



**NATIONAL BANK
OF THE REPUBLIC OF KAZAKHSTAN
PRESS-RELEASE NO.36
of May 13, 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 April 2014 the inflation accounted for 0.6% (in April 2013 – 0.3%). Foodstuffs increased by 1.0% (by 0.2%) in terms of price, and the price of non-food products increased by 0.6% (by 0.2%). Tariffs for paid services increased by 0.2% (by 0.5%).

In April 2014, the highest increase in prices of foodstuffs was in the price for sugar – by 6.1%, for fruits and vegetables – by 3.1%, including cabbage – by 18.2%, onions – by 10.2%, potatoes – by 8.1%, rice – by 2.2%, flour – by 1.6%, dairy products – by 1.5%, tea – by 1.3%, macaroni products – by 1.2%, fish and seafood – by 1.1%, and bread – by 0.7%. In addition, prices for confectionery decreased by 1.2%, and for non-alcoholic beverages – by 1.1%. There was a decrease in prices for eggs by 1.0%, meat and meat products – by 0.2% and sunflower oil – by 0.6%.

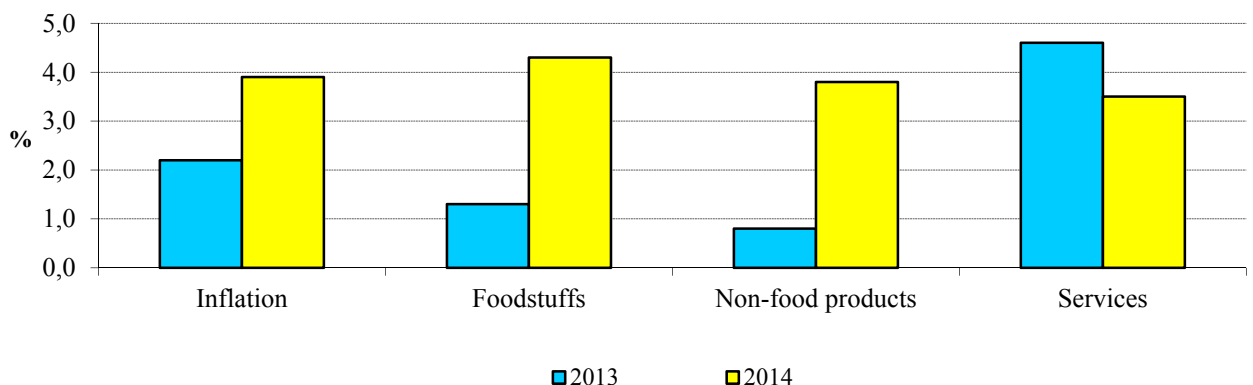
In the group of non-food products prices for fabrics increased by 1.4%, for footwear – by 0.7%, household utensils – by 0.9%, as well as for tableware and cutlery – by 1.4%, detergents and cleansing products – by 1.3%, as well as for medications – by 0.9%. The price of gasoline and diesel fuel remained unchanged.

In the group of paid services, utility payments increased by 0.2%. The fees for waste collection and housing rent increased by 0.8% each, and the cost of upkeep increased by 0.5%. In addition, over the past months prices for healthcare services increased by 1.1%, for education services – by 0.7%, and for transport services – by 0.2%; prices for communication services decreased by 0.6%.

During January-April 2014, the inflation accounted for 3.9% (in January-April 2013 – 2.2%). Since the beginning of 2014, foodstuffs increased by 4.3% (by 1.3%) in terms of price, non-food products – by 3.8% (by 0.8%), and paid services – by 3.5% (by 4.6%) (Figure 1).

Figure 1

Inflation and its Components in January-April 2013 and 2014



In April 2014, the annual inflation accounted for 6.5% (in December 2013 – 4.8%). Over the last 12 months, foodstuffs have increased by 6.3% (by 3.3%) in terms of price, non-food products – by 6.4% (by 3.3%), and paid services – by 7.0% (by 8.0%).

2. Balance of Payments for the 1st Quarter of 2014 (Preliminary Outcomes)

According to preliminary estimate of the balance of payments, the current account surplus in the 1st quarter of 2014 amounted to US\$ 5.5 bln. versus US\$ 2.2 bln. in the 1st quarter of 2013.

The current account improved due to 28.8% increase in the balance of trade surplus to US\$ 13.3 bln. versus the 1st quarter of 2013 (US\$ 10.3 bln. in the 1st quarter of 2013). Export of goods increased by 10.8% to US\$ 22.7 bln. and import of goods decreased by 7.4% to US\$ 9.4 bln.

A net outflow of resources on primary income operations (salaries and wages, investment return and other primary income) is estimated at US\$ 6.2 bln. versus US\$ 6.5 bln. in the 1st quarter of 2013.

On other current account components, negative imbalances of international services and secondary income (current transfers) amounted to US\$ 1.4 bln. and US\$ 0.2 bln., respectively.

According to a preliminary estimate, the financial account balance (excluding operations with reserve assets of the National Bank) amounted to US\$ 1.3 bln. in the 1st quarter of 2014 (US\$ 0.7 bln. in the 1st quarter of 2013).

Net acquisition of financial assets on foreign direct investments had a negative sign and amounted to US\$ 0.5 bln., and net incurred liabilities amounted to US\$ 2.1 bln. As a result, negative imbalance (net inflow) on direct investments increased from US\$ 2.0 bln. in the 1st quarter of 2013 to 2.6 bln. in the 1st quarter of 2014.

A surplus on portfolio investments amounted to US\$ 4.3 bln. Net acquisition of assets on portfolio investments of US\$ 4.1 bln. has been secured by the growth in foreign assets of the National Fund. Net incurred liabilities on portfolio investments had been negative and amounted to US\$ 0.2 bln.

3. International Reserves and Monetary Aggregates

In April 2014, international reserves of the National Bank increased. Gross international reserves of the National Bank increased by 7.1% to US\$ 28.4 bln. (on a year-to-date basis – 15.1% increase). Net international reserves of the National Bank increased by 7.6% and amounted to US\$ 27.6 bln. (on a year-to-date basis – 14.4% 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 April 2014 net currency reserves (FCC) increased by 9.5%, and assets denominated in gold increased by 1.7% as a result of conducted operations along with a minor decline in its price in the global markets.

During April 2014, the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 73.6 bln.) increased by 2.7% to US\$ 102.0 bln. (on a year-to-date basis – 7.1% increase).

During April 2014, the reserve money expanded by 6.6% and amounted to KZT 3633.3 bln. (on a year-to-date basis – 28.7% expansion). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, expanded by 2.4% to KZT 3461.0 bln.

During March 2014, the money supply increased by 2.9% to KZT 12796.2 bln. The volume of cash in circulation decreased by 5.7% to KZT 1319.9 bln., deposits in the banking system increased by 4.0% and amounted to KZT 11476.3 bln. The share of deposits in the structure of money supply increased from 87.0% in December 2013 to 89.7% in March 2014 as a result of the deposit growth against the decreased volume of cash in circulation recorded in January-March 2014.

The money multiplier increased from 4.11 in December 2013 to 3.75 at end-March 2014 due to the outstripping rates of expansion in the reserve money versus the rates of money supply growth recorded in January-March 2014.

4. Foreign Exchange Market

In April 2014, the exchange rate of the Tenge versus the US Dollar was fluctuating within the range of KZT 182.01–182.07 per 1 US Dollar. At month-end, the stock exchange rate of the Tenge versus the US Dollar was KZT 182.06.

In April 2014 as compared to March 2014, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased by 51.7% and amounted to US\$ 4.0 bln. The transaction volume in the off-exchange foreign currency market decreased by 34.3% to US\$ 0.6 bln.

In general, the trading volume in the domestic foreign exchange market decreased by 49.9% as compared to March 2014 and amounted to US\$ 4.6 bln.

5. Government Securities Market

In April 2014, four auctions were conducted to place government securities of the Ministry of Finance. The following securities had been placed through these auctions: 7-year MEUKAMs (KZT 22.4 bln.), 13-year MEUKAMs (KZT 8.0 bln.), 15-year MEUKAMs (KZT 6.3 bln.), and 16-year MEUKAMs (KZT 3.2 bln.)

The effective yield on placed securities was as follows: on 7-year MEUKAMs – 6.65%, on 13-year MEUKAMs – 7.1%, on 15-year MEUKAMs – 7.47%, and on 16-year MEUKAMs – 7.41%.

At the end of April 2014, the volume of outstanding securities of the Ministry of Finance amounted to KZT 3695.3 bln., having increased by 0.6% as compared to the previous month.

Short-Term Notes of the National Bank of Kazakhstan.

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

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

6. Interbank Money Market

In March 2014 as compared to February 2014, the total volume of placed interbank deposits increased by 3.9% and amounted to the equivalent of KZT 3171.6 bln.

The volume of placed interbank deposits in the Tenge increased by 8.8% and amounted to KZT 121.9 bln. (3.8% of the total volume of placed deposits). The average weighted interest rate on placed interbank deposits in the Tenge increased from 3.3% in February 2014 to 5.8% in March 2014.

In March 2014 as compared to February 2014, the volume of placed Dollar deposits decreased by 0.6% and amounted to US\$ 16.3 bln. (93.7% of the total volume of placed deposits). The average weighted interest rate on the placed Dollar deposits decreased from 0.053% in February 2014 to 0.046% in March 2014.

The volumes of deposit placements in the Russian rubles and the Euro are insignificant – 1.3% and 1.1% of the total volume of placed deposits, respectively.

The share of interbank deposits in foreign currency slightly decreased from 96.3% to 96.2% (February 2014 versus March 2014) of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks increased from 95.0% to 95.7% (February 2014 versus March 2014) of the total volume of placed interbank deposits.

In March 2014 as compared to February 2014, the volume of deposits taken by the National Bank from banks increased by 73.7% and amounted to KZT 93.8 bln.

7. Deposit Market

During March 2014, the overall volume of deposits of residents with depository institutions increased by 4.0% to KZT 11476.3 bln. Over the month, deposits of legal entities had increased by 5.6% to KZT 7380.6 bln., and deposits of individuals had increased by 1.3% to KZT 4095.7 bln.

In March 2014, the volume of deposits in the domestic currency increased by 3.2% to KZT 6007.4 bln. (legal entities – 6.7% growth, and individuals – 3.8% decrease), and foreign currency deposits increased by 5.0% to KZT 5468.9 bln. (legal entities – 4.3% growth, and individuals – 6.0% growth). Over the month, the percentage of deposits in the Tenge had decreased from 52.8% to 52.3%.

During March 2014, household deposits with banks (including non-residents) increased by 1.2% to KZT 4131.7 bln. In the structure of household deposits, deposits in the Tenge decreased by 4.0% to KZT 1883.6 bln., and foreign currency deposits increased by 6.0% to KZT 2248.0 bln. Within household deposits, the percentage of the Tenge deposits had decreased from 48.0% to 45.6% over the month.

During March 2014, time deposits increased by 4.1% to KZT 7731.9 bln. Within time deposits, the Tenge deposits decreased by 0.3% to KZT 3865.6 bln., and foreign currency deposits increased by 9.0% to KZT 3866.4 bln.

In March 2014, the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 6.1% (in February 2014 – 4.3%), and on deposits of individuals – 7.5% (8.2%).

8. Credit Market.

During March 2014, the total volume of bank credits to the economy increased by 0.8%, amounting to KZT 12166.6 bln.

The volume of credits in the domestic currency increased by 0.01% to KZT 7941.0 bln., and the volume of credits in foreign currency grew by 2.3%, amounting to KZT 4225.6 bln. The percentage of credits in the Tenge had decreased from 65.8% to 65.3% over the month.

In March 2014, long-term lending increased by 0.4%, amounting to KZT 9771.6 bln., and short-term lending increased by 2.4% to KZT 2395.1 bln. Over the month, the percentage of long-term credits had decreased from 80.6% to 80.3%.

During March 2014, the volume of credits to legal entities increased by 0.4% to KZT 8310.5 bln., and the volume of credits to individuals increased by 1.8% to KZT 3856.1 bln. Over the month, the percentage of credits to individuals had increased from 31.4% to 31.7%.

During March 2014, credits to small business entities increased by 1.8% to KZT 1394.9 bln., accounting for 11.5% 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 (12.0%), industry (11.1%), transport (3.7%) and agriculture (3.6%).

In March 2014, the average weighted interest rate on credits provided in the Tenge to non-bank legal entities was 10.7% (in February 2014 – 10.2%), and on credits to individuals – 19.7% (20.0%).

9. Regarding the Outcomes of Enterprise Monitoring in the Real Sector of the Economy in the 1st Quarter of 2014

In April 2014, a regular enterprise monitoring was conducted with a view to assess the situation in the real sector of the economy in the 1st quarter of 2014. The number of enterprises participating in the monitoring and representing key sectors of the country's economy, as compared to their interview in the 4th quarter of 2013, increased from 2678 to 2689, including medium and large enterprises – to 1551.

In the 1st quarter of 2014, 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 5.1%, 38% and 38.9%, respectively). The share of enterprises whose economic activity was not affected by the change in the exchange rate of the Tenge versus those currencies accounted for 31.1%, 41.7% and 42.4%, respectively.

The share of enterprises that obtained credits in the 1st quarter of 2014 slightly decreased (to 20% from 21.5% in the 4th quarter of 2013), and the number of enterprises with delinquencies

on bank loans decreased as compared to the previous quarter and accounted for 36.4%. In the 2nd quarter of 2014, 23.8% of enterprises intend to apply for loans (in the 1st quarter of 2014 – 22.4%).

Investment activity of enterprises notably decreased: the share of enterprises that did not finance investments increased (to 37.1%), and the share of enterprises that used their own funds as well as bank loans for such purposes decreased (to 57.9% and 5.6%, respectively).

The level of average interest rates on credits in the Tenge decreased to 11.9% from 12.1%, and average interest rates on foreign currency credits slightly increased (to 9.8% from 9.3% in the 4th quarter of 2014).

The overall demand for final products of enterprises in the real sector of the economy as a whole notably decreased. In doing so, the decrease in the demand was noted by 29.2% of enterprises (in the 4th quarter of 2014 – 21.4%), and the increase in the demand was noted by 13.0% (in the 4th quarter of 2014 – 20.1%) of respondents.

Significant decrease in the demand was observed in such sectors as “accommodation and catering services”, “manufacturing industry”, “transport and warehousing”, and “construction”. At the same time, significant increase in the demand occurred in the sector of “water supply, sewage system, control over waste collection and distribution”. The largest slowdown in the demand growth rates occurred in the sector of “electricity supply, supply of water, vapor and air conditioning”.

In the 2nd quarter of 2014 as compared to the 1st quarter of 2014, according to expectations of enterprises, the demand for final products will increase in the real sector as a whole.

Prices for final products of enterprises in the real sector as a whole in the 1st quarter of 2014 increased significantly. In a sectoral breakdown the same situation of moderate price growth was observed in such sectors as: “manufacturing industry”, construction, “electricity supply, supply of water, vapor...”, “accommodation and catering services”, “agriculture, forestry and fishery”, and “water supply, sewage system...”.

Prices for final products of enterprises – producers of consumer products and services (prices for consumer products and services) in the 1st quarter of 2014 also continued to grow moderately.

In the 2nd quarter of 2014 versus the 1st quarter of 2014, some slowdown in the price growth rates for final products is anticipated in the real sector of the economy as a whole. The highest increase in the rates of price growth is anticipated in such sectors as: construction, manufacturing industry, “agriculture, forestry and fishery”, “accommodation and catering services”, and “mining industry”.

Prices for consumer products and services in the 2nd quarter of 2014, according to expectations of enterprises, will continue to grow moderately, with some slowdown.

In the 1st quarter of 2014, prices for raw materials and supplies continued to grow at relatively high pace. The increased rates of price growth were observed in the following sectors: “accommodation and catering services”, “manufacturing industry”, “electricity supply, supply of water, vapor...”, construction, “agriculture, forestry and fishery”, and “mining industry”.

The share of enterprise anticipating the decline in prices decreased to 0.5 % from 1.1% in the 1st quarter of 2014.

In the 1st quarter of 2014, the financial standing of the real sector as a whole somewhat deteriorated: the share of low-profit and unprofitable enterprises increased (to 24.5% from 23.2% in the 4th quarter of 2014), and the share of medium- and highly profitable enterprises decreased (to 75.5% from 76.8% in the 4th quarter of 2014).