



**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN
PRESS-RELEASE No.13
of April 11, 2012**

**Regarding the Situation in the Financial
Market**

1. Regarding the Approval of the National Bank's Annual Report

On April 10, 2012 the President of the Republic of Kazakhstan was debriefed of the National Bank's Report for 2011. The President had in general a favorable view of the National Bank's effort in 2011 and approved the Report. Based on the Report, the National Bank and the Government were entrusted with a number of tasks in respect of the foreign exchange policy, of resolving the problem of "bad" loans in the banking system, enhancing consumer protection in the area of financial services, and improving the pension system.

2. Inflation

According to the official data from the Agency of Statistics of the Republic of Kazakhstan, in March 2012 the inflation was at 0.3% (in March 2011 – 0.5%). Prices for foodstuffs increased by 0.5% (by 0.9%), for non-food products – by 0.2% (by 0.2%) and for paid services – by 0.2% (by 0.2%).

In the previous month in the foodstuffs market the highest increase was demonstrated in prices for sugar – by 5.1%, meat and meat products – by 1.2%, including mutton – by 1.7%, beef – by 1.6%, horse meat – by 1.5%, pork – by 0.8%, eggs – by 0.8%, fish and seafood – by 0.4%, dairy products – by 0.2%. Prices for cereals decreased by 4.0%, for fruits and vegetables – by 0.2%, and for oils and fats – by 0.6%.

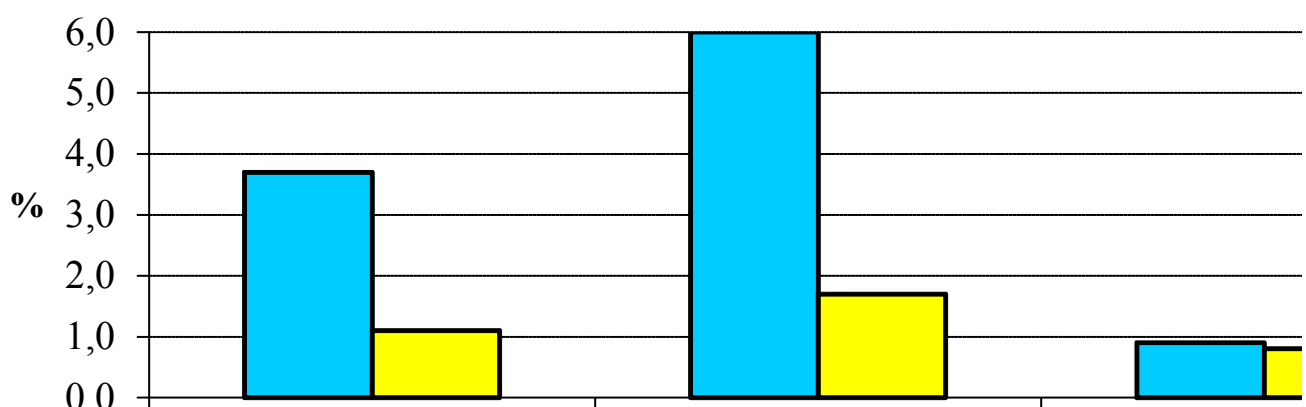
In the group of non-food products prices for clothing and footwear increased by 0.3%, housewares and cutlery – by 0.5%, medications – by 0.3%, and the price of gasoline and diesel fuel decreased by 0.2%.

In the group of paid services, price of utilities increased by 0.1%. Alongside with that, house rentals increased by 0.7%, and costs of upkeep increased by 0.2%. Also, among paid services the cost of communication services increased by 0.7%, including mail services – by 14.0%, services of pre-school and elementary education – by 1.0%, and medical services – by 0.5%.

In January-March 2012, the inflation accounted for 1.1% (in January-March 2011 – 3.7%). During the period, the price of foodstuffs increased by 1.7% (by 6.0%), of non-food products – by 0.8% (by 0.9%), and of paid services – by 0.5% (by 3.6%). (Figure 1).

Figure 1

Inflation and Its Components in January-March, 2011 and 2012



In March 2012, the annual inflation accounted for 4.6% (in December 2011 – 7.4%). This has been the lowest annual inflation rate since May 1999. Over the last 12 months the price of foodstuffs increased by 4.6% (by 9.1%), non-food products – by 5.1% (by 5.3%), and paid services – by 4.1% (by 7.3%).

3. Balance of Payments and External Debt of the Republic of Kazakhstan in 2011 (final data)

In 2011 the current account surplus demonstrated nearly a 5.9 growth as compared to the same indicator in 2010 and amounted to US\$ 14.1 bln. or 7.6% of GDP (1.6% in 2010).

Throughout 2011, the world oil price (Brent) didn't virtually go below US\$ 100 per barrel amounting to US\$ 110.9 per barrel on average in 2011; this is by 39.3% higher than its average level in 2010 (US\$ 79.6 per barrel) and by 13.6% higher than its prior peak level in 2008 (US\$ 97.6 per barrel). As a result, exports of goods increased by 43.7% and amounted to US\$ 88.5 bln., whereas imports of goods increased by 25.2% exceeding US\$ 41.2 bln.

The official exports of goods amounted to US\$ 88.3 bln., of which US\$ 55.2 bln. (62.5%) fall on the exports of oil and gas condensate. The export value of ferrous metals increased by 43.2%, of non-ferrous metals – by 41.4%. 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.

Imports of goods according to the official trade statistics amounted to US\$ 37.0 bln., which is higher than in 2010 by 19%. The growth in the imports of investment goods, which comprised the highest percentage in the imports (about 37.6%), accounted for 19.5%. The interim consumption goods showed the increase by 12.3%, and consumer goods – by 24.9%. The cost of imports of consumer foodstuffs increased by 23.8%, and of non-food products – by 25.7%. As opposed to export operations, the increase in the cost of imports was mainly ensured by the growth of quantitative supplies.

As a result of outstripping growth rates of exports of goods as compared to the growth in trade imports a positive trade balance in 2011 increased versus the previous year by 64.9% and amounted to US\$ 47.3 bln.

In 2011, while the export of services increased by 6% and imports decreased by 3.6%, the deficit in the balance of services decreased by 9.4% versus 2010 amounting to US\$ 6.4 bln. At the same time, in the second half of 2011 a notable increase in the volumes of services provided by non-residents was observed as compared to the first half of 2011 (by 52.3%); 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.

The improved external pricing environment and the growth in business activity in the country were conducive to a sizable increase in returns of foreign direct investors from equity holdings in the Kazakh businesses including communications enterprises, transport enterprises, electric energy companies and other non-export sectors. With the growth in interest payments to lenders not connected by direct investment relationships by 16.0% (from US\$ 2.7 bln. to US\$ 3.1 bln.), returns of foreign direct investors (in the form of dividends, reinvestments and interest on inter-company loans) increased by 42.6% amounting to US\$ 23.5 bln.

The financial account showed net outflow of US\$ 8.0 bln. in 2011.

Net outflow of US\$ 4.5 bln. on investments abroad was determined by the growth in the shareholder equity. At the same time, capital of special purpose vehicles (SPVs) established abroad was partially replenished from the repayments of loans which were earlier provided by direct investors in Kazakhstan. There was an insignificant net inflow (US\$ 54 mln.) on loans from special purpose vehicles, mainly owing to the syndicated loan borrowed by JSC “KazMunayGas” through the SPV in the 3rd quarter of 2011 whereas in other quarters net repayments of debts by the domestic direct investors were dominating.

Gross inflow of foreign direct investments (FDIs) into Kazakhstan amounted to US\$ 19.9 bln. Its growth as compared to 2010 by US\$ 1.7 bln., was primarily associated with the increase in the shareholders equity of banks with foreign participation and enterprises from the non-bank

sector. With the growth in the shareholders equity to US\$ 2.6 bln. from US\$ 750 mln. in 2010, reinvestments decreased by 12.5% (US\$ 2.2 bln. versus US\$ 2.5 bln. in 2010) as a result of more active distribution of profits of the prior periods. Moreover, the receipts of funds in the form of inter-company credits slightly decreased. Less the repayment of debt on such loans in the amount of US\$ 6.7 bln., net FDIs into Kazakhstan exceeded US\$ 12.9 bln. versus US\$ 10.8 bln. in 2010. As a result, positive balance of direct investment operations amounted to US\$ 8.4 bln. in 2011.

Net outflows on portfolio investments of US\$ 13.5 bln. were mainly ensured by the growth in foreign assets of the National Fund by US\$ 12.2 bln. Withdrawal by non-residents from the market of the National Bank's short-term notes in the 2nd – 4th quarters of 2011 resulted in a net outflow of resources from operations with the National Bank's notes amounting to US\$ 0.2 bln.

Record-high decrease by US\$ 15.6 bln. in the liabilities of banks on long-term investments (inter alia, due to the restructuring of their debt) that occurred in 2010, in 2011 was replaced by a moderate net repayment exceeding US\$ 2.0 bln. At the same time, net inflow on liabilities of the government sector and enterprises of non-bank sector as well as decreased assets of banks on loans and advances made to non-residents ensured net inflow on other medium- and long-term investments of US\$ 1.6 bln.

At the same time, the decrease in assets on long-term bank loans was partially offset by the growth in short-term assets of banks in the form of past due because of partial repayment by non-residents of their debt which was due in 2011. The increase in the past due of bank loans amounted to US\$ 2.1 bln., and, alongside with increasing balances of the National Fund and the Kazakh banks at the foreign accounts by US\$ 0.6 and US\$ 0.8 bln., respectively, predetermined net outflow on other short-term capital of US\$ 4.6 bln.

Gross External Debt

At December 31, 2011 gross external debt amounted to US\$ 123.8 bln., of which US\$ 5.1 bln. or 4.1% is the external debt of the government sector (liabilities of the Government and the National Bank of the Republic of Kazakhstan), inter-company debt amounts to US\$ 59.9 bln. or 48.4%, and the debt of the banking sector – to US\$ 14.6 bln. or 11.8%.

As a whole, during 2011 gross external debt increased US\$ 5.6 bln. At the same time, in 2011 external debt of the “general government sector” (Government of the RK) and “Other sectors” (including inter-company debt) demonstrated the growth by US\$ 0.7 and US\$ 10.7 bln., respectively, foreign liabilities of the “Monetary Authorities” (National Bank of the RK) and “Banks” (second-tier banks and the JSC “Kazakhstan Development Bank”) decreased by US\$ 0.4 and US\$ 5.3 bln., respectively, during the same period.

Such growth in liabilities of the Government of the Republic of Kazakhstan mainly occurred due to receipts of borrowed funds from international financial organizations.

The decrease in the amount of funds held by non-residents at their accounts as well as the volumes of their holdings of the National Bank's short-term notes, were equally conducive to the decrease in the National Bank' liabilities. In 2011 the market of short-term notes was demonstrating multi-directional trends: so, in the 1st quarter there was a significant increase (by US\$ 2.3 bln.), and since the beginning of the 2nd quarter – gradual decrease in the volumes of notes held by non-residents, resulting in the decrease to US\$ 19.8 bln. by the year-end. As a result, at December 31, 2011 foreign liabilities of the “Monetary Authorities” totaled US\$ 563 mln.

The decrease in external debt of the banking sector during 2011 was largely ensured by the decreased market value of bonds issued by banks and held by non-residents (by US\$ 2.45 bln.), due to the fall in prices for such securities. Also, the decrease in the external debt of banks on loans (by US\$ 2.1 bln., mainly due to repayments of foreign loans) and deposits of non-residents with banks (by US\$ 0.5 bln.) should be noted. As a result, at the end of 2011 external debt of “Banks” decreased by more than a quarter as compared to US\$ 19.9 bln. at the end of 2010.

The increase in external debt of “Other Sectors” in the reporting period occurred mainly due to the growth in inter-company debt (by US\$ 7.6 bln.), alongside with that liabilities to non-

affiliated non-residents grew by US\$ 3.1 bln. The growth in inter-company debt, in addition to inflow of funding to projects implemented in Kazakhstan through the branches of foreign companies, was promoted by borrowings including through SPVs (a syndicated loan to JSC “KazMunayGas” of US\$ 1bln.). As a result, at December 31, 2011 external debt of “Other sectors” amounted to US\$ 104.2 bln., of which intercompany debt amounted to US\$ 59.9 bln., and liabilities to other (non-affiliated) non-residents – to US\$ 44.3 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 the end of 2011, GED to EGS accounted for 133.2% versus 179.6% at the end of 2010 and 234.3% at the end of 2009. GED to GDP at December 31, 2011 accounted for 66.6% versus 79.9% at the end of 2010 and 98.3% at the end of 2009.

Owing to the fact that the growth in the country’s assets during 2011 was outrunning the growth in liabilities, net external debt of Kazakhstan in 2011 decreased by US\$ 11.9 bln. and amounted to US\$ 13.6 bln. at December 31, 2011. Alongside with that, the government sector strengthened its position as a net lender – assets exceeded debt liabilities by US\$ 59.1 bln. (by US\$ 47.1 bln. at the end of 2010), as well as since mid-2011 “Banks” moved from the net debtor position to the net lender position.

International reserves of the National Bank represent an important component of foreign assets, particularly in terms of smoothing the problems with foreign exchange liquidity. At the end of 2011 international reserves exceeded short-term external debt based on the original maturity by 3.2 times. It should be noted that this indicator improves every year (1.9 – at the end of 2008, 2.3 – at the end of 2009, and 3.1 – at the end of 2010); this is related to outstripping growth of short-term GED over the growth rates of international reserves.

4. International Reserves and Monetary Aggregates

In March 2012, international reserves of the National Bank decreased. Gross international reserves of the National Bank decreased by 8.7% to US\$ 32.3 bln. Net international reserves of the National Bank decreased by 8.8% and amounted to US\$ 31.8 bln. Foreign exchange purchases in the domestic foreign currency market, and foreign currency proceeds to the Government’s accounts with the National Bank were neutralized by asset replenishments of the National Fund from the gold and currency reserve accounts. Foreign currency balances of bank correspondent accounts with the National Bank also decreased. As a result, net currency reserves (FCC) decreased by 9.9% in March 2012. Assets denominated in gold increased by 2.8% as a result of performed transactions and its price growth in the global markets.

During March 2012 the country’s total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 48.3 bln.) decreased by 2.6% to US\$ 80.6 bln.

During March 2012 the reserve money contracted by 5.4% and amounted to KZT 3282.7 bln. Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 10.9% to KZT 2927.9 bln.

During February 2012 money supply increased by 3.0% to KZT 9911.6 bln. (since the beginning of the year – the growth by 1.6%). The volume of cash in circulation decreased by 0.8% to KZT 1291.3 bln. (since the beginning of the year – the decrease by 5.4%), deposits in the banking system increased by 3.6% to KZT 8620.3 bln. (since the beginning of the year – the growth by 2.8%). The share of deposits in the structure of money supply increased from 86.5% in January 2012 to 87.0% in February 2012. The main reasons for the growth in the share of deposits were increased rates of the growth in deposit and concurrent reduction of the volume of cash in circulation.

The money multiplier increased from 2.84 in January 2012 to 2.86 at end-February 2012 due to higher growth rates of the money supply versus the dynamics in the reserve money.

5. Foreign Exchange Market

In March 2012 the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 147.51–147.99 per 1 US Dollar. During March 2012 the Tenge slightly depreciated by 0.02% and at the end of the month the stock-exchange rate of the Tenge was KZT 147.77 per 1 US Dollar.

In March 2012 the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased as compared to February 2012 by 15.7% and amounted to US\$ 4.1 bln. In the off-exchange foreign currency market the transaction volume decreased by 25.4% and amounted to US\$ 1.5 bln.

The total transaction volume in the domestic foreign currency market decreased by 18.5% and amounted to US\$ 5.6 bln. In March 2012 the National Bank was a net buyer of foreign exchange in the domestic foreign exchange market.

6. Government Securities Market

In March 2012, 5 auctions offering government securities of the Ministry of Finance were held. The following government securities were placed through these auctions: 3, 5-year MEOKAM (KZT 8.2 bln. and KZT 13.3 bln.), 10 и 15-year MEUKAM (KZT 15 bln. and KZT 20 bln.), 14-year MEUZHAKAM (KZT 15 bln.).

Effective yield of the placed securities was as follows: for 3 and 5-year MEOKAM – 3.50% and 4.24%, for 10 and 15-year MEUKAM – 5.30% and 5.49%, for 14-year MEUZHAKAM – 0.01% above the inflation rate.

The volume of outstanding securities of the Ministry of Finance at end-March 2012 amounted to KZT 2209.2 bln., having increased by 1.9% 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 March 2012 as compared to February 2012 increased by 87.1% and amounted to KZT 179.7 bln.

Three auctions were held to place 3-month notes (KZT 22.2 bln., KZT 9.7 bln. and KZT 41 bln.), 1 auction to place 6-month notes (KZT 30.4 bln.), and 1 auction to place 9-month notes (KZT 76.5 bln.).

Effective yield of the placed notes was as follows: for 3-month notes – 1.01%, for 6-month notes – 1.47%, and for 9-month notes – 1.75%.

The volume of notes in circulation at end-March 2012 decreased by 7.0% as compared to February 2012 and amounted to KZT 536.0 bln.

7. Interbank Money Market

In February 2012 the total volume of placed interbank deposits doubled as compared to January 2012 amounting to the equivalent of KZT 2662.9 bln.

The volume of placed interbank deposits in the Tenge increased by 38.3% and amounted to KZT 690.3 bln. (25.9% of the total volume of placed deposits). The average weighted interest rate on the placed interbank deposits in the Tenge in February 2012 increased from 0.63% to 0.67%.

The volume of deposits attracted by the National Bank from banks in February 2012 increased by 35.6% to KZT 667.9 bln. as compared to January 2012.

In February 2012 as compared to January 2012, the volume of placed dollar deposits increased by 2.5 times and amounted to US\$ 12.1 bln. (67.4% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the US Dollars in February 2012 changed from 0.27% to 0.12%.

The volume of placed Euro deposits in February 2012 increased by 2.2 times amounting to Euro 0.7 bln. (5.5% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the Euro increased from 0.20% to 0.21%.

The placements of deposits in the Russian ruble remain insignificant – 1.1% of the total volume of deposits placed.

The share of interbank deposits in foreign currency during February 2012 increased from 61.6% to 74.1% of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks increased from 60.1% to 73.8%.

8. Deposit Market

During February 2012 the volume of deposits of residents with depository institutions increased by 3.6% to KZT 8620.3 bln. Deposits of corporate entities increased by 4.4% to KZT 5830.7 bln., and deposits of individuals increased by 2.0% to KZT 2789.6 bln.

In February 2012 the volume of foreign currency deposits increased by 6.1% to KZT 2915.9 bln., the volume of deposits in the domestic currency increased by 2.4% to KZT 5704.4 bln. The percentage of the Tenge deposits decreased from 67.0% to 66.2% in February 2012 as compared to January 2012.

Deposits of the population with banks (including non-residents) during February 2012 increased by 2.0% to KZT 2818.5 bln. In the structure of deposits of the population the Tenge deposits increased by 2.9% to KZT 1627.4 bln., foreign currency deposits increased by 0.7% to KZT 1191.1 bln. As a result, the percentage of the Tenge deposits increased from 57.2% to 57.7%.

In February 2012, the average weighted interest rate on the Tenge time deposits of non-bank corporate entities was 2.7% (in January 2012 – 3.1%), and on deposits of individuals – 8.4% (8.2%).

9. Credit Market

During February 2012 the total volume of bank credits to the economy increased by 0.4% amounting to KZT 8831.0 bln.

The volume of credits in the domestic currency increased by 1.5% to KZT 5798.3 bln., the volume of foreign currency credits decreased by 1.5% to KZT 3032.7 bln. The percentage of the Tenge credits in February 2012 as compared to January 2012 increased from 65.0% to 65.7%.

In February 2012, long-term lending increased by 0.9% to KZT 7103.6 bln., short-term lending decreased by 1.3% to KZT 1727.4 bln. As a result, the percentage of long-term credits in February 2012 as compared to January 2012 increased from 80.1% to 80.4%.

Credits to corporate entities increased by 0.4% during February 2012 amounting to KZT 6475.1 bln., and credits to individuals increased by 0.6% to KZT 2355.9 bln. The percentage of credits to individuals increased from 26.6% to 26.7% in February 2012 as compared to January 2012.

SME lending during February 2012 increased by 2.8% to KZT 1365.6 bln., accounting for 15.5% 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 20.9%), construction (14.9%), industry (12.1%) and agriculture (3.5%).

In February 2012 the average weighted interest rate on the Tenge credits provided to non-bank corporate entities was 11.2% (in January 2012 it was also 11.2%), on credits to individuals – 20.5% (21.5%).