



**NATIONAL BANK  
OF THE REPUBLIC OF KAZAKHSTAN  
PRESS-RELEASE NO.7  
of February 14, 2012**

**Regarding the Situation in the Financial  
Market**

**1. Brief Summary of the Macroeconomic Development of Kazakhstan in 2011**

In 2011 the inflationary processes were of multi-directional nature. In the first half of 2011 there was some acceleration in the inflation rate associated with a number of structural problems and factors. Unstable situation in the global markets, growth of world prices for raw materials and foodstuffs, inefficient pricing mechanism, and a low level of competition in certain markets of goods and services appeared to be the most significant ones. At the same time, coordinated and balanced efforts of the Government and the National Bank to ensure the price stability allowed slowing down the inflation rate to a large extent. As a result, at the year-end of 2011 *the annual inflation* was within the target band of 6-8% and accounted for 7.4%.

According to a preliminary estimate of the *balance of payments of the Republic of Kazakhstan*, the current account surplus in 2011 amounted to US\$ 13.6 bln., demonstrating a nearly 4.5 times increase as compared to the same indicator for 2010.

According to the National Bank's estimate, net exports in 2011 had a positive balance of US\$ 46.8 bln. (the growth by 61.9% as compared to 2010), compensating net outflow of resources related to international services in the amount of US\$ 6.1 bln. and revenues of foreign direct investors which increased to US\$ 24.1 bln.

According to a preliminary estimate, the financial operations account showed a net outflow of US\$ 7.2 bln. in 2011. Foreign direct investments (net) in 2011 amounted to US\$ 8.8 bln. Net outflow of portfolio investments of US\$ 12.6 bln. was mainly ensured by the growth of foreign assets of the National Fund by US\$ 11.4 bln.

In 2011 *the unemployment rate* was gradually going down. At end-December 2011, according to estimates, it accounted for 5.4%, having decreased from 5.5% in December 2010.

Revenues to the *state budget* in 2011 increased by 24.1% and amounted to KZT 5444.6 bln., expenditures increased by 22.3% to KZT 6013.2 bln. Thus, in 2011 the state budget resulted in the deficit of KZT 568.6 bln.

In 2011, in order to finance the budget deficit, the Ministry of Finance issued *government securities*. In 2011 the Ministry of Finance placed securities worth KZT 655.8 bln., which is by 0.6% less than in 2010. During 2011 the volume of outstanding government securities of the Ministry of Finance increased by 24.6% to KZT 2080.2 bln. During 2011 the issue of *short-term notes of the National Bank* amounted to KZT 2967.8 bln., which is by 10.0% less than in 2010. The volume of outstanding notes decreased at end-December 2011 as compared to December 2010 by 43.3% to KZT 509.8 bln. 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 (as of January 1, 2011 – KZT 2568.6 bln.).

**2. Regarding the Official Refinancing Rate**

Based on the financial market trends and the slow-down in the annual inflation rate, the Board of the National Bank of the Republic of Kazakhstan passed a resolution that **the official refinancing rate** of the National Bank of the Republic of Kazakhstan **shall be at 7.0% per annum from February 14, 2012**, representing the historically minimum level. Last time the official refinancing rate was changed on March 9, 2011 when it was increased from 7.0% to 7.5% per annum.

### 3. Inflation

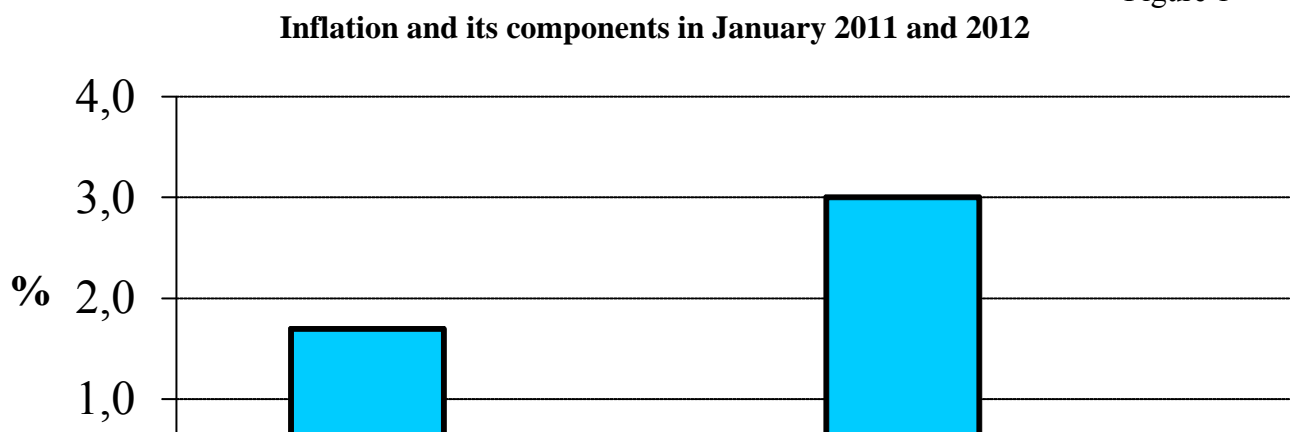
According to the official data from the Agency of Statistics of the Republic of Kazakhstan, in January 2012 the inflation was at 0.3% (in January 2011– 1.7%). Prices for foodstuffs increased by 0.5% (by 3.0%), prices for non-food products – by 0.3% (by 0.5%) and prices for paid services – by 0.1% (by 1.2%) (Figure 1).

In the foodstuff market during the previous month the highest increase was demonstrated in prices for eggs by 1.4%, meat and meat products – by 1.4%, including pork – by 2.2%, mutton and beef – by 1.6% each, horse meat – by 1.0%, fruits and vegetables – by 0.7%, dairy products – by 0.5%. Prices for cereals decreased by 4.4%, for flour and sugar – by 2.1% each, sun flower oil – by 1.5%.

In the group of non-food products prices for clothing and footwear increased by 0.5%, housewares and cutlery – by 0.6%, medications – by 0.3% and for diesel fuel – by 0.2%.

In the group of paid services, price of utilities generally remained unchanged. At the same time, the tariffs of waste collection increased by 2.3%, house rentals – by 0.5%, and costs of upkeep increased by 0.4%. Also, within the paid services the cost of legal services increased by 6.8%, medical services – by 0.8% and services of pre-school and elementary education – by 0.8%.

Figure 1



In January 2012 the annual inflation accounted for 5.9% (in December 2011 – 7.4%). This has been the lowest annual inflation rate since November 2009. Over the last 12 months the price of foodstuffs increased by 6.5% (by 9.1%), non-food products – by 5.1% (by 5.3%), paid services – by 6.1% (by 7.3%).

### 4. International Reserves and Monetary Aggregates

In January 2012 there was an increase in the international reserves of the National Bank. Gross international reserves of the National Bank increased by 13.1% to US\$ 33.2 bln. Net international reserves of the National Bank increased by 15.2% and amounted to US\$ 33.1 bln. Servicing of the Government's external debt and asset replenishment of the National Fund from the gold and currency reserve accounts have been abundantly offset by the foreign currency receipts to the Government's accounts with the National Bank and the growth of bank correspondent account balances with the National Bank. As a result, net currency reserves (FCC) increased by 14.3% during January 2012. Assets denominated in gold increased by 20.6% as a result of performed transactions and its price growth in global markets.

During January 2012 the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 45.5 bln.) increased by 7.7% to US\$ 78.7 bln.

During January 2012 the reserve money expanded by 19.3% and amounted to KZT 3384.1 bln. The narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, expanded by 15.6% to KZT 3167.7 bln.

During December 2011 money supply grew by 1.5% to KZT 9751.1 bln. (since the beginning of the year – the growth by 15.0%). The volume of cash in circulation grew by 10.6% to KZT 1365.7 bln. (since the beginning of the year – the growth by 18.9%), and deposits in the banking system increased by 0.2% to KZT 8385.4 bln. (since the beginning of the year – the growth by 14.3%). The outstripping growth rates of cash in circulation as compared to the growth in the volume of deposits caused the decrease in the share of deposits in the structure of money supply from 87.1% in November 2011 to 86.0% in December 2011.

The money multiplier increased from 3.24 in November 2011 to 3.44 at end-December 2011 as a result of higher growth rates of the money supply as compared to the rates of the reserve money expansion observed in December 2011

## 5. Foreign Exchange Market

In January 2012 the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 148.08–148.61 versus 1 US Dollar. During January 2012 the Tenge depreciated by 0.1%, and at the month-end the stock exchange rate of the Tenge was KZT 148.56 versus 1 US Dollar.

In January 2012 the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased as compared to December 2011 by 42.3% and amounted to US\$ 3.2 bln. In the off-exchange foreign currency market, the transaction volumes decreased by 32.0% and amounted to US\$ 1.5 bln.

In total, the transaction volume in the domestic foreign exchange market decreased by 39.3% and amounted to US\$ 4.7 bln.

## 6. Devaluation of 2009: the Outcomes

In February 2009 the National Bank implemented the Tenge devaluation. This effort helped stabilize the situation in the foreign exchange market significantly, support competitiveness of the domestic producers, improve the country's balance of payments and preserve the gold and foreign currency reserves. In 2009-2011 the exchange rate of the Tenge was building up against high world prices for major items of the Kazakhstan's exports.

As a result, since October 2008 when the crisis developments began to strengthen and world prices for energy resources began to fall, the Tenge has depreciated against the US Dollar by 23.8%.

During the period exchange rates of foreign currencies versus the US Dollar demonstrated high volatility (Table 1). At the same time, the Tenge was fluctuating versus the US Dollar insignificantly.

Table 1

**Exchange Rate Volatility in February 2009 – February 2012<sup>1</sup>**

<b>Currency</b>	<b>Volatility</b>
<i>KZT/USD</i>	2.3%
AUD/USD	17.8%
NOK/USD	17.4%
CAD/USD	13.8%
RUB/USD	13.4%
EUR/USD	13.2%
JPY/USD	12.8%

As a result of devaluation implemented in February 2009, the index of the real effective exchange rate (REER) was within the baseline level of competitiveness fixed in 2000 by the end of 2009, exceeding the baseline level by 0.3% only. At the same time, in December 2009 the REER index was by 10.2% less than in February 2009.

<sup>1</sup> From February 10, 2009 through February 10, 2012

During 2010-2011 the dynamics of the REER index was building up under the impact of various external factors. At the end of 2010 the REER appreciated by 8.2% versus December 2000 and it depreciated by 3.1% versus February 2009. During 2011 the dynamics of the REER index was multi-directional, however, by the year-end a clear appreciation trend was observed, primarily caused by the depreciation of currencies of trade partners. So, at end-2011 the REER index appreciated versus the baseline level by 11.3% and depreciated versus February 2009 by 0.4%. The real exchange rate of the Tenge versus the US Dollar at end-December 2011 appreciated versus February 2009 by 12.3%.

## **7. Government Securities Market**

In January 2012, 5 auctions offering government securities of the Ministry of Finance were held. The following government securities were offered at the auctions: 12-month MEKKAM (KZT 9.8 bln.), 3-year MEOKAM (KZT 10 bln.), 9-year MEUKAM (KZT 8.6 bln.), 10-year MEUKAM (KZT 16.1 bln.), and 11-year MEUZHKA (KZT 13.2 bln.).

The effective yield of placed securities was as follows: 12-month MEKKAM – 2.02%, 3-year MEOKAM – 3.53%, 9-year MEUKAM – 5.00%, 10-year MEUKAM – 5.32%, and 11-year MEUZHKA – 0.01% above the inflation rate.

The volume of securities issued into circulation by the Ministry of Finance amounted to KZT 2120.7 bln. at end-January 2012, having increased by 1.95% as compared to the previous month.

**Short-Term Notes of the National Bank of Kazakhstan.** The volume of notes issued by the National Bank during January 2012 as compared to December 2011 decreased by 3.4 times and amounted to KZT 69.8 bln.

Two auctions were held to offer 3-month notes (KZT 7.2 bln. and KZT 32.5 bln.), 1 auction to offer 6-month notes (KZT 19 bln.), and 1 auction to offer 9-month notes (KZT 11.1 bln.).

The effective yield on the placed notes was 1.01% on 3-month notes, 1.46% on 6-month notes, and 1.75% on 9-month notes.

The volume of notes in circulation at end-January 2012 as compared to December 2011 increased by 6.2% and amounted to KZT 541.4 bln.

## **8. Interbank Money Market**

In January 2012 the total volume of placed interbank deposits decreased by 21.4% as compared to December 2011, amounting to the equivalent of KZT 1300.6 bln.

The volume of placed interbank deposits in the Tenge decreased by 4.7% and amounted to KZT 499.3 bln. (38.4% of the total volume of placed deposits). The average weighted interest rate on the placed interbank deposits in the Tenge in January 2012 grew from 0.57% to 0.63%.

The volume of deposits attracted by the National Bank from banks in January 2012 as compared to December 2011 decreased by 1.5% to KZT 492.7 bln.

In January 2012 as compared to December 2011 the volume of placed dollar deposits decreased by 30.5% and amounted to US\$ 4.8 bln. (54.3% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the Tenge in January 2012 changed from 0.26% to 0.27%.

The volume of placed Euro deposits in January 2012 decreased by 15.9% amounting to Euro 0.3 bln. (4.9% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the Euro in January decreased from 2.46% to 0.20%.

The volume of placed deposits in the Russian ruble in January 2012 decreased by 23.6% amounting to RUR 6.6 bln. (2.4% of the total volume of placed deposits). The average weighted interest rate on the placed Ruble deposits in January 2012 decreased from 5.09% to 4.43%.

The share of interbank foreign currency deposits decreased during January 2012 from 68.4% to 61.6% of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks decreased from 66.7% to 60.1%.

## **9. Deposit Market**

The total volume of deposits of residents with depository institutions increased during December 2011 by 0.2% to KZT 8385.4 bln. (the growth since the beginning of the year by 14.3%). Corporate deposits decreased by 1.6% to KZT 5661.2 bln. over the month (the growth since the beginning of the year by 10.2%), deposits of individuals increased by 4.1% to KZT 2724.2 bln. (the growth since the beginning of the year by 24.1%).

In December 2011 the volume of foreign currency deposits decreased by 5.3% to KZT 2629.7 bln. (the growth since the beginning of the year by 2.8%), and deposits in the domestic currency increased by 2.9% to KZT 5755.7 bln. (the growth since the beginning of the year by 20.5%). The percentage of the Tenge deposits increased over the month from 66.8% to 68.6%.

During December 2011, deposits of the population at banks (including non-residents) increased by 4.1% to KZT 2758.6 bln. (*during 2011 – the growth by 22.6%, during 2010 – the growth by 16.2%, and during 2009 – the growth by 29.1%*). In the structure of deposits of the population the Tenge deposits increased by 6.3% to KZT 1598.0 bln., and foreign currency deposits increased by 1.3% to KZT 1160.6 bln. In the composition of deposits of the population the percentage of the Tenge deposits increased from 56.7% to 57.9% over the month.

In December 2011 the average weighted interest rate on the Tenge time deposits of non-bank corporate entities was 2.7% (in November 2011 it also accounted for 2.7%), and on deposits of individuals – 8.4% (8.6%).

## **10. Credit Market**

During December 2011 the total volume of bank credits to the economy increased by 2.5% amounting to KZT 8781.4 bln. (*during 2011 – the growth by 15.7%, during 2010 – the decrease by 0.7%, and during 2009 – the growth by 2.5%*).

The volume of credits in the domestic currency increased by 3.3% to KZT 5681.6 bln. (the growth since the beginning of the year by 29.6%), the volume of credits in foreign currency increased by 0.9% to KZT 3099.7 bln. (the decrease since the beginning of the year by 3.4%). The percentage of credits in the Tenge increased from 64.2% to 64.7% over the month.

Long-term lending in December 2011 increased by 1.7% amounting to KZT 7086.9 bln. (the growth since the beginning of the year by 11.6%), short-term lending increased by 5.9% to KZT 1694.5 bln. (the growth since the beginning of the year by 36.5%). The percentage of long-term credits decreased from 81.3% to 80.7% over the month.

During December 2011 the volume of credits to corporate entities increased by 2.9% to KZT 6434.9 bln. (the growth since the beginning of the year by 17.5%), to individuals – increased by 1.4% to KZT 2346.4 bln. (the growth since the beginning of the year by 10.9%). The percentage of credits to individuals decreased from 27.0 to 26.7%.

Credits to the small- and medium-size businesses decreased during December 2011 by 0.1% to KZT 1341.4 bln. (the decrease since the beginning of the year by 3.0%), accounting for 15.3% of the total volume of credits to the economy.

In the sectoral breakdown, the most significant amount of credits to the economy falls on such sectors as trade (the share in the total volume is 20.8%), industry (12.0%), construction (14.9%), transport (4.0%) and agriculture (3.8%).

In December 2011 the average weighted interest rate on the credits provided in the Tenge to non-bank corporate entities was 10.8% (in November 2011 – 11.3%), and on credits to individuals – 20.4% (19.5%).

## **11. Regarding the Outcomes of Enterprise Monitoring in the Real Sector of the Economy in the 4<sup>th</sup> Quarter of 2011**

In January 2012 a regular enterprise monitoring was conducted with a view to assess the situation in the real sector of the economy in the 4<sup>th</sup> quarter of 2011. The number of enterprises participating in the monitoring and representing key sectors of the country's economy, as compared to their interview in the 3<sup>rd</sup> quarter of 2011, increased from 2372 to 2397, including medium and large enterprises – from 1445 to 1462.

In the 4<sup>th</sup> quarter of 2011 the share of enterprises whose economic activity was negatively affected by the change in the exchange rate of the Tenge versus the US Dollar, Euro and Russian ruble, decreased significantly (from 14.7%, 10.6% and 11.5% in the 3<sup>rd</sup> quarter of 2011 to 13.1%, 8.7% and 9.7% in the 4<sup>th</sup> quarter of 2011, respectively). The majority of enterprises, however (60.9%, 63.2% and 62.3%, respectively) wasn't affected by the impact of the exchange rate of the Tenge to those currencies.

There was a certain growth in availability of bank credit resources that is evidenced by a lowered interest rate on the credits in the Tenge and foreign currencies (c 13.2% and 11.3% in the 3<sup>rd</sup> quarter of 2011 to 12.9% and 10.5% in the 4<sup>th</sup> quarter of 2011, respectively) and decreased number of enterprises (from 4.1% in the 3<sup>rd</sup> quarter of 2011 to 3.5% in the 4<sup>th</sup> quarter of 2011) which applied for a bank credit but didn't get it. As a consequence, the investment and lending activity of enterprises improved, although insignificantly: the number of enterprises that use credits to finance their working capital increased (from 17.5% in the 3<sup>rd</sup> quarter of 2011 to 18.3% in the 4<sup>th</sup> quarter of 2011), and the share of enterprises that didn't finance investments decreased (to 34.3%). In the 4<sup>th</sup> quarter of 2011, 23.3% of enterprises applied for credits (of which, 19.8% obtained the credits), though based on the interviews conducted in the 3<sup>rd</sup> quarter of 2011, 21.8% of enterprises intended to get credits.

The trend of the decreased growth rates of the demand for final products of enterprises continued in the real sector of the economy as a whole. The growth rates decreased due to a notable increase in the share of enterprises whose products were less demanded, with the decrease in demand to 19.6% (from 16.3% in the 3<sup>rd</sup> quarter of 2011). In the 1<sup>st</sup> quarter of 2012 as compared to the 4<sup>th</sup> quarter of 2011 no change in the demand is anticipated.

The growth rates of prices for final products of enterprises continued to go down in the 4<sup>th</sup> quarter of 2011 because of the decreased number of enterprises that noted the increase in prices to 19.6% (from 24.9% in the 3<sup>rd</sup> quarter of 2011). The slowdown in the growth rates of prices for final products was noted in all sectors of the economy except agriculture where their growth was observed. The highest decrease in the growth rates of prices occurred in the mining industry where the prices remained the same as in the 3<sup>rd</sup> quarter of 2011. In the 1<sup>st</sup> quarter of 2012 a notable growth in prices is anticipated in the mining industry, trade and in the sector of "hotels and restaurants".

In the 4<sup>th</sup> quarter of 2011, despite a slowdown in the growth, prices for raw materials and supplies remained high. In the sample as a whole, the share of enterprises that noted the growth in prices for raw materials and supplies accounted for 52.4%, and only 2.4% of enterprises noted the decrease in prices. In the 1<sup>st</sup> quarter of 2012 a notable slowdown in the price growth is expected.

Despite the fact that average return on sales (before tax) in the 4<sup>th</sup> quarter of 2011 decreased to 44.1% (from 47.2% in the 3<sup>rd</sup> quarter of 2011), the overall financial position of the real sector didn't deteriorate: the share of enterprises with medium and high profitability accounted for 75.9% (75.7% in the 3<sup>rd</sup> quarter of 2011).