



**NATIONAL BANK
OF THE REPUBLIC OF KAZAKHSTAN
PRESS-RELEASE NO.34
of April 17, 2014**

**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 March 2014 the inflation accounted for 1.0% (in March 2013 – 0.2%). The foodstuffs increased by 1.3% (by 0.2%) in terms of price, and the price of non-food products increased by 1.0% (by 0.2%). Tariffs for paid services increased by 0.5% (0.0%).

In March 2014, the highest increase in prices of foodstuffs was in the price for fruits and vegetables - by 5.1%, including onions – by 1.8%, rice – by 1.7%, dairy products – by 1.2%, flour – by 0.9%, and bread – by 0.8%. In addition, prices of tobacco products increased by 1.5%. There was a decline in prices for eggs – by 2.8%, buckwheat – by 1.5% and vegetable oil – by 0.6%.

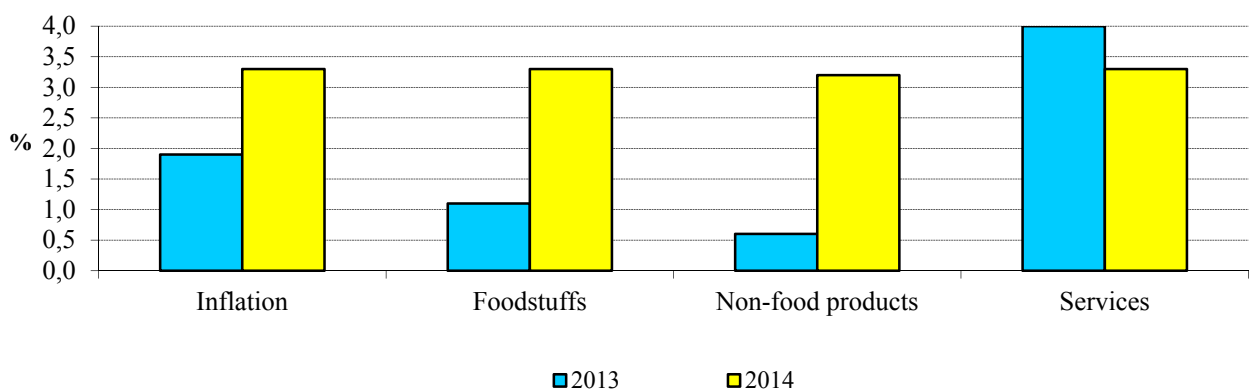
In the group of non-food products prices for upper garments increased by 1.1%, for footwear – by 0.6%, household utensils – by 1.5%, including for household appliances and repair – by 1.3%, detergents and cleansing products – by 1.4%, as well as for medications – by 1.3%. The price of gasoline remained unchanged and the price of diesel fuel decreased by 0.1%.

In the group of paid services, utility payments increased by 0.4%. The fees for waste collection increased by 5.2%, for housing rent – by 0.8% and the cost of upkeep – by 0.2%. In addition, during March 2014 healthcare services increased by 2.0% in terms of price, transport services – by 0.9%, and services of restaurants and hotels – by 0.8%.

During January-March 2014, the inflation accounted for 3.3% (in January-March 2013 – for 1.9%). Since the beginning of 2014, foodstuffs increased by 3.3% (by 1.1%) in terms of price, non-food products – by 3.2% (by 0.6%), and paid services – by 3.3% (by 4.0%) (Figure 1).

Figure 1

Inflation and its Components in January-March 2013 and 2014



In March 2014, the annual inflation accounted for 6.2% (in December 2013 – 4.8%). Over the last 12 months, foodstuffs have increased by 5.5% (by 3.3%) in terms of price, non-food products – by 6.0% (by 3.3%), and paid services – by 7.3% (by 8.0%).

2. Balance of Payments and External Debt in 2013

At the end of 2013, the current account had been in deficit of US\$ 117.8 mln. whereas in 2012 the current account surplus amounted to US\$ 1.1 bln.

Deterioration in the current account balance was caused by the decrease in the balance of trade surplus. Given 4.1% decrease in exports of goods and 1.9% increase in their imports, surplus of trade operations decreased by 11.7% to US\$ 33.7 bln. (US\$ 38.1 bln. in 2012).

Official exports of goods decreased by 4.6% to US\$ 82.5 bln., of which US\$ 55.2 bln. (or 66.9%) fall on the export of oil and gas condensate. The average level of world oil price (Brent) for 2013 was US\$ 108.9 per barrel, which is by 2.8% less than in 2012 (US\$ 112.0 per barrel).

The imports of goods recorded by the official trade statistics increased by 5.4% and amounted to US\$ 48.9 bln.

Negative balance of primary income, which amounted to US\$ 25.3 bln., decreased by 9.8%, mainly due to decreased payouts of revenues from direct investments to non-residents from US\$ 24.7 bln. in 2012 to US\$ 22.7 bln. in 2013 (by 8.2%).

On other current account components, negative imbalances of international services and secondary income amounted to US\$ 6.9 bln. and US\$ 1.6 bln., respectively.

In 2013, the financial account (excluding operations with reserve assets of the National Bank) showed up the deficit of US\$ 3.6 bln. (surplus of US\$ 0.9 bln. in 2012). Thus, financial operations resulted in a net capital inflow or “net borrowing from the rest of the world”¹.

There was a negative balance of US\$ 7.8 bln. on foreign direct investments as a result of outstripping growth of liabilities over assets. When accounting under the “assets and liabilities” basis, net acquisition (growth) of financial assets on direct investment operations was virtually at the level of 2012 and amounted to US\$ 1.9 bln. Net incurred liabilities (growth) on foreign direct investments amounted to US\$ 9.7 bln. (US\$ 13.8 bln. in 2012).

In terms of accounting for direct investments under the “area of investment” basis, a gross inflow of foreign direct investments in 2013 decreased by 16.6% versus 2012 and amounted to US\$ 24.1 bln. Given the extinction of principal debt on mutual intercompany liabilities, net inflow of direct investments to Kazakhstan amounted to US\$ 10.2 bln. and a net outflow abroad – US\$ 2.4 bln.

A surplus on portfolio investments amounted to US\$ 6.0 bln. (US\$ 17.4 bln. in 2012) as a result of increase in the growth of assets over the growth in liabilities from such investments. Net acquisition of assets (increase in assets) of US\$ 8.5 bln. has been secured by the US\$ 7.7 bln. growth in foreign assets of the National Fund of Kazakhstan and US\$ 0.6 bln. increase in debt securities of non-residents in the banks’ portfolio.

Net incurred liabilities (growth) of US\$ 2.5 bln. on portfolio investments resulted from issues of debt securities in foreign markets, primarily by enterprises from the non-banking sector. Redemption and repurchase of earlier issued securities by residents had partially offset the growth in liabilities due to the placement of the 2013 issue totaling about US\$ 5 bln.

As for other investments, negative balance decreased from US\$ 4.7 bln. in 2012 to US\$ 1.8 bln. in 2013.

At December 31, 2013 gross external debt amounted to US\$ 148.7 bln., where the government sector’s external debt (liabilities of the Government and the National Bank) amounts to US\$ 5.7 bln. (or 4%), the banking sector’s debt (the “Banks”)² amounts to US\$ 11.2 bln. or 7%, and intercompany debt – to US\$ 72.7 bln. or 49%. The remaining part is represented by the debt of “Other sectors”³ to unaffiliated non-residents.

During 2013, gross external debt increased by US\$ 11.8 bln. because of US\$ 14.0 bln. growth in the debt of “Other sectors”. The government sector’s external debt increased by US\$ 0.2 bln., and net liabilities of “Banks” decreased by US\$ 2.4 bln.

¹ According to a new balance of payments methodology, a negative sign of the financial account balance and its components indicates that a net borrowing (outstripping growth of liabilities over assets) causes deterioration in the international investment position and the growth in the country’s net external debt

² Includes second-tier banks and the Development Bank of Kazakhstan

³ Include non-bank financial corporations, non-financial corporations as well as households and non-profit organizations providing services to households

The decrease in external debt of “Banks” was mainly secured by repayment of foreign loans as well as by repurchase and redemption of Eurobonds by their issuers.

In 2013, external debt of “Other sectors” increased mainly because of loans raised by residents both from direct investors and other non-residents. The growth in this debt category was US\$ 11.0 bln.

Apart from loans, the above mentioned active entry of Kazakh issuers into international securities markets, including with a view to refinance the redemption of earlier issued securities, had a notable impact on the external debt behavior.

At December 31, 2013, gross external debt to GDP accounted for 67.6% versus 67.4% at the end of 2012, and gross external debt to exports of goods and services accounted for 168.3% versus 149.2%. Excluding intercompany debt, at the end of 2013 such ratios accounted for 34.6% and 86.1%, respectively.

According to the international investment position of Kazakhstan at the end of 2013, the country’s foreign assets totaled US\$ 177.1 bln., including US\$ 131.5 bln. on debt instruments, versus the same ratios for 2012 – US\$ 163.1 bln. and US\$ 122.7 bln., respectively.

As a result, in 2013 net external debt of Kazakhstan increased by US\$ 3.1 bln. and at December 31, 2013 amounted to US\$ 17.3 bln. or 8% to GDP (versus US\$ 14.2 bln. or 7% to GDP at the end of 2012). The government sector and “Banks” still retain their position of a net lender in relation to the rest of the world.

3. International Reserves and Monetary Aggregates

In March 2014, international reserves of the National Bank increased. Gross international reserves of the National Bank increased by 2.0% to US\$ 26.5 bln. (on a year-to-date basis –7.5% increase). Net international reserves of the National Bank increased by 0.7% and amounted to US\$ 25.7 bln. (on a year-to-date basis – 6.3% increase). Foreign exchange purchases in the domestic foreign currency market and foreign currency receipts to the Government’s accounts with the National Bank were partially neutralized by the servicing of the Government’s external debt, replenishment of the National Fund’s assets as well as by decreased bank correspondent account balances with the National Bank denominated in foreign currency. As a result, during March 2014 net currency reserves (FCC) increased by 1.5%, and assets denominated in gold decreased by 1.5% as a result of conducted operations and decline in its price in the global markets.

During March 2014, the country’s total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 72.8 bln.) increased by 1.7% to US\$ 99.3 bln. (on a year-to-date basis – 4.3% increase).

During March 2014, the reserve money expanded by 5.2% and amounted to KZT 3408.0 bln. (on a year-to-date basis – 20.7% expansion). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, expanded by 5.0% to US\$ 3380.0 bln.

During February 2014, the money supply increased by 4.6% to KZT 12432.5 bln. The volume of cash in circulation increased by 0.1% to KZT 1399.7 bln., and deposits in the banking system increased by 5.2% and amounted to KZT 11032.8 bln. The share of deposits in the structure of money supply increased from 87.0% in December 2013 to 88.7% in February 2014 as a result of growth of the deposit volumes against the decreased volume of cash in circulation recorded in February 2014.

The money multiplier increased from 4.11 in December 2013 to 3.84 at end-February 2014 due to the outstripping rates of expansion in the reserve money versus the rates of money supply growth recorded in February 2014.

4. Foreign Exchange Market

In March 2014, the exchange rate of the Tenge versus the US Dollar was fluctuating within the range of KZT 181.78–184.08 per 1 US Dollar. At end-month, the stock exchange rate

of the Tenge versus the US Dollar was KZT 182.06 per 1 US Dollar, having appreciated by 1.1% over the month.

In March 2014 as compared to February 2014, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased by 12.5% and amounted to US\$ 8.3 bln. The transaction volume in the off-exchange foreign currency market decreased by 34.4% to US\$ 0.9 bln.

In general, the trading volume in the domestic foreign exchange market decreased by 15.3% versus February 2014 and amounted to US\$ 9.2 bln.

5. Government Securities Market

In March 2014, three auctions were conducted to place government securities of the Ministry of Finance. The following securities had been placed through these auctions: 9-year MEUKAMs (KZT 22.2 bln.), 12-year MEUKAMs (KZT 20.9 bln.), and 15-year MEUKAMs (KZT 2.0 bln.).

The effective yield on placed securities was as follows: on 9-year MEUKAMs – 6.25%, on 12-year MEUKAMs – 6.80%, and on 15-year MEUKAMs – 7.22%.

At end-March 2014, the volume of outstanding securities of the Ministry of Finance amounted to KZT 3674.9 bln., having increased by 0.04% as compared to the previous month.

Short-Term Notes of the National Bank of Kazakhstan.

In March 2014, no auctions to place the National Bank's notes were held.

As a result, at end-March 2014 the volume of outstanding notes hadn't changed versus February 2014 and amounted to KZT 8.9 bln.

6. Interbank Money Market

In February 2014, the total volume of placed interbank deposits increased by 1.6% versus January 2014 and amounted to the equivalent of KZT 3053.7 bln.

The volume of placed interbank deposits in the Tenge decreased by 50.1% and amounted to KZT 112.0 bln. (3.7% of the total volume of placed deposits). The average weighted interest rate on placed interbank deposits in the Tenge increased from 1.87% in January 2014 to 3.3% in February 2014.

In February 2014 as compared to January 2014, the volume of placed Dollar deposits decreased by 6.3% and amounted to US\$ 16.4 bln. (93.1% of the total volume of placed deposits). The average weighted interest rate on the placed Dollar deposits decreased from 0.06% in January 2014 to 0.05% in February 2014.

The volumes of deposit placements in the Russian rubles and the Euro are insignificant – 2.1% and 1.1% of the total volume of placed deposits, respectively.

The share of interbank deposits in foreign currency increased from 92.5% to 96.3% (January 2014 versus February 2014) of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks increased from 91.7% to 95.0% (January 2014 versus February 2014) of the total volume of placed interbank deposits.

In February 2014 as compared to January 2014, the volume of deposits taken by the National Bank from banks decreased by 53.2% and amounted to KZT 54.0 bln.

7. Deposit Market

During February 2014, the overall volume of deposits of residents with depository institutions increased by 5.2% to KZT 11032.8 bln. Over the month, deposits of legal entities had increased by 6.6% to KZT 6988.7 bln., and deposits of individuals had increased by 2.9% to KZT 4044.1 bln.

In February 2014, the volume of deposits in the domestic currency decreased by 8.0% to KZT 5823.3 bln. (legal entities – 7.2% decrease, individuals – 9.5% decrease), and foreign currency deposits increased by 25.4% to KZT 5209.5 bln. (legal entities – 30.9% growth,

individuals – 18.1% growth). Over the month, the percentage of deposits in the Tenge had decreased from 60.4% to 52.8%.

During February 2014, household deposits with banks (including non-residents) increased by 3.0% to KZT 4083.4 bln. In the structure of household deposits, deposits in the Tenge decreased by 9.5% to KZT 1961.9 bln., and foreign currency deposits increased by 18.0% to KZT 2121.5 bln. Within household deposits, the percentage of the Tenge deposits had decreased from 54.7% to 48.0% over the month.

During February 2014, the volume of time deposits increased by 2.2% to KZT 7424.5 bln. Within time deposits, the Tenge deposits decreased by 8.5% to KZT 3877.0 bln., and foreign currency deposits increased by 17.1% to KZT 3547.5 bln.

In February 2014, the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 4.3% (in January 2014 – 4.9%), and on deposits of individuals – 8.2% (7.9%).

8. Credit Market.

During February 2014, the total volume of bank credits to the economy increased by 6.7% amounting to KZT 12069.4 bln.

The volume of credits in the domestic currency increased by 0.3% to KZT 7940.6 bln., and the volume of foreign currency credits increased by 21.4% to KZT 4128.8 bln. The percentage of credits in the Tenge had decreased from 69.9% to 65.8% over the month.

In February 2014, long-term lending increased by 6.0%, amounting to KZT 9730.2 bln., and short-term lending increased by 9.6% to KZT 2339.2 bln. Over the month, the percentage of long-term credits had decreased from 81.1% to 80.6%.

The volume of credits to legal entities during February 2014 increased by 8.0% to KZT 8279.8 bln., and the volume of credits to individuals increased by 3.8% to KZT 3789.6 bln. Over the month, the percentage of credits to individuals had decreased from 32.3% to 31.4%.

During February 2014, credits to small business entities increased by 7.2% to KZT 1370.7 bln., which accounts for 11.4% of the total volume of credits to the economy.

In the sectoral breakdown, the most significant amount of bank credits to the economy falls on such sectors as trade (the share in the total volume – 19.1%), construction (12.2%), industry (11.4%), transport (3.7%) and agriculture (3.5%).

In February 2014, the average weighted interest rate on credits provided in the Tenge to non-bank legal entities was 10.2% (in January 2014 – 10.5%), and on credits to individuals – 20.0% (21.2%).