



**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN
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**Regarding the Situation in the Financial
Market**

1. Inflation

According to the official data from the Agency of Statistics of the Republic of Kazakhstan, in October 2012 the inflation was at 0.7% (in October 2011 – 0.2%). Prices for foodstuffs increased by 0.6% (by 0.1%), for non-food products – by 0.6% (by 0.4%), and for paid services – by 0.9% (by 0.3%).

In October 2012, the highest increase in the foodstuffs market was demonstrated in prices for eggs - by 5.8%, macaroni products – by 2.1%, flour – by 2.0%, oils and fats – by 1.2%, meat and meat products – by 0.5%, including mutton – by 0.9%, horse meat – by 0.8%, and pork – by 0.6%. The price of sugar decreased by 1.9%, and the price of cereals – by 0.4%.

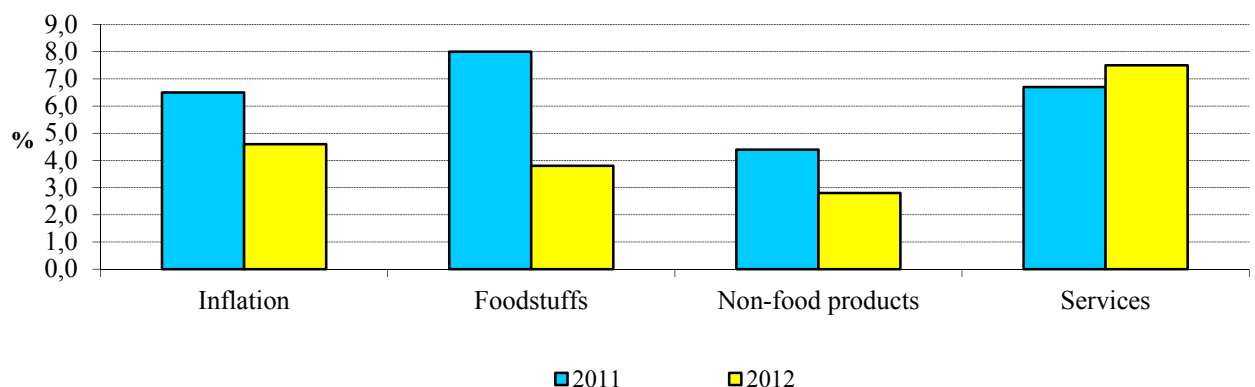
In the group of non-food products, prices for clothes and footwear increased by 0.5%, domestic goods – by 0.3%, and medications – by 0.1%. The cost of gasoline increased by 2.5%, and the cost of diesel fuel – by 5.0%.

In the group of paid services, price of utilities increased by 0.9%. The tariffs for district heating increased by 2.0%, for rental payments – by 1.1%, for solid waste collection – by 0.6%, and for hot water – by 0.5%. During the previous month the prices for transportation services increased by 1.9%, education services – by 1.4%, and healthcare services – by 0.5%.

In January-October 2012, the inflation accounted for 4.6% (in January-October 2011 – 6.5%). Since the beginning of 2012, the price of foodstuffs has increased by 3.8% (by 8.0%), of non-food products – by 2.8% (by 4.4%), and of paid services – by 7.5% (by 6.7%) (Figure 1).

Figure 1

Inflation and its Components in January-October 2011 and 2012



In October 2012, the annual inflation accounted for 5.5% (in December 2011 – 7.4%). Over the last 12 months the price of foodstuffs has increased by 4.9% (by 9.1%), of non-food products – by 3.7% (by 5.3%), and of paid services – by 8.1% (by 7.3%).

2. The Balance of Payments Performance for 9 Months of 2012 (Preliminary)

According to a preliminary estimate of the balance of payments, surplus of the current account balance for 9 months of 2012 was positive and amounted to US\$ 10.2 bln., having decreased by 8.6% as compared to the respective period of 2011.

The surplus in the trade balance decreased by 5.0% to US\$ 35.5 bln. (US\$ 37.4 bln. for 9 months of 2011), and net outflow of resources from operations with earnings (including salaries and wages and the balance of investment returns) decreased by 13.1% amounting to US\$ 19.0 bln.

As for other current account components, negative imbalances of services and transfers amounted to US\$ 5.7 bln. and US\$ 0.5 bln., respectively.

A negative balance in the capital and finance account (including errors and omissions) amounted to US\$ 11.3 bln. during 9 months of 2012.

A net outflow on direct investment abroad was US\$ 1.8 bln. A net inflow of foreign direct investments (FDIs) into Kazakhstan amounted to US\$ 9.4 bln. (US\$ 12.5 bln. for 9 months of 2011). As a result, during 9 months of 2012 a positive balance on direct investments amounted to US\$ 7.6 bln. versus US\$ 8.6 bln. during 9 months of 2011.

A net outflow on portfolio investments of US\$ 12.5 bln. was secured by the increase in foreign assets of the National Fund by US\$ 11.9 bln. as well as by the decrease in debt liabilities of the Kazakh banks by nearly US\$ 1 bln.

3. International Reserves and Monetary Aggregates.

In October 2012, international reserves of the National Bank decreased. Gross international reserves of the National Bank decreased by 3.4% to US\$ 29.1 bln. (since the beginning of the year – the decrease by 0.9%); net international reserves of the National Bank decreased by 3.5% and amounted to US\$ 28.5 bln. (since the beginning of the year – the decrease by 0.8%). Net currency reserves (NCR) decreased by 5.2% during October 2012. Assets denominated in gold increased by 3.5% as a result of conducted transactions, despite the decrease in its prices in the global markets.

During October 2012 the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data - US\$ 56.9 bln.), increased by 0.6% to US\$ 86.0 bln. (since the beginning of the year– the growth by 17.9%).

During October 2012 the reserve money contracted by 4.1% and amounted to KZT 2832.5 bln. (since the beginning of the year – the contraction by 0.2%). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 3.1% to KZT 2767.5 bln.

During September 2012 money supply increased by 1.8% to KZT 10514.8 bln. (since the beginning of the year – the growth by 7.8%). The volume of cash in circulation increased by 1.2% to KZT 1421.8 bln. (since the beginning of the year – the growth by 4.1%), deposits in the banking system increased by 1.9% to KZT 9093.0 bln. (since the beginning of the year – the growth by 8.4%). The share of deposits in the structure of money supply increased from 86.4% in August 2012 to 86.5% in September 2012. The main reason for the growth in the share of deposits was the outstripping rates of growth in the deposit volumes versus the growth in cash in circulation.

The money multiplier decreased from 3.68 in August 2012 to 3.56 at end-September 2012 as a result of higher growth rates of the reserve money expansion versus the rates of growth in the money supply recorded in September 2012.

4. Foreign Exchange Market

In October 2012 the exchange rate of the Tenge versus the US Dollar was fluctuating within the range of KZT 149.86–150.68 per 1 US Dollar. During October 2012 the Tenge depreciated by 0.6%, and by the month-end the stock exchange rate of the Tenge was KZT 150.77 per 1 US Dollar.

In October 2012, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions increased as compared to September 2012 by 8.9% and amounted to US\$ 4.6 bln. In the off-exchange foreign currency market the transaction volume decreased by 32.9% and amounted to US\$ 1.5 bln.

The total transaction volume in the domestic foreign exchange market decreased by 6.0% and amounted to US\$ 6.1 bln.

5. Government Securities Market

In October 2012, 16 auctions offering government securities of the Ministry of Finance were held. The following government securities were placed through these auctions: 12-month MEKKAMs (KZT 5.9 bln. and KZT 1.9 bln.), 4-year MEOKAMs (KZT 3 bln.), 5-year MEOKAMs (KZT 7.7 bln., KZT 3.3 bln., and KZT 19.6 bln.), 6-year MEUKAMs (KZT 5.8 bln.), 7-year MEUKAMs (KZT 4.6 bln., KZT 8.9 bln., and KZT 10.5 bln.), 10-year MEUKAMs (KZT 3.7 bln. and KZT 2.3 bln.), 20-year MEUKAMs (KZT 0.6 bln.), 15-year MEUKAMs (KZT 4.8 bln.), 8-year MEUZHKAMs (KZT 20 bln.), and 12-year MEUZHKAMs (KZT 60 bln.).

Effective yield of the placed securities was as follows: for 12-month MEKKAMs – 2.46% and 3.03%, for 4-year MEOKAMs – 5.37%, for 5-year MEOKAMs – 5.58%, 6-year MEUKAMs – 5.50%, for 7-year MEUKAMs – 6.00%, 6.02%, and 6.01%, for 10-year MEUKAMs – 6.35%, for 20-year MEUKAMs – 6.50%, for 15-year MEUKAMs – 6.50%, for 8 and 12-year MEUZHKAMs – 0.01% above the inflation rate

At end-October 2012, the volume of securities issued into circulation by the Ministry of Finance amounted to KZT 2697.1 bln., having increased by 5.9% as compared to the previous month.

Short-term Notes of the National Bank of Kazakhstan

During October 2012, the volume of issued notes of the National Bank decreased by 41.2% as compared to July 2012 and amounted to KZT 11.0 bln.

One auction was held to place 3-month notes (KZT 40.3 bln.) with effective yield of 1.05%.

At end-October 2012 as compared to September 2012, the volume of notes in circulation decreased by 21.5% and amounted to KZT 325.7 bln.

6. Interbank Money Market

In September 2012 as compared to August 2012, the total volume of placed interbank deposits decreased by 37.4%, amounting to the equivalent of KZT 1144.6 bln.

The volume of placed interbank deposits in the Tenge decreased by 50.5% and amounted to KZT 234.4 bln. (20.5% of the total volume of placed deposits). The average-weighted interest rate on placed interbank deposits in the Tenge in September 2012 decreased from 1.02% to 0.83%.

In September 2012, as compared to August, the volume of deposits attracted by the National Bank from banks decreased by 54.6% to KZT 198.9 bln.

In September 2012, as compared to August 2012, the volume of placed Dollar deposits decreased by 31.0% and amounted to US\$ 5.9 bln. (77.8% of the total volume of placed deposits). The average-weighted interest rate on deposits placed in the US Dollars in September 2012 remained unchanged – 0.13%.

The volumes of deposits placed in the Euro and Russian ruble are insignificant – 0.03 and 1.6% of the total volume of placed deposits, respectively.

During September 2012, the share of interbank foreign currency deposits increased from 74.1% to 79.5% of the total volume of placed deposits. The share of foreign currency deposits placed with non-residents banks increased from 73.5% to 76.3% of the total volume of placed interbank deposits.

7. Deposit Market

During September 2012, the total volume of deposits of residents with depository institutions increased by 1.9% to KZT 9093.0 bln. (since the beginning of the year - the growth by 8.4%). Over the month, deposits of legal entities have increased by 2.1% to KZT 5957.8 bln., and deposits of individuals increased by 1.6% to KZT 3135.1 bln.

In September 2012, the volume of foreign currency deposits decreased by 0.2% to KZT 2827.2 bln., and deposits in the domestic currency increased by 2.9% to KZT 6265.7 bln. In September 2012 the percentage of deposits in the Tenge increased to 68.9%, versus 68.2% in August 2012.

During September 2012, household deposits with banks (including non-residents) increased by 1.6% to KZT 3167.0 bln. (since the beginning of the year - the growth by 14.8%). In the structure of household deposits, deposits in the Tenge increased by 2.4% to KZT 1847.8 bln., and foreign currency deposits increased by 0.4% to KZT 1319.3 bln. As a result, the percentage of deposits in the Tenge increased to 58.3% as compared to 57.9% in August 2012.

In September 2012, the average-weighted interest rate on the Tenge time deposits of non-bank legal entities accounted for 2.3% (in August 2012 – 2.1%), and on deposits of individuals – 8.3% (7.8%).

8. Credit Market

The total volume of bank credits to the economy during September 2012 increased by 1.5%, amounting to KZT 9531.0 bln. (since the beginning of the year - the growth by 8.2%).

In September 2012 the volume of credits in the domestic currency increased by 2.8% to KZT 6583.2 bln. (since the beginning of the year - the growth by 15.9%), and the volume of foreign currency credits decreased by 1.4% (since the beginning of the year – the decrease by 5.8%), amounting to KZT 2947.9 bln. The percentage of the Tenge credits in September 2012 increased to 69.1%, versus 68.2% in August 2012.

Long-term lending in September 2012 increased by 1.7% to 7739,9 bln., and short-term lending increased by 0.4% to KZT 1791.2 bln. As a result, the percentage of long-term credits in September 2012 increased to 81.2%, versus 81.0% in August 2012.

During September 2012 credits to legal entities increased by 1.3%, amounting to KZT 6835.7 bln., and the amount of credits to individuals increased by 2.0% to KZT 2695.3 bln. The percentage of credits to individuals in September 2012 increased to 28.3%, versus 28.1% in August 2012.

During September 2012, credits to small businesses increased by 1.7% to KZT 1402.7 bln., accounting for 14.7% 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 19.8%), construction (14.4%), industry (12.2%), transport (3.9%) and agriculture (3.2%).

In September 2012 the average-weighted interest rate on credits in the domestic currency to non-bank legal entities accounted for 11.0% (in August 2012 – 11.2%), and to individuals – 21.1% (20.5%).

9. Regarding the Outcomes of Enterprise Monitoring in the Real Sector of the Economy in the 3rd Quarter of 2012

In October 2012, a regular enterprise monitoring was conducted with a view to assess the situation in the real sector of the economy in the 3rd quarter of 2012. The number of enterprises participating in the monitoring and representing key sectors of the country's economy, as compared to their interview in the 2nd quarter of 2012, increased from 2437 to 2491, including medium and large enterprises – from 1480 to 1506.

In the 3rd quarter of 2012, 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, increased (to 16.1%, 11.2% and 12.7% respectively). The majority of enterprises, however, weren't affected by the impact of the exchange rate of the Tenge to those currencies (59.7%, 62.7% and 62.3%, respectively).

The share of enterprises that received credits in the 3rd quarter of 2012 decreased insignificantly (to 20% from 21.5% in the 2nd quarter of 2012); the number of enterprises with debts on bank loans also slightly decreased (to 38.3 % from 38.6% - in the 2nd quarter of 2012).

In the 4th quarter of 2012, 22.1% of enterprises intend to apply for credits (in the 3rd quarter - 23.2%).

Investment activity of enterprises somewhat decreased. This is evidenced by the decreased share of enterprises (to 61% from 61.7 in the 2nd quarter of 2012) that used their own resources to finance their working capital, and the decreased share of enterprises that used bank credits to finance their working capital (to 5.5% from 5.6 in the 2nd quarter of 2012), as well as by the increased share of enterprises (to 33.4% from 32.9% in the 2nd quarter of 2012) that did not finance their investments. Alongside with that, there is a decrease in average interest rates on the Tenge credits to 12.3% and some increase in average interest rates on foreign currency credits to 11.1%.

The demand for final products of enterprises in the real sector of the economy as a whole increased notably. The decreased demand was noted by 15.1% (in the 2nd quarter of 2012 – 15.9%) of respondents only, whereas the increase was noted by 28.6% of enterprises (in the 2nd quarter of 2012 – 28.2%). The demand significantly increased in agriculture, mining industry, transport and communications, construction sector, in the sector of "production and distribution of electricity, gas and water", and "real estate operations, rent and services to enterprises". The overall increase in the demand is anticipated in the 4th quarter of 2012.

The growth rates of prices for final products of enterprises in the 3rd quarter of 2012 slightly increased. The maximum growth is anticipated in agriculture and mining industry. Other sectors of the economy also demonstrate the growth in prices. The slowdown in the growth was observed only in such sectors as construction, "production and distribution of electricity, gas and water" and "hotels and restaurants". In the 4th quarter of 2012 the increased rates of growth in prices are anticipated, except for the mining industry and construction sector.

In the 3rd quarter of 2012, the growth rates of prices for raw materials and supplies slightly increased. In the sample as a whole, the share of enterprises that noted the growth in prices for raw materials and supplies accounted for 49%, and only 2% of enterprises noted the decrease in prices. In the 4th quarter of 2012 the price growth is expected to slow down.

In the 3rd quarter as a whole, financial position of the real sector somewhat deteriorated: the share of enterprises with low profitability and loss-making enterprises slightly increased to 22.4% (from 21.9% in the 2nd quarter of 2012), respectively, the share of enterprises with medium and high profitability slightly decreased to 77.6% (from 78.1% in the 2nd quarter of 2012). At the same time, average return on sales (before tax) in the 3rd quarter of 2012 decreased to 40.2% (from 43.6% in the 2nd quarter of 2012).