



**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 Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, in August 2014 the inflation accounted for 0.4% (in August 2013 – 0.2%). The price of foodstuffs declined by 0.1% (0.0%). Non-food products increased by 1.1% (by 0.3%) in terms of price, and tariffs for paid services increased by 0.4% (by 0.5%).

In August 2014, the highest increase in foodstuffs prices was in the price for eggs – by 3.6%, rice – by 2.5%, sugar – by 2.3%, flour – by 1.5%, meat and meat products – by 1.3%, including poultry – by 9.0%, fish and seafood – by 0.8%, confectionery products – by 0.7%, macaroni products – by 0.5%. The prices for vegetables and fruits declined by 6.8%, including potatoes – by 19.9%, cabbage – by 9.7%, onions – by 8.1%, and carrots – by 6.7%.

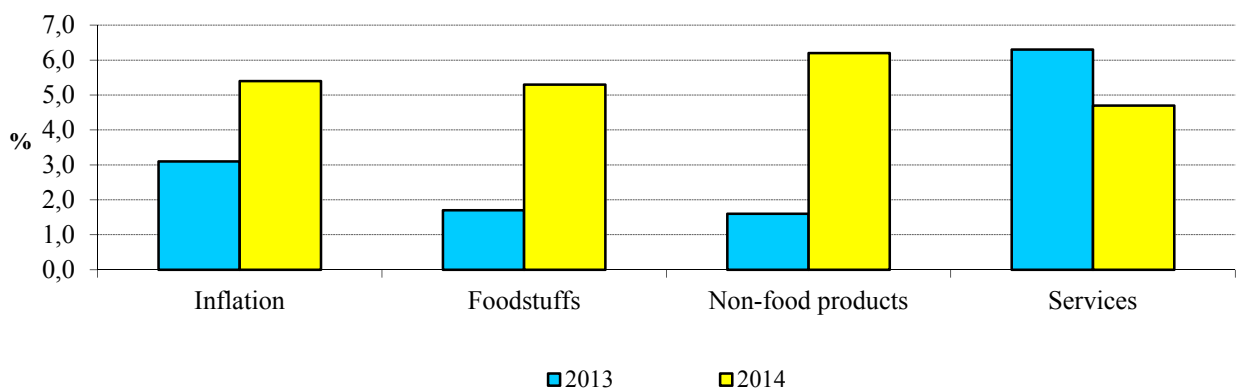
In the group of non-food products, prices for upper garments increased by 0.7%, for footwear – by 0.5%, household utensils – by 0.2%, medications – by 0.3%, newspapers, books and stationery – by 2.1%. The price of gasoline increased by 8.3%, and the price of diesel fuel – by 0.3%.

In the group of paid services, utility payments increased by 0.2%. Tariffs for gas transported by distribution networks increased by 1.4%, for liquefied gas – by 1.0%, housing rent increased by 0.5%, hot water fees – by 0.4%, and cold water fees – by 0.1%. In addition, over the past month prices for out-patient services increased by 1.4%, for transport services – by 0.8%, recreational, entertainment and cultural services – by 0.1%, and services of restaurants and hotels – by 0.7%.

During January-August 2014, the inflation accounted for 5.4% (in January-August 2013 – 3.1%). Since the beginning of 2014, foodstuffs increased by 5.3% (by 1.7%) in terms of price, non-food products – by 6.2% (by 1.6%), and paid services – by 4.7% (by 6.3%) (Figure 1).

Figure 1

Inflation and its Main Groups during January-August 2013 and 2014



In August 2014, the annual inflation accounted for 7.1% (in December 2013 – 4.8%). Over the last 12 months, foodstuffs have increased by 6.9% (by 3.3%) in terms of price, non-food products – by 8.1% (by 3.3%), and paid services – by 6.4% (by 8.0%).

2. International Reserves and Monetary Aggregates

In August 2014, international reserves of the National Bank increased. Gross international reserves of the National Bank increased by 2.8% to US\$ 27.7 bln. (on a year-to-date basis – the growth of 12.2%). Net international reserves of the National Bank increased by 2.8% and amounted to US\$ 27.1 bln. (on a year-to-date basis – the growth of 12.1%). Operations on replenishment of the National Fund's assets, the servicing of the Government's external debt as well as 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 and foreign exchange purchase in the domestic foreign currency market. As a result, during August 2014 net currency reserves (FCC) decreased by 1.1%. Assets denominated in gold increased by 14.9% as a result of conducted operations along with a minor decline in its price in the global markets.

During August 2014, the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 77.2 bln.) increased by 1.2% to US\$ 105.0 bln. (on a year-to-date basis – the growth of 9.9%).

During August 2014, the reserve money contracted by 5.3% and amounted to KZT 3654.7 bln. (on a year-to-date basis – the expansion of 29.3%). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, contracted by 2.9% to KZT 3529.9 bln.

During July 2014, the money supply increased by 0.1% to KZT 13424.7 bln. (on a year-to-date basis – 15.7% growth). The volume of cash in circulation decreased by 0.9% to KZT 1439.6 bln. (on a year-to-date basis – 4.8% decrease), deposits in the banking system increased by 0.2% and amounted to KZT 11985.1 bln. (on a year-to-date basis – the growth of 18.8%). The share of deposits in the structure of money supply increased from 87.0% in December 2013 to 89.3% in July 2014 as a result of the deposit growth against the decreased volume of cash in circulation recorded in January-July 2014.

The money multiplier increased from 4.10 in December 2013 to 3.48 at end-July 2014 due to the outstripping rates of expansion in the reserve money versus the rates of growth in money supply recorded in January-July 2014.

3. Foreign Exchange Market

In August 2014, the exchange rate of the Tenge versus the US Dollar was fluctuating within the range of KZT 182.00 – 183.28 per 1 US Dollar. At month-end, the stock exchange rate of the Tenge versus the US Dollar was KZT 182.00.

In August 2014, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions amounted to US\$ 8.8 bln. The transaction volume in the off-exchange foreign currency market amounted to US\$ 0.6 bln.

4. Government Securities Market

In August 2014, six auctions were conducted to place government securities of the Ministry of Finance. The following securities had been placed through these auctions: 12-month MEKKAMs (KZT 0.2 bln.), 3-year MEOKAMs (KZT 10.6 bln.), 6-year MEUKAMs (KZT 14.2 bln.), 9-year MEUKAMs (KZT 4.7 bln.), 10-year MEUKAMs (KZT 7.8 bln.), and 15-year MEUKAMs (KZT 32 bln.).

The effective yield on placed securities was as follows: on 12-month MEKKAMs – 4.00%, 3-year MEOKAMs – 5.27%, 6-year MEUKAMs – 6.50%, 9-year MEUKAMs – 7.00%, on 10-year MEUKAMs – 7.13%, and on 15-year MEUKAMs – 7.68%.

At end-August 2014, the volume of outstanding securities of the Ministry of Finance amounted to KZT 4015.7 bln., having increased by 1.9% as compared to the previous month.

Short-Term Notes of the National Bank of Kazakhstan.

In August 2014, two auctions to place 3-month notes of the National Bank were held (KZT 6.9 bln. and KZT 4.0 bln.). The effective yield on placed notes was 3.32% and 3.27%, respectively.

At end-August 2014 versus July 2014, the volume of outstanding notes increased by 31.4% and amounted to KZT 20.8 bln.

5. Interbank Money Market

In July 2014 versus June 2014, the total volume of placed interbank deposits increased by 14.1% and amounted to the equivalent of KZT 4637.0 bln.

The volume of placed interbank deposits in the Tenge increased by 41.4% and amounted to KZT 920.9 bln. (19.9% of the total volume of placed deposits). The weighted average interest rate on placed interbank deposits in the Tenge decreased from 2.81% in June 2014 to 2.79% in July 2014.

In July 2014 as compared to June 2014, the volume of placed Dollar deposits increased by 11.3% and amounted to US\$ 19.6 bln. (77.4% of the total volume of placed deposits). The weighted average interest rate on the placed Dollar deposits increased from 0.043% in June 2014 to 0.052% in July 2014.

The volumes of deposit placements in the Russian rubles and the Euro are insignificant – 2.3% and 0.4% of the total volume of placed deposits, respectively.

The share of interbank deposits in foreign currency decreased from 84.0% to 80.1% (June 2014 versus July 2014) of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks decreased from 83.6% to 79.4% (June 2014 versus July 2014) of the total volume of placed interbank deposits.

In July 2014 versus June 2014, the volume of deposits taken by the National Bank from banks increased by 43.4% and amounted to KZT 871.7 bln.

6. Deposit Market

During July 2014, the overall volume of deposits of residents with depository institutions increased by 0.2% to KZT 11 985.1 bln. (on a year-to-date basis – the growth of 18.8%). Over the month, deposits of legal entities had decreased by 0.7% to KZT 7 578.7 bln. (on a year-to-date basis – the growth of 22.6%), and deposits of individuals had increased by 1.9% to KZT 4 406.4 bln. (on a year-to-date basis – the growth of 12.8%).

In July 2014, the volume of deposits in the domestic currency decreased by 0.2% to KZT 6 609.4 bln. (legal entities – 1.2% decrease, individuals – 2.2% growth), and foreign currency deposits increased by 0.7% to KZT 5 375.6 bln. (legal entities – 0.1% decrease, individuals – 1.7% growth). Over the month, the percentage of deposits in the Tenge had decreased from 55.4% to 55.1%.

During July 2014, household deposits with banks (including non-residents) increased by 1.9% to KZT 4 447.9 bln. (on a year-to-date basis – 12.7% growth). In the structure of household deposits, deposits in the Tenge increased by 2.1% to KZT 2 070.0 bln., and foreign currency deposits increased by 1.7% to KZT 2 377.8 bln. Within household deposits, the percentage of the Tenge deposits had increased from 46.4% to 46.5% over the month.

During July 2014, time deposits increased by 0.9% to KZT 7 857.1 bln. Within time deposits, the Tenge deposits increased by 1.7% to KZT 4 185.4 bln., and foreign currency deposits decreased by 0.1% to KZT 3 671.7 bln.

In July 2014, the weighted average interest rate on the Tenge time deposits of non-bank legal entities was 5.2% (in June 2014 – 5.1%), and on deposits of individuals – 8.4% (8.0%).

7. Credit Market

During July 2014, the total volume of bank credits to the economy increased by 0.2%, amounting to KZT 12 185.6 bln. (on a year-to-date basis – the growth of 7.9%).

The volume of credits in the domestic currency increased by 0.7% to KZT 8 175.4 bln. (on a year-to-date basis – the growth of 3.0%), and the volume of credits in foreign currency decreased by 0.9% to KZT 4 010.2 bln. (on a year-to-date basis – the growth of 19.5%). The percentage of credits in the Tenge had increased from 66.7% to 67.1% over the month.

In July 2014, long-term lending increased by 0.7%, amounting to KZT 9 857.3 bln., and short-term lending decreased by 2.1% to KZT 2 328.3 bln. Over the month, the percentage of long-term credits had increased from 80.5% to 80.9%.

During July 2014, the volume of credits to legal entities decreased by 0.4% to KZT 8 166.2 bln., and the volume of credits to individuals increased by 1.4% to KZT 4 019.4 bln. Over the month, the percentage of credits to individuals had increased from 32.6% to 33.0%.

During July 2014, credits to small business entities increased by 1.0% to KZT 1 555.4 bln. (on a year-to-date basis – the growth of 21.2%), accounting for 12.8% 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 – 19.2%), construction (10.9%), industry (10.9%), agriculture (3.6%) and transport (3.3%).

In July 2014, the weighted average interest rate on credits provided in the Tenge to non-bank legal entities was 10.5% (in June 2014 – 10.4%), and on credits to individuals – 19.2% (19.8%).