



**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 January 2013 the inflation was at 0.9% (in January 2012 – 0.3%). Prices for foodstuffs increased by 0.5% (by 0.5%), for non-food products – by 0.2% (by 0.3%), and for paid services – by 2.2% (by 0.1%).

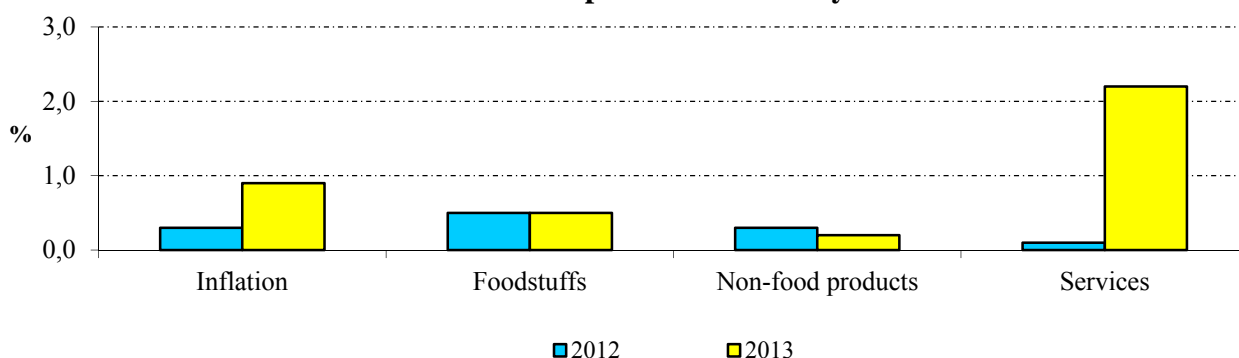
In January 2013, in the foodstuffs market the highest increase was demonstrated by prices for fruits and vegetables - by 2.6%, including cabbage – by 4.9%, carrots – by 4.3%, and beetroot – by 4.2%. Macaroni products and tobacco products increased in price by 0.8%, and the price of flour increased by 0.5%. At the same time, prices for cereals decreased by 0.6%, and for sugar – by 0.2%.

In the group of non-food products, the prices of medications increased by 0.4%, of domestic goods – by 0.3%, and of clothes and footwear – by 0.2%. The price of diesel fuel decreased by 0.2%, and of gasoline – by 0.1%.

In the group of paid services, the utilities payments increased by 2.7%. The cold water tariffs increased by 11.7%, fees for electricity – by 5.0%, district heating – by 2.5%, sewage system and hot water – by 2.3% each. During the last month, the prices of legal services increased by 7.2%, transport services – by 3.2% (railway transport – by 10.0%), and out-patient services – by 1.1%.

Figure 1

Inflation and its Components in January 2012 and 2013



In January 2013, the annual inflation accounted for 6.6% (In December 2012 – 6.0%). The price of foodstuffs increased by 5.3% (by 5.3%), of non-food products – by 3.4% (by 3.5%), and of paid services – by 11.6% (by 9.3%).

2. Balance of Payments in 2012 (Preliminary Outcomes)

The current account surplus amounted to US\$ 8.8 bln. at end-2012, having decreased by 35.5% as compared to 2011.

The balance of trade surplus decreased by 5.8% and amounted to US\$ 45.2 bln. (US\$ 47.9 bln. in 2011). Net outflow of resources from revenue operations (including labor compensation and the balance of investment returns) was at the level of 2011 and amounted to US\$ 27.6 bln.

On other current account components, negative imbalances of services and transfers amounted to US\$ 7.7 bln. and US\$ 1.1 bln., respectively.

A negative balance on the capital and finance account (including errors and omissions) was US\$ 11.5 bln.

A net outflow on foreign direct investments amounted to US\$ 1.4 bln. Net inflow of foreign direct investments (FDIs) to Kazakhstan amounted to US\$ 14.1 bln. versus US\$ 13.7 bln. in 2011. As a result, a surplus on direct investment operations totaled US\$ 12.7 bln. in 2012 versus US\$ 9.1 bln. in 2011.

A net outflow on portfolio investments of US\$ 16.7 bln. was mainly secured by the growth (by US\$ 13.7 bln.) in foreign assets of the National Fund as well as by a US\$ 2.4 bln. decrease in debt liabilities of the Kazakh banks.

3. International Reserves and Monetary Aggregates

In January 2013, gross international reserves of the National Bank decreased by 4.7% to US\$ 27.0 bln., and net international reserves of the National Bank decreased by 4.8% and amounted to US\$ 26.4 bln. As a result, during January 2013, net currency reserves (FCC) decreased by 6.8%. Assets denominated in gold increased by 2.2% as a result of performed transactions and its price growth in global markets.

During January 2013, the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 58.5 bln.) decreased by 0.7% to US\$ 85.4 bln.

During January 2013, the reserve money contracted by 5.0% and amounted to KZT 2746.2 bln. Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 5.7% to KZT 2669.5 bln.

During December 2012, the money supply increased by 0.5% to KZT 10 522.5 bln. (since the beginning of the year – the growth by 7.9%). The volume of cash in circulation increased by 10.7% to KZT 1 528.0 bln. (since the beginning of the year – the growth by 11.9%), and deposits in the banking system decreased by 1.0% to KZT 8 994.5 bln. (since the beginning of the year – the growth by 7.2%). The increased rates of growth in cash in circulation versus the decreased volume of deposits caused the decrease in the share of deposits in the structure of money supply from 86.8% in November 2012 to 85.5% in December 2012.

The money multiplier decreased from 3.90 in November 2012 to 3.64 at end-December 2012 as a result of outstripping rates of expansion in the reserve money versus the rates of growth in the money supply recorded in December 2012.

4. Foreign Exchange Market

In January 2013, the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 150.37–150.93 per 1 US Dollar. At the end of the month, the exchange rate of the Tenge was KZT 150.81 per 1 US Dollar.

In January 2013, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased as compared to December 2012 by 22.4% and amounted to US\$ 3.3 bln. The transaction volume in the off-exchange foreign currency market decreased by 52.9% and amounted to US\$ 1.6 bln.

The overall transaction volume in the domestic foreign exchange market decreased by 36.1% and totaled US\$ 5.0 bln.

5. Government Securities Market

In January 2013, 6 auctions offering government securities of the Ministry of Finance were held where the following government securities were placed: 12-month MEKKAMs (KZT 9.7 bln.), 3-year MEOKAMs (KZT 4.7 bln.), 5-year MEOKAMs (KZT 18 bln.), 10-year MEUKAMs (KZT 3.4 bln.), 15-year MEUKAMs (KZT 14.7 bln.), and 12-year MEUZHKAMs (KZT 5.3 bln.).

The effective yield on placed securities was as follows: on 12-month MEKKAMs – 3.00%, on 3-year MEOKAMs – 3.23%, 5-year MEOKAMs – 5.58%, on 10-year MEUKAMs – 6.00%, on 15-year MEUKAMs – 6.60%, on 12-year MEUZHKAMs – 0.01% above the inflation rate.

At end-January 2013, the volume of outstanding securities of the Ministry of Finance amounted to KZT 2947.4 bln., having increased by 1.5% as compared to the previous month.

Short-Term Notes of the National Bank of Kazakhstan. During January 2013, the volume of notes issued by the National Bank decreased as compared to December 2012 by 4.2 times and amounted to KZT 11.5 bln.

Two auctions were held to place 3-month notes (KZT 5.0 bln. and KZT 6.5 bln.).

The effective yield on placed notes was 1.05%

At end-January 2013 as compared to December 2012, the volume of notes in circulation decreased by 19.1% and amounted to KZT 150.7 bln.

6. Interbank Money Market

In December 2012 as compared to November 2012, the total volume of placed interbank deposits increased by 23.2%, amounting to the equivalent of KT 1627.1 bln.

The volume of placed interbank deposits in the Tenge decreased by 53.5% and amounted to KZT 122.1 bln. (7.5% of the total volume of placed deposits). In December 2012, the average weighted interest rate on placed interbank deposits in the Tenge increased from 0.74% to 1.23%.

The volume of deposits attracted by the National Bank from banks in December 2012 decreased versus November 2012 by 56.6% to KZT 107.6 bln.

In December 2012 as compared to November 2012, the volume of placed Dollar deposits increased by 44.4% and amounted to US\$ 9.6 bln. (89.2% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the US Dollar in December 2012 decreased from 0.18% to 0.13%.

The volumes of deposits placements in the Euro and the Russian ruble are insignificant – 0.3 and 3.0% of the total volume of placed deposits, respectively.

During December 2012, the share of foreign currency interbank deposits increased from 80.1% to 92.5% of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks increased from 77.8% to 92.1% of the total volume of placed interbank deposits.

7. Deposit Market

During December 2012, the overall volume of deposits of residents with depository institutions decreased by 1.0% to KZT 8 994.5 bln. (the growth during 2012 - by 7.2%). During the month deposits of legal entities decreased by 4.3% to KZT 5 622.7 bln. (during 2012 – the decrease by 0.7%), and deposits of individuals increased by 5.0% to KZT 3 371.8 bln. (during 2012 – the growth by 23.8%).

In December 2012, the volume of foreign currency deposits decreased by 5.3% to KZT 2683.0 bln. (during 2012 – the growth by 2.0%), and the volume of deposits in the domestic currency increased by 0.9% to KZT 6311.5 bln. (during 2012 – the growth by 9.6%). The percentage of the Tenge deposits increased from 68.8% to 70.2% during the month.

During December 2012, household deposits with banks (including non-residents) increased by 5.1% to KZT 3 409.5 bln. (during 2012 – the growth by 23.6%). In the structure of household deposits, deposits in the Tenge increased by 7.8% to KZT 2072.5 bln., and foreign currency deposits increased by 1.1% to KZT 1 337.0 bln. Within household deposits, the percentage of deposits in the Tenge increased from 59.3% to 60.8% during the month.

In December 2012, the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 3.6% (in November 2012 - 2.1%), and on deposits of individuals – 8.3% (8.3%).

8. Credit Market.

During December 2012, the total volume of credits to the economy increased by 2.3%, amounting to KZT 9958.0 bln. (during 2012 – the growth by 13.0%).

The volume of credits in the domestic currency increased by 3.4% to KZT 7 041.3 bln. (during 2012 – the growth by 23.9%), and the volume of foreign currency credits decreased by 0.3% to KZT 2 916.7 bln. (during 2012 – the decrease by 6.8%). The percentage of credits in the Tenge increased from 70.0% to 70.7% during the month.

In December 2012, long-term lending increased by 2.0% amounting to KZT 8 002.3 bln. (the growth during 2012 - by 12.4%), and short-term lending increased by 3.3% to KZT 1 955.7 bln. (the growth during 2012 - by 15.4%). The percentage of long-term credits decreased from 80.6% to 80.4% during the month.

During December 2012, the volume of credits to legal entities increased by 2.4% to KZT 7 102.7 bln. (during 2012 – the growth by 9.9%), and the volume of credits to individuals increased by 2.0% to KZT 2 855.3 bln. (during 2012 – the growth by 21.7%). The percentage of credits to individuals remained unchanged versus November 2012 – 28.7%.

During December 2012, credits to the small- and medium-size businesses increased by 1.5% to KZT 1 412.0 bln. (during 2012 – the growth by 5.2%), accounting for 14.2% 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 – 20.1%), construction (14.0%), industry (12.0%), transport (4.3%) and agriculture (3.2%).

In December 2012, the average weighted interest rate on credits provided in the Tenge to non-bank legal entities was 10.3% (in November 2012 – 10.7%), and on credits to individuals – 21.2% (21.4%).

9. Performance of the Financial Sector by Segments

Banking Sector

As of January 1, 2013, the banking sector was represented by 38 banks.

During 2012, bank assets increased by 8.2% to KZT 13.9 trln. (the growth during December 2012 – 1.2%).

As of January 1, 2013, equity of banks totaled nearly KZT 2 trln., having increased during 2012 by 53.3% (in December 2012 - the growth by 4.1 times as a result of restructuring of BTA Bank and increase in its equity).

The loan portfolio of the banking sector at January 1, 2013 amounted to KZT 11.7 trln., having increased by 11.3% during 2012 (the growth during December 2012 – 1.6%).

Insurance Sector

As of January 1, 2013, the insurance sector was represented by 35 insurance organizations, including 7 life insurance organizations.

During 2012, the total volume of assets of insurance (reinsurance) organizations increased by 14.2% to KZT 442.6 bln.

The volume of insurance premiums collected during 2012 under the general insurance line amounted to KZT 159.1 bln., which is by 9.7% greater than in 2011.

During 2012, the volume of insurance premiums collected under life insurance line increased by 72.0% and amounted to KZT 52.4 bln. At January 1, 2013, the share of insurance premiums collected under life insurance line in the total premiums accounted for 24.8% versus 17.4% at January 1, 2012

Pension System

As of January 1, 2013, 11 accumulation pension funds were functioning, and their number didn't change during 2012.

During 2012, the number of individual pension accounts of contributors of mandatory pension contributions increased by 3.5% and reached 8 422 500 accounts. During 2012, pension

savings increased by 20.1% (during December 2012 - the growth by 2.1%) and amounted to KZT 3.2 trln.

At January 1, 2013, pension benefits and transfers to insurance organizations from pension funds amounted to KZT 323.0 bln., having increased during 2012 by KZT 89.8 bln. or by 38.5%. During 2012, pension contributions totaled KZT 503.1 bln. (during December 2012 - KZT 48.7 bln.).

During 2012, the average weighted ratio of nominal return of accumulation pension funds on the moderate investment portfolio was 4.0%, and on the conservative portfolio – 1.75%.

In general, level of returns accumulated during 1998-2012 on the moderate investment portfolio was 366.15% (on the conservative portfolio – 356.07%), and the rate of accumulated inflation was 236.31%.

10. Regarding the Outcomes of Enterprise Monitoring in the Real Sector of the Economy in the 4th quarter of 2012

In January 2013, a regular enterprise monitoring was conducted with a view to assess the situation in the real sector of the economy in the 4th 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 3rd quarter of 2012, increased from 2491 to 2511, including medium and large enterprises – 1505.

In the 4th 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, decreased significantly (to 14.7%, 11.2% and 11.8% respectively). The majority of enterprises weren't affected by the impact of the change in the exchange rate of the Tenge versus those currencies (61.7%, 64.7% and 64.2%, respectively).

The share of enterprises that obtained credits in the 4th quarter of 2012 slightly decreased (to 20.4% from 19.9% in the 3rd quarter of 2012), and the number of enterprises with delinquencies on bank loans also slightly decreased (to 37.6 % from 38.3% in the 3rd quarter of 2012). In the 1st quarter of 2013, 22.6% of enterprises intend to apply for credits (in the 4th quarter of 2012 – 22.1%).

Investment activity of enterprises generally remained unchanged: the share of enterprises that used their own funds to finance their working capital remained unchanged versus the 3rd quarter of 2012 (61%), and the share of enterprises that use bank credits to finance their working capital increased (to 6.1% from 5.5% in the 3rd quarter of 2012). The average interest rates on credits in the Tenge are decreasing to 12.1% and interest rates on the foreign currency credits decrease to 9.9%.

In the real sector of the economy as a whole, the decreased rates of growth in the demand were observed. The decrease in the demand was noted by 20.9% of enterprises (in the 3rd quarter of 2012 – 15.1%), and 24.7% of respondents noted the increase in the demand (in the 3rd quarter of 2012 – 28.7%). The highest slowdown in the growth in the demand occurred in the agricultural sector, mining and manufacturing industries, and the decrease in the demand occurred mainly in such sectors as "transport and communication" and "construction". In the 1st quarter of 2013, the trend of the slowdown in the growth in the demand is expected to persist.

The slowdown in the rates of growth in prices for final products of enterprises was observed. This trend covered all sectors other than "hotels and restaurants", "real estate operations, rent and services to enterprises" and "transport and communication" where the increase in the rates of growth in prices was observed.

In the 1st quarter of 2013, a moderate price growth is anticipated in the real sector of the economy as a whole as well as in the sample of producers of consumer products and services.

In the 4th quarter of 2012, the rates of growth in prices for raw materials and supplies increased. In the sample as a whole, the share of enterprises that noted the growth in prices for raw materials and supplies accounted for 48.6%, and 3.2% of enterprises noted the decrease in

prices, while the rest of the enterprises noted that the prices hadn't changed. In the 1st quarter of 2013, a slowdown in the price growth is anticipated. It should be noted that a slowdown in the growth of prices for raw materials and supplies in the real sector in general started from the 2nd quarter of 2011.

Overall financial position of the real sector virtually didn't change in the 4th quarter of 2012: the share of low-profit and loss-making enterprises remained at the level of the previous quarter (22.5% in the 4th quarter of 2012), and the share of enterprises with medium and high profitability remained at the level of the 3rd quarter of 2012 (77.5%). Average return on sales (before tax) slightly increased to 40.7% (from 40.2% in the 3rd quarter of 2012).