**NATIONAL BANK**

**OF THE REPUBLIC OF KAZAKHSTAN**

**PRESS-RELEASE NO. 35**

**of October 17, 2013**

**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 September 2013 the inflation had been at 0.2% (in September 2012 – 0.6%). Foodstuff prices decreased by 0.2% (0.4% growth), and prices of non-food products increased by 0.2% (0.2% growth). Tariffs for paid services increased by 0.6% (by 1.3%).

In September 2013, the highest increase in prices in the foodstuffs market was demonstrated by prices for eggs – by 3.7%, rice – by 2.2%, meat and meat products – by 0.5%, dairy products – by 0.4%, confectionery – by 0.3%. In addition, tobacco prices increased by 2.5%. There was a 5.7% decline in prices for fruits and vegetables, including prices for potatoes – by 10.7%, carrots – by 9.9%, onions and cabbage – by 9.4% each. Also, the price of sugar decreased by 0.4%, and the price of cereals – by 0.2%, including 0.9% decrease in the price of buckwheat.

In the group of non-food products, the prices for upper garments increased by 0.3%, head wear – by 0.4%, footwear – by 0.2%. The price of gasoline increased by 0.2%, and the price of diesel fuel increased by 0.3%.

In the group of paid services, the utilities payments increased by 0.2%. Alongside with that, the rental cost increased by 1.4%, upkeep costs – by 0.8%. Apart from that, during the past month the price of education services increased by 4.1%, including a 6.1% increase in the price of university education and 2.9% increase in the price of secondary education; the price of healthcare services also increased by 3.1%. The price of transport services decreased by 0.2%, including railroad services – by 1.5%, and air services – by 0.2%.

During January-September 2013, the inflation accounted for 3.3% (in January-September 2012 – 3.9%). Since the beginning of 2013, the price of foodstuffs had increased by 1.6% (by 3.2%), the price of non-food products – by 1.8% (by 2.2%), and the price of paid services – by 6.9% (by 6.5%) (Figure 1).

Figure 1

**Inflation and its Components in January-September 2012 and 2013**

In September 2013, the annual inflation accounted for 5.4% (in December 2012 – 6.0%). Over the last 12 months the price of foodstuffs has increased by 3.7% (by 5.3%), the price of non-food products – by 3.1% (by 3.5%), and the price of paid services – by 9.7% (by 9.3%).

1. **Balance of Payments and External Debt in the First Half of 2013**

Trade operations resulted in significant decrease in the current account surplus for the first half of 2013 versus the corresponding indicator for the first half of 2012 by 63.3%[[1]](#footnote-1).

***The current account*** surplus in the 1st half of 2013 amounted to US$ 1.7 bln. versus US$ 4.5 bln. in the 1st half of 2012, while in the 2nd quarter of 2013 the current account had been negative amounting to US$ 224.5 mln.

During the 1st half of 2013, the world price of oil (Brent) was US$ 108.0 per barrel on average, being by 5.1% less than its average in the 1st half of 2012 (US$ 113.7 per barrel). With the 7.0% decrease in the exports of goods and 10.9% increase in the imports of goods, the trade surplus decreased by 23.2%, exceeding US$ 17.8 bln. (US$ 23.3 bln. in the 1st half of 2012).

A negative balance of *primary income*, which amounted to US$ 12.3 bln., decreased by 17.5% mainly because of decreased payouts of returns on direct investments to foreign direct investors from US$ 13.1 bln. in the 1st half of 2012 to US$ 11.3 bln. in the 1st half of 2013 (by 13.7%).

On other current account components, negative imbalances of *international services* and *secondary income* amounted to US$ 3.3 bln. and US$ 0.6 bln., respectively.

The balance on the ***financial account*** (excluding reserve assets) was negative and amounted to US$ 1.2 bln. (a positive balance of US$ 1.8 bln. in the 1st half of 2012), resulting from operations in the 2nd quarter of this year.

In *direct investments*, there had been a negative balanceof US$ 4.1 bln. When accounting under the “assets and liabilities” basis, *net acquisition of financial assets on direct investments* amounted to US$ 1.3 bln., and *net incurred liabilities* amounted to US$ 5.5 bln. *A gross inflow of direct investments* from foreign direct investors under the “area of investment” basis decreased from US$ 16.2 bln. in the 1st half of 2012 to US$ 12.6 bln. in the 1st half of 2013. In doing so, a net inflow of direct investments into Kazakhstan amounted US$ 5.8 bln., and a net outflow abroad – to US$ 1.7 bln.

*Portfolio investments* have had a surplus of US$ 1.2 bln. as a result of the excessive growth in assets on portfolio investments over the growth in relevant liabilities. Net acquisition of assets (increase in assets) on portfolio investments of US$ 5.5 bln. has been secured by the US$ 5.1 bln. growth in *foreign assets* of the National Fund of Kazakhstan. Net incurred liabilities (the growth in liabilities) on portfolio investments of US$ 4.2 bln. resulted from new issues of debt securities worth US$ 425 mln. by the Development Bank of Kazakhstan in the first quarter of 2013, and in the 2nd quarter of 2013 – by the National Company “KazMunaiGas” – US$ 3.0 bln., National Management Holding Company “KazAgro” – US$ 1.0 bln. and “Eastcomtrans” LLP – US$ 100 mln.

At June 30, 2013 the country’s ***external debt*** totaled US$ 145.4 bln., of which US$ 5.3 bln. or 4% is represented by the government sector’s external debt (liabilities of the Government and the National Bank of Kazakhstan), intercompany debt amounts to US$ 70.9 bln. or 49%, and the banking sector’s debt amounts to US$ 11.5 bln. or 8%.

During the 2nd quarter of 2013 the external debt increased by US$ 5.8 bln., mainly due to the growth in the external indebtedness of “Other sectors” (+US$ 5.5 bln.). Growth was also observed in the intercompany debt (+US$ 1.3 bln.), which was partially offset by the decreased external debt of “Banks” (-US$ 1.2 bln.).

Such decrease was mainly caused by the repayment of Euro bonds in the 2nd quarter of 2013 by such banks as ATF Bank, Kazcommertsbank, Bank CenterCredit and Halyk Bank totaling US$ 0.5 bln., as well as by the decreased value of international bonds issued by the banking sector of Kazakhstan as a result of exchange rate fluctuations (-US$ 0.3 bln.).

The increase in the external debt of “Other sectors” in the second quarter of 2013 occurred mainly due to the issue of Euro bonds by the National Company “KazMunaiGas” and National Management Holding Company “KazAgro”, totaling US$ 4.0 bln as well as by the continuing draw down of foreign loans by the residents (US$ 2.8 bln.).

As for the intercompany debt, its growth was primarily induced by the funding provided by parent companies to their branches implementing oil and gas projects within Kazakhstan (US$ 1.3 bln.).

At June 30, 2013, (gross) external debt to GDP was 69.0%, (gross) external debt to EGS – 164.1%; gross international reserves of the National Bank exceeded short-term external debt (based on the original maturity) by 2.7 times.

Since the growth in the country’s foreign liabilities exceeded the growth in foreign assets, Kazakhstan’s net external debt which is determined as the difference between the country’s foreign liabilities and foreign assets on debt instruments increased by US$ 1.9 bln. during the second quarter of 2013 and amounted to US$ 18.8 bln. or 9% of GDP at June 30, 2013.

1. **International Reserves and Monetary Aggregates**

In September 2013 international reserves of the National Bank decreased. Gross international reserves of the National Bank decreased by 6.5% to US$ 24.2 bln. (since the beginning of the year – the decrease of 14.6%). Net international reserves of the National Bank reduced by 6.6% and amounted to US$ 23.6 bln. (since the beginning of the year – the decrease of 14.9%). Foreign exchange sales in the domestic foreign currency market, servicing of the Government’s external debt, replenishment of the National Fund’s assets, and decreased bank correspondent account balances with the National Bank denominated in foreign currency were partially neutralized by foreign currency receipts to the Government’s accounts with the National Bank. As a result, during September 2013, net currency reserves (FCC) decreased by 7.7%, and assets denominated in gold decreased by 3.2% due to its decreased price in the global markets.

During September 2013, the country’s total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US$ 66.6 bln.) decreased by 1.1% to US$ 90.8 bln. (since the beginning of the year – the growth of 5.5%).

During September 2013, the reserve money contracted by 4.3% and amounted to KZT 2781.8 bln. (since the beginning of the year – contraction of 3.7%). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 4.3% to KZT 2752.3 bln.

During August 2013 the money supply decreased by 2.8% to KZT 11350.6 bln. (since the beginning of the year – the growth of 7.9%), the volume of cash in circulation decreased by 0.6% to KZT 1467.7 bln. (since the beginning of the year – the decrease of 3.9%), deposits in the banking system decreased by 3.2% to KZT 9882.9 bln. (since the beginning of the year – the growth of 9.9%). The share of deposits in the structure of money supply increased from 85.5% in December 2012 to 87.1% in August 2013 as a result of growth in the deposit volumes against the contraction of cash in circulation.

The money multiplier increased from 3.64 in December 2012 to 3.91 at end-August 2013 as a result of outstripping rates of growth in money supply versus the rates of expansion in the reserve money recorded in January-August 2013.

1. **Foreign Exchange Market**

In September 2013 the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 152.90–153.81 per 1 US Dollar. At the end of the month, the exchange rate of the Tenge was KZT 153.81 per 1 US Dollar, having decreased by 0.7% over the month (since the beginning of the year – the depreciation of 2.0%).

In September 2013 the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased as compared to August 2013 by 42.6% and amounted to US$ 3.9 bln. (since the beginning of the year – US$ 40.9 bln.). The transaction volume in the off-exchange foreign currency market decreased by 40.6% to US$ 1.7 bln. (since the beginning of the year – US$ 15.6 bln.).

In general, the operations volume in the domestic foreign exchange market decreased by 42.0% as compared to August 2013 and amounted to US$ 5.7 bln. (since the beginning of the year – US$ 56.6 bln.).

1. **Government Securities Market**

In September 2013, 6 auctions offering government securities of the Ministry of Finance were held where the following government securities were placed: 4-year МЕОКАМs (KZT 2.0 bln.), 10-year МЕUКАМs (KZT 7.8 bln., KZT 3.2 bln. and KZT 2.8 bln.), 13-year МЕUКАМs (KZT 1.9 bln.), and 13-year МЕUZHКАМs (80 bln.).

The effective yield on placed securities was as follows: on 4-year МЕОКАМs – 4.04%, on 10-year МЕUКАМs – 6.00%, 6.20% and 6.00%, on 13-year МЕUКАМs – 6.56%, on 13-year МЕUZHКАМs – 0.01% above the inflation rate.

At end-September 2013 the volume of outstanding securities of the Ministry of Finance amounted to KZT 3305.1 bln., having increased by 3.0% as compared to the previous month.

***Short-term Notes of the National Bank of Kazakhstan***.

In September 2013, no auctions were held to place the National Bank’s notes.

As a result, at end-September 2013 as compared to August 2013, the volume of notes in circulation reduced by 51.9% and amounted to KZT 16.4 bln.

1. **Interbank Money Market**

In August 2013 as compared to July 2013, the total volume of placed interbank deposits decreased by 22.6%, amounting to the equivalent of KZT 1898.7 bln.

The volume of placed interbank deposits in the Tenge decreased by 27.8% and amounted to KZT 152.2 bln. (8.0% of the total volume of placed deposits). In August 2013, the average weighted interest rate on placed interbank deposits in the Tenge increased from 0.88% to 2.26%.

In August 2013 as compared to July 2013, the volume of placed Dollar deposits decreased by 21.0% and amounted to US$ 11.0 bln. (88.3% of the total volume of placed deposits). In August 2013 the average weighted interest rate on the placed deposits in the US Dollar decreased from 0.09% to 0.08%.

The volumes of deposits placements in the Russian rubles and Euro are insignificant – 3.2% and 0.5% of the total volume of placed deposits, respectively.

During August 2013 the share of foreign currency interbank deposits increased from 91.4% to 92.0% of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks increased from 90.7% to 91.1% of the total volume of placed interbank deposits.

In August 2013 as compared to July 2013, the volume of deposits taken from banks by the National Bank decreased by 35.0% and amounted to KZT 115.5 bln.

1. **Deposit Market**

During August 2013 the overall volume of deposits of residents with depository institutions decreased by 3.2% to KZT 9882.9 bln. (since the beginning of the year – the 9.9% growth). During the month, deposits of legal entities decreased by 5.1% to KZT 6208.8 bln. (since the beginning of the year – the 10.4% growth), deposits of individuals increased by 0.2% to KZT 3674.1 bln. (since the beginning of the year – the 9.0% growth).

In August 2013 the volume of deposits in the domestic currency decreased by 2.5% to KZT 6100.0 bln. (deposits of legal entities demonstrated the decrease of 3.1%, and deposits of individuals – the decrease of 1.3%), and foreign currency deposits showed the decrease of 4.3% to KZT 3782.9 bln. (legal entities – the decrease of 8.5%, individuals – the growth of 2.1%). The percentage of the Tenge deposits has increased over the month from 61.3% to 61.7%.

During August 2013 household deposits with banks (including non-residents) increased by 0.2% to KZT 3708.9 bln. (since the beginning of the year – the growth of 8.8%). In the structure of household deposits, deposits in the Tenge decreased by 1.3% to KZT 2073.9 bln., and foreign currency deposits increased by 2.1% to KZT 1635.0 bln. Within household deposits, the percentage of deposits in the Tenge has decreased from 56.8% to 55.9%.

During August 2013 time deposits increased by 2.5% to KZT 6815.0 bln. Within time deposits, deposits in the Tenge increased by 2.0% to KZT 4062.0 bln., and foreign currency deposits increased by 3.2% to KZT 2752.9 bln.

In August 2013 the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 4.4% (in July 2013 – 3.5%), and on deposits of individuals – 6.7% (6.5%).

1. **Credit Market**

During August 2013 the total volume of bank credits to the economy increased by 0.7%, amounting to KZT 10782.8 bln. (since the beginning of the year - the growth of 8.3%).

The volume of credits in the domestic currency increased by 1.0% to KZT 7612.6 bln. (since the beginning of the year – the growth of 8.1%), and the volume of foreign currency credits decreased by 0.1% to KZT 3170.2 bln. (since the beginning of the year – the growth of 8.7%). Over the month, the percentage of credits in the Tenge has increased from 70.4% to 70.6%.

In August 2013 long-term lending increased by 1.0% amounting to KZT 8814.2 bln., and short-term lending decreased by 0.8% to KZT 1968.6 bln. Over the month the percentage of long-term credits has increased from 81.5% to 81.7%.

During August 2013 the volume of credits to legal entities increased by 0.4% to KZT 7412.8 bln., and the volume of credits to individuals increased by 1.5% to KZT 3370.0 bln. Over the month, the percentage of credits to individuals has increased from 31.0% to 31.3%.

During August 2013, the SME lending increased by 0.2% to KZT 1462.6 bln. (since the beginning of the year – the growth of 3.6%), accounting for 13.6% of total 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 19.4%), construction (13.0%), industry (11.9%), transport (3.3%) and agriculture (3.1%).

In August 2013, the average weighted interest rate on the Tenge credits provided to non-bank legal entities was 10.9% (in July 2013 – 10.4%), and on credits to individuals – 20.1% (19.6%).

1. In what follows, unless otherwise specified, performance in the 1st half of 2013 is compared to the performance in the 1st half of 2012. [↑](#footnote-ref-1)