



**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN
PRESS RELEASE NO.3
January 10, 2012**

**Preliminary Outcomes for 2011
Regarding the Situation in the Financial
Market**

1. Inflation in 2011. According to the official data from the Agency of Statistics of the Republic of Kazakhstan, the annual inflation in 2011 was at 7.4% (in 2010 – 7.8%) (Figure 1).

In 2011 the inflation was building up against a significant increase in the price for foodstuffs which increased by 9.1% over the period (in 2010 – by 10.1%). The price of non-food products increased by 5.3% (by 5.5%), the price of paid services – by 7.3% (by 6.8%).

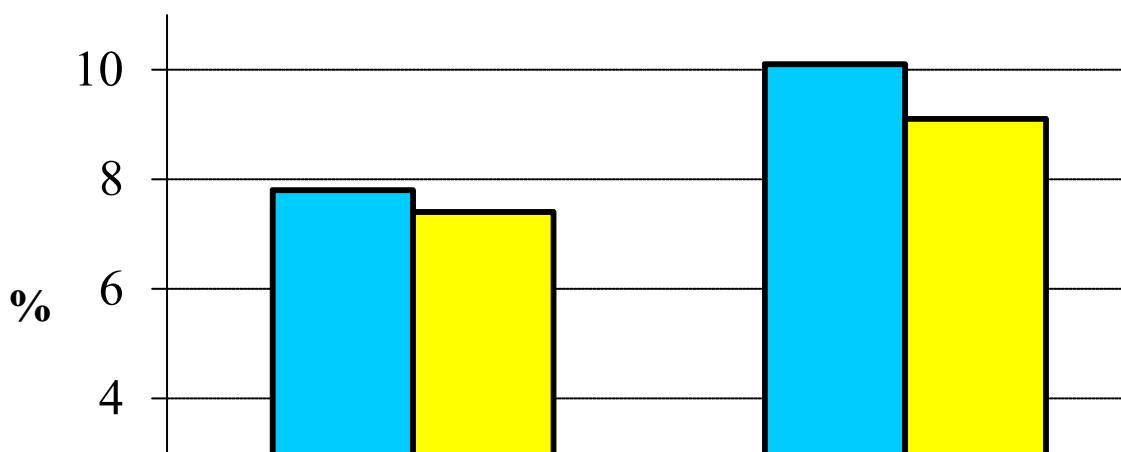
In 2011 the highest increase occurred in the price of cereals – by 43.3%, including buckwheat – by 54.7% and millet – by 44.0%, as well as meat and meat products – by 23.2%, dairy products – by 8.9%. Sugar and fruit and vegetables became cheaper – by 18.7% and by 3.5%, respectively.

In the group of non-food products the highest increase occurred in the price of gasoline – by 24.0% and diesel fuel – by 26.2%.

In the structure of paid services, price of utilities increased by 6.5%. Fees for electricity increased by 10.3%, for sewage – by 9.9%, and for cold water – by 8.8%. Also, the price of education services increased by 12.4% including the fee charged for university education – by 16.1%, for communications services – by 9.5%, transport services – by 8.1%, out-patient medical services – by 6.2%.

Figure 1

Inflation and its Components in 2010 and 2011



Inflation in December 2011. In December 2011 the inflation was 0.3% (in December 2010 – 0.7%). Prices for foodstuffs increased by 0.3% (by 1.2%), for non-food products – by 0.4% (by 0.4%) and for paid services – by 0.2% (by 0.1%).

In the foodstuff market in December 2011 the highest increase occurred in the price of eggs – by 3.2%, meat and meat products – by 1.0%, fish and seafood – by 0.9%, and dairy products – by 0.7%. Sugar, cereals and fats and oils became cheaper – by 7.3%, 3.2%, and 0.5%, respectively.

In the group of non-food products the prices for diesel fuel increased by 0.8%, detergents and scouring products – by 0.5%, clothing and footwear – by 0.4%. The price of gasoline decreased by 0.1%.

In the structure of paid services, price of utilities increased by 0.3% including solid fuel – by 1.7%, the cost of upkeep – by 1.6%, house rentals – by 1.1%, and the healthcare services – by 0.4%.

2. Balance of Payments and Gross External Debt for 9 Months of 2011.

During 9 months of 2011 the current account surplus amounted to US\$ 11.3 bln., demonstrating a 3.5 times increase as compared to the same indicator for 9 months of 2010.

The increase in the positive current account balance was ensured by the growth in the cost of export of goods associated with favorable world energy prices. The export of goods during 9 months of 2011 increased by 48.9% versus the same period of 2010 and amounted to US\$ 66.7 bln.

The official exports of goods amounted to US\$ 65.8 bln. (US\$ 43.9 bln. during 9 months of 2010). In the structure of the major export product range, US\$ 42.2 bln. (64.1%) falls on the exports of oil and gas condensate (US\$ 27.9 bln. during 9 months of 2010). The export value of ferrous metals increased by 43.4%, of non-ferrous metals – by 41.8%. Whereby the increase in the exports of ferrous metals to a large extent occurred due to the increased volumes of physical supplies, the increase in the exports of non-ferrous metals was caused by the increased contractual prices.

The volume of import of goods during 9 months of 2011 amounted to US\$ 30.3 bln. (the official imports amount to US\$ 27.2 bln.), having increased by 37.1% as compared to 9 months of 2010. The growth was observed in all commodity groups of the main range of imports. The interim consumption goods which have the largest share in the imports (about 40%) in January-September 2011 increased by 26.7%. The growth in the imports of investment goods accounted for 31.4%, and consumer goods – 27.6%. The total import of consumer foodstuffs increased by 38.3%, and the total import of non-food products – by 19.7%. Contrary to export operations, the increase in the value of imports was mainly ensured by the growth in quantitative supplies.

Goods turnover with the members-states of the Customs Union increased by US\$ 6.7 bln. (by 55.3%) amounting to US\$ 18.9 bln. Exports of goods to the CIS-countries increased by 53.3% to US\$ 5.7 bln. and their imports exceeded US\$ 13.1 bln., having increased by 56.1%. The share of the members-states of the Customs Union in the total volume of imports accounted for 48.6%, of which 47.1% come from the Russian Federation.

The overall trade balance for 9 months of 2011 was positive and amounted to US\$ 36.3 bln. (the growth by 60.6% as compared to the baseline period number of US\$ 22.6 bln.), offsetting the net outflow of resources associated with international services and investment returns.

The deficit of the services balance for 9 months of 2011 amounted to US\$ 4.2 bln., having decreased by 11.5% versus the same indicator for 9 months of 2010. The decreased negative imbalance in services was caused by the decreased import of services by 4.7% as compared to 9 months of 2010. At the same time, in the 3rd quarter of 2011 there was a significant increase in the volumes of services provided by non-residents as compared to the previous quarters (by 68% and 29%, respectively); this is related to the resumption of operations as part of the second stage of the experimental program in the Kashagan oil field that was suspended in the first half of 2011.

Due to increased revenues from the export of goods, income of foreign direct investors in the respective sectors of the economy continues to grow. Payouts to foreign direct investors during 9 months of 2011 amounted to US\$ 18.7 bln., which is higher than the same indicator for 9 months of 2010 (US\$ 12.5 bln.) by 49.9%. Interest payments to lenders not connected by direct investment relationships, also increased by 21.5% during 9 months of 2011 exceeding US\$ 2.3 bln. This resulted in a negative balance of investment returns of US\$ 19.5 bln. versus US\$ 13.2 bln. during 9 months of 2010.

The financial account showed net outflow of US\$ 3.9 bln. for 9 months of 2011 caused by operations in the 2nd and 3rd quarters of 2011. Net inflow of foreign direct investments (FDIs) into Kazakhstan amounted to US\$ 11.3 bln. versus US\$ 8.7 bln. during 9 months of 2010. The

increased net inflow of FDIs into the country was mainly ensured by operations related to the growth in the shareholders equity of banks with foreign participation and enterprises from the non-bank sector as well as by the growth in retained earnings (reinvested profit) of the Kazakh enterprises. As a result, positive balance of direct investment operations amounted to US\$ 7.6 bln. in the reporting period.

A net outflow on portfolio investments of US\$ 7.5 bln. was fully pre-determined by the growth in foreign assets of the National Fund; operations with other assets and liabilities of non-residents showed virtually a zero balance. Withdrawal by non-residents from the market of the National Bank's short-term notes in the 2nd and 3rd quarters of 2011 resulted in a net outflow of resources from operations with the National Bank's notes amounting to US\$ 114 mln. during 9 months of 2011.

Also, in January-September 2011 there was a growth in liabilities on non-government securities (owing to the operations in the 1st half of 2011) as a result of new Eurobond issues as well as operations for replacement of the issuer of Eurobonds issued by special purpose vehicles (SPV). At the same time, the repayment by banks of liabilities on previously issued Eurobonds and the second market operations somewhat leveled down the increase in the bank liabilities on portfolio investments that resulted in the growth of bank liabilities amounting to US\$ 166 mln. only.

Gross External Debt. At September 30, 2011 gross external debt amounted to US\$ 122.9 bln., of which US\$ 4.9 bln. or 4.0% is comprised by the government sector's external debt (liabilities of the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan), inter-company debt amounts to US\$ 58.7 bln. or 47.8%, and the banking sector debt amounts to US\$ 16.5 bln. or 13.4%.

As a whole, during the 3rd quarter of 2011 gross external debt decreased by US\$ 1.7 bln. At the same time, if external debt of the "general government sector" (Government of the RK) and inter-company debt demonstrated the growth by US\$ 0.2 and 2.3 bln., respectively, during the 3rd quarter of 2011, foreign liabilities of the "Monetary Authorities" (National Bank of the RK), "Banks" and "Other Sectors" (excluding intercompany debt) decreased over the same period by US\$ 1.9 bln., US\$ 2.3 bln. and US\$ 0.1 bln., respectively.

Such growth in liabilities of the Government of the Republic of Kazakhstan mainly occurred due to receipts of borrowed funds from international financial organizations. In the 3rd quarter of 2011 non-residents continued to withdraw from the market of the National Bank's notes – the volume of notes held by non-residents decreased to US\$ 0.1 bln. at the end of the 3rd quarter of 2011 from US\$ 1 bln. at the end of the 2nd quarter of 2011. Funds of non-residents at the accounts with the National Bank also decreased, and foreign liabilities of the "Monetary Authorities" amounted to US\$ 0.7 bln. at September 30, 2011 (at June 30, 2011 – US\$ 2.5 bln.).

Amidst the decline in the global stock and commodity markets, in the 3rd quarter of 2011 the prices of Eurobonds continued to fall; that contributed to a significant decrease in the bond value of "Banks" in the secondary markets. Note that in the banking sector the decrease in foreign liabilities occurred in relation to all financial instruments. As a result, external debt of "Banks" decreased to US\$ 16.5 bln. from US\$ 18.8 bln. at the end of the 2nd quarter of 2011.

The increased external debt of "Other sectors" in the 3rd quarter of 2011 occurred mainly because of the growth in the inter-company debt (by US\$ 2.3 bln.), whereas liabilities to non-affiliated non-residents showed the decrease by US\$ 0.1 bln. Thus, at September 30, 2011 external debt of "Other sectors" amounted to US\$ 101.4 bln., of which the inter-company debt amounted to US\$ 58.7 bln. (branches of foreign companies – US\$ 44.3 bln.), liabilities to other (non-affiliated) non-residents – US\$ 42.7 bln.

Relative external debt parameters linked to the exports of goods and services (EGS) and GDP continue to improve; this is related to the outstripping growth of EGS and GDP. Specifically, at September 30, 2011 gross external debt to EGS accounted for 140.9% versus 159.3% at June 30, 2011 and 180.2 % at March 31, 2011. Gross external debt to GDP at September 30, 2011 accounted for 69.6% versus 75.9% at the end of the 2nd quarter of 2011 and 79.0% at the end of the 1st quarter of 2011.

Owing to the decreasing external debt alongside with the continuing growth of the country's assets during 2011, net external debt of Kazakhstan in the 3rd quarter of 2011 decreased by US\$ 3.5 bln. and amounted to US\$ 12.6 bln. at September 30, 2011. At the same time, since mid-2011 "Banks" moved from the net debtor position to the net lender position.

3. International Reserves and Monetary Aggregates in 2011. In 2011 net international reserves of the National Bank increased by 3.8% to US\$ 28.8 bln. The growth of bank correspondent account balances with the National Bank and foreign currency proceeds to the Government's accounts with the National Bank were partially neutralized by foreign exchange sales in the domestic foreign currency market, by servicing of the Government's external debt and asset replenishment of the National Fund from the gold and currency reserve accounts. As a result, net currency reserves (FCC) decreased by 0.2% during 2011, and assets denominated in gold increased by 36.0% as a result of performed transactions and its price growth in global markets by 11.6%.

During 2011 the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 43.7 bln.) increased by 23.2% to US\$ 73.0 bln.

During 2011 the reserve money expanded by 10.3% and amounted to KZT 2836.1 bln. Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, expanded by 27.8% to KZT 2739.3 bln.

During January-November 2011 money supply grew by 13.3% to KZT 9607.0 bln. due to the growth in net foreign assets of the banking system. In the structure of net foreign assets of the banking system, both net international reserves of the National Bank and net foreign assets of banks increased in November 2011 as compared to December 2010.

During January-November 2011 cash in circulation increased by 7.5% to KZT 1234.7 bln., deposits in the banking system – by 14.2% to KZT 8372.3 bln. The outstripping rates of growth in the volume of deposits versus the growth of cash in circulation resulted in the growth of the share of deposits in the structure of money supply from 86.5% in December 2010 to 87.1% in November 2011.

The money multiplier increased from 3.30 in December 2010 to 3.24 at end-November 2011 as a result of higher the rates of the reserve money expansion as compared to the growth rates of money supply.

International Reserves and Monetary Aggregates in December 2011. In December 2011 net international reserves of the National Bank decreased by 9.0% to US\$ 28.8 bln. (since the beginning of the year – the growth by 3.8%). Asset replenishment of the National Fund from the gold and currency reserve accounts, decrease in foreign currency balances of bank correspondent accounts with the National Bank, foreign exchange sales in the domestic foreign currency market, and servicing of the Government's external debt were partially neutralized by foreign currency receipts to the Government's accounts with the National Bank.

As a result, net currency reserves (FCC) decreased in December 2011 by 10.8%, and assets denominated in gold increased by 2.9%.

In December 2011, the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 43.7 bln.) decreased by 3.2% and amounted to US\$ 73.0 bln. (since the beginning of the year – the growth by 23.2%).

Reserve money in December 2011 contracted by 4.3% due to the decreased net foreign assets of the National Bank and amounted to KZT 2836.1 bln. (since the beginning of the year – the expansion by 10.3%). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 3.4% to KZT 2739.3 bln.

4. Foreign Exchange Market in 2011. In 2011 the overall situation in the foreign exchange market was characterized by stability. The average-weighted stock exchange rate of the Tenge was KZT 146.64 per 1 US Dollar during 12 months of 2011. The stock exchange rate

at end-2011 was KZT 148.40 per 1 US Dollar. During 2011 the Tenge depreciated versus the US Dollar in nominal terms by 0.6%.

In 2011 the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions amounted to US\$ 70.7 bln., having increased by 16.5% as compared to 2010. The minimum transaction volume was observed in May, and the maximum – in August.

In the off-exchange foreign currency market the transaction volume in 2011 decreased as compared to the same indicator in 2010 by 25.7% and amounted to US\$ 38.8 bln. The minimum transaction volume was observed in November, and the maximum – in August.

Foreign Exchange Market in December 2011. In December 2011 the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 147.59-148.40 per 1 US Dollar. During December 2011 the Tenge depreciated by 0.5% and at end-December 2011 the stock exchange rate of the Tenge equaled KZT 148.40 per 1 US Dollar.

The volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions in December 2011 as compared to November 2011 increased by 11.1% and amounted to US\$ 5.5 bln. (since the beginning of the year – US\$ 70.7 bln.).

The transaction volume in the off-exchange foreign currency market increased by 16.2% and amounted to US\$ 2.0 bln. (since the beginning of the year– US\$ 38.8 bln.).

5. Government Securities Market in 2011. As of January 1, 2012 the volume of outstanding government securities of the Ministry of Finance and short-term notes of the National Bank amounted to KZT 2590.0 bln. at a discounted price.

In 2011 the Ministry of Finance placed government securities worth KZT 655.8 bln., which is by 0.6% less than in 2010.

In 2011 61 auctions offering government securities of the Ministry of Finance were held where the following government securities were placed: 12-month MEKKAM (their yield was 1.62%), 2, 3, 4, 5-year MEOKAM (their yield was 2.01%, 3.12%, 3.33%, 3.02%), 6, 7, 9, 10, 11, 12, 13, 14, 15, 16-year MEUKAM (yield – 3.61%, 3.85%, 5.00%, 5.30%, 4.90%, 4.97%, 5.15%, 5.00%, 5.00%, and 5.30%, respectively), 6, 7, 8, 9, 10, 11, 12, 16, 18, 19, 20-year MEUZHKA (their yield was 0.01% above the inflation rate).

As a result, during 2011 the volume of outstanding securities issued by the Ministry of Finance increased by 24.6% to KZT 2080.2 bln.

Short-Term Notes of the National Bank of Kazakhstan. The volume of short-term notes issued by the National Bank during 2011 amounted to KZT 2967.8 bln., which is by 10% less than in 2010. As a result, the volume of notes in circulation at end-December 2011 decreased as compared to December 2010 by 43.3% to KZT 509.8 bln.

The effective yield on notes decreased from 1.38% in 2010 to 1.21% at the end of 2011.

Government Securities Market in December 2011. In December 2011, 9 auctions offering government securities of the Ministry of Finance were held. The following securities were offered at the auctions: 12-month MEKKAM (KZT 4.3 bln. and KZT 7.7 bln.), 3-year MEOKAM (KZT 9.2 bln.), 9-year MEUKAM (KZT 8.6 bln. and KZT 3 bln.), 10-year MEUKAM (KZT 9.8 bln.), 13-year MEUKAM (KZT 9.5 bln. and KZT 3.5 bln.), 20-year MEUZHKA (KZT 25 bln.).

The effective yield on placed securities was as follows: on 12-month MEKKAM – 1.62%, 3-year MEOKAM – 3.12%, 9-year MEUKAM – 5.00%, 10-year MEUKAM – 5.30%, 13-year MEUKAM – 5.20% and 5.15%, and on 20-year MEUZHKA – 0.01% above the inflation rate.

The volume of outstanding securities of the Ministry of Finance at end-December 2011 amounted to KZT 2080.2 bln., having increased by 5.7% as compared to the previous month.

Short-Term Notes of the National Bank of Kazakhstan in December 2011. The volume of notes issued by the National Bank in December 2011 increased by 5.6 times as compared to November 2011 and amounted to KZT 239.2 bln.

Three auctions were held to place 3-month notes (KZT 13.1 bln., KZT 52.9 bln. and KZT 107.3 bln.), 2 auctions were held to place 6-month notes (KZT 35.5 bln. and KZT 6.9 bln.), and 1 auction – to place 9-month notes (KZT 23.3 bln.).

The effective yield on placed notes was as follows: on 3-month notes –1.01%, 1.00% and 0.96%, on 6-month – 1.46%, on 9-month – 1.75%.

The volume of notes in circulation at end-December 2011 as compared to November 2011 increased by 1.6% and amounted to KZT 509.8 bln.

6. Interbank Money Market in 2011. In 2011 the total volume of placed interbank deposits decreased by 24.8% as compared to 2010 amounting to the equivalent of KZT 31.2 trln.

The volume of placed interbank deposits in the Tenge decreased by 21.8% amounting to KZT 13.9 trln. (44.4% of the total volume of deposits placed in 2011 году). The average weighted interest rate on the placed interbank deposits in the Tenge in December 2011 remained unchanged as compared to December 2010 and was 0.57%.

The volume of deposits attracted by the National Bank from banks in 2011 decreased by 21.9% and amounted to KZT 13.4 trln.

In 2011 the volume of placed dollar deposits amounted to US\$ 101.1 bln., having decreased by 20.0% (47.4% of the total volume of deposits placed in 2011). The average weighted interest rate on the placed deposits in the US Dollar in December 2011 was 0.26%, whereas in December 2010 it was 0.28%.

The volume of placed Euro deposits decreased by 62.0% as compared to 2010 and amounted to Euro 9.2 bln. (6.0% of the total volume of deposits placed in 2011). The average weighted interest rate on the placed deposits in the Euro increased from 0.46% in December 2010 to 2.46% in December 2011.

The placements of deposits in the Russian ruble remain insignificant – 2.2% of the total volume of deposits placed.

As a whole, the share of interbank deposits in foreign currency remains high – 55.6% of the total volume of deposits placed, although a steady downward trend was observed during the last year. The major portion of deposits (55.0%) is placed in foreign currency with non-resident banks.

7. Deposit Market During 11 months of 2011. The volume of deposits of residents with depository institutions increased during January-November 2011 by 14.2% to KZT 8372.3 bln. Deposits of corporate entities increased by 12.0% to KZT 5755.0 bln., deposits of individuals – by 19.2% to KZT 2617.3 bln.

During January-November 2011, the volume of deposits in the domestic currency increased by 17.1% to KZT 5595.8 bln., the volume of foreign currency deposits increased by 8.6% to KZT 2776.5 bln. The percentage of the Tenge deposits in November 2011 as compared to December 2010 increased from 65.1% to 66.8%.

Deposits of the population with banks (including non-residents) during January-November 2011 increased by 17.8% to KZT 2649.3 bln. In the structure of deposits of the population the Tenge deposits increased by 20.3% to KZT 1503.1 bln., and foreign currency deposits increased by 14.6% to KZT 1146.1 bln. As a result, the percentage of the Tenge deposits increased from 55.5% in December 2010 to 56.7% at end-November 2011.

In November 2011, the average weighted interest rate on the Tenge time deposits of non-bank corporate entities was 2.7% (in December 2010 – 3.4%), and on deposits of individuals – 8.6% (8.8%).

8. Credit Market during 11 Months of 2011. During January-November 2011 the total volume of bank credits to the economy increased by 12.9% amounting to KZT 8570.1 bln.

The volume of credits in the domestic currency increased by 25.4% to KZT 5498.2 bln., the volume of foreign currency credits decreased by 4.3% to KZT 3071.9 bln. The percentage of

the Tenge credits in November 2011 as compared to December 2010 increased from 57.7% to 64.2%.

During January-November 2011, long-term lending increased by 9.8% to KZT 6969.6 bln., short-term lending increased by 28.9% to KZT 1600.5 bln. As a result, the percentage of long-term credits in November 2011 as compared to December 2010 decreased from 83.6% to 81.3%.

During January-November 2011, credits to corporate entities increased by 14.3% amounting to KZT 6255.8 bln., credits to individuals increased by 9.4% to KZT 2314.3 bln. The percentage of credits to individuals in November 2011 as compared to December 2010 decreased from 27.9% to 27.0%.

Credits to the small- and medium-size businesses during January-November 2011 decreased by 3.0% to KZT 1343.0 bln., which accounts for 15.7% of the total volume of credits to the economy (in December 2010 – 18.2%).

In the sectoral breakdown, the most significant amount of credits to the economy falls on trade – 20.3% (in December 2010 – 24.0%), construction – 14.9% (18.1%), industry – 11.7% (9.4%), and agriculture – 3.5% (3.8%).

In November 2011 the average weighted interest rate on the credits provided in the Tenge to non-bank corporate entities was 11.3% (in December 2010 – 12.9%), on credits to individuals – 19.5% (20.3%).