currency, «+» - depreciation of the national currency